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Journal of Islamic Economics & Social Science JIESS Journal Homepage: http://publikasi.mercubuana.ac.id/index.php/jiess e-ISSN: 2722-7111 | p-ISSN: 2722-7499 Fulan, F., Fulan, S., & Fulan, Y.M., (2019). Journal of Islamic Economics & Social Science, Volume 1 (1), 1-17 1 Assessing the adaptability of Islamic Microfinance loans to the needs of Small Enterprises in Indonesia Meryem Afoukane1); Wiwik Utami 2); Lucky Nugroho 3) 1) meryem.afoukane@ulb.ac.be, Student of Advance Master in Microfinance of Universite Libre de Bruxelles, Belgium 2)wiwik.utami@mercubuana.ac.id, Universitas Mercu Buana, Indonesia 3)lucky,nugroho@mercubuana, Universitas Mercu Buana, Indonesia Article Info: Keywords: Islamic Bank; Profitability; Exchange Rate. Article History: Received : April 1, 2021 Revised : April 10, 2021 Accepted : May 1, 2021 Available online : May 1, 2021 Article Doi: Abstract: Islamic microfinance aims to offer alternative financial products and services to the Muslim population through developing innovative microfinance services and products based on Islamic finance principles. Two main Islamic financing methods are used in Islamic microfinance: financings based on profit and loss sharing principle and financings using mark-up. The Muslim population represents more than 23% of the world population. A large part of this population is living with income below the poverty line. According to the Islamic Development Bank (2008), more than 500 million poor (with income below USD 1.25 per day) live in the five largest Muslim-majority countries (Indonesia, Bangladesh, Pakistan, Nigeria, and Egypt). Despite the enormous potential market for Islamic microfinance, Islamic Microfinance Institutions serve only 1.28 million clients, representing only 1% of the total outreach of microfinance. One possible explanation for this low outreach is that the products offered by Islamic microfinance institutions may not be well adapted to the needs of the customers. Therefore, this research aims to examine customers' satisfaction with Islamic loans. Moreover, the study aimed to identify the loan's selection criteria, and the areas of improvement, from the customers' perspective. This study focused on small businesses since micro-entrepreneurs have specific needs related to their businesses that differ from the other customers' needs. The study was conducted in the context of Bank

Syariah Mandiri, one of the largest Indonesian Islamic commercial banks. The study proceeded in two steps. The first step was to investigate the relevant literature on Islamic microfinance and customers' satisfaction in the Islamic microfinance sector. The second step was collecting primary data among the customers of the micro Banking Division of Bank Syariah Mandiri. The literature review on Islamic microfinance revealed a lack of understanding of customers' attitudes, perceptions, and preferences. Therefore, this study aimed to provide a modest contribution to the field. The survey questionnaire was used to collect primary data, and a random sampling method was used to select the participants for the survey. One hundred questionnaires were distributed to the customers who owned a micro business and had an outstanding loan balance with Bank Syariah Mandiri at the time of the survey. Descriptive and inferential statistics were used to analyze the data. The Statistical Package for Social Science (SPSS) Version 22.0 was used to generate the statistical analysis. The response rate was 100% since questionnaires were distributed to the respondents at their house or business location. The study revealed that most respondents were satisfied with the credit and its features (loan size, cost, collateral requirements, time to process the application, and application form). The credit served their business and helped them improve their sales and incomes. In addition, the study showed that the essential criteria in selecting a credit were the cost, Syariah compliance, and the process easiness. An essential finding of this study was that the religious character of the Islamic Microfinance Institution was not of great importance when selecting a microfinance institution; however, it becomes a significant concern when selecting a credit. This finding suggests the importance of enhancing Syariah compliant product innovation to increase customers' satisfaction

INTRODUCTION

Micro, small, medium enterprises (MSMEs) play a significant role in economic growth by creating employment opportunities and renewing the economic fabric. For example, in Indonesia, there are 58 million Journal of Islamic Economics & Social Science (JIESS) p-ISSN: 2722-7499 Volume 2 Issue 1 | May 2021 e-ISSN: 2722-7111 2 http://publikasi.mercubuana.ac.id/index.php/jiess micro, small, and medium-sized enterprises (99.9% of all businesses) that employ more than 114 million employees

(97% of the total workforce) and contribute to 60% of the GDP (ADB, 2015). Despite their importance for the national economy, Indonesian MSMEs are still struggling to access the sources of finance needed for their sustainability and growth. According to Mourougane (2012), the lack of access to mainstream finance is due to the inability of Indonesian MSMEs to satisfy the bank's requirements in terms of documentation and collateral. It results in "harsher bank lending terms and conditions for small firms than for large firms." This situation is even worse for businesses operating in the informal sector. According to a study conducted by the Asian Development Bank (2010), 90% of Indonesian small businesses in the informal sector have no access to banking and rely mainly on their social network as their primary source of financing. Microfinance was developed to offer alternative financing sources for the population excluded from mainstream finance. In countries where the Muslim population represents the majority, like Indonesia, Islamic microfinance seems more appropriate to serve the financial needs of small businesses and the low-income population. At the end of 2014, the global Muslim population has surpassed 2 billion people, with 25% living with incomes below USD 2 per day (Schoon & Range, 2014). Therefore, the potential market for Islamic microfinance is enormous. However, the outreach of Islamic microfinance is still very low in comparison with conventional microfinance. According to a survey conducted by C.G.A.P in collaboration with Agence Française de Développement, the sector is still dominated by few providers despite the increase of the number of clients and providers of Islamic microfinance in few countries, which provide mainly one or two types of products. The outreach of Islamic microfinance is still very low. With only 1.28 million clients served, Islamic microfinance represents only 1% of microfinance's outreach (El-Zoghbi & Tarazi, 2013). One possible explanation for the slow growth of Islamic microfinance is that the clients may not be satisfied with the products offered by Islamic microfinance institutions. By assessing the level of satisfaction of their clients and understanding their preferences, Islamic microfinance institutions will be more able to design products and services well adapted to their needs and expectations. Further, the research statement of this article includes: (i)

How o identify small businesses' preferences towards Islamic loans; (ii) How to verify their level of satisfaction towards Islamic loans; (iii) How to identify areas of improvements from clients' perspective. This research aims to assess the level of satisfaction of small businesses toward Islamic microfinance loans in Indonesia. This research has three specific objectives: (i) To identify small businesses' preferences towards Islamic loans; (ii) To verify their level of satisfaction towards Islamic loans; (iii) To identify areas of improvements from clients' perspectives. There is a lack of understanding of customers' preferences, attitudes, and satisfaction towards Islamic microfinance. In this regard, the current study is important for both practitioners and academics. From a theoretical point of view, this study provides a modest contribution to the literature on Islamic microfinance in the arena of small businesses. Even if clients' satisfaction in the banking sector was the subject of several studies, research on Islamic microfinance clients is still scarce. Moreover, the review of the relevant literature showed that most studies tried to identify the selection criteria of the microfinance institution without specifying a particular product. The originality of this study is that it focuses on one particular product, which is micro-credit for small businesses. For the practitioners, managers, and policymakers, this study provides interesting insights that may help them design products and services that meet the clients' expectations and achieve a high level of satisfaction. LITERATURE REVIEW Principles of Islamic Finance Islamic law (Syariah) aims to organize all aspects of the life of Muslim society. It includes rules related to the acts of worshiping (Ibadat) and rules related to the relationship between individuals, including economic transactions (Muaamalat). Syariah law arises from primary and secondary sources. The primary sources are Quran and Sunnah (what the prophet did or said during his life). Secondary sources are based on the consensus of Islamic jurists and include Qiyas, Ijmaa, and Ijtihad. Muaamalat is Islamic law that rules the relationship between one individual with another and aims to protect human beings' rights, realize justice, embody a sense of security and equality between individuals, and improve the welfare of society. Muaamalat is based on the Doctrine of Universal Permissibility (Nugroho, 2015). The permissibility principle (Ibaha) considers that everything is permitted unless forbidden by Islamic law (Iqbal & Molyneux, 2005). According to this principle, the parties in economic activities can decide on the conditions and terms of contracts they settle as long as they respect Shariah. Three leading practices are prohibited by Syariah: Riba, Gharar, and Maysir. Islamic Microfinance Present in six regions of the World (North Africa, Sub-Saharan Africa, Middle East, Central Asia, South Asia, and Southeast Asia), the global Muslim population has surpassed 2 billion people at the end of 2014 (Schoon & Range, 2014). However, except for the Middle East region, most Muslim countries suffer from high poverty and social disparities. According to Schoon & Range (2014), 25% of the Muslim population lives with incomes lower than USD 2 per day. Therefore, the potential market for Islamic microfinance is enormous and still not explored enough. Moreover, the potential of Islamic microfinance is not restricted to the Muslim population.   Journal of Islamic Economics & Social Science (JIESS) p-ISSN: 2722-7499 Volume 1 Issue 1 | May 2020 e-ISSN: 2722-7111 http://dx.doi.org/12.12244/jiess.2019.v1.1.001 3 According to Arafah & Nugroho (2016), the underlying Islamic microfinance is fairness, honesty, and openness appeal to a large proportion of the population regardless of religious beliefs. Microfinance can be defined as extending formal financial services to low-income families and small enterprises (Strøm & Mersland, 2013). Commercial banks were reluctant to lend to this population category because of the high costs and risks of lending to the poor. Microfinance emerged as a response to the market failure to provide access to finance to all components of the population. By developing new mechanisms based on soft relationship-driven information, microfinance institutions could reduce the costs and mitigate the risk of lending to the poor (Nugroho et al., 2020). Moreover, according to Mersland & Strøm (2011), five innovations were introduced by microfinance are: (i) the targeting of poor customers; (ii) the targeting of women; (iii) new lending technologies; (iv) new organizational solutions, and; (v) new sources of funding. As a result, microfinance allowed hundreds of millions of poor people worldwide to access formal finance. However, despite the tremendous growth of microfinance in the last forty years, Islamic microfinance represents only 1% of the total outreach of microfinance (El-Zoghbi & Tarazi, 2013).

Similarities between Islamic Finance with Microfinance Morality plays an essential role in the life of each Muslim, including his economic activities. From an Islamic point of view, justice and equity should be embedded in all activities, from relationships between individuals to business activities. The Islamic religion expects individuals to overcome self-interest and care for their community's welfare by transforming the individual into a morally conscious human being (Chapra, 2014; Nugroho & Husnadi, 2014). Several similarities may be found between microfinance and Islamic finance. According to Ferro (2005), there are four primary analogies between microfinance and Islamic finance. First, they both represent financial innovations to increase the inclusion of excluded populations from mainstream finance. Second, they both adopt an egalitarian approach that aims to fight discrimination. Third, they both aim to alleviate poverty by encouraging entrepreneurship. Fourth, microfinance and Islamic finance require financial institutions to engage in a permanent process of innovation and creativity to survive and stay competitive (Fasa et al., 2020; Ferro, 2005; Muniarty et al., 2021; Setyawan et al., 2008). Therefore, Dhumale & Sapcanin (1999) suggest that Islamic finance and microfinance should complement each other ideologically and practically. Differences between Islamic Microfinance with Conventional Microfinance Despite the similarities between Islamic finance and microfinance, several differences exist between Islamic microfinance and conventional microfinance. First, conventional and Islamic microfinance differ in their source of funding. Due to their religious orientation, Islamic microfinance institutions are prohibited from accessing funds from conventional funders; instead, Islamic MFI can exploit Islamic charities as funding sources (Ahmed, 2002). Second, the methods of financing between Islamic microfinance and conventional microfinance are also different. As a result, Islamic microfinance has to develop alternative products based on profit and loss sharing and free from interest. The following table shows the main differences between Islamic and conventional microfinance: Table 1. Differences between Conventional with Islamic microfinance Criteria 1 Conventional MFI Islamic MFI Liabilities (Source of Fund) External Funds, Saving of Client External Funds, Saving of Clients, Islamic Charitable Sources Asset

(Mode of Financing) 2Interest-Based Islamic Financial Instrument Financing the Poorest Poorest are left out Most inferior can be included by integrating with microfinance Funds Transfer Cash Given Goods Transferred Deduction at Inception of Contract Part of the Funds Deducted as Inception No deduction at inception Target Group Women Family The 1objective of Targeting Women Empowerment of Women Ease of Availability Liability of the Loan (Which given to Women) Recipient Recipient and Spouse Work Incentive of Employee Monetary Monetary and Religious Dealing with Default Group/Center pressure and threat Group/Center/Spouse Guarantee, Islamic Ethics Social Development Program Secular (non-Islamic)behavioral, 2ethical, and social development Religious (includes behavior, ethics, and social) Source: Ahmed (2002) Customers' Satisfaction in Islamic Microfinance Due to the high competition in the microfinance industry, customers' satisfaction represents a key factor for Islamic MFIs' sustainability and growth. However, the literature review revealed a lack of studies addressing clients' satisfaction in the Islamic microfinance sector. Customer satisfaction can be defined as a 3judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related fulfillment, including levels of under-or over-fulfillment (Mithas et al., 2005). According to Peter et al. (1999), customer satisfaction results from two variables: Prepurchase expectation and disconfirmation. Those variables can be defined as follows: Prepurchase expectations are beliefs about the product's anticipated performance; disconfirmation refers to the differences between prepurchase expectations and post-purchase (Rodríguez et al., 2018). Nevertheless according to Nurhasanah et al. (2021), customer satisfaction also influences the loyalty of customers. Moreover regarding Yu & Dean (2001) studied the contribution of emotional satisfaction to consumer loyalty. They found that the emotional component of satisfaction serves as a better predictor of customer loyalty than the cognitive component of satisfaction. When a client is satisfied with the product or the service, not only will he repeat the purchase, but he may also influence others to do the same. On the opposite, a client who is dissatisfied with his purchase will switch to another product or service and may discourage others from purchasing it through negative word-of-mouth (Shi et al., 2016). Therefore, quality of services has been regarded as the critical element of customer satisfaction (Jamal & Naser, 2003; Naeem et al., 2009; Setó-Pamies, 2012). Service quality is a broad concept and includes several aspects such as reliability, responsiveness, courtesy, competence, credibility, and security (Agus et al., 2007)). One of the leading models used to assess service quality in the service sector is SERVQUAL (Setó-Pamies, 2012). This model includes five dimensions: tangibility, reliability, assurance, responsiveness, and empathy. The banking sector was the object of numerous studies on customers' satisfaction (Agus et al., 2007; Levesque & McDougall, 1996; McDonald et al., 2008; Shanka, 2012). Levesque & McDougall (1996) investigated the determinants of customer satisfaction in the retail banking sector in Canada. Their study revealed that customer satisfaction is influenced by several factors such as service quality, location, competitive interest rates, and staff employees. Hamzah et al. (2013) found a positive relationship between customer satisfaction and service quality in Malaysia. Service quality includes the banks' personnel, the bank's image, services offered by the banks, and the accessibility of the bank. According to Levesque & McDougall (1996) and Nugroho et al. (2020), the bank selection criteria affect customers' satisfaction towards the financial institution. Many studies investigated the determinants of bank selection (Anderson et al., 1976; Devlin, 2002; Rehman & Ahmed, 2008). These studies highlighted several factors, such as convenience, low prices, bank's reputation, availability of ATMs, friendliness of bank staff, recommendations of family and friends. Anderson et al. (1976) found that the bank's image and financial considerations represented the central bank's selection criteria. Financial considerations include the availability of credit, the interest rate on loans, and other fees. Yue & Tom (1994) examined the bank selection criteria of Chinese customers in the USA. According to this study, the most important factors were: efficiency of services offered, the bank's reputation, bank fees, bank's location, and interest rates. Kennington et al. (1996)

investigated the selection criteria for banks in Poland. Their survey among 204 polish respondents revealed that reputation and pricing were the most critical factors for bank Journal of Islamic Economics & Social Science (JIESS) p-ISSN: 2722-7499 Volume 1 Issue 1 | May 2020 e-ISSN: 2722-7111 http://dx.doi.org/12.12244/jiess.2019.v1.1.001 5 selection in Poland. Mylonakis et al. (1998) examined the bank’s selection criteria in Greece. Their study revealed that the determinants of bank selection were location and quality of services. Quality of services included personalized services and particular attention to the needs of customers. In the context of Islamic finance, Mansour et al. (2010) found that the financial product's price was considered the essential criterion by Muslim and nonMuslim bank customers in the UK. The bank's Islamic nature was considered the second most important criterion, which indicated the importance of religious orientation for the respondents. Awan & Bukhari (2011) examined customers’ attitudes towards Islamic banks in Pakistan for a sample of 250 respondents. They found that the product features and service quality were the most critical criteria in selecting Islamic banks. The Syariah compliance of the bank was of low importance for the respondents. Haque et al., 2009 investigated the factors influencing Islamic Banking selection in Malaysia. They found that 10 quality of services, availability of services, social and religious perspective were the most important factors influencing the customer’s choice. Hoda & Gupta (2015) compared the customer satisfaction of faith-based and mainstream microfinance institutions. They surveyed 300 microfinance clients (150 mainstream microfinance institutions and 150 faithbased microfinance institutions). Their study showed that the clients of faith-based microfinance institutions were more satisfied in terms of reasonability of the fees, loan procedure, bank location, and technical assistance. This study included not only Islamic microfinance institutions but also other faith-based microfinance institutions. Rokhman & Rivai (2014) investigated the influence of service quality on client satisfaction for a sample of 220 clients of Islamic microfinance institutions in Central Java (Indonesia). The results of their study indicated that service quality has a significant impact on customer satisfaction and loyalty (Rokhman & Rivai, 2014). Finally, Fararah & Al-Swidi (2013) examined the effect of the service quality of Islamic microfinance products on the satisfaction of SMEs owners in Yemen. Data were collected through questionnaires distributed to 250 SMEs owners. The study confirmed the importance of service quality on client satisfaction and the level of perceived benefits. However, the study suggested that the benefits of dealing with Islamic Microfinance institutions were not highly perceived and recognized by the SMEs owners. A study conducted by Effendi (2013) emphasized the importance of Islamic loans for the customers of Islamic MFIS. According to his study, 93% of the Islamic MFI clients in Pasuruan (East Java, Indonesia) prefer to apply for a loan from Islamic MFIs, while only 6% prefer loans from conventional MFIs. On the other hand, most conventional MFIs' clients prefer (44%) loans from other sources, such as family and moneylenders. Masyita & Ahmed (2013) explored the determinants of demand for microfinance products in Indonesia by examining the perception and preferences of 581 borrowers from two conventional microfinance institutions (BRI and BPR) and two Islamic microfinance institutions (BMT and BPRS). The results of their study showed that both economic and non-economic factors shaped the demand. The economic factors included interest rate and loan size, while the non-economic factors consist of quality of the service, process speed, proximity, payment method, and loan officer's profile. According to these factors, BRI, a non-Islamic microfinance institution, was ranked as the most competitive one. The study suggested that Islamic microfinance institutions should improve these economic and non-economic factors to increase the demand for their products. METHOD To answer our research objectives, we used a quantitative study based on a survey questionnaire. The survey was conducted in the context of Bank Syariah Mandiri and lasted one month. This section is dedicated to present the methodology used to collect data.   Choice of The Region of Investigation Many reasons explain the choice of Indonesia for the present study. First, Indonesia is the country with the largest Muslim population in the World (220 Million Muslims). Second, more than 11% of the population (29 million people) lives below the poverty line. Third, Indonesia is characterized by a high concentration of small businesses (more than 50 million small businesses), representing 99.98% of enterprises. Therefore, Indonesia represents an important market for Islamic microfinance (Karim et al., 2008). Fourth, that researched the context of Bank Syariah Mandiri in Jakarta. This bank is one of the leading suppliers of Islamic microfinance products in Indonesia. Thus, it offers a rich field for investigating Islamic microfinance, which collected the primary data in the Kebon Jeruk Area. Finally, Kebon Jeruk is one of the eight sub-districts of Jakarta Barat (West Jakarta). The population of Jakarta Barat exceeds two million people, and this area has the highest concentration of small businesses in Jakarta. Sources of Data and Data Collection Methods They used two kinds of data in this research: primary and secondary data. The collected primary data through questionnaires, field observation, discussion with the clients and bank's staff (Branch managers, micro Journal of Islamic Economics & Social Science (JIESS) p-ISSN: 2722-7499 Volume 2 Issue 1 | May 2021 e-ISSN: 2722-7111 6 http://publikasi.mercubuana.ac.id/index.php/jiess banking area managers, micro-credit officers, and other members of the bank's staff). The collected secondary data from financial reports of BSM, manual of procedures, books, scientific journals, websites. Sampling Method The population of this study consists of micro-businesses owners who have an outstanding loan balance with Bank Syariah Mandiri in the area of Keban Jeruk (West Jakarta). Kebon Jeruk area includes six branches of Bank Syariah Mandiri (Cengkareng, Kebon Jeruk, Tangerang Ciledug, Duri Kosambi, Kedoya, and Tanjung Duren). The six branches were requested to provide the list of the clients who owned a micro-business and who had an outstanding loan balance with Bank Syariah Mandiri at the time of the survey. The total number of micro banking clients who are owners of micro-businesses and have an outstanding loan balance at the study was approximately 280 clients. A sample of 100 respondents was selected among the targeted population through simple random sampling. Constraints of time and geographical distance influenced the size of the sample. Administration of The Survey The survey was based on self-completed questionnaires distributed to the respondents in their business or at home. Since most micro-entrepreneurs rarely visit their bank, the research team, consisting of a micro-credit officer and me, visited the respondents at their business location or home. This approach allowed us to reach a response rate of 100%. Moreover, it reduced the risk of misunderstanding and missing answers since the research team verified the questionnaires immediately. However, this approach had two main drawbacks. First, it was timeconsuming. Second, the respondents might have felt uncomfortable giving a genuine response in the presence of a micro-credit officer. However, to collect honest answers from the respondents, anonymous questionnaires were used. Even if the questionnaires were self-administered, the respondents were assisted when filling the questionnaire by clarifying in case of misunderstanding. The survey was conducted as follows. After a small introduction in Bahasa13 done by the micro-credit officer on the purpose of the study, the client was requested to fill in the questionnaire. After the respondent had finished filling the questionnaire, it was verified to check whether all the questions were correctly answered. Content of Questionnaires The questionnaire was developed based on the literature review and field observation. Discussions with the branch managers, micro banking area managers, marketing officers, and microcredit officers helped us gather information on the products, the clients, and the procedures of Bank Syariah Mandiri. This information was helpful for the questionnaire design. The questionnaire was based mainly on close-ended questions. Only two open-ended questions were included in the questionnaire. This first one concerned the business's activity, and the second one was related to the duration of the credit. The close-ended questions used were the following: multiple choice questions, yes/no questions, scales questions, and rank order questions. The questionnaire included four parts. The first and second parts of the questionnaire aimed to collect information on the client and the loan. The third part addressed the customers' preferences. The fourth part assessed customer satisfaction and investigated the areas of improvement from the customers' perspective. The variables used in the questionnaire14 were developed based on findings of previous studies (Haque et al., 2009; Kennington et al., 1996; Levesque & McDougall, 1996; Mylonakis et al., 1998). Quantitative Data Analysis Descriptive and inferential statistics were used to analyze the data. The statistical analysis was generated using the Statistical Package for Social Science (SPSS) Version 22.0. Means comparison was used for the questions related to ranking, and Pearson correlation analysis was used to determine the correlation between different variables. RESULTS Clients Profile and Characteristics of Their Credit The majority of the respondents were men (62%) aged between 26 and 55. Only 3% of the population were aged 25 or below, and 2% were aged more than 55. In terms of religion, 98% of the respondents were Muslim. Only 2% of the respondents were Christian. The description of the demographic profile of the sample is given below in table 2. Journal of Islamic Economics & Social Science (JIESS) p-ISSN: 2722-7499 Volume 1 Issue 1 | May 2020 e-ISSN: 2722-7111 http://dx.doi.org/12.12244/jiess.2019.v1.1.001 7 Table 2. The Description of The Demographic Profile Respondents Frequency % Age 25 and below 3 3% 26 - 35 19 19% 36 - 45 47 47% 46 - 55 29 29% 56 - 65 1 1% 66 and above 1 1% Total 100 100% Gender Male 62 62% Female 38 38% Total 100 100% Religion Islam 98 98% Christian 2 2% Total 100 100% As shown in table 3, more than half of the respondents were using the PUM-Madya credit (56%), a Murabaha contract, offering a credit ranging between Rp 10 million and Rp 50 million, 29% of the respondents were using KUR Micro, and the remaining were using PUM-Tunas and PUM-Utama. Respondents mainly used the credit for working capital (56%) or multi-purposes (40%). Only 4% of the respondents used the financing for investment purposes. Table 3. Details About The Credit The respondents were asked who influenced them to become a client of Bank Syariah Mandiri (table 4). They had to choose between four possible answers: family, friends, advertisement, or none of those answers. 45% of the respondents reported that they were influenced by their friends and 20% by their family. Only 3% of the respondents cited advertisement as a source of influence. Almost a third of the respondents claimed that they were influenced by none of those factors. One possible explanation of this result is that Bank Syariah Mandiri uses direct marketing techniques to attract clients, such as door-to-door marketing, phone calls, or organizing meetings with potential clients. Table 4. Influence to Become a Client Frequency % Family 20 20% Friends 45 45% Advertisement 3 3% None 32 32% Total 100 100% As shown in table 5, 68% of the respondents have a bank account in a conventional

MFI in addition to the account they have in BSM. Remark Frequency % PUM-Tunas (Rp2.000.000-Rp10.000.000) 9 9% PUM-Madya (>Rp10.000.000-Rp50.000.000) 56 56% PUM-Utama (>Rp50.000.000-Rp200.000.000) 6 6% KUR Micro (Government Program Max. Rp50.000.000) 29 29% Total 100 100% Investment 4 4% Working capital 56 56% Multi-purposes 40 40% Total 100 100% Type of credit Purpose of the credit Journal of Islamic Economics & Social Science (JIESS) p-ISSN: 2722-7499 Volume 2 Issue 1 | May 2021 e-ISSN: 2722-7111 8 http://publikasi.mercubuana.ac.id/index.php/jiess Table 5. Account in a Conventional MFI Frequency % Yes 68 68% No 32 32% Total 100 100% Clients' preferences Based on the literature review, a list of the factors that may influence consumers' selection of a microfinance institution was proposed to the respondents. Those factors were: MFI's location, low fees/margin, service quality, staff sociability, range of products, MFI's reputation, and availability of ATMs. We added the factor "Syariah compliance" to verify whether it has an impact on their choice. We asked the respondents to classify by order of importance these criteria from 1 to 8. Number 1 represented the most important criterion, while number 8 represented the less critical criterion. According to means comparison (see table 6), quality of services was the essential criterion for the respondents. The second most important criterion was low fees or margin, followed by the location of the microfinance institution. Syariah compliance was considered the 6th most crucial criterion. The availability of ATMs was considered by the respondents as the less critical criterion when choosing a microfinance institution Table 6. Selection Criteria when Choosing a Microfinance Institution The respondents have also been requested to classify by order of importance their criteria when choosing a credit from 1 to 5. Number 1 represented the most crucial criterion, and number 5 represented the less important one. According to the comparison of the mean, the cost of the credit (fees and margin) was the most important criterion when choosing a credit. Syariah compliance was considered as the second most important criterion, followed by the application process easiness. Syariah compliance seemed more important for the respondents than the loan size and the collateral required by the microfinance institution, as reported in table 7. Table 7. Selection

Criteria when Choosing a Credit Clients' satisfaction To assess customers' satisfaction, respondents were requested to provide their opinion of their level of satisfaction with the credit (table 8). 58% of the respondents reported that they were satisfied, and 35% were moderately satisfied. Only 5% of the respondents were delighted with the credit characteristics, and 2% were not satisfied. Table 8. Selection Criteria when Choosing a Credit The respondents were also requested to express their level of satisfaction towards each of the individual dimensions of the credit: loan size, time to process the application, application form, cost of the credit (fees and margin), and collateral (table 9). Most respondents reported that they were satisfied with the loan size (62%), and

31% were moderately satisfied. Only one respondent was not satisfied, and six other respondents were very satisfied with the size of the credit issued by the microfinance institution. The majority of the respondents reported that they were satisfied with the easiness of the loan application form (60%), 36% were moderately satisfied, and 4% were delighted. No respondent declared that he was not at all satisfied with the easiness of the application form. More than half of the respondents indicated that they were satisfied with the time to process the application (53%). Almost a third of the respondents were moderately satisfied. In addition, 15% of the respondents reported that they were delighted with the time to process the application, and no respondent reported that he was not satisfied. Finally, most of the respondents reported that they were satisfied (57%) or moderately satisfied (39%) with the cost of the credit. 2% of the respondents indicated they were delighted with the cost, and another 2% estimated that they were not satisfied. The credit cost includes the margin (mark-up) and other fees. More than half of the respondents estimated that they were satisfied (59%) with the collateral requirements. The third respondents indicated moderately satisfied (33%), 6% were delighted, and 2% were not satisfied. It is important to note that Bank Syariah Mandiri requires micro-entrepreneurs, clients, to secure their loans with collateral in the form of asset Table 9. Satisfaction with The Attributes of The

Credit We used a bivariate Pearson correlation to detect a statistically significant linear relationship between the overall satisfaction with the credit and satisfaction with each credit attribute. Furthermore, table 10 shows a positive statistically significant linear correlation between the satisfaction with the credit and the satisfaction with the loan size at a p-value less than 0.01. There is also a positive statistically significant linear correlation between the satisfaction with the credit and the satisfaction with the following variables at a p-value less than 0.05: time to process the application, cost of the credit, and collateral required by the microfinance institution. However, the linear correlation with the variable "satisfaction with the application form" was not significant since the significant point was higher than the acceptable limit. Table 10. Correlation between The Satisfaction with The Credit and Other Attributes Moreover, refer to table 11 below, more than 80% of the respondents reported that the credit has served their business needs (88%) and positively influenced their sales (86%) and their income (85%). On the other hand, 10% of the respondents were not sure whether the credit served their business needs or not, 13% were not sure about the credit's impact on their sales, and 12% of the respondents were not sure whether the credit impacted positively their income or not. The percentage of respondents who estimated that the credit had not impacted their business positively was deficient. Only 1% of the respondents indicated that the credit had no positive impact on their sales, and 3% indicated that the credit had no positive impact on their income. 2% of the respondents estimated that the credit had not served the needs of their business.

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Table 11. Impact of The Credit on The Business, Sales, and Income The respondents were requested to choose the areas of improvement for the microfinance institution (table 12). The majority of the respondents indicated that BSM should improve the loan size (67%), time to process the application (66%), information on the product (66%), product range (61%), and quality of the service (54%). On the other hand, most of the respondents estimated that there is no need to improve the cost of the credit (margin and fees), the collateral required, and the

application procedures. Table 12. Areas of Improvements for The Microfinance Institution To assess the needs of small businesses, respondents were requested to choose among a list of factors, one factor that may help them improve their business. 42% of the respondents considered that increasing the loan size would help them improve their business. Business training was considered as the main factor to improve their business for 33% of the respondents. It is important to note that currently, Bank Syariah Mandiri does not offer any business training to its micro banking clients. The grace period was reported as the main factor that may help to improve the business by 23% of the respondents, as shown in table 13. Only 2% of the respondents estimated that a wide range of products would help them improve their business. Table 13. Needs of The Business DISCUSSION To increase customers' attraction and retention, Islamic microfinance institutions need to identify their customers' preferences. Moreover, they should investigate whether their products and services met the expectation of their customers. This study aimed to examine the customers' satisfaction and to identify their preference towards Islamic microfinance loans. This section discusses the results of the survey's analysis in light of findings from previous studies. Clients' preferences Mols et al. (1997) surveyed firms in twenty European countries. Their study showed that the price and service quality was the essential criteria in selecting a financial institution. In line with these findings, our study revealed that the respondents' quality of services and prices represented the essential criteria in selecting a microfinance institution. Rokhman & Rivai (2014) showed that service quality significantly impacts clients' satisfaction with Islamic microfinance institutions. The study of Fararah & Al-Swidi (2013) also confirmed the Journal of Islamic Economics & Social Science (JIESS) p-ISSN: 2722-7499 Volume 1 Issue 1 | May 2020 e-ISSN: 2722-7111 http://dx.doi.org/12.12244/jiess.2019.v1.1.001 11 impact of service quality of Islamic microfinance products on the satisfaction of the SMEs owners. In line with these studies, our findings suggest that improving the service quality can increase customers' satisfaction towards Islamic microfinance institutions. According to Nugroho & Tamala (2018), the location of the MFI, the staff sociability, and the range of products were also considered important factors when selecting a microfinance institution. These findings are coherent with Levesque & McDougall (1996), who found that customer satisfaction in retail banking was driven by service quality, location, competitive interest rates, and friendliness of staff employees. The availability of ATMs was considered by respondents as the less critical criterion when choosing a microfinance institution. BSM cards can be used in more than 150,000 ATMs, including BSM and Bank Mandiri ATM networks. Jakarta has the highest concentration of ATMs; therefore, the availability of ATMs does not represent an issue for the respondents located in this city. Syariah compliance was ranked as the 6th most crucial criterion in selecting a microfinance institution. This result is in line with the findings of Awan & Bukhari (2011). They found that the product features and service quality were essential for selecting an Islamic bank. In contrast, religion was found to be of low importance for the respondents. Furthermore, a study conducted in the Indonesian context by (Masyita & Ahmed, 2013) indicates that even if most MFI's clients reported their preference for Islamic MFIs, in reality, their choices were based on economic and non-economic factors. The economic factors included interest rate and loan size, while the non-economic factors included service quality, process speed, proximity, payment method, and loan officer's profile. The present study also examined the factors influencing the choice of credit and revealed that the cost of the credit (margin and fees) was the most crucial criterion for most respondents. This finding coincides with Abou Aish et al. (2003). They found that the most critical selection criteria for small businesses in the UK and Egypt were financial items (interest rates, fees, and credit availability). Syariah compliance was ranked as the second most important criterion when selecting a credit. It was even more important for the respondents than other factors such as easiness, loan size, and collateral. This result suggests that Syariah compliance becomes an essential concern for the clients only when they intend to apply for a loan. It also indicates that clients prefer Islamic loans to interest-based loans since Syariah law strongly forbids interest. This assumption coincides with Effendi (2013), who found that 93% of the Islamic MFI clients prefer to apply for financing from Islamic MFIs, while only 6% prefer loans from conventional MFIs. Even if Bank Syariah

Mandiri requires collateral in the form of assets from micro-business owners to secure their loan, collateral was considered as the less essential criteria in selecting a credit. This may be explained by the fact that all the respondents owned some assets they provided as a guarantee to the MFI. Clients' Satisfaction Several studies showed that customer satisfaction is the most critical factor for the customer's attraction and retention (Kotler & Armstrong, 2018; Levesque & McDougall, 1996; Sudirman et al., 2020). In Indonesia, where the financial sector is highly competitive with hundreds of financial institutions, customer satisfaction is essential. As this study aimed to assess the clients' satisfaction toward the credit, only factors related to the credit were considered. [11]The results showed that more than half of the respondents were satisfied with the credit, and the third of the respondents were moderately satisfied. Moreover, the survey showed that the respondents were satisfied with each of the individual dimensions of the credit: loan size, time to process the application, application form, cost of the credit (fees and margin), and collateral requirements. The percentage of respondents who reported that they were not satisfied with the credit was deficient (less than 3%). However, this percentage should be considered a warning signal for a microfinance institution aiming to reach excellence in client service. The factors of this dissatisfaction should be investigated and solved. The study revealed a positive correlation between the satisfaction with the credit and the satisfaction with the loan size, the time to process the application, the cost of the credit, and the collateral required by the microfinance institution. The positive correlation with the loan size was found higher than for the other variables. These results suggest that the main drivers of satisfaction with the credit were: loan size, time to process the application, cost of the credit, and the collateral required. These findings are in coherence with. Murray & Lynch (2003) found that, for MFIs in Bangladesh, Uganda, and Colombia, customers' satisfaction was driven by loan size, credit cost, loan requirements, and turnaround times. Access to finance is supposed to help small businesses improving their incomes. Fiala (2013) conducted a randomized control trial that showed that business owners, who received loans and training, reported 54% greater profits. In line with these findings, most respondents in our study reported that credit had served their business needs. Moreover, the credit was reported to have positively impacted their sales and income. Needs of The Clients and Areas of Improvements Identifying the needs of the clients is an essential step in reaching customers' satisfaction. This is particularly important for micro-entrepreneurs who have specific needs related to their businesses. This study Journal of Islamic Economics & Social Science (JIESS) p-ISSN: 2722-7499 Volume 2 Issue 1 | May 2021 e-ISSN: 2722-7111 12 http://publikasi.mercubuana.ac.id/index.php/jiess showed that despite the respondents' satisfaction with the credit offered by the microfinance institution, they expressed needs for improvement in the loan size, time to process the application, information on the product, product range, and quality of the service. On the other hand, it appears from this study that there is no need for improving the application procedures, the cost of the credit (margin and fees), and the collateral requirements. These findings are coherent with IRTI (2008), who observed that easy access, timeliness, and flexibility were more critical for micro-entrepreneurs than the cost of the financings products. It was also found that the loan size was reported as the most crucial need for improving their business by the respondents. The importance of access to finance for SMEs' sustainability and growth was demonstrated by several studies, which may justify their permanent need for an increase in loan size. The study also highlighted the need for business training. The third of the respondents considered business training as the most crucial factor to improve their businesses. This need may be justified by their lack of business and technical skills. Several studies showed that the lack of business skills might threaten the sustainability of the enterprise. Moreover, Haswell & Holmes (1989) suggested that the lack of recordkeeping and the inability to access relevant information may lead to business failure. Fiala (2013) found that providing loans and training improved the profits of small businesses in Uganda. A study conducted by Calderon et al. (2013) in Mexico showed that the entrepreneurs who have received training earned a higher profit and served a more significant number of clients. Karlan & Valdivia (2011) found that while business training had little or no impact on business revenue and profits, it increased the microfinance institution customers’ retention. Therefore, building the business capabilities of its clients through training may help the microfinance institutions increase customers’ satisfaction and loyalty. The grace period was also mentioned as an essential need for the respondents to improve their business. This is coherent with the findings of Field et al. (2013), who observed that the introduction of a grace period positively impacted the small businesses as it “encouraged experimentation with new business opportunities, and increased their willingness to take on entrepreneurial risk.” This study helped not only to evaluate the level of customers’ satisfaction but also to understand their preferences and needs. These results provide significant insights that can help Islamic MFIs designing financial products that meet the customers’ expectations. CONCLUSION Even though almost half of the microfinance clients live in Muslim countries, Islamic microfinance represents only 1% of global microfinance outreach. One possible explanation for this low outreach is that Syariah compliant products may not adapt well to the clients' needs. Islamic microfinance is a recent field, and there is still a lack of understanding of the needs of Islamic microfinance clients. This is particularly true for micro-entrepreneurs who have specific needs related to their businesses. This study focused on credit for small businesses. It aimed to identify the small businesses’ preferences, their level of satisfaction towards Islamic microfinance loans, and areas of improvement for Islamic microfinance institutions. Empirical Findings The main empirical findings of this research were: ▪ The essential criteria in selecting an MFI were service quality, fees, and location. Syariah compliance seemed of less importance in selecting a microfinance institution; ▪ When selecting microcredit, the most important criteria were the cost, Syariah compliance, and the process easiness. Syariah compliance becomes a significant concern when selecting a credit; ▪ The majority of respondents were satisfied with the credit and its features (loan size, cost, collateral requirements, time to process the application, and application form); ▪ The credit served the business needs of the respondents and helped them improve their sales and incomes; ▪ Even if the respondents were satisfied with the credit provided by the MFI, they expressed needs for improvement in the loan size, time to process the application, information on the product,

product range, and quality of the service; ▪ The respondents reported an increase in loan size, business training, and grace period as the most critical need to improve their business. Theoretical Implications This study investigated the level of satisfaction towards Islamic microfinance institutions, and more precisely, towards Islamic loans. The main finding of this study was that the majority of respondents were satisfied with Islamic loans. Therefore, we can suggest that the low outreach of Islamic microfinance may not result from the lack of satisfaction of customers towards Islamic microfinance institutions. Other factors should be investigated to explain the low performance of Islamic MFI: low market penetration, lack of sources of funds, lack of public awareness, lack of qualified personnel, lack of products diversification, lack of adequate regulation. However,

since our study was confined to Bank Syariah Mandiri, a commercial bank, generalizing the results of this study to other types of Islamic MFIs seems inadequate. The products and services offered by commercial banks are different from those offered by rural banks and non-bank financial institutions (cooperatives and NGOs). Managerial Implications This study emphasized the importance for the MFIs to understand the customers' needs to improve the products and services. The study revealed that the loan size, cost of the credit, time to process the application, and collateral requirements affect the customers' overall satisfaction. Moreover, the study has shown that the cost of the credit, Syariah compliance, and the process easiness were the main determinants of selecting a credit. Therefore, to increase customers acquisition and retention, the findings of this study should be taken into account when designing Islamic microcredit for small businesses. Policy Implications To improve access to finance for small businesses and low-income households, the Government of Indonesia launched in 2007 the program KUR, a lending program channeled through banks, which includes a guarantee scheme subsidized at 70% by the government. In addition, in 2012, the Government launched National Strategy for Financial Inclusion, Fostering Economic Growth, and Accelerating Poverty Reduction. This strategy aimed to allow access to financial services for all population segments and connect small businesses with economic opportunities. Moreover, the Government requires banks that 20% of their loan portfolio be devoted to MSMEs. This study showed that the credit products provided by banks were valued by small businesses and met their needs. However, it was observed that banks were still reluctant to lend to small businesses by adopting a conservative asset-based lending approach. This approach may favor the better-off clients and discriminate against small businesses not owning assets. It may also hamper the efforts of the Government to broaden access to finance to all components of the population. Another implication of the study is that the credit should be combined with practical business training to empower small businesses and build their entrepreneurial capacities. Therefore, the government should promote business training and financial literacy among both businesses and individuals. REFERENCES Abou Aish, E. M., Ennew, C. T., & Mckechnie, S. A. (2003). A Cross-Cultural Perspective on the Role of Branding in Financial Services: The Small Business Market. Journal of Marketing Management, 19(9–10), 1021– 1042. https://doi.org/10.1080/0267257x.2003.9728249 ADB. (2015). Asian Development Bank Annual Report 2015. 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