

## Financing Alternative Model of Sharia Microfinance Based on Small and Medium Enterprises (SMEs) Perceptions for Sustainability of Economic

<sup>1</sup>Fitriyah, <sup>2</sup>Mega Noerman Ningtyas, <sup>3</sup>Yayuk Sri Rahayu

<sup>1,2,3</sup>Faculty of Economic, Islamic State University Maulana Malik Ibrahim Malang

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### ABSTRACT

Small and Medium Enterprises (SMEs) have a big role to develop the economy in Indonesia. They contribute to GDP, foreign exchange with a stable export value, decrease the number of unemployment and also poverty alleviation. However, despite of all their contributions, SMEs still experience several classical problems, that are related to capital. Therefore this study aims to explore financing alternative model based on SMEs perception for sustainability of economic. The informants of this research are a person in charge (PIC) and SMEs owners as the customers of KANINDO Shariah East Java. This research used a qualitative descriptive approach. Data as collected from observation, interviews, and documentation. Furthermore, data are verified by using triangulation. The result showed that the concept of *tanggung renteng* system as financing alternative model was preferred by SMEs. This model will give an economic stability for SMEs and then it can support the economic sustainability in generally. This condition influences SMEs' care about environment around them.

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### INTRODUCTION

In achieving national development goal, Indonesia government uses resources and potency such as natural resource and human resource to create fair and welfare society in material and spiritual aspect. One of the appropriate alternative

strategies used to support economy and development in Indonesia is to maximize SMEs potency. The development of SMEs needs serious attention from either government or society because SMEs play a vital role in the development and economic growth in Indonesia.

**Table 1:** Development of SMEs in Indonesia in 2006-2012

Indicator	2006	2007	2008	2009	2010	2011	2012
SMEs	49,021,803	50,145,800	51,409,612	52,764,603	53,823,732	55,206,444	56,534,592
Big enterprise	4,577	4,463	4,650	4,677	4,838	4,952	4,968
Employment	87,909,598	90,491,930	94,024,278	96,211,332	99,401,775	101,722,458	107,657,509
GDB (%)	5.40	6.46	6.04	4.02	5.77	6.76	9.90

Source: Indonesian Central Bureau of Statistics ([www.bps.go.id](http://www.bps.go.id)) (Development of SMEs in Indonesia in 2006-2012)

The vital role of SMEs is indicated in Table 1. The total number of SMEs is bigger than bigenterprises in Indonesia. The increase of SMEs reached 15.32%, counted from 2006 to 2012. In term of employment, in 2012, SMEs could create jobs for 107,657,509 people, or 97.24% of total employment. This number increased 5.83% compared in 2011. SMEs contribution to gross domestic bruto (GDB) was 9.9% in 2012. This number increased 3.14% compared in 2011.

Since SMEs has major role in the national economy, the existence of SMEs has been able to be a source of community living, and absorbing more

labor. SMEs contributes in increasing foreign exchange with a stable export value (Ernani Hadiyati, 2009). The number of economics SMEs actors spreads out from urban areas to the countryside (Yuniarti Hidayah Suyoso Putra, 2014).

Although SMEs has contributed greatly to economic growth, it has several weaknesses to be developed, for examples, the problem of capital (Ramdhansyah and Sondang Silalahi, 2013), low turnover which causes low capital increase, many SMEs do not have legal form, thus they have no power in institution aspect when it is necessary to apply for loan (Teuku Syarif, and Etty Budhiningsih,

2009) and SMEs have limited access to banking. Previous research indicates, SMEs actually have to depend on financing institution to fulfill their financial needs (Patrick Akorsu and Daniel Agapyong, 2012).

Noticably the weakness of SMEs, particularly in capital and limited access to banking problems, the islamic microfinance such as sharia cooperative (Baitul Maal wat Tamwil or BMT) is established in order to help in overcoming the capital problems faced by SMEs. This institution gives opportunity to people who get difficult access to bank and opens new perspective and helps them to create their business ideas with their own resource (Ahmad Umar and ahmad Rafique).

On the other side, SMEs does not pay much attention to the sustainability of environment around them because they only focus on their main problem which is how to get capital easily for developing their business.

Since there is a great opportunity of islamic mirrofinance in developing SMEs, therefore the objective of this research is to offer financing alternative model of sharia microfinance (BMT) according to SMEs perception for economic sustainability.

#### Methodology:

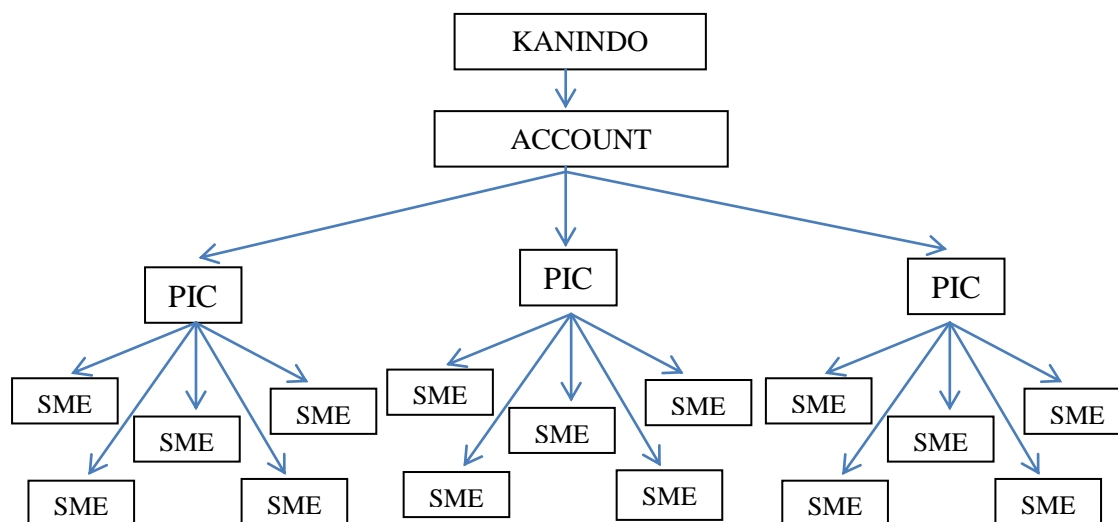
This research used qualitative approach which is based on *postpositivism* pharadigm. Methods of data collection are by doing observation, interviews and documentation. Data is verified using triangulation .

Research finding is focused on the meaning rather than generalization (Sugiyono, 2010). The informants in this research are a person in charge (PIC) of BMT and SMEs owners. Islamic institution in this research is KANINDO sharia Batu, East Java. All SMEs are the customers KANINDO sharia Batu, East Java. This research used data analysis model of *Grounded Research*. The process included data reduction, data display, data verification and making conclusion.

## RESULTS AND DISCUSSION

KANINDO shariah East Java is one of islamic finance that has members which are widespread in Malang dan Batu city. To provide good service to members and applicants, KANINDO shariah East Java establish 12 branch offices, there are 10 branch offices in Malang regency, 1 branch office in Malang city and 1 office in Batu city. Based on interviews with several SMEs that become customers of KANINDO Sharian East Java, it can be concluded that the model of financing desired is *tanggung renteng* system. *Tanggung renteng* is a system which divides responsibility evenly, applying concepts, ranging designing programs to address the problem faced [9]. In the rest of paper, we use the term *tanggung renteng* to explain financing alternative model of sharia microfinance.

The result found that the financing scheme according to SMEs perception is illustrated as follows:



**Fig. 1:** Financing Alternative Model of Sharia Microfinance Based on Small and Medium Enterprises (SMEs) Perceptions

PIC: Person in Charge

Primary Data: managed by researcher

This model in figure 1 involved four main actors: first, KANINDO Sharia East Java, second, account officer who is responsibility for financing

analysis. Third, person in charge (PIC) person who is responsible to the group and fourth members consist of SMEs owners. The uniqueness of the model

offered by researcher is the combination of system used at KANINDO with *tanggung renteng* system. This system includes joint responsibility among members in group, based on openness and trust aspects. This system also gives a lot of benefits to members which consist of getting capital easily, to ease of access to business, being in reliable business networks (cooperative), has a lot of relationships with other SMEs owners. In addition, this system also provides benefits for Kanindo to decrease the risk of non-performing loans (Yayuk Sri Rahayu, 2009).

The model mechanism is explained as follow. First, information of groups that consists of at least 5 SMEs owners members. Terms of a member are: election of members of the group are left wholly to the customers, members of the community and have a local ID card, members have a personal responsibility and have a good intention, make saving in Kanindo have the motivation to try and improve its business and are not doing loans with other financial institutions.

Second, in one group, one SMEs owner will be selected as a PIC. Group is needed to guarantee and control SMEs owners. As guarantee, group guarantees that SMEs owners ask fund are those who have good record and do not *moral hazard*. As control, activities this group has a responsibility to meet every month attended by all the members to discuss all the problems of the group, make a payment, apply for a loan, approving loan from other members in the group and seeing their business development. PIC is responsible for collecting payments and ensuring the full amount of the loan payment and managing all administration procedures.

Third, account officer is responsible to check the validity of documents and personal data of SMEs for financing. After that they conduct surveys or investigations to analyze the feasibility. If the decision deserves, the financing immediate realized it. There are several requirements in applying for financing with joint responsibility, namely: the loan is used for consumption instead of productive enterprises, amount of loan accordance with the needs of the group members, the loan is given in stages, the initial loan of Rp 3.000.000.- per member and Margin or for result set by Kanindo but customers can conduct negotiations, 3% per month for the *mudaraba* and 2% per month for *musharaka* and *murabaha*. The last, after account officer checks the validity of documents and personal data of SMEs for financing and financing feasibility, manager of KANINDO gives recommendation to cashier for realizing of financing.

This model gives several benefits not only to Kanindo Syariah but also to SMEs as the customer. If SMEs can access capital from financial institution easily, their economic stability will increase. According to the result of interview, SMEs owner said that if getting capital does not become a main

problem anymore and they can ensure the sustainability of their economic, they can pay more attention to other fields. One of the fields is environment. Therefore this condition influences SMEs care about the environment around them.

### Summary:

The research finding showed that alternative model of shariah *microfinance* based on SMEs perception who are also customers of KANINDO customers shariah East Java is *tanggung renteng* system. *Tanggung renteng* is a system that shares responsibilities equally, among members in group, based on openness and trust aspects.

*Tanggung renteng* concept gives advantages to KANINDO and members of group. For KANINDO, this concept can decrease the risk of Non-Performing Loan (NPL). While for members of group, this system gives a lot of benefits to members which consist of getting capital easily, to ease of access to business, being in reliable business networks (cooperative), has a lot of relationships with other SMEs owners. Another benefit from this system is that it can guarantee especially the sustainability of SMEs and sustainability of economic generally. In addition, this condition influences SMEs care about the environment around them.

The limitation of this study is the model of financing alternative based on SMEs perception with *tanggung renteng* system model, still used for cooperative. Therefore, for further research, it is suggested that the researcher can apply this model to the banking business unit, so that it is useful for the community at large not only SMEs.

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