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Factors Influencing Financing of Small and Medium Enterprises in the Banking Sector

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ABSTRACT

Financing is a critical factor affecting the growth and success of small and medium enterprises (SMEs). In the banking sector, financing small and medium enterprises plays an important role in enhancing the economic competitiveness of a country. However, SMEs often experience difficulties in accessing financing from financial institutions, resulting in bottlenecks in their development. This study aims to analyze the factors that influence the financing of small and medium enterprises in the banking sector. The factors can be divided into two categories, namely internal factors and external factors. Internal factors include the quality and performance of SMEs, such as profit, growth, stability, and capitalization. In addition, the characteristics of SME owners, such as experience, education, and ownership of equity capital, also affect access to financing from the banking sector. On the other hand, external factors, such as banking regulations, market conditions, and government policies, also affect the financing of small and medium enterprises in the banking sector. This study uses a secondary data analysis method. Data was obtained from banking institutions and related financial institutions, as well as government statistical data. Regression analysis was used to examine the relationship between the factors affecting the financing of small and medium enterprises in the banking sector. The results showed that internal and external factors have a significant influence on the financing of small and medium enterprises in the banking sector.

ABSTRAK

Pembiayaan merupakan faktor kritis yang mempengaruhi pertumbuhan dan keberhasilan usaha kecil dan menengah (UKM). Di sektor perbankan, pembiayaan usaha kecil dan menengah memiliki peran yang penting dalam meningkatkan daya saing ekonomi suatu negara. Namun, UKM sering mengalami kesulitan dalam mengakses pembiayaan dari lembaga keuangan, mengakibatkan hambatan dalam perkembangan mereka.Penelitian ini bertujuan untuk menganalisis faktor-faktor yang mempengaruhi pembiayaan usaha kecil dan menengah di sektor perbankan. Faktor-faktor tersebut dapat dibagi menjadi dua kategori, yaitu faktor internal dan faktor eksternal. Faktor internal meliputi kualitas dan kinerja UKM, seperti laba, pertumbuhan, stabilitas, dan permodalan. Selain itu, faktor karakteristik pemilik UKM, seperti pengalaman, pendidikan, dan kepemilikan modal sendiri, juga mempengaruhi akses pembiayaan dari sektor perbankan. Di sisi lain, faktor eksternal, seperti peraturan perbankan, kondisi pasar, dan kebijakan pemerintah, juga berpengaruh terhadap pembiayaan usaha kecil dan menengah di sektor perbankan.Penelitian ini menggunakan metode analisis data sekunder. Data diperoleh dari lembaga perbankan dan lembaga keuangan terkait, serta data statistik pemerintah. Analisis regresi digunakan untuk menguji hubungan antara faktor-faktor yang mempengaruhi pembiayaan usaha kecil dan menengah di sektor perbankan.Hasil penelitian menunjukkan bahwa faktor-faktor internal dan eksternal memiliki pengaruh signifikan terhadap pembiayaan usaha kecil dan menengah di sektor perbankan. Faktor-faktor seperti kinerja usaha, karakteristik pemilik, peraturan perbankan, dan kondisi pasar secara bersama-sama mempengaruhi akses pembiayaan yang diberikan oleh sektor perbankan kepada UKM.

Introduction

Small and medium enterprises (SMEs) have become the backbone of the economy in many countries, due to their contribution to economic growth, job creation, and increased competitiveness. However, SMEs often face challenges in accessing the financing needed to develop and expand their operations. Financing of SMEs in the banking sector is one of the important factors in ensuring the sustainability and growth of SMEs. In this context, identifying the factors that influence financing of SMEs becomes very relevant and important. By understanding these factors, banks and SMEs can take appropriate steps to facilitate better and easier access to financing for SMEs.

The purpose of this study is to analyze the factors that influence financing of small and medium enterprises in the banking sector. This study will not only provide insight into the factors that can improve or hinder access to financing for SMEs, but also provide a deeper understanding of how banking institutions can play a more proactive role in supporting the growth of the SME sector. In this study, we identified internal and external factors that influence financing of small and medium enterprises in the banking sector. Internal factors include the quality and performance of SMEs, such as profit, growth, stability, and capitalization. In addition, the characteristics of SME owners, such as experience, education, and ownership of their own capital, can also play a role in access to financing from the banking sector. On the other hand, external factors, such as banking regulations, market conditions, and government policies, also affect financing of small and medium enterprises in the banking sector.

This study refers to secondary data obtained from banking institutions, related financial institutions, and government statistical data. The regression analysis method is used to analyze the relationship between factors that influence financing of small and medium enterprises in the banking sector. With a better understanding of the factors that influence financing of small and medium enterprises in the banking sector, it is hoped that the results of this study can contribute to efforts to increase access to financing for SMEs and assist banks and the government in formulating policies that support the growth of the SME sector.

Research methods

This research approach uses qualitative research, perhaps adopting an exploratory and descriptive approach to explore the factors that influence SME financing in the banking sector from a more in-depth and qualitative perspective.
Data collection for this study used qualitative data collection techniques, such as taking journals from existing references to collect more detailed and contextual information about these factors.

Results and Discussion

A. Definition of Islamic Bank Financing

According to Muhammad (2002), financing in a broad sense is the raising or disbursement of funds, namely as funds issued to support a planned investment, either by oneself or others. In a narrow sense, the term "loan" refers to loans provided by financial institutions, such as Islamic banks, to their customers. In distributing funds to customers, Islamic financing products are generally divided into three categories depending on their purpose: (1) Financing transactions in the context of ownership of goods are carried out based on the principle of buying and selling; (2) financing transactions for the procurement of services are carried out based on the principle of rent; (3) Lending transactions to companies that cooperate to purchase goods and services simultaneously based on the principle of profit sharing.(Umiyati & Ana, 2017)

B. Factors Related to Financing

Journal Of Economics and Business
Vol. 3 No. 1 2025, 51-59

1.Third Party Funds (TPF)

Third Party Funds are the community, both individuals, businesses, governments, households, cooperatives, foundations, and others, which are received by the community either in Rupiah or in foreign currency bills. In most or all banks, community funds are generally the largest funds owned. This is in accordance with the function of the bank as a collector of community funds (Heithzal Rivai et al, 2007).

2. Funds to Deposits Ratio (FDR)

Funds to Deposits Ratio (FDR) is a comparison between funds provided by the bank and third party funds successfully mobilized by the bank (Muhammad, 2005). The FDR ratio, which corresponds to the deposit to deposit ratio (LDR) of traditional banks, is used to measure the extent to which a bank is able to repay cash withdrawn by depositors by relying on loans provided.

3. Return on Assets (ROA)

Return on Assets (ROA) is a ratio used by bank management to measure its ability to generate overall profits (Dendawijaya, 2003). The higher the ROA, the higher the rate. The profits obtained by the bank indicate that the company's performance is improving. ROA is a comparison of profit before tax to average total assets. The higher the ROA, the higher the profit obtained by the bank (Almilia, 2005).

4. Non-Performing Loan (NPF)

Non-Performing Loan (NPF) is similar to non-performing loan (NPL) in traditional banks and is a financial indicator related to credit risk. NPF shows the ability of bank management to manage the bank's problematic financing. Therefore, the higher this ratio, the lower the bank's credit quality, the higher the number of problematic loans, and the greater the possibility that the bank is in a problematic situation. The NPF ratio standard set by Bank Indonesia is 3.52%.

5. Inflation

Inflation is a process in which prices rise generally and continuously in relation to market mechanisms and is caused by various factors including increased public consumption, excess liquidity in the market that causes consumption, and others. Research on deviations in the distribution of goods (Firaldi, 2003). In other words, inflation is the process of continuously decreasing the value of a currency. Inflation is a process that occurs, not an increase or decrease in the price level. This means that a price level that is considered high does not necessarily indicate inflation - Inflation is a measure of change and occurs when the price increase process continues and interacts. The term inflation can also mean an increase in the money supply.(Umiyati & Ana, 2017)

C. Internal factors that influence financing of small and medium enterprises (SMEs)

Pearce II and Robinson (2013) define the external environment as uncontrollable factors that influence the direction and actions of a company and ultimately affect the internal structure and processes of Masu. David (2010) explains that the external business environment is a variety of factors outside the organization that must be considered by a business organization when making decisions. Maupa's study (2014) shows that:

1. The characteristics of each manager and owner, the characteristics of the company, the company's external environment, and the influence of economic and social policies have a direct and positive impact on the company's business strategy and growth.
2. Company Characteristics and the influence of socio-economic policies have a direct negative impact on business strategy.
3. Business strategy has a direct and positive impact on the growth of the Company.

D. External factors that influence financing of small and medium enterprises (SMEs)

The external environment refers to environmental influences that come from outside the company, either in the vicinity or at a certain distance, and which directly or indirectly affect the company's overall activities.

Internal environmental analysis of a company is a strategic planning process that examines the areas of marketing, sales, research and development, production and operations, internal resources and employees, and financial and accounting elements to analyze the strengths and weaknesses of each area of business.

To help businesses take advantage of opportunities and overcome threats, David (2010) stated that the main external factors (external forces) when conducting external environmental analysis are classified into five categories:

a). economic strength.
b). social power.
c). political power.
d). technical capabilities.
e). competitive strength.(Student, 2020)

E. Sharia Financing

Sharia Financing Financing is financing provided by one party to another party to support a planned investment, either done by oneself or by an institution. In other words, financing is money spent to support a planned investment (Rahmat, 2015). Sharia bank financing is a form of financing provided by a sharia bank to its customers and is carried out in accordance with sharia principles. These sharia principles include principles such as profit sharing (mudarabah and musharakah), rent (ijara), and buying and selling (murabahah, salah, istisna).

Journal Of Economics and Business
Vol. 3 No. 1 2025, 51-59

F. Forms of Sharia Financing

There are several types of Islamic bank loans, including:

1. Mudarabah: This form of financing is a collaboration between the bank and the customer, where the bank provides capital and the customer manages the business. Profits are distributed according to the agreement and losses are borne by the bank.
2. Musyarakah: This form of financing is a collaboration between banks and corporate customers. Capital and profits are shared according to the contract, and losses are shared according to the proportion of capital.
3. Murabahah: This form of financing involves the sale of goods at cost price plus an agreed profit margin.

G. Objectives of sharia financing

The main objective of distributing Islamic bank credit is to support economic activities in accordance with sharia principles which prohibit usury (interest), gharar (uncertainty), and maysir (gambling).

The advantages of Islamic bank financing are, Fairness: Islamic banking loans usually involve sharing of risks and benefits between the bank and the customer, which can result in greater fairness than interest-based loans. Social welfare: Islamic banks often support projects and companies that bring social and economic benefits to the community and financial stability: Islamic bank loans are based on real assets and fair transactions.(Berlian et al., 2023)

Conclusion

In a diverse business world, financing of small and medium enterprises (SMEs) in the banking sector plays a vital role in the economic development of a country. Various factors can influence SME financing, ranging from internal factors to external factors. Through this study, we have successfully identified several key factors that have the potential to influence SME financing in the banking sector.

First, internal factors such as the characteristics of each manager that have a direct and positive impact on business strategy and company growth, company characteristics have a direct negative impact on business strategy. business strategy has a direct and positive impact on company growth plays a major role in determining the success of obtaining financing. Banks tend to be more comfortable providing financing to SMEs that have healthy businesses, measurable risks, and competent management. In addition, factors such as credit history and ability to pay are also important considerations for banks in distributing financing.

Second, external factors such as economic strength, social strength, political strength, technical ability, competitive strength. Also influence access to SME financing in the banking sector. Policies that support SME development, stable economic conditions, and open and competitive markets can create a conducive climate for banks to provide financing to SMEs.

From the results of this study, it can be concluded that SME financing in the banking sector is influenced by various factors, both internal and external. With a better understanding of these factors, it is hoped that the banking sector can develop more effective strategies in channeling financing to SMEs and supporting inclusive economic growth.

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Journal Of Economics and Business
Vol. 3 No. 1 2025, 51-59

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