

## An Analytical Network Process on Financial Access of the Small and Medium Enterprise in Sharia Banking in Tasikmalaya City

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### Abstract:

*Small and Medium Enterprise (SME) is one of the significant roles in national economic development. It is seemly followed by the rise of employment absorbent and equity in income distribution. The capital constraint and the impedance of banking financial access have become the main problem to the Small and Medium entrepreneurs. The objectives of this research are to identify the main factors as problems of Small and Medium Enterprises in having access to the financial institutions, and also to find out the solutions of the research problems. This research uses qualitative approach i.e. Analytic Network Process (ANP). Through applying this method, it is expected to help the researchers in making measurement and synthesis of some factors regarding on the topic analyzed as well as finding the solution for problems faced by the SMEs. The resources of the data is derived from questionnaires and in-depth interview with experts, practitioners, SMEs and regulators which then analyzed by the structure and hierarchy into homogen clusters of the SMEs problems and solutions, measuring into ratio scale and building synthesis. As the result, it becomes clear what factors impeding the financial access of the SMEs to banks. The results of this research show that the difficulties of SMEs in accessing financial support in Islamic financial institutions are internal problems of Islamic banking i.e. lack of financial assistance given to the SMEs, the functions of Islamic banking as business partners for SMEs is not optimal. Whereas the external problems in the SMEs are the disability in meeting the financial requirements asked by Islamic banking that are collateral and business history. The internal solutions are Islamic banking must give business mentoring to SMEs that have received financial supports to minimalize the bad credits level. The external solution is the government must also socialize Islamic financial mechanism to SMEs as part of education efforts.*

**Keywords:** *Economic Development, Islamic Finance, Islamic Banking, Islamic Business.*

### A. INTRODUCTION

Based on statistical data published by The Ministry of Cooperation and Small and Medium Enterprises of Republic of Indonesia, the amount of The Small and Medium Enterprises in 2012 was 99.99% of total business unit in Indonesia. The employment absorption was about 97.16 % of total employment in Indonesia. With a huge number of the SME, it is expected that this type of business should have a large market share. The existence of the SME play an significantly important role in boosting the economic development of a nation.

One of problems being faced by the SME is the low level of productivity (Susilo, 2005). This matter related to some points: 1) low quality of human resources in the SME, 2) entrepreneurship incompetency of the SME. Besides, the SME still have to face many impediments in improving competitiveness and performance of it, like: 1) the lack of capital access, 2) limited access to information about resources and technology.

In the aspect of financial access, some of the problems faced by the SME are (Urata, 2000: 1) mismatching in fund accessed by the SME, 2) inavailability of systematic approach in the SME's funding, 3) high transaction cost due to the complexity in credit process and procedures, 4) lack of access to formal financial resources, which possibly caused by either the absence of financial institution in the regional area or inavailability of sufficient information, 5) large number of the SME has not linked into bank access, this is because of inavailability of transparent financial management and managerial ability.

The main obstacle for the SME in having credit facilities from bank is collateral. In this, the SME performer is facing many difficulties in meeting the credit collateral requested by bank. In fact, bank credit for the SME sector is not only limited but also inequal. Bank credit is distributed more into trading sector in cities. However, the greatest economic improvement would come into reality if the financial aid from bank is directed to the upstream segment which mostly located in villages or regional areas.

The phenomenon about this matter of the SME capitalization is a fact than should not be ignored. The reality that bank sector is more exclusive in funding activities for only those who has the collateral.

From the view of islamic perspective, financial institution should be inclusive. This means that the funding should be distributed equally in order to empower all people in the economy (Cf. Athoillah, 2013). As stated in the Quran (al-Ḥasyr:7): "...the assets should not be circulated among the rich of you...".

Tasikmalaya as a growing city in the province of West Java has a greeat potential of the SME. The handcraft business conducted by the native people of Tasikmalaya ranks the bigger after Bandung Raya (Bandung City, Cimahi District, Bandung District, Bandung Barat District). This city has a large number of handcraft products in various types and shapes which can absorb thousands of employment. With the huge number of the SME, Tasikmalaya is famous and named as the SME city.

The problem of this research is formulated as follow: 1) what factors being the main problem for the SME in accessing financial support from financial institutions? 2) what is the solution to help the SME in accessing financial support from financial institutions?

## **1. Theoretical Framework**

### **a. Definition and Characteristic of Small Medium Enterprises**

Act No. 20 of 2008 stated that the definition of Micro, Small and Medium Enterprises is as follow:

### 1) Micro Enterprise

Micro enterprise is a productive enterprise owned by individual and/or personal business institution fulfills the criteria as micro enterprise; having net asset as much as maximum IDR 50.000.000,- excluded land and building on which the business operated; or having annual sales income as much as maximum IDR 300.000.000,-. Besides that, it has characteristic as follow: a) the type of product/commodity is not fixed, could be changed as per time; b) the business place is not settled, movable; c) financial records has not prepared yet even in the simple way, financial transactions of either the business as well as the household come together; d) the human resource especially the business owner does not have the innovative spirit of entrepreneurship; e) in average, the level of education is relatively low; f) generally, it has limited access to banks and other financial institutions; g) it does not have legal business permit or other legal requirements including Tax Payer Registration Number.

### 2) Small Enterprise

Small enterprise is an independently productive economic activity, conducted by individuals or an institutions which is not directly or indirectly being a branch or part of an existing medium or larger business. The characteristics of this type of small enterprise is having net asset more than IDR 50.000.000,- until as much as maximum IDR 500.000.000,- excluding land and building on which the business operated; having annual sales income more than IDR 300.000.000,- until as much as maximum IDR 2.500.000.000,-.

Small enterprise has characteristics as follow: a) the type of products/commodities is fixed and unchanged easily; b) the location of the business is settled; c) the administration of financial records is quite good eventhough in a simple way, financial transactions of the household and the business are recorded separatedly, it prepares balance sheet of the financial report; d) it has legal business permit and other legal requirements including Tax Payer Registration Number; e) the human resources (business owner) has sufficient experience in enterpreneurship; f) some of it has access to banks in having financial support; g) most of small enterprises are not able to make and arrange business plan and managements.

### 3) Medium Enterprise

Medium enterprise is an independently productive economic activity, conducted by individuals or an institutions which is not directly or indirectly being a branch or part of an existing smaller or larger business. The characteristics of this type of medium enterprise is having net asset more than IDR 500.000.000,- until as much as maximum IDR 10.000.000.000,- excluding land and building on which the business operated; having annual sales income more than IDR 2.500.000.000,- until as much as maximum IDR 50.000.000.000,- (Esay and Andriyanti, 2013).

Medium enterprise has characteristics as follow: a) generally it has better, more regular management and organizational arrangement with clear job descriptions like financial section, marketing section as well as production section; b) it prepares financial management by implementing accounting system regularly which makes it easier for auditing and evaluating the financial records internally as well as externally by banks; it not only has implemented rules or management system but also considering labour organization, health care and life insurance for workers; c) it meets all legal business permit and other legal requirements including Tax Payer Registration Number, location permit, environment management; it has access to financial sources especially banks; e) it has educated, skilled and trained human resources.

## **b. Sharia Banking Financing**

Financing (Muhammad, 2005) is funding given by one party to another in supporting planned investment either done by individual or institution. Financing is of bank's main role, giving funding facilities in fulfilling demand for loanable fund of the deficit units (Antonio, 2001). It is called financing because sharia banking facilitates the loanable funds in order to finance the need of eligible customers (Arifin, 2006). Financing in sharia bank is based on some principles (Suryanto, 2005), profit and loss sharing principle (*muḍārabā*), partnership in capital and participation principle (*mushārahā*), form of sales contract with known profitor mark-up thereon (*murābāhā*), lease contract (*ijārah*) under which the bank or financial institutions leases equipment or a building to one of its clients against a fixed charge/fee.

The characteristics of sharia banking differ in comparison with conventional banking by which interest rate system is applied, this is because sharia banking operates on profit and loss sharing principle applied in various financing products. The existence of sharia banking is expected to create a greatly positive effect into the growth of real sector in the economy (Athoillah and Al-Hakim, 2013).

At national level, one of business units that needs to be developed in boosting the growth of real sector is the Small and Medium Enterprise (SME). It plays important role and contributes greatly in absorption of employment and increase the Gross Domestic Product (GDP) of a country. On the top of it, SME proves its flexibility and toughness in dealing with economic crisis.

## **c. Sharia Banking Obstacles in Supporting the SME development**

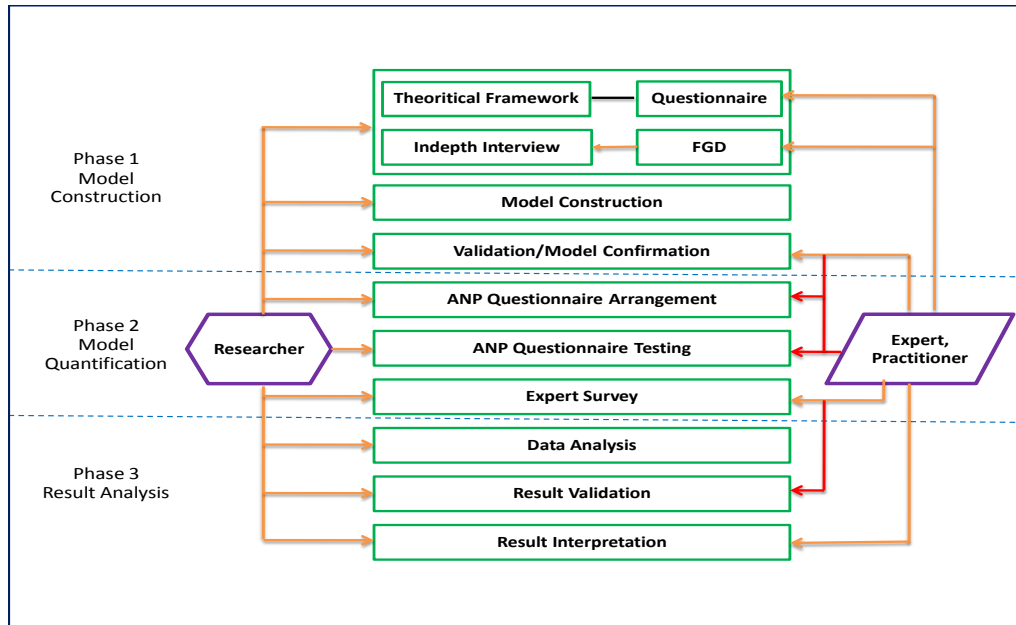
Sharia banking with various advantages and excellent pre-eminence is expected in supporting national economic growth especially through financing real sector units like the small and medium enterprises (Furqani and Mulyani, 2009). According to Bank of Indonesia analysis sharia banking is capable in enhancing national economy, furthermore it can effect the inflation if sharia banking contributes up to 10-20% of total banking operation. However, the participation of sharia banking onto the SME sector as one economic stimulator is limited. This due to some obstacles dealt by sharia banking, as follow:

- 1) Sharia banking is not active in financing
- 2) Obsolete information technology in comparison with conventional banking.
- 3) Government policy does not support the growth of sharia banking in Indonesia.
- 4) Asymetris information or one way information between sharia bank and the clients as the result, banking operation and transaction becomes asynchronous.
- 5) Misappropriation of duties because of the limited knowledge of sharia principles, the human resources working in sharia banking is taken from conventional banks.
- 6) Unresolved roles of the sharia banking as partner for the SMEs. Sharia banks provide merely financing but have not participated yet in giving assistance in the business.
- 7) The amount of sharia banks is limited and available in big cities, this is one significant impedance because the SME located in regional areas.

## B. METHODS

This research is applying qualitative approach with the help of Analytic Network Process (ANP) method.

### Research steps:



Source: (Ascarya and Yumanita, 2010)

### 1. Data Source

Data source in this research is respondent; 8 persons from sharia banking, 2 persons from regulator, 2 persons from academican and 10 persons from the SME entrepreneurs. The selection of the respondents based on consideration about respondents' understanding on problems faced by the SMEs in accessing financial support from sharia banks in Tasikmalaya.

### 2. Data Collection

In ANP method, collecting research data is using two ways, the first step is interview and the second step is distributing questionnaire.

## C. RESULT AND DISCUSSIONS

### 1. Internal Problems in Sharia Banking

The main problems dealt by sharia banking in Tasikmalaya in connection with financing access of the SME are as follow: 1) difficulties in giving assistance to the financed clients, 2) the function of sharia banks as business partner for the SME is not optimal.

These two problems gives not-so-good effect in the development of business and the seriousness of the SME clients in repaying the loan to sharia banks. This problem arises due to limited human resources in sharia banking. This also connected to higher cost sharia banking has to pay.

This problem is in accordance with research result by Kara (2013) came up with a conclusion that the development of financing in sharia banks in expanding the in Makassar City during 2010-2011 is increasing fluctuatively. This pictures that the participation and financing from sharia banking in promoting the SME in Makassar City has not been optimal.

## **2. External Problems in Sharia Banking**

External problems arise from the SME entrepreneurs itself, 1) troubled with collateral required by bank due to complicated process in financing, especially guarantee and business records. Besides that, many of the SMEs when proposing the loan to banks, the business is a new start or even not operated yet. The collateral is required to facilitate banks in analyzing and assessing eligibility of the SMEs. Banks should go through this procedure, unless bad credit will come in to the picture, furthermore it can harm bank sector and third party clients. 2) The SMEs feel more comfortable in having loans from conventional banks, because the administration system in conventional banks is less complicated than in sharia banks. This gives impression that financing access and administration to bank is difficult.

These external problems are analogous with the research result by Hariyati (2010), concluded that the obstacle frequently occur in optimizing the SME is financial capital, the entrepreneurs do not have access to have bank loans because the collateral they have does not meet the requirement.

## **3. Internal Solution for Sharia Banking**

The priority solution proposed to sharia banks is providing business assistance and partnering to the SMEs. By doing so, it is expected that banks can minimize bad credits by observing the indication at the earlier time. Apart from that, the objectives of sharia banks in giving loan is to help the SME in improving the business, will be accomplished.

## **4. External Solution for Sharia Banking**

The external solution proposed to sharia banking is providing training to the SMEs facilitated by the government. This means that government sector should provide education, training and socialization to the SMEs about sharia banking. This program can possibly be organized between the government and banks. The expected output is the SMEs will have broaden and better horizon about sharia banking, including the differences between sharia banking and the conventional one in terms of financing access.

## **D. CONCLUSION**

Factors impeding the SME in accessing financial supports from sharia banking are as Internal factor is limited assistance provided by sharia banking to the SME. The function of sharia banks as business partner for the SME is not optimal.

The main external factor dealt by the SME entrepreneurs in accessing financial support from sharia banks is complicated requirements in proposing financing/loan. In this case, the SME entrepreneurs do not have eligible collateral for the proposed financing/loan.

The solution offered based on the answer of the respondents as the result of ANP analysis internal solution to sharia banking, it has to provide business assistance to the SMEs which received loan

from banks. External solution should be done by the government as the highest level. Socialization on financing mechanism in the form of education and training should be provided to the SME.

This research is limited to financing access of the SME to sharia banking in Tasikmalaya City. This research does not cover the financing access of the SME to the sharia rural banks (BPRS). Thus, the research can be broadened to the financing access to sharia rural banks and other sharia micro financial institution in different areas.

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