

ANALYSIS OF ISLAMIC FINANCIAL INCLUSION FOR MSMEs IN YOGYAKARTA

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Background

- Micro, small and medium enterprises (MSMEs) play a significant role in economic development in Yogyakarta.
- Yogyakarta's economic growth in 2017 was 5.26% (yoy), where the share of MSMEs was quite significant, around 95%.
- A big problems faced by the MSMEs is capital and managerial skill including financial management
- Capital problems are caused by the majority of MSMEs unable to meet banking requirements
- Looking at the issue in hand, this research attempts to explore financial access of MSMEs in Yogyakarta



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Challenges faced by SMEs in Yogyakarta

Marketing is weak
Lack of Business Network
Capability of HR is low
Lack of Financial Accessibility
Low of Technology utilizing
Low of Institutional
Unstable on Regulation and Macro Economic

Low of Competitiveness

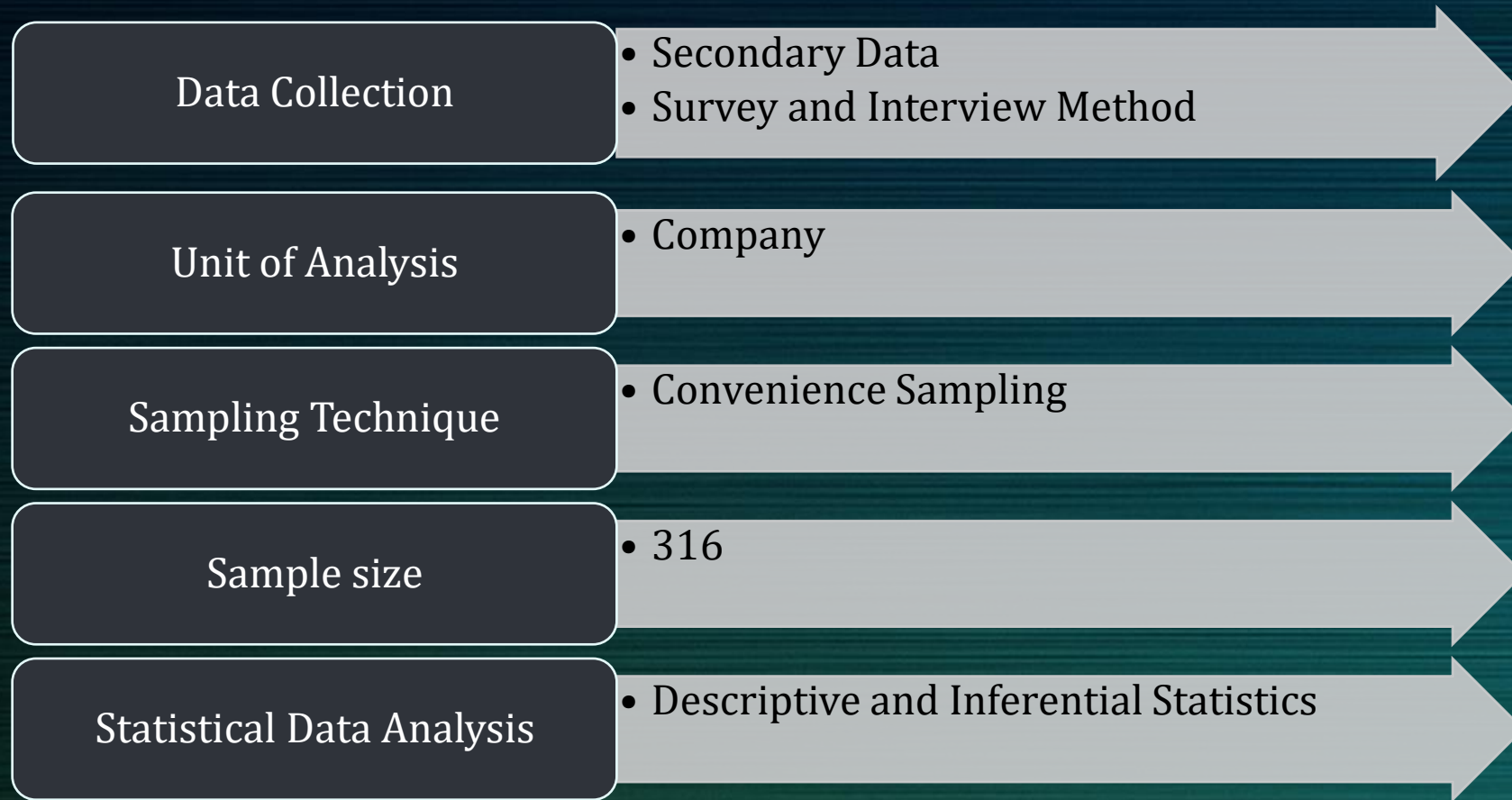
Low of SMEs Growth

Low of Public welfare of SMEs

Financial inclusion involves providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector



Research Methodology



Techniques and in-interview to provide answers of the problems faced to explain the phenomenon

RESEARCH FINDING



Capital Sources of MSMEs by Period

Source of Financial Capital	INITIAL		CURRENT		FUTURE	
	Freq	Percent (%)	Freq	Percent (%)	Freq	Percent (%)
Bank	30	10	52	17,3	56	18,6
CoCoperation	4	1,3	2	0,7	5	1,7
Crowd Funding	45	15	10	3,3	8	2,7
Loan Relative	10	3,3	6	2	7	2,3
Micro Finance	0	0	4	1,3	3	1
BKM	132	43,9	136	45,2	139	46,2
Personal Savings	80	26,6	63	20,9	58	19,3
Registered Money Lender	2	0,7	0	0	2	0,7
Rotating Finance (arisan)	4	1,3	0	0	2	0,7
Unregistered Money Lender	2	0,7	0	0	0	0
Others	44	14,6	44	14,6	0	0

In relation to difficult access for financial institution to provide more space for MSMEs in Yogyakarta, the data can be traced in Table below

Accessibility of MSMEs toward Financing Sources

Source of Capital	Accessibility									
	Not Accessible		Can be accessed		Neutral		Accessible		Satisfied with the accesibility	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Bank Loan	4	1,3	6	2	21	7	63	20,9	41	13,6
Cooperatie	11	3,7	5	1,7	34	11,3	38	12,6	6	2
Crowd Fund	16	5,3	5	1,7	28	9,3	58	19,3	26	8,6
Loan Relative	6	2	11	3,7	35	11,6	33	11	17	5,6
Microfinance	11	3,7	8	2,7	35	11,6	36	12	5	1,7
BKM	11	3,7	9	3	35	11,6	73	24,3	79	26,2
Personal Saving	12	4	3	1	16	5,3	43	14,3	51	16,9
Registered Money Lenders	20	6,6	3	1	31	10,3	37	12,3	2	0,7
Rotating	19	6,3	9	3	23	7,6	34	11,3	2	0,7
Unregistered Money Lender	12	4	2	0,7	14	4,7	19	6,3	2	0,7

Access of MSMEs to Sharia Finance

Familiarities of MSMEs toward Sharia Financing Products

Familiar Islamic Finance Products	Frequency	Percent (%)
Yes	6	2
No	88	29,2
Total	94	31,2
Missing	207	

Utilization of Sharia Financing Products

Type of Islamic Finance Products						
	INITIAL		CURRENT		FUTURE	
	Freq	%	Freq	%	Freq	%
Diminishing Musharaka			1	0,3		
Ijara			1	0,3		
Kafala	5	1,7	4	1,3	5	1,7
Mudaraba	4	1,3	6	2	4	1,3
Murabaha			3	1	2	0,7
Musharaka			1	0,3	1	0,3
Qard Hassan			1	0,3	1	0,3
Sukuk						

Accessibility of MSMEs to Sharia Finance

Type of Islamic Finance Products	Accessibility									
	Not Accessible		Can be accessed		Neutral		Accessible		Satisfied with the accessibility	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Diminishing Musharaka	3	1	8	2,7	5	1,7	3	1		
Ijara	3	1	8	2,7	5	1,7	3	1		
Kafala	1	0,3	8	2,7	7	2,3	6	2	1	0,3
Mudaraba	1	0,3	8	2,7	3	1	8	2,7	2	0,7
Murabaha	1	0,3	9	3	2	0,7	7	2,3		
Musharaka	3	1	8	2,7	6	2	1	0,3	1	0,3
Qard Hassan	4	1,3	6	2	3	1	6	2		
Sukuk	3	1	2	0,7			1	0,3		

Conclusion

- The main source of capital or funds obtained when establishing a business for most MSMEs in Yogyakarta is funds originating from non-government, in this case the BKM
- Only 10% of businesses in Yogyakarta, especially MSMEs, are aware of the existence of sharia finance, while the remaining 90% still rely on funding from conventional financial institutions
- MSME access to Islamic financial is also still relatively low because the products of these sharia financial institutions do not familiar to them (70%)
- Only 3% at the beginning of their business used funds sourced from sharia financial institutions



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