

# PROCEEDING

## International Multidisciplinary Conference (IMC) 2014

### “Asean Economic Community: Transformation, Policy, Partnership and Action Toward Regional Prosperity”

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## **INTERNATIONAL MULTIDISCIPLINARY CONFERENCE (IMC) 2014**

**“Asean Economic Community: Transformation, Policy,  
Partnership and Action toward Regional Prosperity”**

**PROF. ADI FAHRUDIN, Ph.D**  
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## PREFACE

This publication document the refereed, review and edited paper presented at the International Multidisciplinary Conference (IMC) with main theme “*Asean Economic Community: Transformation, Policy, Partnership and Action toward Regional Prosperity*” held at School of Postgraduate Studies, University of Muhammadiyah Jakarta, Jakarta, Indonesia, 12-13 November 2014.

The conference had highlighted, discussed and analyzed wide range of issues pertaining to transformation, policy, partnership, and action toward regional prosperity among regional ASEAN, neighbour, and implication to worldwide. The Proceeding and paper of the conference had have been grouped under eight theme and twenty six sub theme the following headings;

1. Politic, Policy, Law and Governance
2. Economic, Finance and Management
3. Science, Environment and Technology
4. Language, Madeia and Communication
5. Psychology, Education and Development
6. Health, Nursing and Social Work
7. Religion, Art, Culture and Tourism
8. Children, Women, and Family

All theme and sub theme having crucial topics that represent an important region, this International Multidisciplinary Conference is expected to contribute the regional development of new strategies from multidisciplinary perspective beyond the ASEAN Economic Community. The Proceeding include a number of good ideas, arguments, and opinions, which have implication for transoformation, policy, practice and research. Important for academic, this publication may be used as source of reference material for citations and references.

On behalf of the Steering Committee, I congratulate to all the keynote speakers and paper presenter, also active participants. The thoughts of all the speakers have been highly regarded and have significantly added value of the conference. I trust that International Multidisciplinary Conference 2014 will be a memorable one and I hope that an international multidisciplin network will be retained. Again, I wish to thanks each and every delegate for the support given to make this conference possible.

May we all be in continued spirit to achieve an inclusive and equitable ASEAN community and human prosperity.

**PROFESSOR ADI FAHRUDIN, Ph.D**  
*Chair*  
*International Multidisciplinary Conference &*  
*Editor*



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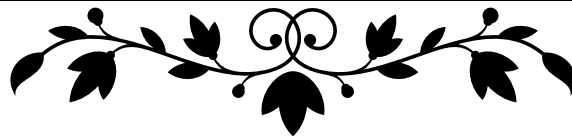




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# **POLITIC, POLICY, LAW AND GOVERNANCE**

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## OPTIMIZATION OF SHARIA FINANCING TO INCREASE THE CAPACITY OF SMALL AND MEDIUM ENTERPRISES (SME)

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### Abstract

The purpose of this research is to increase the capacity of Micro, Small and Medium Enterprises (SMEs), to identify Islamic microfinance institutions (BMT) that provide financing / loans specifically for Micro, Small and Medium Enterprises (SMEs) in South Tangerang, identify the problems faced by Enterprises micro, Small and Medium Enterprises (SMEs), identify the type and criteria of financing provided to the micro, Small and Medium Enterprises (SMEs). The method used is the method of survey, by conducting interviews and asking open-ended questions to the list of resource persons of Islamic Microfinance Institutions and actors Micro, Small and Medium Enterprises (SMEs). Findings: in general all have studied LKMS jenisl same financing with various problems that exist in LKMS and SMEs.

*Keywords: Institute of Islamic Microfinance, Micro, Small and Medium Enterprises, types of financing*

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### INTRODUCTION

**Issue Background.** The disparity of economy in income distribution between high-earned level community and the lowas well as those that are under the poverty line is the potency of the biggest problem in many developing countries, including in Indonesia. The government commit several efforts to overcome the poverty, among others through the social safety network program (JPS), a program of rice for poor people (Raskin), direct cash assistance (BLT), health insurance for the poor (Askesin) and others. On the other side the discontent wave of the poor and unemployment still remain against government inability to provide job opportunity, even though allocating in informal sector can mute it.

According to Andre BayoAla (1981), there are some weaknesses in application of the poverty alleviation that are already executed by the government namely :

1. The policy in poverty alleviation is implemented in general without viewing the context of social, economic, and culture in every region (community).
2. The poverty measurement is more influenced by external parties and using much economical parameter. The implication is the concept of handling poverty experience goal bias and reducing the nature of that poverty.
3. The handling of poverty alleviation program undergo beurecracy deeply whereas much failure due to the long procedure entanglement.

4. The poverty handling is frequently overlapped by the very thick political interest so it has no charge or meaning of the poor economy strength.

One of the efforts to improve the people's welfare is the development of Small and Medium Enterprises (SME) and cooperatives that have a great potential in improving the people's living standard. This matter is showed by the existence of SME and cooperative that already reflects on the real social and economic life embodiment of the biggest part of Indonesian community. The large role of SME is indicated by its contribution to national product, the amount of business unit and entrepreneur, as well as the labor absorption. By 2013 the number of SME in Indonesia is 56,35 million units with contribution to gross domestic product of 59,08%, meanwhile to labor absorption is about 97,16% or 107 million people. Despite of its all strategic roles, Small and Medium Enterprises (SME) in Indonesia have only 20% been accessed by bank credit.

On the basis of that issue, the matters want to be adduced by this research are :

1. What kind of efforts are BMT going to do in distributing its financing to SME ?
2. What kind of problems and constraints are faced by SME in running business ?
3. What sort of types and criteria are specified by BMT in order to allocate its financing regards with increasing SMEbusiness?

**Research Purpose.** On account of the issue background has been mentioned before, so the purposes going to reach from this research are as follows :

1. Identifying shariamicro finance institution (BMT) that supply financing / loan particularly for Small and Medium Enterprises in South Tangerang Region.
2. Identifying the problem encountered by Small and Medium Enterprises (SME).
3. Identifying types and criteria of financing delivered to Small and Medium Enterprises (SME).

## Literature Review

**Poverty.** Poverty is the problem coped by a country, foremost in developing country. The poverty affair is something complex whether it is viewed from the causes or dimension. This case is induced by the multidimensional nature of poverty; means that it concerns with the whole of various human need dimension.

Experts from any aspects and discipline of knowledge have already reviewed the problem of it by using miscellaneous measurements and concepts. The economists discuss the poverty by applying the term of life standard, income, and income distribution. According to the provisions of International Labor Organization (ILO) as quoted by Schelzig (2005) that there are five categories of non-monetary poverty i.e. lack of food, water and sanitation, health, education, and housing.

Meanwhile Suparlan (1993) considers poverty as a low level of living standards, namely the existence of a shortage of materials on a number of levels or a party of people compared to the general standards in force in the concerned community. Another case with Friedman (1979) suggests the poverty is inequality of opportunity to formulate the fundamental of social power, that includes: assets (land, housing, equipment, health), the financial sources (credit and adequate income), social and political organizations that can be utilized to achieve common interests, social

networking to get a job, goods or services, adequate knowledge and skills, and useful information.

**Small and Medium Enterprises (SME).** The existence of SME can be reviewed from any perspectives, namely policy perspective, social perspective, and economic perspective. From those three perspectives, economic perspective is the first viewpoint formed in cluster literature. In a simple economic perspective referred to in this article are viewpoints against the phenomenon of the cluster of Small and Medium Enterprises of economic theory.

There are several notions of Small and Medium Enterprises according to experts or parties directly related to Small and Medium Enterprises (SME), for instance: according to Bolton (1971), qualitatively SME can be defined as an independent business, managed by their owners or part-owners and has a small portion of the market. Small businesses are treated as Small and Medium Enterprises (SME) and taken to become an organization employing less than 250 employees, as adopted by the EU (CEC, 1996), the Department of trade and industry, United Kingdom (DTI, 1999) and the Small Business Service, UK (SBS, 2000). Other definitions have been used in the United States (SBA, 2003) and in Japan (METI-SMEA, 2003). For example, the US considers small companies to include those with fewer than 500 employees.

**SME Disagreement.** SME confronts two main problematic cases i.e. financial and non-financial subject (management organization).

#### Financial Matters

1. The lack of conformity (mismatch occurrence) on available fund that can be accessed by SME;
2. The absence of systematic approach in SME funding ;
3. The high transaction cost caused by complicated loan procedure so it takes much time while the disbursement of loan amount is low ;
4. The lack of access to formal fund sources, either due to the absence of bank in remote areas or the unavailability of sufficient information ;
5. The loan interest for investment and working capital is quite high ;
6. A lot of Small and Medium Enterprises (SME) are not bankable, either due to not having a transparent financial management or the lack of managerial and financial capabilities.

#### Non-Financial Matters

1. The lack of knowledge on production technology and quality control caused by the minimum of opportunity to follow technological developments as well as the shortage of education and training ;
2. The lack of marketing knowledge which is caused by the limited information on the market, that can be reached by Small Medium Enterprises (SME), besides of the limited ability of Small Medium Enterprises (SME) to provide products / services in accordance with the wishes of the market ;
3. The limitations of human resources (HR) and also the shortage of resources to develop the human resources ;
4. The lack of understanding on finance and accounting.

**Prior Research.** Sukron, in his research entitled strategy of Islamic microfinance institutions in developing and increasing the financing of Small and

Medium Enterprises concludes that (1) the strategy used by the BMT Al-Munawwarah in developing and improving the financing of Small and Medium Enterprises (SME) as follows : (a) coming directly to the prospective customers, this strategy is used to provide information as well as the promotion of BMT Al-Munawwarah to society and also to boost the local community economy. (b) Therecommendation from old partners, by looking at the partners data that are already known earlier or through another partner and give each other information if there are other partners who require financing for their business development. (c) The types of businesses that are financed, this strategy is utilized to filter out any kind of business can be financed by BMT Al-Munawwarahcertainly based on Islamic jurisprudence. (d) The promotion, in doing this BMT use brochure, newspapers, Internet, radio stations, banners and others. (2) The progression of BMT Al-Munawwarah financing for SME with strategies that have been conducted in developing and enhancing SME financing proved successful because, on average, annually it has increased quite significantly.

Muhammad HafidzLidinillah, in his research named the perception of small entrepreneurs to BaitulwatTamwilfinancing concludes that most small entrepreneurs have a positive perception of BMT product i.e. mudharabahand murabahafinancing. BMT through products financing contributes to the empowerment of Small and Medium Enterprises and supported by the supervision and coaching is executed periodically by BMT.

Febrinol, Solar Prenanto, and AdiTisnaRiyadianDwiCahyo in their research published in Compass newspaper site on September 25, 2012, with the title of “the role of Sharia banking in the Small and Medium Enterprises” said that “when we went further than the condition of the economic development of our society, that the community economy will be the initial seed and will achieve the national economy. Therefore it will contribute to our own society in the development efforts of local wisdom. The concrete shape from the development of the people economy manifested in the form of this Small and Medium Enterprises, if we try to elucidate further, it appears that the thingengaged behind all of those for all this time, one of them is the role of sharia banks that always contribute to the development efforts for the community economy itself.

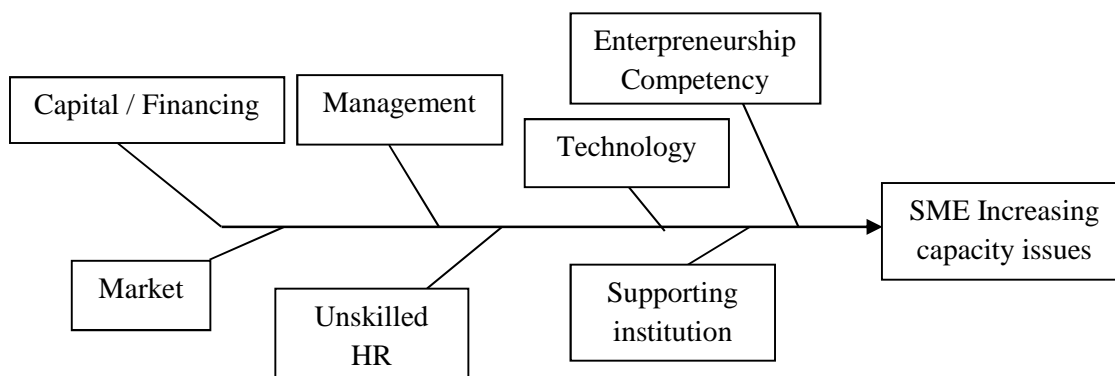
During this, the step of Sharia banks has provided the passion and drive to materialization and awakening ofIndonesian spirit that come from middle-class and want to try to participate in the efforts to actualize the nation economy oriented forward and potentially possesses great bright future that corresponds to the expectations of the low-class community at large. It is all been realized by Small and Medium Enterprises development efforts that really grow the economic potency exists in own body of community.

## **METHODOLOGY**

The type of research used in this study is a qualitative method is inductive analysis i.e. to collect, compile, and describe a variety of data, documents and actual information. The material obtained will be interpreted in the form of analysis thus the goal of this research can be achieved.

According to Sugiyono (2012: 9) that the qualitative research is the research methods based on the philosophy of positivism views social reality as something whole, complex, dynamic, full of meaning, and the relationship of symptoms to be interactive (reciprocal).

According to the research issues will be analyzed, the method used is descriptive and naturalistic method, because this method can dissect, discuss, and recognize the problems.



## RESULT

In South Tangerang there are around 30 BMT that help Small and Medium Enterprises by the form of capital financing (financing). For example Al Munawarrak BMT that provide financing to Rp 20.000.000.000 to SME in 2013, this number is nearly 90% of all financing channelled to the community (Al Munawarrak, 2013).

Tactics of Islamic micro-finance institution (BMT) in providing financing/loans primarily for Small and Medium Business (SME) is as follows:

- a. The Support from Department of KUKM and Department of Industry & Trading South Tangerang is also quite good through training, exhibition & bazaar, assistance equipment, program of brand registration, Halal certification, health service test (PIRT Number) for principals of Small and Medium Enterprises free of charge. All of these activities help SME and BMT associated with formal legal filings.
- b. BMT is able and willing to finance new and growing businesses in their surrounding that never conducted by both conventional and sharia banking.
- c. BMT is able to do the business of financing that has not been established because the Manager is trained sufficiently to perform assessment of business feasibility by different methods.
- d. BMT often approaches and assists to Small and Medium Enterprises to encourage the progress of their efforts, that it is the responsibility of the existing BMT for functioned in prosperity of society.
- e. BMT is willing to serve transaction financing under Rp 1,000,000,- that can never be served by banking authorities and BPR.

The results of the study show that micro enterprises have diverse problems. From this variety of problems faced by the Small and Medium Enterprises, thus it can be divided into internal and external problem.

#### Internal Affairs

- a. Most businesses forms are usually still individual and do not have legal status, the corporate legality aspects is weak, the simple organizational structure with a less obvious division of labor ;
- b. The relatively simple bookkeeping systems and tend to follow the standard rules of administration, so that the data is not up to date. This led to the difficulty of assessing the performance of micro enterprises
- c. The limitations of the human resources (HR) constitute one of the serious obstacles for many Small and Medium Enterprises in Indonesia, especially in the aspects of entrepreneurship, management, production engineering, product development, engineering design, quality control, organization of business, accounting, data processing, engineering of marketing, and market research;
- d. The business margin tends to thin in regard to the very tight competition;
- e. The company managerial experience is limited;
- f. The economic scale is very small so it is hard to expect to achieve the emphasis on cost to gain high efficiency;
- g. The ability to obtain funds from the capital market are low, due to the limited system administration;
- h. The majority of Agents Small and Medium Enterprises cannot separate the personal finance and business capital;
- i. The most of SME is not able to set up the business plan that is going to be prosecuted ; therefore it is difficult to develop.

While its external problems are :

- a. The difficulties in marketing because it is often regarded as one of the critical constraints to the development of Small and Medium Enterprises. One of the aspects related to the issue of marketing is the pressures of competition, either the domestic market from similar products made by large enterprises and import or export market;
- b. The financial limitations in Small and Medium Enterprises, particularly in Indonesia face two major problems in the financial aspects, namely: mobilization of the initial capital (start-up capital) and access to working capital and long-term financial investments that are indispensable for the sake of long-term output growth. Although in general the initial capital is sourced from the capital (savings) or informal sources, but the sources of capital is frequently not reasonable for production activities;
- c. The limitations of raw materials (and other inputs) also become one of the serious obstacles to the growth of output or the continuity of the production for many micro and small enterprises in Indonesia. This is due to the amount of the limited availability of raw materials as well as high raw materials prices ;
- d. The limitations of technology especially household businesses (micro), caused by many factors, including the limitation of investment capital to buy new machines or to improve the production process, information limitations regarding with development of technology or machinery and new production tools, and lack of

human resources to operate new machines or do innovations in products and production processes;

- e. The stakeholder Policies are counter-productive to the development of Small and Medium Enterprises, such as banking regulations that complicate the loan capital, security and convenience in conducting business, local infrastructure, the complicated process in licensing and certification, and the latest is the duty of 1% tax payment for SME.

From some BMT as becoming objects of this research that generally have the same types of financing include:

- a. Mudharabah Financing. Mudharabah Financing is the financing for SME that has a decent effort, but are having trouble in funding, can apply for it. BMT will provide loan capital stock of mutual benefit to both parties.
- b. Musyarakah Financing. Musyarakah Financing is financing for Small and Medium Enterprises that has decent effort, but run into trouble in funding and business management, can apply for musyarakah financing. Small and Medium Enterprises, and BMT will jointly finance the SME business and managing for results in accordance with a system of participation capital of each party.
- c. Murabahah Financing. Financing of Murabaha is financing for Small and Medium Enterprises that requires item or work tools, but has difficulty to collect the funds in cash. SME can apply Murabaha financing. BMT will provide loan funds to be returned all at once at maturity with a marked up (value added).

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