

## PROBABILITY OF MSMEs IN ACCESSING SHARIA FINANCING AT BMT FADHILLAH SENTOSA SUKOHARJO

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### ABSTRACT

The current focus of the government is on Micro, Small, and Medium Enterprises (MSMEs) due to their significant role in Indonesia's gross domestic product and employment. While MSMEs play a strategic role, many face challenges in terms of capital and limited access to formal financial institutions. *Baitul Mall wat Tamwil* (BMT) is one of the microfinance institutions that can provide a solution to the capital constraints of MSMEs by offering financial services. This research aims to analyze the opportunities for Sharia financing access for MSMEs in BMT. The data collection methods include interviews with BMT Fadhilah Sentosa in Sukoharjo Regency, distributing questionnaires and conducting interviews with MSME actors in Sukoharjo Regency, and studying relevant documentation to gather information and reports. The research method employed is Binary Logistic Regression, analyzing the impact of business turnover, business scale, business type, and business age on financing access. Data analysis is conducted using SPSS version 25. The logistic regression results indicate that business turnover and type of business are factors influencing MSMEs' access to BMT financing. Higher business turnover increases financing access by 2.422 times. MSMEs engaged in trading businesses increase financing access by 3.848 times.

Keywords: MSMEs; BMT; Sharia Financing; Logit.

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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are universally regarded as the driving force of regional and global economic growth, capable of creating employment opportunities for both skilled and unskilled labor across various economic sectors. MSMEs also contribute to poverty reduction and enhance living standards in both developing and developed countries. According to World Bank data (2019), around 90% of businesses and more than 50% of global employment opportunities are created by MSMEs. The production outputs of MSMEs are primarily intended for the domestic market, reducing dependency on the economic conditions of other countries.

Despite their significant contributions, MSMEs still face challenges (Al Buraiki & Rahman Khan, 2018). (Aysan et al., 2016) highlighted that limited access to financial institutions is a common issue for MSMEs. The most critical challenge faced by MSMEs in developing countries is the lack of access to finance or funding. To address this issue, governments have established Microfinance Institutions (MFIs) to empower MSMEs. One such MFI is Baitul Maal wa Tamwil (BMT). BMT plays a significant role in the national economy and has experienced rapid growth, contributing to the advancement of small and medium enterprises.

However, despite the contributions of MSMEs and the rapid development of BMT, only 30.5% of MSME actors receive financing, while 69.5% remain unfunded, according to Bank Indonesia. This issue is also experienced by MSMEs in Sukoharjo Regency, which has the highest number of BMT units in Central Java, totaling 46 units. The Sukoharjo Regency government also has a flagship program offering subsidized loan assistance for MSME actors. The realization of this program only reached 50%, or IDR 628 million, of

the allocation constraints, limiting their ability to optimally develop their businesses.

## MATERIAL AND METHODS

### Islamic Financing

Islamic financing has developed various products and alternative financing schemes to support MSMEs. This system uses a profit-sharing model, where the higher the profit-sharing value, the greater the chances of obtaining financing.

### Principles of Islamic Financing

Islamic finance must comply with financing laws based on Sharia (Islamic law). This concept also refers to investments that are permissible under Islamic law. The principles applied in Islamic financing include profit and loss sharing, and the material finality of transactions, which require every transaction to be linked to a clear and tangible economic activity.

### 5C Financing Analysis

The objective of financing analysis is to mitigate the risk of client defaults on their financial obligations, including principal repayments and agreed-upon profit shares. According to Kasmir (2000), the 5C analysis is considered an effective method for financial institutions as it adequately describes the financial condition of borrowers. This analysis includes character, capacity, collateral, capital, and condition.

### *Baitul Maal wa Tamwil (BMT)*

BMT is a microfinance institution that operates based on a profit-sharing model, promoting micro-business growth within the framework of an Islamic economic system characterized by safety, peace, and welfare. BMT activities include developing productive businesses and investments to enhance the economic quality and activities of small entrepreneurs by encouraging them to save and supporting their economic ventures.

### Micro, Small, and Medium Enterprises (MSMEs)

The definition of MSMEs is regulated under Indonesian Law No. 20 of 2008 concerning MSMEs. It states:

1. Micro-enterprises are productive businesses owned by individuals or individual business entities with assets of no more than IDR 50 million or annual sales of no more than IDR 300 million.
2. Small enterprises are productive economic activities conducted by individuals or entities that are not subsidiaries or branches of larger companies, with assets ranging from IDR 50 million to IDR 500 million and annual sales of IDR 300 million to IDR 2.5 billion.
3. Medium enterprises are productive economic activities with net assets exceeding IDR 500 million up to IDR 10 billion or annual sales of IDR 2.5 billion to IDR 50 billion.

Okello Candiya et al., (2017) stated that the way to determine the optimal business growth rate is through two objectives: sales and assets. Riwayat, (2017) revealed that business growth measurement can be observed from the growth of human resources, sales, profits, market, capital, and production.

#### Research Methodology

This study employs a binary logistic regression analysis tool to examine the factors influencing MSME actors' likelihood of accessing Islamic financing through BMT. Logistic regression modeling is a subset of regression analysis, which is used to evaluate the effect of explanatory variables on response variables through specific mathematical equations (Firdaus et al., 2011). The factors affecting MSME access to Islamic financing through BMT are determined using the logistic model as follows:

$$PL = \text{Ln} \left( \frac{PL}{1-PL} \right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Explanation:

PL	= Probability of MSMEs accessing Islamic financing through BMT
P (1)	= Accessing financing
P (0)	= Not accessing financing
$\beta_0$	= Constant
X1	= Business turnover
X2	= Business scale
X3	= Type of business
X4	= Business age
e	= Exponential function
$\beta_1 - \beta_4$	= Regression coefficients

#### Odds Ratio as the Probability Ratio

Odds ratio represents the ratio of the probability of P1, which is obtaining Islamic financing from BMT, to the probability of P0, which is not obtaining Islamic financing from BMT. Odds ratio, denoted as PL, serves as an indicator for respondents to choose Option 1. The value of the odds indicates the likelihood of obtaining Islamic financing from BMT.

#### Research Data

The data used in this study consists of both primary and secondary data. Primary data was obtained through interviews and questionnaires distributed to MSME actors who received Islamic financing from BMT Fadhilah Sentosa and those who did not. Secondary data was collected to complement and support the primary data. It was sourced from the Central Bureau of Statistics of Central Java and Sukoharjo Regency, the Sukoharjo Cooperative and MSME Office, and BMT Fadhilah Sentosa of Sukoharjo Regency.

## RESULTS AND DISCUSSION

### Characteristics of Respondents

In this study, the sample consisted of 184 MSME (Micro, Small, and Medium Enterprise) actors, comprising 66

respondents who received Islamic financing from BMT Fadhilah Sentosa and 118 control respondents who did not receive Islamic financing from BMT Fadhilah Sentosa. Among the MSME actors partnered with BMT Fadhilah Sentosa, there were 29 males (44%) and 37 females. In the control group, there were 63 males (53%) and 55 females.

The average age of BMT respondents was 43 years, while the average age of control respondents was 47 years. The last education level of BMT respondents was predominantly at the senior high school/vocational high school level, with 41 individuals (62%), which was similarly observed in the control group, where the last education level was also predominantly senior high school/vocational high school, with 69 individuals (58%). The average number of family members for both BMT and control respondents was the same, amounting to 4 people.

#### **Average Savings Access of Respondents at Financial Institutions**

The average savings access of control respondents in formal financial institutions (banks) was higher than that of BMT respondents. Control respondents had significant savings access in formal institutions, with 60% of MSME actors having savings in banks and an average total savings of IDR 12,612,500.00. Meanwhile, only 18% of BMT respondents had bank savings, with an average savings of IDR 7,800,000.00.

The savings access of BMT respondents in formal financial institutions was primarily utilized to facilitate payment transactions such as transfers, online payments, and clearing, which could not be conducted through semi-formal financial institutions. The main reason respondents chose to access savings with BMT was due to the institution's proactive service system (*jemput bola*) and the convenience of installment payments, which eased transactions and reduced transaction

costs. Additionally, every BMT partner applying for loans was required to become a member and pay principal and mandatory savings contributions monthly.

#### **Household Loan Access of Respondents at Financial Institutions**

The percentage of loan access for control respondents was higher than that of BMT respondents at formal financial institutions. Control respondents had 65% access to bank loans, compared to 16% for BMT respondents. The average loan amount provided by banks to control respondents was IDR 8,625,000.75, while the average loan amount provided by BMT to its respondents was IDR 9,289,584.98. However, these amounts were smaller than the loans provided by banks.

This indicates that BMT has not yet become the primary financial institution for MSME actors to meet their capital needs. Household access to loans from banks is closely related to the ownership of household assets, as bank loans generally require collateral in the form of asset ownership.

#### **Instrument Testing Analysis**

##### **1. Validity Test**

The validity test in this study measured the constructs of the research variables. The level of validity was determined by comparing the calculated r-value with the table r-value; if the calculated r-value > table r-value, then the variable was considered valid. The validity test results showed that all calculated r-values for the research variables were greater than the table r-value of 0.121. This indicates that all variables are valid in generating scores to determine the probability of accessing Islamic financing.

##### **2. Reliability Test**

The reliability test results were determined based on the Cronbach's alpha value. A variable is considered reliable if it meets the decision-making criteria, which is a Cronbach's alpha value > 0.60. In this study, all variables had values exceeding the Cronbach's alpha threshold of 0.60.

This indicates that the variables used to determine access to Islamic financing in this research are reliable and dependable.

### Binary Logistic Regression Analysis

#### 1. Model and Parameter Test (*Hosmer and Lemeshow Test*)

Table 1. Result of Hosmer and Lemeshow Test

Step	Chi-Square	df	Sig
1	4,624	8	0,706

Sources: Primary Data, 2023

The test results showed that the calculated Chi-Square value was 4.624, which is less than the Chi-Square table value of 9.488. The significance value was 0.706, which is greater than 0.05. This indicates that the empirical data fits well with the model used in this study.

#### 2. Overall fit model

Table 2. Result of Iteration History Block History 1

Iteration	-2 Log Likelihood	Constant	X1	X2	X3	X4	
Step	1.	195,880	-3,720	0,671	0,301	0,335	0,313
	2.	191,524	-5,850	0,858	0,385	0,434	0,443
	3.	191,395	-5,026	0,884	0,399	0,449	0,465
	4.	191,395	-5,030	0,885	0,399	0,449	0,465
	5.	191,395	-5,030	0,885	0,399	0,449	0,465

Sources: Primary Data, 2023

The analysis conducted by the researcher showed a calculated Chi-Square value of 191.395, compared to the Chi-Square table value of 211.217. Since  $191.395 < 211.217$ , the null hypothesis ( $H_0$ ) is accepted, indicating that the model, after including variable X, meets the test requirements.

#### 3. Pseudo R-Square

Table 3. Determination Test Results (Pseudo R-Square)

Step	-2 Log Likelihood	Cox & Snell R-Square	Nagelkerke R-Square
1	191,395 <sup>a</sup>	0,165	0,227

Sources: Primary Data, 2023

The test results showed a Cox and Snell value of 0.165 and a Nagelkerke R-Square value of 0.227. This indicates that

the model is able to explain 22.7% of the variation in the dependent variable.

#### 4. Omnibus Test

Table 4. Result of Simultaneous Significance Test (*Omnibus Test*)

	Chi Square	df	Sig
Step	24,489	4	0,000
Block	24,489	4	0,000
Model	24,489	4	0,000

Sources: Primary Data, 2023

The results of the omnibus test indicate that the calculated Chi-Square value of 24.489 is greater than the Chi-Square table value of 9.488 with  $DF = K = 4$  (K is the number of independent variables). Additionally, the significance value of 0.000 is less than 0.05. In conclusion, the independent variables have a simultaneous effect on the dependent variable.

#### 5. Partial Logistic Test

Table 5. Result of Partial Significance Test (*Wald Test*) and (*Odds Ratio*)

Variable	B	S.E.	Wald	Sig.	Exp (B)	95% C.I. for Exp(B)		Note
						Lower	Upper	
business turnover	0,885	0,259	11,687	0,001	2,422	1,458	4,023	Significant positive effect
business scale	0,399	0,332	1,447	0,229	1,490	0,778	2,855	No effect
business type	1,384	0,381	12,479	0,000	3,848	1,848	8,124	Significant positive effect
business age	0,465	0,285	2,671	0,102	1,592	0,911	2,782	No effect
constant	-5,030	1,016	24,531	0,000	0,007			

Sources: Primary Data, 2023

The results of the logistic partial test show that the variables business turnover and type of business have a significant positive effect on MSME access to Islamic financing at BMT. Meanwhile, the variables business scale and business age have no effect.

### The Effect of Business Turnover on Access to Islamic Financing

Higher business turnover increases the likelihood of access to Islamic financing by 2.422 times compared to MSME actors with lower business turnover. This result is supported by

previous studies conducted by Nafis & Sudarsono (2021), Poernamasari (2015), Tunas et al. (2014), and Anggraeni et al. (2013), which found that business turnover has a significant positive effect on financing access.

Good MSME performance, measured by the level of profit or business earnings influenced by the obtained turnover, indicates that the higher the turnover, the greater the profit will be. According to Anggraeni et al. (2013), the higher the business turnover achieved by MSMEs, the greater the probability of obtaining financing. Business turnover reflects the quality and productivity of the business being run. High turnover signifies good quality and productivity levels in the business. Conversely, low business turnover may indicate potential issues with business quality and service. High business turnover demonstrates the scale of the business, indicating a stronger ability to repay loans (Tunas et al., 2014).

#### **The Effect of Business Scale on Access to Islamic Financing**

The partial test results indicate that the hypothesis H0 cannot be rejected, meaning the business scale variable does not affect MSME access to Islamic financing. This finding aligns with the function of BMT, which serves as an Islamic microfinance institution (LKMS) to nurture and grow micro-businesses, develop productive ventures, and invest in improving the quality and economic activities of small entrepreneurs. In measuring business scale, the researcher used total assets as a reference. Based on Law No. 20 of 2008, businesses with assets up to 50 million IDR are classified as micro-enterprises; businesses with total assets > 50 million – 500 million IDR are classified as small enterprises, and businesses with total assets > 500 million – 10 billion IDR fall into the medium enterprise category.

As an Islamic microfinance institution, BMT primarily supports businesses in the development phase rather than larger-scale businesses. MSMEs with larger total assets generally seek financing from formal financial institutions, which can offer larger financing amounts (Tunas et al., 2014). Medium-scale businesses have the highest potential to secure formal financing, such as from banks. Business scale influences MSME accessibility to financing, as formal lenders like banks tend to fund larger-scale businesses with higher total assets as collateral (Poernamasari, 2015).

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### **The Effect of Business Age on Access to Islamic Financing**

The business age variable does not affect MSME access to Islamic financing. While older MSMEs tend to have longer historical track records, this does not necessarily mean the business is more stable in facing economic shocks. Younger businesses are often managed by younger entrepreneurs who possess greater creativity, which can attract consumers and expand marketing networks. This creativity can help businesses build trust with creditors.

This aligns with the findings of Tunas et al. (2014), who noted that BMTs tend to provide more loans to MSMEs in the development stage. Similarly, Kurniawan & Mokhammad (2015) found that the length of time a business has been operating does not influence its chances of receiving financing.

Barger & Udell (1988), in their study on capital structure and business financing decisions, highlighted that MSMEs face different optimal financing structures at various stages of their growth cycle. This suggests that business age alone does not determine financing opportunities, as other factors, such as creativity, adaptability, and growth stage, also play significant roles.

### **CONCLUSION AND IMPLICATION**

The factors influencing MSMEs success to obtaining Islamic financing from BMT with positively significant parameter values are business turnover (IDR 10 million–IDR 25 million/month) and type of business (trade). Meanwhile, the

variables that do not significantly affect access to Islamic financing from BMT are business scale and business age. Therefore, BMT can place greater consideration on business turnover and type of business when assessing the eligibility of MSMEs comprehensively. This approach can help BMT gain a better understanding of risk levels.

BMT can also provide information to MSMEs regarding the criteria used in evaluating financing applications related to turnover and business type. This can help MSMEs better prepare themselves before applying for financing.

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