

## PEER TO PEER LENDING AS A FINANCING SOURCES ALTERNATIVES FOR MSMES IN CIBADUYUT SHOES INDUSTRY

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*Abstract. Micro small medium enterprises (MSMEs) has important role in the economy of a country, including in Indonesia. But based on Financial Service Authority (OJK) 70% of total MSMEs not yet gotten access and bank financing. Financing problem also happen in Cibaduyut Shoes Industry, which has potential internationally. There are two types of financing, which are equity and debt. There is new alternative financing source in Indonesia which is P2P lending which has growing rapidly. P2P lending has faster process, less cost and less complex requirement than credit bank. Thus, this research is conducted to find out the preferences of the owner of Cibaduyut shoes factory in choosing financing source to solve the financing problem. Then this research aims to know the perceptions and preferences of Cibaduyut shoe factory owner about P2P lending and the intention of them in using P2P lending as financing source alternatives. According to Saini (2016) and Rosavina, et al. (2019), factors that considered by MSMEs to use P2P lending as financing sources is loan process, interest rate, process cost, amount of loan, loan application flexibility, and alternative payment scheme. These factors adopted to be framework for semi structured interview to the owner of Cibaduyut shoes factory. Based on interview result, using qualitative analysis, 4 of 6 respondent tend to use equity as financing source in solving their financing problem. Then, the all factors mentioned in framework are considered by the owner of Cibaduyut shoes factory in using P2P lending. There is also original findings from this research which the owner of Cibaduyut shoes factory consider Security and Privacy in using P2P lending, since the P2P lending use online process. Last, 5 of 10 respondent are interested to use P2P lending as an alternative financing source.*

*Keywords: MSMEs; Financing; Cibaduyut Shoes Industry; P2P Lending*

### INTRODUCTION

Micro small & medium enterprises (MSMEs) has important role in the economics of a country. MSMEs are contributing in reducing unemployment rate (OECD, 2017). Based on Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, in 2017 MSMEs has employ 116,673,416 employee, or 97.02% of total employee in Indonesia. MSMEs also has contribute in Gross Domestic Product (GDP) in Indonesia. Based on Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, MSMEs has contribute as much as 7,704,635.9 Billion Rupiahs or 60% of total GDP of Indonesia (Department of Cooperatives and SMEs, 2018).

From the data above, it can be said that MSMEs is an important instrument for Indonesia to develop the economic condition and reduce poverty and unemployment. But MSMEs itself has some problem. One of the main problem is their . Based on Financial Service Authority (OJK) 70% of total MSMEs not yet gotten access and bank financing (Detik.com, 2019). Financing problem also happen in Cibaduyut shoes business centre (Beritasatu.com, 2018)

Shoes store in Cibaduyut has been known well internationally. Their customer not only come from Indonesia, the customer from other country also interest with the product such as Malaysia and Singapore. Based on Ministry of Industry, shoes industry in Cibaduyut have high potential to expand in international market. There is a high possibility to be good commodity for export. However as mentioned before, the owner of shoes factory in Cibaduyut has financing problem. From the interview result, they need financing to develop their factory to increase the production capacity. By increasing the production capacity, they can generate customer from other city or country. Usually customer from other city or country order for big amount of shoes, so it is important for the owner of Cibaduyut shoes factory to increase the production capacity

There are two option of financing source to take by company which are equity and debt. There are 6 types of equity, which are personal savings, friends and family members, angels, partners, venture capital companies, corporate venture capital, and public stock sales. For debt there are non-bank source and bank source. Following the debt financing by bank source, based on researcher's observation, owner of business in Cibaduyut often use *Kredit Usaha Rakyat* (KUR) as financing source. KUR is an option of credit with small amount, less complex requirement, and lower interest rate. KUR is a government program to develop MSMEs. In 2017, three banks that has issue highest amount of KUR are Bank Rakyat Indonesia (BRI), Bank Mandiri and Bank Negara Indonesia (BNI).

There is new option of financing source which can help the owner of Cibaduyut shoes factory to develop, which is Peer to Peer (P2P) lending. In Indonesia itself, P2P lending has growing significantly. In December 2017, P2P lending has distribute around 2,564 billion rupiahs. By October 2018 the number of money distributed around 15 trillion rupiahs, which growing 523% (Farandy & Ray, 2019).

P2P lending offer faster process and less complex procedure for borrowers than bank loan. The borrower can easily propose the loan application through internet by using their gadget. Unlike bank, the borrower do not need to go to the office to propose the loan application. Moreover, banks with brick and mortar branches provide loan with higher marginal costs when compared the provisions of loans through the internet. Thus, bank might be refusing to provide loans for which banks' profit is smaller than their costs, whereas these loans may still be profitable for P2P lending company. Besides that, some of P2P lending company also do not put collateral as requirement of the loan application. These aspects strengthen P2P lending as the new option for the owner of Cibaduyut shoes factory as the new alternative financing source. Therefore, this research aims to analyze P2P lending as a financing sources alternatives for MSMEs in Cibaduyut shoes industry.

This research will analyse Peer to Peer Lending as a financing sources alternatives for MSMEs in Cibaduyut shoes industry. This research aims to know what kind of financing source that owner of Cibaduyut shoe factory want to use and the reason behind it, while analyze Cibaduyut shoes factory owner's perception about P2P lending to see the factor that influence the owner in using P2P lending as alternative financing source. The factors from previous study used as adopted framework for this research which is loan process, interest rate, process cost, amount of loan, loan flexibility, and alternative payment scheme. The scope of this study is the researcher only interview the owner of shoes factory that located in Cibaduyut, since most of them still categorized as MSMEs and also they has potential internationally but has problem in financing. The result of this research will give recommendation to government to make a right regulation that give benefit for both of P2P lending company and owner of MSMEs, especially shoes factory in Cibaduyut. Also will give recommendation to P2P lending company to improve their product, so they can fulfil what customer needs.

## LITERATURE REVIEW

### *Definition of Micro Small & Medium Enterprises*

In Indonesia micro small medium enterprise have their own characteristic based on the amount of asset and annual sales. It is regulated by Law of Republic Indonesia Number 20 Year 2008. This law stated that a business categorized as Micro Enterprises if it owns net assets (Excluding land and building) no more than IDR 50,000,000.00 and annual sales no more that IDR 300,000,000.00, while the criteria of Small Enterprises is a business that have net assets between IDR 50,000,000.00 up to IDR 500,000,000.00, with annual sales between IDR 300,000,000.00 up to IDR 2,500,000,000.00. For the criteria of Medium Enterprises is a business that have net assets between IDR 500,000,000.00 up to IDR 10,000,000,000.00, with annual sales between IDR 2,500,000,000.00 up to IDR 50,000,000,000.00 (OJK, 2008).

While National Agency of Statistic (BPS) define MSMEs based on the number of worker. A business unit can be categorized as Micro enterprises if they have 1-4 workers included unpaid family members. For Small enterprises if they have 5-19 workers. While Medium enterprises have 20-99 workers (Department of Finance, 2012).

### *Role of Micro Small & Medium Enterprises*

The MSMEs sector has a critical influence in present day economy, demonstrating to be the most alluring and huge inventive framework. The indispensable commitment to MSMEs in financial advancement is a reality collectively perceived. Demonstrating their socially and economically gainful impacts prompted the thought of the MSMEs sector as a field of key enthusiasm for the economy (Avasilicai, Bacali, & Pop, 2009).

The role of small and medium-sized enterprises get from specific highlights making them being in excess of a thumbnail of huge enterprises, for example:

- Offering new occupations and being a hopeful atmosphere for workers perfection which accomplish the experience required for moving in extensive enterprises where the motivation is greater.
- The favouring of development and adaptability (Neagu, 2006).

Based on Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, the number of MSMEs in Indonesia is 62,922,617 unit in 2017, which is 99.99% of business unit in Indonesia. Through this number, MSMEs already give big contribution for country such as give employment for 97.02% of total employee in Indonesia. MSMEs also contribute to Gross Domestic Product (GDP) of Indonesia as much as 60%. (Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, 2018). As mentioned before, MSMEs has important role in economy of a country (Avasilicai, et al., 2009). One of important issues of MSMEs in Indonesia is lack of ability to access financing from financial institutions (Suryani, et al., 2017).

### **Source of Financing**

Capital is an important element in the process of creating a new business. However, raising money to launch a new business is always a challenge. There are two types of financing source to raising the capital of business, which are equity and debt (Scarborough, 2011).

#### **Equity**

Equity capital represents individual investment of the owners in a business unit. It is sometimes called risk capital, because if the business fails, the investors would losing their investment fund (Scarborough, 2011). Equity financing refers to the shares that issued to the investors in order to support operation activity of a company. In this financing method, investors make profit from the increase of share price and dividends issued by company which invested (Ho & Yau, 2013). Equity financing sources are divided into 6 types which is personal savings, friends and family members, angels, partners, venture capital companies, corporate venture capital, and public stock sales.

#### **Debt**

Debt financing refers to the borrowing money from other companies, bank, or financial institution in order to support operation activities (Ho & Yau, 2013). The loan will repay in the future of time that has approved before between lenders and borrower. The repayment of loan must include with interest expense (Scarborough, 2011). Debt financing sources are divided into bank source of debt capital and non-bank sources of debt capital. The non-bank sources of debt capital have many types, which is asset-based lenders, vendor financing, equipment suppliers, commercial finance companies, savings and loan associations, stock brokerage houses, insurance companies, credit unions, bonds, and private placements. For bank source of debt capital is debt financing issued by commercial bank (Scarborough, 2011). According to Suryani, et al. (2017), One of important issues of MSMEs in Indonesia is lack of ability to access financing from financial institutions, especially banks. SMEs difficult to accessing the financing because of asymmetric information problem between suppliers and demanders (Yoshino & Taghizadeh-Hesary, 2017).

#### **Bank**

Bank is a financial institution that receives deposits and makes loans. Banks also provide some financial services, like wealth management, currency exchange and safe deposit boxes (SDB). There are two types of banks: commercial or retail banks and investment banks. In Indonesia, banks are regulated by Bank Indonesia (Chowdhury, 2018).

#### **Bank Credit**

The main source of bank income is interest margin obtained by doing transactions as intermediaries between borrowers and depositors (DeYoung & Roland, 2001). The net interest margin (NIM), that is the ratio of net interest income to the average earning assets (interest earning assets) or net interest profitability which obtained from bank credit (Saksonova, 2014).

In generating credit, bank see the qualitative information such as customer relation and quantitative information such as financial information of the borrower. Regarding this information bank can determine the rating of the borrowers. This rating become the consideration of the bank to give the interest rate (Doležal, et al., 2015). Bank have large amounts of information through the history of borrower (past repayment) and provision of other services such as deposit accounts. By these information bank can properly asses the credit worthiness of the borrower. In case for unsuccessful repayment, the borrower could get additional charges. For the successful repayment, bank often offer a new credit application (Doležal, et al., 2015).

#### **Bank Credit to MSMEs**

Bank do not prefer to give loan in MSMEs sector because bank examine that it is risky to invest because of the low growth rate, high processing cost, low creditworthiness, and lack of information flow (Rana & Vibha, 2016). Marginal cost from additional loans provided by banks with physical branches in certainly higher compared to the loan provided through internet. Thus, bank might reject to approve loans that give profit lower than the cost of it, while these loans might still profitable for P2P lending (Roure, et al., 2016).

#### **Definition of P2P Lending**

The term online peer-to-peer lending (P2P) portrays the credit start process between private on online stages were financial institution work just as intermediates legally necessary (Bachmann, et al., 2011). P2P lending companies work as a provider for borrowers and lenders for doing loan transactions without intervention from traditional financial institution such as Bank (Saini, 2016).

#### **Concept of P2P Lending**

P2P lending connect the individual borrowers and individual lenders. Borrowers share about the personal and financial data of them, then the lenders want to contribute or not in the campaign (loan request). Every loan issued by borrowers is underwritten by many lenders. When the loan is fully funded, it will distributed to the borrower, and the lenders receive the principal and interest payments until the loan reach maturity or the borrower default (Galloway, 2009).

### ***P2P Lending in Indonesia***

In Indonesia P2P lending described by Financial Service Authority (OJK) as provider of financial service that bring the borrower to meet the lender in term of loan agreement by using electronic system with internet support. P2P lending itself is regulated by OJK through OJK Regulation No. 77/POJK.01/2016. It is stated that the maximum loan that P2P lending can provide is 2 billion rupiahs. There is no regulation about the interest rate (OJK, 2016).

### ***Borrowing Factors***

According to Saini (2016) and Rosavina, et al. (2019), there are six factors considered by MSMEs in obtaining a loan in the P2P platform, which are

1. Loan process,
2. Interest rate,
3. Process cost,
4. Amount of loan,
5. Loan flexibility,
6. Alternative payment Scheme

Thus, further discussion regarding the factors considered by SMEs in obtaining a loan in P2P lending platform is presented in previous studies, along with real illustration by some of P2P lending in Indonesia and already operating in Bandung which are Akseleran, Danamas, Modalku, Crowdo, and Amarnya.

### ***Loan Process***

In P2P lending, loan process is a crucial step (Wei, Gotoh, & Uraysev, 2018). Loan process in P2P lending is more complex than bank. It is different with bank because P2P lending use big data analysis and data mining as credit audition (Wang, Song, Zhu, & Chen, 2015). Loan Process divided into 5 subcategories which are Collateral, requirement, procedure, online process, and fast process (Rosavina, et al., 2019).

### ***Interest Rate***

The interest rate is the amount a lender charges for the use of assets expressed as a percentage of the principal. In P2P lending, the interest rate measured by grade of the loan. The P2P lending platform will analyse worthiness and risk of the loan application to generate the grade of the loan (Akseleran, 2019). The interest rate category have an subcategory which is credit scoring (Rosavina, Rahadi, Kitri, Nuraeni, & Mayangsari, 2019).

### ***Process Cost***

P2P lending does not need third party as intermediary which is conventional bank. P2P lending connect borrowers directly to the lenders. Moreover, loan application is made in online platform. Because of this, P2P lending company able to decrease any excess cost required in traditional bank (Klaft, 2008). The Process cost category have subcategory which is free early repayments fee (Rosavina, et al., 2019).

### ***Amount of Loan***

An application of loan in P2P lending can determine as success if the amount of loan is fully funded or not by the lenders (Andrews, et al., 2008). The maximum amount of loan in Indonesia is IDR 2,000,000,000.00 (OJK, 2016). The minimum amount is different between each P2P lending company. According to Akseleran (2019), the minimum amount of loan is IDR 75,000,000.00. In Danamas, the minimum amount of loan is IDR 500,000.00 (Danamas, 2019).

### ***Loan Application Flexibility***

Loan application flexibility in P2P lending means the ability of borrowers to choose from whom the loan will be funded, rate of loan, and tenor borrowers desires (Saini, 2016). Borrowers are free to choose the tenor of loan from 1 until 24 months, while borrowers cannot choose from whom to borrow (Akseleran, 2019). Loan flexibility divided into 2 subcategory which are repayment period options and ability to choose the tenure (Rosavina, et al., 2019).

### ***Alternative Payment Scheme***

The alternative payment scheme divided into two subcategories which are Sharia-based lending and profit sharing scheme (Rosavina, et al., 2019).

## METHODOLOGY

This research use semi structured interview as the method. The target of this research is the owner of MSMEs located in Cibaduyut, Bandung city. This research focus on MSMEs who operate in shoes industry, because Cibaduyut already famous as a shoes business centre in Bandung City.

### *Sampling Method*

This research used non-probability method with Purposive sampling to determine the sampling method. Purposive sampling, also called judgment sampling is a kind of nonprobability sampling that is the intentional choice of participant because of the their qualities. This method does not need fundamental theory or set number of participants (Etikan, et al., 2015). Purposive sampling involves the choice of the most beneficial subjects placed or in the best position to provide the necessary information (Sekaran, 2002).

### *Sample Size*

The number of respondents can keep going until there are no more emerging new themes found from the interviewed Participants, as the data has reach its saturation (Marshall, 1996). The participant are obtained based on recommendation from association in shoe factory industry which is Asosiasi Pengrajin Alas Kaki Indonesia (APAI). The representative of APAI is the 1<sup>st</sup> participant. The 1<sup>st</sup> participant recommend the researcher to interview 2<sup>nd</sup> until 5<sup>th</sup> participant. 4<sup>th</sup> participant recommend to interview 6<sup>th</sup> and 7<sup>th</sup> participant. 7<sup>th</sup> participant recommend to interview 8<sup>th</sup> participant. Last, the 9<sup>th</sup> and 10<sup>th</sup> participant are the recommendation from 8<sup>th</sup> participant. Based on Smith, et al. (2009), For research that use Interpretative Phenomenological Analysis are suggested to interview 3 to 16 participants for a single study. This research ended with 10 interview participants as the subject of data collection with data saturated in the 7<sup>th</sup> participants. The data saturated because there is no new themes found from the other participant.

### *Content Analysis*

Using the narrative data, the content analysis can be executed. This research uses coding to analyze the data derived from interview. This research will perform manual coding the result of interview manually to know the main reason from the respondent. It requires researchers to label the data showing a particular idea with a certain descriptive name. This will help to organize the data into particular categories or themes. In categorizing the narrative data, the researcher uses preset categories as a guideline. The categories adopted from previous studies of Saini (2016) and Rosavina, et al. (2019). Then the data is sorted based on these categories (Taylor-Powell & Renner, 2003).

## FINDINGS AND ARGUMENT

### *Source of Financing*

4 of 6 owners who need financing want to use equity as financing source. Two of them want to use fund from investors, because they not only share the profit but the risk too. They think that investor is not like banks, which does not think about the business, banks only want them to pay the repayment on time, do not consider the current condition of the business. There is an owner that consider Sharia as the reason to not borrow money from bank, because there is *riba* in bank loan. There is also an owner that currently want to use personal fund, because he does not got approval from bank for the amount that he wants. The other owner consider fund from family because it will not burden him and there is no interest rate. The rest of owners who need financing want to use debt as financing source to solve the financing problem. They want to use bank as the source of debt. There are many reason behind it, the first one is because the owners already have good reputation, they already obtaining loan from bank for long time. Also they prefer to choose bank because the interest rate is considered low compared to cooperatives and loan sharks. But there is a problem in borrowing money from banks. There are owners that do not get approval from bank and they do not know the reason behind it. The process also considered complex for them.

### *Awareness of P2P Lending*

Before asked about the perceptions and preferences, the interview participants are asked about the awareness of P2P lending. All the participants do not know about P2P lending. This finding support the findings of Ghazali & Yasuoka (2018), who found that the awareness of SMEs owner about P2P lending is still limited.

### *Perceptions and Preferences of P2P lending*

The perceptions and preferences owner of Cibaduyut shoe factory in P2P lending are categorized into six factors and subcategory mentioned by Saini (2016) and Rosavina, et al. (2019). The analysis is followed by the real illustration by some of P2P lending company and KUR issued by BRI, Bank Mandiri, and BNI. The analysis is presented as follows:

### *Loan Process*

Loan Process divided into 5 subcategories which are Collateral, requirement, procedure, online process, and fast process (Rosavina, et al., 2019).

- Collateral

According to Akseleran, the borrowers do not need to collect collateral in obtaining loan in P2P lending. KUR issued by Bank Mandiri also do not require collateral for loan with no more than 25 million rupiahs. Based on the interview, non-collateral requirement would be helpful for small business, especially if they do not have any asset to provide as collateral of the loan. But for the business that have asset that can used as collateral, the loan that required collateral is not a problem for them. Beside that participant think that the procedure is simpler because of there is no collateral required. It is difficult for them to propose collateral that has different name, because they need to get approval from many parties. This finding supports the findings of OECD (2015), who found that Small business can be attracted by P2P lending due to lack of collateral.

- Requirement

Based on Akseleran, the borrower must already run the business for 1 year, while KUR issued by BRI require the borrower to already run the business for 6 months. Based the interview, the requirement that issued by P2P lending are reasonable for the owner of Cibaduyut shoe store. This finding support the findings of Duan, Han, & Yang (2009), who found that SMEs tend to choose lower requirement loan.

- Procedure

In P2P lending, all the procedure done through online platform, while banks still require the borrower to go to their office. Since P2P lending is using online process, participant think that the procedure become simpler, they can easily propose the loan application at their home. This finding support the findings of Roure, Pelizzon, & Tasca (2016), who found that P2P lending have fast and easy procedures compared to bank that has very complex procedure.

- Online Process

Based on the interpretation, online process considered make the loan process easier because it is make the loan applicant do not bother their daily activity, they do not need to go to office for propose the loan application. But there is a participant that pessimist when the loan application done via online process, because P2P lending companies will not visit or survey him physically, so he assumed that they cannot know the real condition of his business. With online process the process is significantly simpler and faster (Rosavina, et al., 2019).

- Fast Process

Based Modalku, the approval takes 7 workdays and it takes 6 days for the crowdfunding. Process of P2P lending is considered fast by some of participant, they think it is good for the owner that need fast money. This finding support the findings of Sun (2015), who found that SMEs need quick money. But one of them think that the process might takes more time for big amount of loan. But it is different for the one who have known by bank, the process of P2P lending is considered takes time compared to bank, because they will get priority to be processed first and they will get the loan faster, since the bank already know their creditworthiness.

### *Interest Rate*

The interest rate category have an subcategory which is credit scoring (Rosavina, et al., 2019).

- Interest Rate

According to Modalku, the interest rate offered to the borrower is 12.68% until 40.06% annually, compared to KUR that offer 7% annually. Many of participant do not prefer P2P lending, because they think that interest rate is too high compared to bank loan, especially KUR. This high interest rate might increase the possibility of bad credit, because the instalment will be higher than bank. This finding support the findings of Sun (2015), who found that SMEs does not like P2P lending, because of the high interest rate. But for there are participant consider the interest rate of P2P lending is low compared to interest rate offered by loan sharks. It can be concluded that interest rate of P2P lending considered high or low regarding what is the comparison. For the one who familiar with bank, they consider the interest rate of P2P lending is high, but for who do not, they consider it low.

- Credit Scoring

Based on interview, it is fair for P2P lending to do credit scoring since the interest rate that offered is diverse. With scoring the appropriateness, it can determined the interest rate that compatible with the current condition of business.

### *Process Cost*

The Process cost category have subcategory which is free early repayments fee (Rosavina, et al., 2019).

- Process Cost

According to Modalku, the borrower will pay 3% of loan amount as the administration cost when the loan approved. Compared to KUR issued by BRI there is no administration and provision cost. While process cost of P2P lending is considered high by some participant, they often compare it with KUR loan. But for the one who do not consider KUR, they think that process cost of P2P lending is not a problem since bank also do that.

- Free Early Repayment

According to Akseleran, Modalku, and Danamas, the borrower could pay the loan early without get any additional charges, while some bank still cost the borrower for early repayment. Based on the interview, free early repayments fee considered as good feature because there are people that do not want to continue the loan and decided to stop without consider any additional fee. Some of participant compare this feature with bank, some of bank still charge the borrower for the early repayment, but not for KUR.

#### *Loan Amount*

According to Modalku, the loan amount that offered by P2P lending is 5 million until 2 billion rupiahs, while KUR issued by BRI is no more than 500 million rupiahs. Based on interview, many of participant think that loan amount of P2P lending is suitable with them. They said that they only need small amount of loan. But there is also participant that need big amount of loan. Since the range on loan in P2P lending is diverse, the loan amount requested by the participants still in that range. This finding support the findings of Menton & Sherman (2015), who found that SMEs tend to choose small amount of loan.

#### *Loan Flexibility*

Loan flexibility divided into 2 subcategory which are repayment period options and ability to choose the tenor (Rosavina, et al., 2019).

- Repayment Period Options

Based on Akseleran, the tenor option is from 1 until 24 months, while the maximum length of tenor in KUR is 3 years for working capital credit and 5 years for investment credit. There is participant think that repayment period options in P2P lending is too short, it is difficult for big amount of loan. On the other hand, there are participant said that the tenor option is suitable with them that prefer to loan in smaller amount. Based on this interpretation, the tenor option of P2P lending are considered short or not based on the amount of loan.

- Ability to Choose the Tenor

Participants think that this ability is good for them because the capability of them is different. With this benefit, they can choose tenor that suit with their capability on repay the instalment.

#### *Alternative Payment Scheme*

The alternative payment scheme divided into two subcategories which are Sharia-based lending and profit sharing scheme (Rosavina, et al., 2019).

- Sharia-based Lending

There is P2P lending company that already applicate sharia principal, which is Investree. While there are already bank that applicate it too such as BRI Syariah and Bank Mandiri Syariah. Sharia-based Lending is preferred by one who applicate Islamic law in their life. They prefer to choose sharia because there is no interest rate that considered as *riba*. In the other hand, there are participant that do not trust with the Sharia institution because some institution still implement additional money in their lending, which still considered as *riba* in participant's belief.

- Profit Sharing Scheme

Sharia bank already offer profit sharing scheme for the borrower. There are participant think that profit sharing scheme is better than lending scheme, because they share not only the profit but also the risk. If the business in bad condition, the investor also affected. But it is different for the owner that has small profit, they tend to think that profit sharing scheme is not suitable for them, because of they still have small profit, it is hard for them to share it with the investor.

#### *Intention of P2P Lending*

After asked about the perceptions and preferences, the interview participant were asked further about their intention in using P2P lending as financing source and the reasons behind it. These responses presented in Table 4-17.

Based on the result of interview, there are five participants that have intention to use P2P lending as an alternatives financing sources. They interested because of certain factor which are Sharia-based lending, easy procedure, simple requirement, fast process and if the interest rate is low.

Participants who do not interested are because of the interest rate offered by P2P lending is too high, the tenor option is too short, and then because of online process. Some of participant think that online process might cause fraud.

#### *Additional Finding*

Beside the factors and categories mentioned by Saini (2016) and Rosavina, Rahadi, Kitri, Nuraeni, & Mayangsari (2019), there are additional factor in the result of interview, which is security and privacy. This factor considered by owner of Cibaduyut shoe factory in using P2P lending as alternative financing source. Currently P2P lending companies are monitored by Financial Service Authority. The analysis of Security and Privacy is presented below:

Based on the interview result, many participant think that online process of P2P lending is vulnerable to fraud, since the borrower and lender are not meet face to face. One of the participant also got information from TV that borrower of online loan got intimidation from the lender because of bad credit. The other participant also afraid that the personal data will be shared, if there is a bad credit. This finding support the finding support the findings of Lipman & Wiersch (2018), who found that Small business owner concern about the security of information with an online lender.

## CONCLUSIONS

This research conducted to know P2P lending as a financing source alternative for MSMEs in Cibaduyut shoe industry in solving financing problem. MSMEs has important role for a country, but MSMEs in Indonesia still difficult in financing. Based on research observation, Cibaduyut shoe industry also has financing problem, while this business center has potential internationally. Owners of Cibaduyut shoe factory need financing to increase the production capacity. Semi-structured interview had been conducted to 10 owners of Cibaduyut shoe factory, the participants are generated from the recommendation of Asosiasi Pengrajin Alas Kaki Indonesia (APAI). The result of interview analysed using qualitative through content analysis which categorized the information using pre-set categories from Saini (2016) and Rosavina, et al. (2019) as references. There is no limitation to gain additional information from participants.

Based on the first research objective, this research aims to know the preferences of Cibaduyut shoe owner in choosing financing source to solve the financing problem. This research found that 4 of 6 owners who need financing prefer to use equity financing, which are from investor, personal fund, and fund from family. The reasons are it can share the risk of business, do not break Islamic law which prohibit *riba*, do not get the approval from bank, equity fund would not burden them, and there is no interest rate, if get fund from family.

For the second objective, this research aims to know the perceptions and preferences of Cibaduyut shoe owner about P2P lending. All participant do not know about P2P lending and never heard about it. The all factors and categories mentioned by Saini (2016) and Rosavina, et al. (2019) are considered by the participant. In terms of non-collateral requirement, loan amount, easy procedure, simple requirement, fast process, and free early repayment, the participants consider P2P lending as a good alternative for their financing. But in terms of interest rate and tenor option, participant will think twice in obtaining loan in P2P lending.

For the third objective, this research want to know the intention of Cibaduyut shoe factory to use P2P lending as an alternative financing source. 5 of 10 participant interested to use P2P lending as alternative financing source. Because there are Sharia-based lending, easy procedure, simple requirement, fast process and if the interest rate is low. The rest of participant do not interest to use P2P lending because the interest rate offered by P2P lending is too high, the tenor option is too short, and then because of online process. Some of participant think that online process might cause fraud.

The recommendation for P2P lending companies is they can consider the factors that mentioned before and they need to increase the awareness, because all participant never heard about P2P lending. For government, this research can be used as the consideration in establish or develop regulation that give benefit for owner of Cibaduyut shoe factory and P2P lending company.

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