



## Islamic Microcredit-based Financing Analysis: A Study of Islamic Banking in the Special Region of Yogyakarta

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### ARTICLE INFO

#### Article History:

Received: 2023-03-28

Revised: 2023-05-14

Accepted: 2023-05-23

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#### Keywords:

Banking,  
Financing,  
Prudential

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#### Paper Type:

Research Paper

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### ABSTRACT

**Purpose:** The goal of this research is to find out how Sharia banking can overtake financing for MSMEs that are not yet bankable by sticking to prudential banking with a case study: Islamic Banking in the Special Region of Yogyakarta

**Design/Method/Approach:** This is qualitative research using a triangulation method to verify the validity of the data obtained. The research was undertaken at an Islamic bank in the Special Region of Yogyakarta, Indonesia disbursing KUR.

**Findings:** The results of this study are that Islamic banking in the Special Region of Yogyakarta (DIY) applies the 5 CS methods (Character, Capacity, Capital, Collateral, and Condition of Economy) when conducting a financing analysis of their prospective KUR recipient customers.

**Originality/Value:** The method found in this study is beneficial for analyzing unbankable MSMEs. Islamic banks can believe in the ability to pay prospective customers despite the limitations of the data and documents analyzed. This method is beneficial to help unbankable MSMEs to be able to access capital from Islamic banking.

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## INTRODUCTION

MSMEs constitute a sector of the economy that remains receiving a lot of attention both at home and at the international level. Their crisis-resistant nature makes MSMEs the backbone of the Indonesian economy. Their contribution to the country's economy is considerably significant. The Special Region of Yogyakarta is among the regions with MSMEs contributing more significant than 90%. The MSME sector has an important role in driving the economy in DIY. The contribution of the MSME sector to the DIY economy is 79.6 percent of the DIY GRDP Regional Domestic Product. The number of MSME business units grew by an average of 8.45 percent per year, and the number of turnovers grew by an average of 1.37 percent per year. Regarding employment absorption, MSMEs have a share of 23-25 percent in absorbing the workforce<sup>1</sup>. Support for the development of MSMEs through the financing of microfinance proved to have a positive role in economic development. After obtaining MSMEs financing to increase sales, net income, and business expenses.<sup>2</sup>

Constraints faced by MSMEs in their operation are marketing, partnership, and human and financial resources, in addition to bookkeeping that remains simple and not up-to-date, narrow profit margins, limited business capital, lack of experience, small economies of scale, and lack of ability to obtain capital. Capital constraints are a strategic issue because they constitute one of the obstacles to increasing MSMEs' business scale. There are several ways in which MSMEs may have access to sources of capital, for example from financial institutions, both Islamic and conventional ones. These financial institutions include banks, cooperatives, pawn shops, and so on. KUR has a positive effect on the development of MSMEs in the Special Region of Yogyakarta as evidenced by increases in production costs, sales turnover, profits, and working hours. Production costs increased by IDR 3,454,545 on average. Sales turnover increased by IDR 4,154,545. Profits increased by IDR 2,490,909. Lastly, working hours increased by 2.72 hours. These research findings suggest that KUR plays a strategic role in increasing the business capacity of MSMEs in the

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1 Kemenkeu RI, "Kajian Fiskal Regional D.I. Yogyakarta Triwulan I Tahun 2022," Kajian Fiskal Regional D.I. Yogyakarta Triwulan I Tahun 2022, June 2, 2022, <https://djp.b.kemenkeu.go.id/kanwil/diy/id/profil/309-artikel/3294-kajian-fiskal-regional-d-i-yogyakarta-triwulan-i-tahun-2022.html>.

<sup>2</sup> Mustafa Disli, Ahmet F. Aysan, and Omneya Abdelsalam, "Favoring the Small and the Plenty: Islamic Banking for MSMEs," *Economic Systems* 47, no. 1 (March 1, 2023): 101051, <https://doi.org/10.1016/j.ecosys.2022.101051>.

Special Region of Yogyakarta.<sup>3</sup> Distribution of financing from microfinance institutions is able to improve housing, utility use, air, and sanitation.<sup>4</sup> Another positive effect of financing microfinance institutions against MSMEs is poverty alleviation.<sup>5</sup> The research in Malaysia also discusses how to finance microfinance institutions towards MSMEs that are able to improve household social welfare, open employment, and empower women in urban as well as in rural areas.<sup>6</sup> Chikwira found results that precise microfinance can reduce poverty in an area.<sup>7</sup> The financing provided by microfinance can enhance the role of being able to empower people experiencing poverty through business development.<sup>8</sup> Financial services, both financial and non-financial, including spiritual development, are important in alleviating poverty.<sup>9</sup>

Unfortunately, many MSMEs cannot access capital from banks because their business fails to meet the criteria prescribed by banks. This results from bookkeeping that falls short of those banks' standards, collateral issues, duration of the business, and business capacity. These are common problems facing MSMEs when applying for loans from banks. The distribution of financing without exercising the precautionary principle will threaten the sustainability of financial institutions including banking. The risk of problematic financing

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<sup>3</sup> Sujarweni Wiratna and Utami Retnani Lila, "Analisis Dampak Pembiayaan Dana Bergulir KUR (Kredit Usaha Rakyat) Terhadap Kinerja UMKM (Studi Kasus Di Daerah Istimewa Yogyakarta)," *Jurnal Bisnis Dan Ekonomi (JBE)*, 22, no. 1 (2017): 11–25.

<sup>4</sup> Basharat Hossain and Syed Naimul Wadood, "Impact of Urban Microfinance on the Livelihood Strategies of Borrower Slum Dwellers in the Dhaka City, Bangladesh," *Journal of Urban Management* 9, no. 2 (2020): 151–67, <https://doi.org/10.1016/j.jum.2019.12.003>.

<sup>5</sup> Pupun Saepul Rohman et al., "A Review on Literature of Islamic Microfinance from 2010-2020: Lesson for Practitioners and Future Directions," *Heliyon* 7, no. 12 (December 1, 2021): e08549, <https://doi.org/10.1016/j.heliyon.2021.e08549>.

<sup>6</sup> Nur Hazirah Binti Hamdan and Salina Hj Kassim, "Effects of Islamic Microfinancing, Human Capital and ICT Usage on Women Micro-Entrepreneurs' Performance in Malaysia," *Journal of Islamic Monetary Economics and Finance* 8 (December 29, 2022): 125–52, <https://doi.org/10.21098/jimf.v8i0.1421>.

<sup>7</sup> Collin Chikwira, Edson Vengesai, and Petronella Mandude, "The Impact of Microfinance Institutions on Poverty Alleviation," *Journal of Risk and Financial Management* 15, no. 9 (September 2022): 393, <https://doi.org/10.3390/jrfm15090393>.

<sup>8</sup> Firdaus, Sella Kurnia Sari, and Deva Dwi Anggara, "Impact of Islamic Financing on Working Capital Management of Micro, Small, and Medium Enterprises in Tanjungpinang City, Indonesia," *Journal of Islamic Economics Lariba* 8, no. 2 (December 24, 2022): 327–40, <https://doi.org/10.20885/jielariba.vol8.iss2.art5>.

<sup>9</sup> Muhammad Akhyar Adnan and Shochrul Rohmatul Ajija, "The Effectiveness of Baitul Maal Wat Tamwil in Reducing Poverty the Case of Indonesian Islamic Microfinance Institution," *Humanomics* 31, no. 2 (2015): 160–82, <https://doi.org/10.1108/H-03-2012-0003>.

measured by Non-Performing Financing (NPF) resulted in improved backups.<sup>10</sup> Fianto explained that the increase of the NPF in Sharia microfinance is influenced by age, gender, occupation, and type of contract.<sup>11</sup> Contracts based on profit and loss sharing are riskier than non-profit and loss-sharing-based products. Distribution of Islamic microfinancing to women's communities and rural communities is able to increase Islamic financial inclusion.<sup>12</sup> with good-quality financing<sup>13</sup>. Islamic Microfinance Institutions must involve religious leaders to develop a positive attitude through the use of Islamic microfinance services because they affect the quality of financing.<sup>14</sup> One of the advantages of Islamic Microfinance Institutions is that they have a better reach and flexibility to the poorest strata of the population.<sup>15</sup> Compared to conventional microfinance Institutions<sup>16</sup>. The application of Sharia microfinance practices is able to serve the maqasid sharia including reducing poverty, improving the economy<sup>17</sup>, improving the social conditions of society, distributing wealth, and

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<sup>10</sup> Faridah Najuna Misman and M. Ishaq Bhatti, "The Determinants of Credit Risk: An Evidence from ASEAN and GCC Islamic Banks," *Journal of Risk and Financial Management* 13, no. 5 (2020): 89, <https://doi.org/10.3390/jrfm13050089>.

<sup>11</sup> Bayu Arie Fianto, Hayu Maulida, and Nisful Laila, "Determining Factors of Non-Performing Financing in Islamic Microfinance Institutions," *Heliyon* 5, no. 8 (August 2019): e02301, <https://doi.org/10.1016/j.heliyon.2019.e02301>.

<sup>12</sup> Mucahit Ozdemir, Fatih Savasan, and Salih Ulev, "Leveraging Financial Inclusion through Islamic Microfinance: A New Model Proposal for Participation Banks in Turkiye," *Borsa Istanbul Review*, February 3, 2023, <https://doi.org/10.1016/j.bir.2023.01.011>.

<sup>13</sup> Toka S Mohamed and Mohammed M Elgamal, "Credit Risk in Islamic Microfinance Institutions: The Role of Women, Groups, and Rural Borrowers," *Emerging Markets Review* 54 (2023): 1–14, <https://doi.org/10.1016/j.ememar.2022.100994>.

<sup>14</sup> Purwanto Purwanto et al., "Adoption of Islamic Microfinance in Indonesia an Empirical Investigation: An Extension of the Theory of Planned Behaviour," *Cogent Business & Management* 9, no. 1 (December 31, 2022): 2087466, <https://doi.org/10.1080/23311975.2022.2087466>.

<sup>15</sup> Klemens Katterbauer and Philippe Moschetta, "A Deep Learning Approach to Risk Management Modeling for Islamic Microfinance," *European Journal of Islamic Finance* 9, no. 2 (July 20, 2022): 35–43, <https://doi.org/10.13135/2421-2172/6202>.

<sup>16</sup> Syedah Ahmad, Robert Lensink, and Annika Mueller, "The Double Bottom Line of Microfinance: A Global Comparison between Conventional and Islamic Microfinance," *World Development* 136 (December 1, 2020): 105130, <https://doi.org/10.1016/j.worlddev.2020.105130>.

<sup>17</sup> Alistair Cameron, Mandar Oak, and Yaping Shan, "Peer Monitoring and Islamic Microfinance," *Journal of Economic Behavior & Organization* 184 (April 2021): 337–58, <https://doi.org/10.1016/j.jebo.2021.02.001>.

increasing the intellectual level of society<sup>18</sup>. This condition should be used as a reference by financial institutions to distribute financing against MSMEs<sup>19</sup>.

To deal with these problems, the government runs a microcredit program that provides MSMEs with capital through banks called Kredit Usaha Rakyat (People's Business Loan), abbreviated as KUR. This makes Islamic banks win the trust to disburse Islamic KUR to the general public. The distribution of KUR, which is micro-finance with sources of funds coming from government grants, will support the expansion of access to Islamic finance<sup>20</sup>. However, Islamic banks also meet challenges in the process, i.e., disbursing KUR expansively while still maintaining good risk mitigation. Islamic banks will have to deal with KUR customers that are beginner entrepreneurs and theoretically are not bankable.<sup>21</sup> Nevertheless, they have to deal with this type of customer while maintaining the principle of prudential banking. Prudential banking is important because the factor of non-performing financing (NPF) has a significant effect on reducing the distribution of working capital financing in Islamic banking in Indonesia.<sup>22</sup> Good risk mitigation has been done by Sharia banking during this time and proved to be more resistant to the global crisis that is happening.<sup>23</sup> The initial hypothesis suspects that the distribution of KUR by Islamic banks is prone to financing risk because it is channeled to entrepreneurs who are not bankable and do not pay attention to collateral. This background caught the researchers' interest in conducting research into the implementation of a KUR-based financing analysis undertaken by an Islamic bank in the Special Region of Yogyakarta. This research aims to determine the practice of KUR disbursement and analysis undertaken by an Islamic bank. It is of great

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<sup>18</sup> Ahmed Mansoor Alkhan and M. Kabir Hassan, "Does Islamic Microfinance Serve Maqāsid Al-Shari'a?" *Borsa Istanbul Review* 21, no. 1 (March 2021): 57–68, <https://doi.org/10.1016/j.bir.2020.07.002>.

<sup>19</sup> Bayu Arie Fianto et al., "Equity Financing and Debt-Based Financing: Evidence from Islamic Microfinance Institutions in Indonesia," *Pacific-Basin Finance Journal* 52 (December 2018): 163–72, <https://doi.org/10.1016/j.pacfin.2017.09.010>.

<sup>20</sup> Wasiaturrahma et al., "Breadth and Depth Outreach of Islamic Cooperatives: Do Size, Non-Performing Finance, and Grant Matter?," *Heliyon* 6, no. 7 (July 2020): e04472, <https://doi.org/10.1016/j.heliyon.2020.e04472>.

<sup>21</sup> R. D. Putra Sofana, "The Role of Islamic Micro Financial Cooperatives (Baitul Maal Wat Tamwil) in Local Economic Development," *Semarang State University Undergraduate Law and Society Review* 2, no. 1 (January 30, 2022): 39–56, <https://doi.org/10.15294/lsr.v2i1.53479>.

<sup>22</sup> Maudy Rizqi Maghfirlana and Sulaiman Sulaiman, "Determining Factors of Working Capital Financing of Micro, Small, and Medium Enterprises (MSMEs) in Islamic Banking: An Empirical Evidence from Indonesia," *Ijtima' Lyya Journal of Muslim Society Research* 7, no. 1 (2022): 45–58, <https://doi.org/10.24090/ijtima'iyya.v7i1.6898>.

<sup>23</sup> Asma Salman and Huma Nawaz, "Islamic Financial System and Conventional Banking: A Comparison," *Arab Economic and Business Journal* 13, no. 2 (2018): 155–67, <https://doi.org/10.1016/j.aebj.2018.09.003>.

importance as it provides practitioners and regulators with references in the formulation of policies relating to the microcredit KUR. Besides, it will also provide additional references and materials to develop research among academicians.

## RESEARCH METHOD

The present research was carried out using a qualitative method that generated descriptive data in the forms of sentences or utterances and observable behavior. Viewed from the theme being discussed, the research falls into the category of field research, i.e., research carried out intensively, in detail, and in-depth on certain objects requiring a comprehensive and holistic analysis using a qualitative design<sup>24</sup>. This was a descriptive case study of an Islamic bank in the Special Region of Yogyakarta. It was carried out by collecting field data related to the KUR product-based financing analysis undertaken by an Islamic bank in the Special Region of Yogyakarta.

The research population was an Islamic bank appointed by the government to disburse KUR products. The research sample was drawn using purposive sampling, i.e., carefully selecting a sample so as to ensure relevance by including people according to predetermined characteristics using a qualitative design<sup>25</sup>. The research sample was comprised of proposers, committees, customers, and experts. To answer this research requires primary data related to the application of a KUR product-based financing analysis by an Islamic bank in the Special Region of Yogyakarta. Because this is a case study, the primary data were obtained using observation, interview, and documentation techniques. While secondary data is data that supports or provides useful information relating to this research, both internal and external data. Secondary data obtained from several references in the form of books, newspapers, magazines, articles, or the results of previous research that is relevant to the subject of this study<sup>26</sup>.

This research includes descriptive research so that researchers develop instruments in the form of an interview.<sup>27</sup> Guidelines and documentation<sup>28</sup>. The

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<sup>24</sup> Suharsimi Arikunto, *Prosedur Penelitian Suatu Pendekatan Praktek* (Jakarta: PT Rineka Cipta, 1998).

<sup>25</sup> S. Nasution, *Metode Research (Penelitian Ilmiah)* (Jakarta: Bumi Aksara, 2006).

<sup>26</sup> Nur; Bambang Supomo Indriantoro, *Metodologi Penelitian Bisnis Untuk Akuntansi Dan Manajemen* (Yogyakarta: BPFE, 2002).

<sup>27</sup> Norman K. Denzin and Yvonna S. Lincoln, eds., *Handbook of Qualitative Research*, 2nd ed (Thousand Oaks, Calif: Sage Publications, 2000).

<sup>28</sup> John W. Creswell, *Qualitative Inquiry and Research Design: Choosing among Five Approaches*, 3rd ed (Los Angeles: SAGE Publications, 2013).

instruments of the interview guidelines and documentation are developed based on the theoretical framework used to compose research questions. Data analysis consists of Data Reduction, Data Display, and Conclusion Drawing. Data Reduction is a process by which researchers summarize, fetch data that is important & then categorize important and unimportant things to use in research. After the data at the reduction then, the next stage is the data presented. In this research data is presented in the form of brief descriptions, charts, relationships between categories, flows/processes and the like whose function is to put from the data that has been reduced step withdrawal conclusion and verification is done by analyzing the evidence obtained in the field which is then deduced into the findings of this research. Data analysis activities are carried out interactively and continuously until complete, data is collected through interviews, and after data accumulated and data is analyzed, if the answer is not satisfactory then the researcher continues the question again to a certain stage until the data obtained is considered credible. Then, the data were analyzed, i.e., the process of organizing and sorting out data by pattern, category, and basic description unit in order to determine the theme and formulate work hypotheses as presented by data<sup>29</sup>. In this research, the data analysis adopted was an analysis method that aimed to examine the validity and reliability of the data obtained.

Data validity was examined using triangulation. It is a technique to test data validity using data other than those used for checking purposes or to be compared with the data obtained<sup>30</sup>. In this research, such examination was undertaken by comparing data with the results of interviews with research subjects. It was also done by considering the other data obtained to collect accurate information. The data that was carried out by the triangulation process was the findings of an analysis of microfinance for MSME recipients of the KUR program.

## **RESULT AND DISCUSSION**

The researchers searched for various sources to obtain information about Islamic banks the government appointed to disburse KUR and discovered that PT Bank BRI Syariah is the only Islamic Bank to disburse KUR, as can be seen on the KUR website which lists PT Bank BRI Syariah as the only entry in the Islamic KUR category. Based on the foregoing, this research focused on KUR-based financing analysis implementation by PT Bank BRI Syariah's Yogyakarta Branch Office.

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<sup>29</sup> Lexy J. Moleong, *Metodologi Penelitian Kualitatif* (Bandung: PT Remaja Rosdakarya, 2000).

<sup>30</sup> Sugiyono, *Metode Penelitian Kuantitatif, Kualitatif Dan R&D* (Bandung: Alfabeta, 2010).

*Kredit Usaha Rakyat* (People's Business Loan), hereinafter referred to as KUR, refers to investment and/or business capital credit/financing intended for individual debtors, enterprise, and/or business groups that are productive and eligible, but have no additional collateral or already have it but it is insufficient<sup>31</sup>. This program aims to improve and expand KUR distribution to productive businesses; enhance the competitiveness of micro, small, and medium enterprises; and encourage economic growth and labor absorption. Those aims clearly reflect the government's intention to help out MSME entrepreneurs by providing them with easy and affordable access to capital. KUR is a government program intended to increase MSME financing access to financial institutions by adopting a collateral scheme launched in November 2007. From its inception in November 2007 until December 2014, KUR with a subsidy scheme of Guarantee Fee (IJP) had disbursed a total of IDR 213 trillion to 4 million debtors with a Non-Performing Loan (NPL) ratio of 0.3%. In 2015 the government set policy directions to improve the competitiveness of MSMEs and cooperatives so as to evolve into a sustainable business with a better scale in an attempt to contribute to national economic independence. To this end, the development strategies implemented were enhancing the quality of human resources, increasing access to financing and expanding financing schemes, increasing products' added-value and marketing range, strengthening businesses' institutions, and improving ease, certainty, and protection of businesses.<sup>32</sup>

There are 2 (two) types of KUR at PT Bank BRI Syariah Tbk of Yogyakarta, they are KUR Mikro (People's Micro Business Loan) and KUR Kecil (People's Small Business Loan). In general, they differ in the financing ceiling, where KUR Mikro has a maximum financing ceiling of IDR 25,000,000 (twenty-five million rupiahs) while KUR Kecil has a financing ceiling of IDR 200,000,000 (two hundred million rupiahs). The other differences are discussed in more detail in the next section. The type of contract used in KUR-based financing is *murabahah bil wakalah*. *Murabahah* contracts refer to a transaction contract for the sale and purchase of particular goods with a value equal to the price of the goods to be used as working and investment capital plus a margin agreed upon by the parties, where the seller notifies in advance the acquisition price to the buyer. As for *wakalah* contracts, they refer to a delegation of power by a party (*mumakkil*) to another party (agent) for matters that may be

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31 S H Suhartini et al., "Participation of Beef Cattle Farmers and the Effect on Production," IOP Conference Series: Earth and Environmental Science 892, no. 1 (November 1, 2021): 012081, <https://doi.org/10.1088/1755-1315/892/1/012081>.

32 Kementerian Koordinator Bidang Perekonomian Republik Indonesia., "Evolusi KUR," Kementerian Koordinator Bidang Perekonomian Republik Indonesia., 2019, <http://kur.ekon.go.id/evolusi-kur>.



represented. In the event PT Bank BRI Syariah has another party as its agent to purchase goods sold by a seller, PT Bank BRI Syariah may hand over payment for such a purchase directly to its agent, which is its customers, through this type of contract. Once the goods have been purchased from a customer in the name of PT Bank BRI Syariah, the goods principally shall belong to PT Bank BRI Syariah and thus PT Bank BRI Syariah and the customer then enter into a house sales and purchase contract (*murabahah*), i.e., PT Bank BRI Syariah sells the house to the customer.

The imposition of a *murabahah* rate margin on KUR complies with the provisions set out by the government of the Republic of Indonesia. During the research, the rate applicable evenly amounted to 7% p.a. KUR disbursement must hit the right target in accordance with provisions set out by the government unless it will result in the cancellation of the margin subsidy, which in turn will negatively affect the distributing Bank. The program KUR gets guarantees from Islamic guarantee companies appointed by the government to cover in the event of default. Guarantee fees comprise the components of the margin subsidy and shall be at the expense of the Bank. Any customers who deliberately delay fulfilling their obligations may be subject to a penalty. The penalty paid is not allocated to the Bank's profits but to Social Funds.

Prospective customers must be at least 21 years of age or married or 65 years of age at the maximum at the end of the financing period. Prospective KUR recipients are individuals running productive businesses for at least 6 (six) months and do not have any collateral, or the value of such collateral is insufficient to apply for financing to the Bank. Laid-off employees may apply for KUR as well on condition that they have run a business for 3 (three) months and already attended entrepreneurial training. The domicile of the business run is maximally 5 km away from the disbursing Bank or from the sales zone. Prospective customers do not get productive financing from other financial institutions or government program-based financing. Prospective customers have a good financing history at financial institutions for the past 6 (six) months and are not listed on the Bank Indonesia National Black List.

Prospective KUR Mikro customers must at least obtain a Business Certificate issued by the village official, the veracity of which must be verified by the Bank. As for prospective KUR Kecil customers, they must have a Micro and Small Business License (IUMK) or any similar permit issued by the local government. The business sectors entitled to KUR-based financing are trade, agriculture, processing industry, construction, and services. KUR-based financing is intended for working capital and investment that supports the business of prospective customers for a maximum period of 5 years. KUR Mikro and KUR Kecil differ in financing terms, as presented in the table below:

**Table 1.** Term of KUR-based Financing

Usage Purpose	KUR Mikro	KUR Kecil
Working Capital	3 Years	4 Years
Investment	5 Years	5 Years

Source: Interviews with Practitioners

### **KUR-based Financing Disbursement Process**

KUR-based financing begins with initiation, namely KUR marketing by an Account Officer Micro (AOM). In the event of an application, the documents customers are required to submit are there and their spouse's ID card, family card, marriage certificate/book, business certificate, financial documents, and current account for savings/*giro* for the past 6 (six) months. The subsequent initiation process undertaken by AOM is financing checking through the Financial Information Service System (SLIK) to find out the track record of the existing facilities prospective customers enjoy. Afterward, a field survey is conducted to examine the validity of the data and information submitted by customers to the Bank. The next process after initialization is a financing analysis. At this stage, AOM examines in detail the veracity of the administrative documents, business eligibility and prospects, business domicile and its conditions as well as the condition of prospective customers' residence, business needs, customer character, capability, and sources for payment of obligations.

The next process is financing approval. The KUR-based financing decision is made promptly without neglecting the aspect of prudential banking. Approval begins with the submission of all financing documents by AOM to the Unit Head (UH) for re-examination. The Unit Head (UH) must carry out administrative and financing feasibility verification. Once the Unit Head declares that files, documents, and analysis from AOM have met the predetermined requirements, they are submitted to the Marketing Manager Micro or Head of the Auxiliary Branch to be decided whether such an application will be approved or not. If it is approved, AOM will draw up a Letter of Financing Approval Principle (SP3) to be issued to prospective customers. Once customers approve it, AOM will prepare the contract document to be signed by customers, which includes *wakalah* contract, *murabahah* contract, general terms and conditions, letter of credit, proof of guarantee handover, and power of attorney for privately-made sales.

After all documents have been signed, the next stage is disbursement, which begins with the submission of financing documents by AOM to

Financing Support. The Financing Administration Department will check data completeness and compliance with the existing requirements. Once they are declared complete, they will be crosschecked by the Financing Support Manager. Afterward, those documents are submitted to the Operations Department to undergo the next disbursement stage. The Back-Office Department will check data completeness and compliance with the existing requirements. Once they are declared complete, the Operations Manager crosschecks them. Similarly, once they are declared complete, KUR funds are credited to customers' accounts. Furthermore, customers purchase goods on a *murabahah* contract and report it to the Bank.

Disbursement is not the end. After disbursement, the Bank will conduct maintenance to monitor the use of KUR funds and the development of business rub by customers. Monitoring is carried out by AOM, Unit Head, Head of the Auxiliary Branch, and Collection. AOM is tasked with conducting post-disbursement monitoring, collecting *murabahah* evidence, monitoring business run by customers, assisting the head office in financing guarantee claims, visiting customers no later than three days after disbursement to ensure that funds are used as set out in the contract, and monitoring installment payment. While the Unit Head is in charge of maintenance to ensure that objectives are in line with financing, monitor installment payments, and monitor KUR portfolio quality. The Head of the Auxiliary Branch monitors the extent to which KUR disbursement is deemed appropriate and KUR portfolio quality. The Collection Department conducts monitoring through collecting and restructuring activities.

## **Islamic KUR-Based Financing Analysis**

### ***Characters***

An analysis of prospective customers' characters<sup>33</sup> is carried out by checking The Indonesian Financial Services Authority (OJK) Financial Information Service System (SLIK). This stage is undertaken when the Account Officer Micro has finished verifying prospective customers' personal data. Such verification is done by Financing and Support staff after obtaining a request from the Account Officer Micro through the Internal Official Note. The result will reveal historical information about the relationship between prospective customers' loans and banks all over Indonesia. The information published on SLIK concerns financings, such as ceiling, term, lending bank, collateral, and timeliness of installment payments. In the event of delays, information about days of such a delay and in what months customers are in arrears can be

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<sup>33</sup> Sutrisno Sutrisno et al., "Literature Review: Mitigasi Resiko Dan Prosedur Penyelamatan Pada Sistem Perkreditan Rakyat," *Journal of Economic, Bussines and Accounting (COSTING)* 6, no. 2 (January 3, 2023): 1154–67, <https://doi.org/10.31539/costing.v6i2.4879>.

determined. Another source of information is the neighborhood and work environment. Investigation of the neighborhood and work environment is carried out when data verification whose reports are included in the Personal Investigation Report (PIR) constitutes important information that can describe customers' characters not listed in the Financial Services Authority's Financial Information Service System (SLIK). PIR is drawn up by the Bank by gathering information from customers' neighborhoods, fellow entrepreneurs, buyers, suppliers, and entrepreneur associations.

### **Capital**

The capital analysis is carried out on the customers' financial performance<sup>34</sup>. KUR provisions that require prospective customers to run a business for at least 6 months pose a challenge in conducting financial analysis, not to mention that the target customers of KUR are micro-enterprises, the majority of which lack complete bookkeeping. The Bank will certainly be extremely careful at this stage as it will determine how well customers' repaying performance is. Information is obtained through interviews and verification of data veracity. Once verification is completed and yields favorable results, the next step is to conduct an analysis of the customer's financial condition. The information collected includes the history of the business, business strategies implemented, business operations, and business performance.

Information obtained from interviews must be verified by the Bank. Verification is done by directly visiting customers' homes and business domicile. Then, the information obtained is compared and verified with the following details:

**Table 2.** Verification of Data Obtained from Interviews

No	Data Obtained from the Interview	Verification	
		Document	PIR
1.	Sales	1. Account Transaction	Buyer
		2. Sales Slip	
2.	Cost of Goods Sold	1. Account Transaction	Supplier
		2. Sales Slip	
3.	Account Receivable	Data on Account	Buyer

<sup>34</sup> Aminata Sukriya, Jibria Ratna Yasir, and Fasiha Kamal, "Risk Mapping on Lending Method of Sharia Micro Financing Institution (Indonesia Evidence)," *Journal of Asian and African Social Science and Humanities* 8, no. 1 (March 31, 2022): 1–20, <https://doi.org/10.55327/jaash.v8i1.252>.

		Receivable		
4.	Account Payable	1.	SLIK	Supplier
		2.	List of Debts	
5.	Asset	1.	List of Assets	Neighborhood
		2.	SLIK	
6.	Business History	1.	Licensing	Neighborhood
		2.	Media	

Source: Interviews with Practitioners

Analysis of financing needs is carried out by the Bank to determine the financing ceiling. Working capital needs are calculated using the following formula:

$$\text{Working Capital Needs} = (\text{Account Receivable} + \text{Inventory}) - \text{Account Payable}$$

As for investment needs, they are adjusted to the conditions and characteristics of the business run by customers. The aspects to verify to decide whether investment financing should be granted or not are the purchase price of goods, quality & quantity of goods, production capacity, whether such goods are new procurement/replacement/rejuvenation, profit projection after investing, and repayment abilities after investment.

### **Capacity**

The analysis of customer capacity in financing applications is undertaken using data obtained when investigating capital. The data are processed by the Account Officer Micro and used to determine prospective customers' ability to meet their obligations as follows:

**Table 3.** Calculation of Customers' Repayment Ability

<b>Information Collected</b>	<b>Description</b>
Operating Income	A
Cost of Goods Sold	B
Business Domicile Rent	C
Employee Salary	D
Telephone, Water & Electricity	E
Transport	F
Other Expense	G
Operating Expense	H= B+C+D+E+F+G
Operating Profits	I = A-H
Other Income	J
Total Income	K= I+J
Household Expenditure	L

House Rent	M
Education	N
Telephone, Water & Electricity	O
Transport	P
Other Expense	Q
Total Household Expenditure	$R=L+M+N+O+P+Q$
Remaining Expenditure	$S=K-R$
Current Installment	T
BRIS Installment	U
Disposable Income	$V=S-T-U$
IDIR (%) a maximum of 80 %	$W=(T+U)/V$
RPC (times) a minimum of 2 times	$X=(V*75\%)/U$

Source: Interviews with Practitioners

### ***Collateral***

KUR's fundamental requirements do not stipulate that customers are required to put up collateral. However, to have customers get financing bind, the Bank requires that they put up assets as collateral. Those assets are held in the Bank during the financing term and there is no collateral binding as such. Customers do not raise any objection against such a condition and it makes them try to meet their obligations more seriously.

### ***Condition of Economy***

To maintain financing quality, the Bank has limited financing to certain businesses<sup>35</sup>. The businesses that do not meet the requirement to be granted financing are those in violation of Islamic principles, experiencing a global downward trend, plastic processing industries, used mobile trading, pure wood trading, and other businesses directly affected by foreign exchange rates.

## **CONCLUSION**

There are several stages of KUR disbursement: initiation, financing analysis, financing approval, financing analysis, financing disbursement, and financing maintenance. A financing analysis is undertaken by examining in detail the aspects of characters, capital, capacity, collateral, and condition of economy. Understanding characters aims to determine the extent to which prospective customers act honestly and in good faith to repay loans so as to minimize the risk of default. A capital analysis is intended to determine the capital capabilities

<sup>35</sup> Parman Komarudin, Hendra Hadi, and Muhammad Sodiki, "Produktive Financing Problems in Islamic Banks, (Research at Universities in Indonesia : A Systematic Literature Review Analysis)," *Al-Insiroh: Jurnal Studi Keislaman* 9, no. 1 (March 26, 2023): 168–209, <https://doi.org/10.35309/alinsiroh.v9i1.6483>.

of prospective customers. Capacity is analyzed to examine how good prospective customers are at managing finances and conducting management to ensure that they will be able to pay off their debts on a timely basis. The aspect of collateral is investigated in anticipation of non-performing loans. Customers usually put up objects with a marketable value at least equal to the financing to be disbursed as collateral. As for the analysis of the condition of the economy, it aims to analyze domestic and global market conditions in the past and in the future, thus enabling the assessment of the future of the business.■

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