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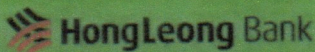


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**IMPACT OF ISLAMIC BANKING FINANCING TO FINANCIAL PERFORMANCE  
AND NON PERFORMING FINANCING FOR SMALL MEDIUM ENTERPRISE  
(SME)**

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**Abstract**

SMEs are able to contribute to community empowerment and decrease of poverty. However, SMEs generally stagnant due to lack of capital access resources. This study aims to examine and analyze the murabahah and musyarakah financing on the financial performance and the Non Performing Financing. The population in this study are all SMEs weaving Troso in Jepara, total are 283 SMEs. With purposive sampling, where the samples are SMEs Troso that its business at least 2 years, so selected 50 samples. Data collection techniques used: questionnaires and interviews. Data analysis used the descriptive analysis and Partial Least Square. The results of this study indicated that financing of murabahah had positive impact on the financial performance and had negative impact on Non Performing Financing. However musyarakah has no effect on financial performance and Non Performing Financing.

Keywords: SMEs Troso, Qordhul Hasan, Musyarakah, Financial Performance and Non Performing Financing

## **A. INTRODUCTION**

SMEs will have a strategic role in increase the national economy and lower unemployment. Based on data from the Central Bureau of Statistics in 2015 showed that there are 55.2 million SMEs in Indonesia. The whole business of having contributed to the GDP amounted to 57.9 percent and the employment contribution of 97.2 percent. In addition, more than 96 percent of companies in ASEAN are SMEs and the contribution to GDP by 30-50 percent. However, according to Director General of Small and Medium Industries Ministry of Industry, Euis Saedah, SMEs are still weak in access to, capital, intellectual property rights, deregulation, export facilities, business management and administration, as well as the continuity of supply of raw materials. Therefore, one solution to facilitate access to capital for SMEs is through Islamic banks, both with the sale and purchase agreement as well as profit-loss sharing, such as murabahah and musyarakah financing, so it is not burdensome for SMEs. Islamic finance is based on outlook (2015) show that in 2014 the Islamic banking funds were channeled to SMEs by 58% and to other than SMEs only by 42%. Islamic banking financing to SMEs is dominated by financing consumption rather than investment, with details as follows: equal to 112 trillion murabahah, mudharabah 13 trillion, 43 trillion, while istishna musyarakah 0.588 trillion and Ijara are 10 trillion. These results indicated that the majority of Islamic banks in the financing murabahah and mudharabah and musyarakah not on the use of profit loss sharing agreement. Though this scheme is not right for the burden of SMEs and the real sector development mission according to the vision of Islamic banks, namely al Falah. Therefore, this study *Analyze The Impact of Islamic Bank Financing to Financial Performance and Non Performing Financing For Small Medium Enterprise*.

## **B. LITERATURE REVIEW**

### *Role of Islamic Banking in the Development of SMEs*

Islamic banking has a strategic role in a wide real sector through the financing of the sale and purchase as well as for the results. Based on Islamic Finance Outlook 2015 shows that the financing of consumption in the Islamic Bank has a larger portion (41%) compared with the National Commercial Bank (28%). This is due to Islamic banks have not been too bold in giving Mudaraba and Musharaka because it has a higher risk, than that of SMEs as customers in general do not have the skill to manage lending well. While that type of financing investment in Syariah Bank has a smaller portion (19%) compared with the national banks (25%). Based on the group, the largest Islamic Bank to channel funds to

SMEs, 58% and to other than SMEs only by 42%, while the national banks to channel funds to SMEs amounted to only 19% and distribute to other than SMEs by 81%. This shows that Islamic banks to channel more funds to retail customers compared to corporate customers, it is inversely proportional to national bank that is more channeled to SMEs which in addition to more funding channeled to customer corporate (enterprise).

According to Muslim Kara (2013) the presence of Islamic banking should have a major impact on the growth of the real sector. One of the business units that need to be developed to encourage the growth of the real sector are Micro, Small And Medium Enterprises (MSMEs) in the national economy today has a very important position, for their contribution to employment and Gross Domestic Product (GDP), as well as the flexibility and toughness in the face of the economic crisis. Thus, sustainability circumstances Islamic banks should be able to contribute to enhancing the growth of the real sector. That function would be realized if Islamic banks use profit loss sharing agreement (mudharabah and musyarakah) as the core product.

#### *Murabahah Financing*

Understanding murabaha as a financing refers to Bank Indonesia Regulation Number 7/46 / PBI / 2005 regarding the Agreement of Collection and Distribution of Funds for Banks conducting business based on sharia principles (Karim, 2012). Atik Ria Pratika (2013) found that the murabaha financing has a significant positive effect on financial performance.

Hypothesis 1: Financing Murabahah have a significant positive influence on the financial performance of SMEs

#### *Musyarakah Financing*

Musharaka financing according to DSN No. 08 / DSN-MUI / IV / 2000 is financing based on the principles of cooperation between two or more parties to a particular business, in which each party contributes funds with the stipulation that the benefits and risks will be shared in accordance with the agreement. The financing is based on shariah bank "ah will serve as a partner, with SMEs Troso weaving. With the Musharaka financing, SMEs can use the capital to expand the business so that the performance of SMEs increased.

Hypothesis 2: Musyaraka financing has a significant positive effect on the financial performance of SMEs

### *Murabahah Financing and Risk Financing*

Murabaha financing and musyarakah not all returned by SMEs in accordance with the plan. Also called financing risk associated with the possible failure of the borrower of funds to meet its obligations or the risk that a borrower does not pay back the loan. Financing problems of financing means that the implementation has not been reached or meet the desired target banks such as: recovery of principal or for the results problematic. But if managed properly murabahah financing, the financing risk can decrease.

Hypothesis 3: Murabahah has negative effects on Non Performing Financing

### *Musyarakah Financing And Non Performing Financing*

Musyarakah financing provided by Islamic banking to SMEs are not all returned by SMEs in accordance with the plan. Also called financing risk associated with the possible failure of the borrower of funds to meet its obligations or the risk that a borrower does not pay back the loan. Financing problems of financing means that the implementation has not been reached or meet the desired target banks such as: recovery of principal or for the results problematic. Atik Ria Pratika (2013) found that musyarakah have a significant negative effect on financial performance.

Hypothesis 4: Musyarakah financing has negative effects on Non Financing Performance

### *Effect of Financial Performance to Non Performing Financing*

SMEs experiencing problems: capital, collateral and marketing. To overcome the weakness of the capital access is one way of financing through Islamic banking, both with the sale and purchase agreement such as murabahah, or by agreement to outcomes such as mudharaba and Musyarakah. In a way, the borrowed funds will be well managed SMEs, so as to be able to improve financial performance. If the financial performance of SMEs increases it will encourage SMEs to repay loans on time, so that the financing risk can be reduced.

H5: Impact of Financial Performance on Non Performing Financing

## **C. RESEARCH METHODE**

The population in this study are all SMEs Troso weaving Jepara many as 283 SMEs. Sampling using nonprobabilitas sampling with purposive sampling method that is based on specific criteria, namely SMEs Troso weaving that has been operating at least three

years. With these criteria 50 SMEs obtained Troso weaving. Primary data were collected using a questionnaire and interviews. The dependent variable used in this research is financial performance and non-performing financing, while the independent variables used are murabahah and musyarakah financing, and financial performance. Methods of data analysis in this study using descriptive and Partial Least Square analysis.

## D. RESULT AND DISCUSSION

### *Descriptive Statistics*

The results showed that the statistical mean for financing murabahah financing and financial performance is worth 4.2240 and 4.0200, which means that the financing and the financial performance of SMEs Teroso have good value.

**Table 1**  
**Descriptive Statistics**

	N	Range	Minimum	Maximum	Sum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
	Murabahah	50	1.80	3.20	5.00	211.20	4.2240	.06531	.46183
Musyarakah	50	3.20	1.80	5.00	176.80	3.5360	.10574	.74772	.559
Financial Performance	50	2.20	2.80	5.00	201.00	4.0200	.07964	.56315	.317
NPF	50	2.00	3.00	5.00	197.20	3.9440	.06516	.46077	.212
Valid N (listwise)	50								

The results of table 1 shows that the statistical mean for financing murabahah financing and financial performance is worth 4.2240 and 4.0200, which means that the financing and the financial performance of SMEs Teroso have good value. On the financial performance and the performance of the company also has a high value in that category, it shows that SMEs Troso already run their business is getting better from year to year. It is shown the existence of capital and turnover is increasing, decreasing operational costs, the resulting product is getting better, increasing market share, and revenues are always increasing. While the value of Musharaka financing statistical mean value is only 3,536 and

Non Performing Financing of 3.9440, which means that the Musharaka financing and low Non Performing Financing. This is reasonable because the number of musyarakah financing granted to SMEs Islamic banks Troso Weaving is still small, the bank is concerned about the risk of the Musharaka financing. Another reason that SMEs Weaving Troso not yet fully understand the murabaha contract. On the financial performance and the performance of the company also has a high value in that category, it shows that SMEs Troso already run their business is getting better from year to year. It is shown the existence of capital and turnover is increasing, decreasing operational costs, the resulting product is getting better, increasing market share, and revenues are always increasing.

### *Validity Test*

Validity test results with the PLS program at table 2, we using convergent validity value indicates that the value of cross loading factor convergent validity value for all of the variables have the original sample value estimate of more than 0.5 and the value of T statistic is greater than T Table (1.67), which means all indicators valid.

**Table 2**  
**Result of Validity Test**

	<b>original sample estimate</b>	<b>mean of subsamples</b>	<b>Standard deviation</b>	<b>T-Statistic</b>
<b>Murabahah (X1)</b>				
<b>X1.1</b>	0.718	0.684	0.127	5.631
<b>X1.2</b>	0.686	0.619	0.181	3.787
<b>X1.3</b>	0.627	0.307	0.292	1.120
<b>X1.4</b>	0.697	0.316	0.343	0.865
<b>X1.5</b>	0.654	0.573	0.285	2.292
<b>Musyarakah (X2)</b>				
<b>X2.1</b>	0.420	0.485	0.327	1.282
<b>X2.2</b>	0.091	0.274	0.273	0.331
<b>X2.3</b>	0.906	0.480	0.582	1.557
<b>X2.4</b>	0.577	0.072	0.350	0.791
<b>X2.5</b>	0.569	0.490	0.285	0.943
<b>Financial Performance (Y1)</b>				
<b>Y1.1</b>	0.827	0.801	0.079	10.496
<b>Y1.2</b>	0.715	0.677	0.144	4.963
<b>Y1.3</b>	0.744	0.753	0.116	6.406
<b>Y1.4</b>	0.695	0.317	0.293	1.007

<b>Y1.5</b>	0.600	0.610	0.201	2.983
<b>NPF (Y2)</b>				
<b>Y2.1</b>	0.597	0.110	0.470	1.059
<b>Y2.2</b>	0.510	0.282	0.420	1.213
<b>Y2.3</b>	0.581	0.200	0.531	1.094
<b>Y2.4</b>	0.557	0.036	0.412	0.624
<b>Y2.5</b>	0.677	0.316	0.412	0.914

### ***Reliability Test***

The table shows that the composite results of reliability of each construct is already good that is above 0.7. This indicator is said to have good reliability if the value is above 0.70 looks at the table of composite reliability values for all variables greater than 0.7 this means reliable.

**Table 3**

### **Reliability Test**

	Composite Reliability
Murabahah (X1)	0.780
Musyarakah (X2)	0.740
Financial Performance	0.783
Non Performing Financing	0,8.000

### ***Result and Discussion***

Results if the data using software tools SmartPLS, the result output of the model structure of the construct loading factor that would explain the influence of murabaha financing, Musyarakah, financial performance and Non Performing Financing can be seen in the following figure:



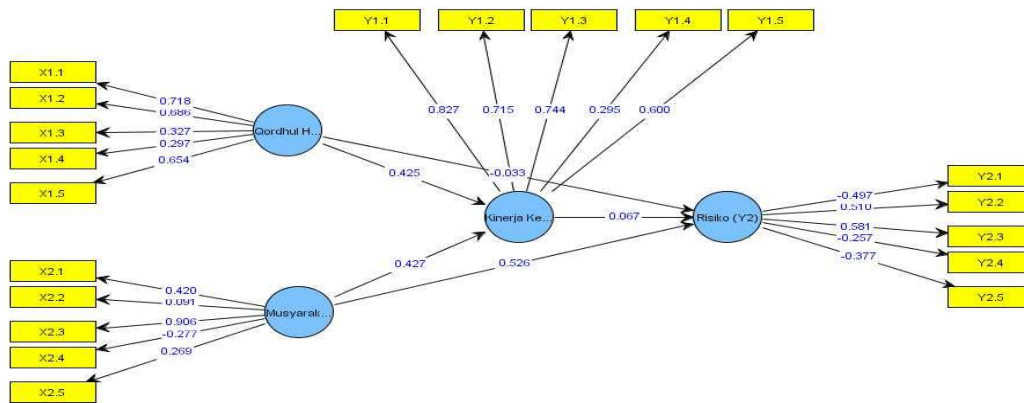


Table 4

## Regression Result

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
Murabahah (X1) -> Financial Performance (Y1)	0.425	0.550	0.162	2.614
Musyarakah (X2) -> Financial Performance (Y1)	0.427	0.254	0.269	1.587
Murabahah (X1) -> NPL (Y2)	-0.3 33	0.202	0.312	2.107
Musyarakah (X2) -> NPL(Y2)	0.526	-0.297	0.516	1.020
Financial Performance (Y1) -> NPL (Y2)	0.067	0.028	0.310	0.214

Based on table 4, the results showed that: *first*, murabahah financing has a positive and significant impact on the financial performance of Tenun Troso SMEs. This is indicated by the value of the original sample of 0,425 with a value estimate tstatistik (2.614) > t table value (1.67). This means that the financing of the purchase contract is murabaha granted by Islamic banks to SMEs was able to improve the financial performance of SMEs weaving Troso. The results of this study support the results Atik Pratika Ria (2013) which states that the murabaha financing has a positive impact on financial performance.

*Second*, musyarakah financing has no effect on the financial performance of Tenun Troso SMEs. This is indicated by the value of the original sample of 0,427 with a value estimate tstatistik (1586) <value ttabel (1.67). It is quite reasonable that the financing

agreement for the outcome of Musyarakah financing provided by Islamic banks to Tenun Troso SMEs is only slightly so it can not improve financial performance. SMEs weaving troso not have sufficient skills to manage Musharaka financing is based on the profit loss sharing, weaving Troso SMEs have not been able to manage bookkeeping sepenuhnya structured, so musyarakah can not be managed properly so that it can not improve the financial performance of Tenun Troso SMEs. The results of this study support the results Atik Pratika Ria (2013) which states that the Musharaka financing has no effect on financial performance. But does not support research Faishol Ulinnuha (2011) which states that the musyarakah financing has a significant positive effect on financial performance of SMEs.

*Third*, murabahah financing has a negative and significant impact on the Non Performing Financing. This is indicated by the value of the original sample estimate of -0.333 with tstatistik value (1.020) <value ttabel (1.67). This means that the financing of the purchase contract is murabaha granted by Islamic banks to SMEs was able to reduce the Non Performing Financing SMEs Troso weaving. This means that SMEs weaving Troso been able to manage the funds of Islamic banks are using the sale and purchase agreement so that it can reduce the risk of financing. Installments to be paid by Weaving Troso been adhered to, so as to reduce the risk of financing.

*Fourth*, Musharaka financing has no effect on Non Performing Financing. This is indicated by the value of the original sample of 0526 with a value estimate tstatistik (0214) <value ttabel (1.67). It is quite reasonable that the financing agreement for the outcome of Musharaka financing provided by Islamic banks to SMEs weaving Troso number is only slightly so it does not affect the Non Performing Financing SMEs weaving troso not have a skill that is adequate to manage Musharaka financing based on profit loss sharing the , so it does not affect the Non Performing Financing.

*Fifth*, do not affect the financial performance of Non Performing Financing. This is indicated by the value of the original sample of 0067 with a value estimate tstatistik (0214) <value ttabel (1.67). The financial performance of SMEs increased weaving troso did not ensure that SMEs can repay the loan timely capital. It also means that Non Performing Financing is determined by other factors, such commitment and so on.

### ***Determination Test***

The table shows that the composite results of reliability of each construct is already good that is above 0.7. Where according to Chin (1998) an indicator is said to have good

reliability if the value is above 0.70 looks at the table of composite reliability values for all variables greater than 0.7. Which means reliable.

### **E. Conclusion and Recommendation**

The results of this study indicated resources of murabahah financing that had a positive impact on the financial performance and had a negative impact on Non Performing Financing. However musyarakah has no effect on financial performance and Non Performing Financing. This research shows that SMEs are not yet fully Troso weaving willing dipinjamm manage the funds of Islamic banks as musyarakah-sharing, it appears that the Musharaka financing has no effect on financial performance and risk financing. Currently Troso weaving new SMEs willing to purchase such financing optimize murabaha financing.

Suggestions future studies need to be developed to increase the number of samples and with different variations of SMEs. Moreover, because the effect on the financial performance musharakah financing and financing risk is not significant, then the research will be needed plus moderating variables, for example: good corporate governance or types of SMEs.

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