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The Role of Microfinance Institutions in Micro, Small and Medium Enterprises (MSMES): a Case Study of Budi Gadai

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ABSTRACT

This study examines the role of microfinance institutions in supporting the development of Micro, Small, and Medium Enterprises (MSMEs), with a case study on Budi Gadai, located on Jalan Pancing. The objective of this research is to analyze how microfinance, particularly Budi Gadai, contributes to the growth and sustainability of MSMEs through accessible financing and financial management guidance. The research employs a qualitative approach with in-depth interviews and analysis of business performance data from MSME clients of Budi Gadai. The findings indicate that Budi Gadai provides a significant impact on MSME growth by offering simplified loan access, which helps business owners overcome financing barriers. The majority of MSMEs reported increased revenue and business expansion after obtaining funding from Budi Gadai. However, challenges remain, such as high interest rates and limited loan amounts. Nevertheless, Budi Gadai plays a critical role in the economic resilience of MSMEs, especially during periods of financial crisis. This study concludes that microfinance institutions like Budi Gadai are essential for the sustainability and growth of MSMEs, particularly in urban areas.

Microfinance, MSMEs, Budi Gadai, Business Growth, Financing, Sustainability.

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INTRODUCTION

The growth of the Micro, Small, and Medium Enterprises (MSMEs) sector has become one of the main pillars of the Indonesian economy. MSMEs have a strategic role in creating jobs, increasing people's income, and reducing poverty levels (Tambunan, 2019). However, the main challenge faced by MSMEs is access to adequate capital and financing sources for business development (Raharjo, 2020). In this context, microfinance institutions play an important role as a solution to bridge the funding needs of MSMEs by providing more easily accessible financial facilities.

Microfinance institutions such as cooperatives, People's Credit Banks (BPR), and pawnshops offer inclusive financial services to MSMEs that often

have difficulty accessing financing from conventional banks. According to Yunus (2017), microfinance institutions have the advantage of providing loans with more flexible requirements, more competitive interest rates, and processes that are not as complicated as traditional banking institutions. In addition, these institutions also provide non-financial services such as entrepreneurship training that can help MSMEs improve their managerial capacity.

This case study will focus on "Budi Gadai," a microfinance institution operating on Jalan Pancing, Medan. Budi Gadai has become one of the important players in supporting the sustainability and development of MSMEs in the area. According to internal data, this institution provides various services, ranging from pawn-based loans to micro-business funding, which helps MSMEs overcome capital problems on a small scale. The involvement of financial institutions such as Budi Gadai is considered capable of encouraging business growth, especially in the informal sector which is filled with many micro-businesses.

Previous research shows that the involvement of microfinance institutions in empowering MSMEs has a positive impact on productivity and business sustainability (Sutopo, 2021). With the capital provided, MSMEs can expand their operations, purchase better raw materials, and even open up new business opportunities. For the community around Jalan Pancing, the presence of Budi Gadai is considered capable of helping to create a more inclusive economic ecosystem, where MSMEs can develop without having to worry about limited access to capital.

In addition to capital, another factor that influences the success of MSMEs is business assistance provided by microfinance institutions. According to Nasution (2020), the provision of business training and consultation by microfinance institutions helps improve the financial literacy of MSME actors so that they can manage their business finances better. At Budi Gadai, this kind of training is also provided to help MSME customers manage financial risks and take advantage of existing market opportunities.

Based on the background above, this study aims to analyze the role of microfinance institutions, especially Budi Gadai on Jalan Pancing, in supporting the development of MSMEs. This study is expected to contribute to the understanding of the importance of microfinance institutions in driving economic growth, especially for MSMEs which are the backbone of the regional economy.

RESEARCH METHOD

This study uses a qualitative method with an explanatory research approach to analyze the role of microfinance institutions, especially Budi Gadai on Jalan Pancing, in supporting the development of Micro, Small, and Medium Enterprises (MSMEs). This case study was chosen because it allows researchers to explore the specific role of microfinance institutions in a real context and focus on one particular entity. The following are the stages and methods used in this study:

The qualitative approach was chosen because it allows for understanding complex phenomena and digging deeper into the interactions between microfinance institutions and MSMEs. According to Creswell (2014), a qualitative approach is suitable for exploring the experiences of subjects in a particular context, especially when wanting to understand the social and behavioral aspects that underlie MSME business decisions in using the services of microfinance institutions.

RESULT AND DISCUSSION

Profile of MSMEs under the auspices of Budi Gadai

Based on the results of interviews and observations, most of the MSMEs that are Budi Gadai customers are engaged in the trade and service sectors, dominated by small businesses such as food and clothing traders. From the data collected, as many as 70% of MSMEs that are Budi Gadai customers have initial capital of less than IDR 50 million, which shows that the majority of them are micro businesses. The number of employees in each MSME is on average between 1 and 5 people, which reflects the characteristics of small-scale businesses.

MSME Category	Percentage	Initial Capital (Rp)	Number of employees
Micro Business	70%	< 50 million	1-3
Small business	25%	50-200 million	3-10
Medium Enterprises	5%	> 200 million	>10

Access to Financing from Budi Gadai

The interview results show that Budi Gadai provides easier access to financing compared to formal financial institutions such as banks. As many as 80% of respondents stated that the requirements for obtaining a loan are relatively easy to fulfill, such as not having to have large amounts of collateral. This plays an important role in increasing access to capital for MSMEs who often find it difficult to obtain loans from banks due to limited assets.

Source of Funding	Percentage of Customers Using
Pawn Shop	80%
Bank	15%
Other Financial Institutions	5%

Impact of Financing on Business Development

Based on the analysis results, around 60% of respondents admitted that there was an increase in turnover after receiving financing from Budi Gadai. The increase ranged from 10% to 30%, which was caused by the ability of MSMEs to increase inventory and expand their business scale. In addition, MSMEs that received financing also reported improvements in financial management capabilities due to the assistance provided by Budi Gadai.

Increase in Turnover	Number of MSMEs
0-10%	20%
10-20%	35%
20-30%	25%
>30%	20%

The Influence of Financing on Social Welfare

As a result of increased turnover, several MSMEs reported increased social welfare, especially in terms of household income. As many as 40% of respondents stated that their income increased by up to 20% after receiving financial assistance from Budi Gadai. In addition, around 30% of the MSMEs interviewed were able to add new employees, which contributed to the absorption of labor in the local area.

Obstacles faced by MSMEs

Despite significant benefits, the research results also show several obstacles faced by MSMEs in accessing and utilizing financing services from Budi Gadai. One of the main obstacles mentioned by 35% of respondents is the interest rate which is considered still high compared to formal financial institutions. In addition, 25% of respondents stated that there were limitations in the amount of loans that could be provided, which were considered insufficient to meet large capital needs.

Constraint	Percentage
High Interest Rates	35%

Limited Loan Amount	25%
Administration	15%
Etc	25%

Economic Crisis Handling Strategy

In times of crisis, such as the COVID-19 pandemic, Budi Gadai takes steps to provide payment relief to MSME customers. The results of the study showed that 50% of MSMEs felt helped by the credit restructuring policy during difficult times. This policy allows MSMEs to survive amidst declining demand and income.

Utilization of Technology in Financial Management

Several MSMEs interviewed reported that they started using digital technology in financial management after receiving assistance from Budi Gadai. As many as 45% of respondents admitted to starting to use simple financial applications to record income and expenses, which helped them in long-term financial planning.

Social Impact of the Existence of Pawnshops

In addition to the economic impact, the existence of Budi Gadai also has a significant social impact on the UMKM community on Jalan Pancing. Most respondents stated that Budi Gadai's services not only helped them financially, but also created better social relations among business actors through mentoring and training activities held periodically.

Discussion

Microfinance institutions (MFIs) play an important role in supporting the development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. According to the Financial Services Authority (OJK), MFIs aim to increase access to micro-scale funding for the community, help empower the economy, and improve the welfare of low-income communities.

The Budi Gadai case study on Jalan Pancing shows that the majority of its customers are MSMEs in the trade and service sectors, with 70% being micro-enterprises with initial capital of less than IDR 50 million and 1 to 3 employees. This is in line with national data showing that in 2023, there will be around 66 million MSMEs in Indonesia, contributing around 61% to the national Gross Domestic Product (GDP).

Budi Gadai provides easier access to financing compared to formal financial institutions. (Tasya Aspiranti 2012) As many as 80% of respondents stated that the loan requirements at Budi Gadai were relatively easy to fulfill, without the need for large collateral. This is important considering that many MSMEs face difficulties in accessing financing from banks due to limited assets and strict requirements.

The positive impact of this financing can be seen from the increase in turnover in around 60% of respondents, with an increase of between 10% and 30%. In addition, the assistance provided by Budi Gadai helps MSMEs improve their financial management. This kind of assistance is in line with the role of LKM in providing business development consulting services to its members.

Increased turnover also has an impact on social welfare. (Ridwan Muchromi 2024) As many as 40% of respondents reported an increase in household income of up to 20% after receiving financing from Budi Gadai. In addition, around 30% of MSMEs were able to add new employees, contributing to the absorption of local labor. This shows that MSMEs not only play a role in the financial aspect, but also in improving the social welfare of the community.

During 2023 to 2024, Budi Gadai has recorded a significant increase in pawn transactions. Until September 2024, the transaction value reached IDR152.3 billion, with a growth target of 20% compared to the previous year's achievement of IDR168 billion. This increase shows the high trust of MSMEs in Budi Gadai's services as a reliable source of financing.

To achieve this target, Budi Gadai has implemented several strategies, including expanding the outlet network to reach more customers and improving the quality of service by providing an easier and faster experience for customers. These steps are expected to increase accessibility and convenience for MSMEs in obtaining financing.

In addition, Budi Gadai also focuses on optimizing digital transformation in its services. By integrating digital technology, the transaction process becomes more efficient and transparent, so that MSMEs can access financial services more easily and quickly. This transformation is in line with the growing trend of digitalization in the financial sector.

The increase in pawn transactions reflects Budi Gadai's important role in providing financing solutions for MSMEs, especially in challenging economic situations. With easier access to financing and improved services, MSMEs can maintain and even grow their businesses amidst various economic challenges.

Budi Gadai's success in increasing pawn transactions also shows the effectiveness of the expansion strategy and service improvement implemented. This can be an example for other microfinance institutions in an effort to support the growth of MSMEs in Indonesia. Thus, Budi Gadai not only acts as a financing provider, but also as a strategic partner for MSMEs in facing economic challenges and encouraging sustainable business growth

CONCLUSION

Based on the results of research conducted on the role of the Budi Gadai microfinance institution in the development of micro, small and medium enterprises (MSMEs) on Jalan Pancing, several things can be concluded as follows:

1. Easy Financing Accessibility : Budi Gadai provides relatively easy financing access for MSMEs compared to formal financial institutions. This convenience includes simpler requirements, especially in terms of collateral, so that more MSMEs can take advantage of this service. This helps MSMEs who have difficulty obtaining financing from banks to obtain business capital.
2. Positive Impact on MSME Development : Financing provided by Budi Gadai has a positive impact on MSME business development. The majority of MSME customers who received financing reported an increase in business turnover and an increase in the number of employees. In addition, the assistance provided also helps improve MSME financial management, thereby increasing operational efficiency.
3. Role in Social Welfare : The existence of Budi Gadai not only helps in the economic aspect, but also contributes to the social welfare of the community. Increased income from growing businesses allows UMKM actors to improve the standard of living of their families and the surrounding community. In addition, UMKM that are able to survive and grow also participate in absorbing local labor.
4. Obstacles Still Faced: Although Budi Gadai has provided many benefits, there are still several obstacles faced by MSME customers. One of the main obstacles is the interest rate which is still considered high by several MSME actors, which causes the burden of operational costs to increase. In addition, the limited amount of loans that can be given is also an obstacle for MSMEs who need more capital to develop their businesses.
5. Resilient in Times of Crisis : This study also shows that MSMEs under the auspices of Budi Gadai have quite good resilience in facing the economic crisis. The credit restructuring policy provided by Budi Gadai greatly helps MSMEs to survive in difficult times, and most MSMEs are able to maintain their businesses.

Further Development Recommendations : Based on these findings, Budi Gadai is expected to further optimize its services by lowering loan interest rates and providing loans in more flexible amounts to meet the needs of MSMEs. In addition, there needs to be an increase in the use of technology in financial services so that MSMEs can be more efficient in managing their businesses.

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