

THE ROLE OF SHARIA BANKING ON MSMES THAT IMPLIED ON INDONESIAN ECONOMIC GROWTH

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THE ROLE OF SHARIA BANKING ON MSMEs THAT IMPLIED ON INDONESIA ECONOMIC GROWTH

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ABSTRACT

This research is descriptive qualitative by using literature obtained from several sources of secondary data, in the form of theories, reports, research results and others aimed at analyzing the role of Islamic banking in MSMEs for Indonesia's economic growth. Crisis conditions occurred in the period from 1997 to 1998, only the MSME sector (Micro, Small and Medium Enterprises) was able to remain strong after the economic crisis. The number of MSMEs does not decrease, in fact their growth increases. Sharia banking efforts in developing the country's economy is to provide financing through micro, small and medium enterprises. Along with the government's attention to the development of MSMEs in Indonesia, Islamic banking also participates in empowering these MSMEs which will then move the economic sectors and spur economic growth.

Keywords : Islamic Banking; MSMEs; Indonesian economy

PRELIMINARY

When the economic crisis hit the world, it automatically worsened the economic conditions in Indonesia. Crisis conditions occurred during the period from 1997 to 1998, only the MSME sector (Micro, Small and Medium Enterprises) was able to remain strong. Data from the Central Statistics Agency released that after the economic crisis, the number of MSMEs did not decrease, in fact, their growth increased widely, even being able to absorb 85 million to 107 million workers until 2012. In that year, the number of entrepreneurs in Indonesia was 56,539,560 units. Of this number, MSMEs were 56,534,592 units or 99.99%. The remaining 0.01% or 4,968 units are large-scale businesses (Suci, 2017)

Hoping to rise from adversity and stabilize the economy, the State makes capital loans to foreign parties. It turned out that this step actually made the nation less independent and dependent on foreign aid. Seeing this reality, we should see opportunities to maintain the sustainability and development of MSMEs as a solution to the country's economic problems. To overcome the problems of our country which always relies on dependence on foreign aid, one effective step is to use microfinance as the main method. The contribution of this approach consists of diversifying the main actors of development, namely the community (ie through the development of MSMEs),

financing development using the community's own financial sources and implementing a development approach that has the potential to be sustainable (Amah, 2013).

In running their business, MSMEs often experience various difficulties and obstacles, where in their business development MSMEs often face problems that include marketing, capital, and management problems. Around 57% of micro and small businesses in Indonesia experience difficulties in running their business, with the main difficulties faced are capital difficulties, which are 31.11%, raw material difficulties are 24.80%, and marketing difficulties are 24.60% which make a significant contribution. very important (BPS Indonesia, 2010)

However, conventional financing systems that apply an interest system often result in MSMEs facing difficulties in obtaining business financing. The tendency to increase bank interest rates causes MSME business actors in particular and people who have limited economic capacity to no longer be able to pay off their debts to the bank, and finally the bank will confiscate their property to pay off their debts, because the bank certainly will not want to be harmed. For this reason, the community and business actors of micro and small scale economies need a financing system that is more supportive of business success, namely a profit-sharing system. This type of transaction can be carried out by Islamic banking, which is a financial institution with operational principles based on the concept of Islamic sharia, which forbids interest (riba), and applies a profit-loss sharing system for each transaction (Antonio, 2001).

LITERATURE REVIEW

Bank

Banks are defined by Law Number 10 of 1998 concerning Amendments to Act Number 7 of 1992 concerning Banking as an agency that collects funds from the public in the form of savings and distributes them to the public in the form of credit and or other forms in order to improve the standard of living. many people. Bank classification is only based on the type of business activity, but also includes the form of legal entity, establishment and ownership, target market, function, ownership status, operational activities, demand deposit creation, organizational system, and geographical location. In terms of rewards or services for the use of funds, both deposits and loans, banks can be divided into :

- a. Conventional Bank, namely a bank which in its activities, both in raising funds and in distributing funds, provides and charges compensation in the form of interest or a certain amount of compensation in a certain percentage of the funds for a certain period. This certain percentage is set annually.
- b. Sharia Bank, namely a bank which in its activities, both in raising funds and in distributing funds, provides and imposes rewards on the basis of sharia principles, namely buying and selling and profit sharing (Linda Tamim Umairroh, 2016)

Chapter 2 article 2 of Law no. 21 of 2008 explains the principles that underlie Islamic banking as follows, Islamic banking in carrying out its business activities is based on sharia principles, economic democracy, and the principle of prudence. This principle underlies every Islamic banking activity which also makes Islamic banks able to survive in the midst of a crisis. Islamic banks have a goal to support the implementation of national development in order to improve justice, togetherness, and equitable distribution of people's welfare (Article 3 of Law No. 21 of 2008). Law No. 21 of 2008 also describes the functions of Islamic banks in article 4 as follows:

- a. Sharia Banks and Sharia Business Units are required to carry out the function of collecting and distributing public funds.
- b. Sharia Banks and Sharia Business Units can carry out social functions in the form of baitul mal institutions, namely receiving funds from zakat, infaq, alms, grants, or other social funds and distributing them to zakat management organizations.
- c. Sharia Banks and Sharia Business Units can collect social funds originating from cash waqf and distribute them to waqf managers (nazhir) in accordance with the will of the waqf giver. From the previous explanation, the function of Islamic banks can be manifested as an intermediary agent, namely the intermediary party between the community and the community, and between the community and the government in terms of collecting and distributing funds. Furthermore, Islamic banks also function as fund and investment managers (investment and financing managers), providers of banking services as conventional banks but with notes according to sharia corridors, and managers of social functions (Amah, 2013).

Micro, Small and Medium Enterprises (MSMEs)

The Micro, Small and Medium Enterprises Unit according to the 1945 Constitution was then strengthened through TAP MPR NO. XVI/MPR-RI/1998

concerning Economic Politics in the context of Economic Democracy, Micro, Small, and Medium Enterprises need to be empowered as an integral part of the people's economy which has the position, role, and strategic potential to realize a more balanced, developing, and just national economic structure. Furthermore, the definition of MSME was made through Law No. 9 of 1999 and due to the increasingly dynamic state of development, it was changed to Law No. 20 Article 1 of 2008 concerning Micro, Small and Medium Enterprises, the definition of MSME is as follows:

- a. Micro Business is a productive business owned by individuals and/or individual business entities that meet the criteria for Micro Business as regulated in this Law.
- b. Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become part of either directly or indirectly from Medium Enterprises or Large Businesses that meet the criteria. Small Business as referred to in this Law.
- c. Medium Enterprises are productive economic businesses that stand alone, which are carried out by individuals or entities (Suci, 2017).

RESEARCH METHODOLOGY

The type of research used in this paper is by using literature studies obtained from several sources. This descriptive qualitative research describes how the efforts of the role of Islamic banking in MSME activities in developing the Indonesian economy. The type of data used in this paper is qualitative data sourced from secondary data, in the form of theories, reports, research results and others. The data collection technique required in this paper is the Library Study method, this method is used to analyze the results of the data obtained by searching various reference sources related to the problem, which can provide solutions by analyzing existing data. Literature review used in this study is used by looking for previous literature relating to the theme to be presented, which is then collaborated with the writer's thoughts to find a form of conceptual understanding that can provide information for the wider community in general and for writers in particular about the themes discussed) (Zulkarnaen, et. al. 2020)

RESEARCH RESULT

Banks have a big role, in collecting funds from the public and then channeling them as business capital, so as to create economic growth. This illustrates how financial institutions play a very important role in the country's economic development. With capital, it is possible to turn things that are not useful into useful things. The problem is that it is relatively difficult for small or micro businesses to access capital, due to several things, such as :

1. The bank's administrative system is convoluted and requires a guarantee that is commensurate with the money lent.
2. Small business actors are generally grassroots groups from the community who are not familiar with the technical languages of banking.

This is where the role of Islamic financial institutions will be in the future, namely the ability to reach the lower classes without the mechanism of conditions being too heavy and language that is easier to understand. In fact, the amount of funds raised by financial institutions in Indonesia is relatively large, and if all of them were allocated to MSMEs, it would be more than sufficient to further empower these MSMEs. As reported by the news with the title "Total Assets of Financial Institutions Reached Rp. 7,800 Trillion rupiah." From the total amount of Rp. 7,800 trillion in total financial assets, the portion owned by Islamic financial institutions is only 3.49 percent, while the number of banking financing in the MSME sector continues to grow. In 2005 it was 633.945 trillion, to 737.355 trillion in 2009, and in 2010 it increased by 926,782 trillion (Bank Syariah Mandiri website).

The increase in assets and financing for MSMEs does not only occur in conventional banks, but also in LKS. For example, the number of Islamic Commercial Banks increased from 2 banks in 2000, increasing to 11 in 2012. The assets owned by Islamic financial institutions have also progressed from time to time. In 2012 total assets were recorded at 149 trillion, with a total collection of funds from third parties of 116 trillion and total financing of 106 trillion. This number has grown from previous times.

The results of the study (Linda Tamim Umairah, 2016) that the Effect of Third Party Funds has a positive effect on the Real Sector Economic Growth in Indonesia, which means that the higher the third party funds, the higher the real sector economic

growth. Third party funds are customer funds entrusted to Sharia Banks or Sharia Business Units with wadi'ah contracts or other contracts in accordance with sharia principles in the form of savings, demand deposits, or other forms that can be equated with this.

(Harrison, P., 1999) in his research explains that the intermediation function of financial sector institutions will encourage economic growth. This is because it will reduce costs in project appraisal. If the number of projects increases in a growing economy, the bank will enter the market as a form of bank activity and increase the profits. Financing provided by Islamic banks is based on the type of user and business category, one of which is MSMEs (Micro, Small and Medium Enterprises).

Based on data from the 2016 Sharia Banking Statistics, the total working capital and investment provided by Islamic banks and sharia business units to MSMEs amounted to Rp54,530 billion. Although the financing provided to MSMEs is lower than the financing provided to non MSMEs and with a total of 18 million customers, which is only 8.94% of the total Muslim population in Indonesia, it has influenced economic growth of 68.4%. So if the entire Muslim population in Indonesia, amounting to 207 million people, invest their funds in Islamic banks, we can imagine how fast our economy will be. However, to encourage public interest in investing their funds through Islamic banks, it is necessary to realize that the public must first believe that Islamic banks are able to realize their investment goals. This lack of trust has made many people refrain from investing through Islamic banks. The availability of information that convinces customers of the ability of Islamic banks is one of the tools to develop public trust.

In addition to the role of Islamic banking in helping economic development through empowering MSMEs, Islamic banking also contributes to attracting foreign investors to Indonesia, especially from Middle-Eastern countries. The existence of various sharia investment opportunities in Indonesia has attracted investors from other countries to invest in Indonesia. Furthermore, Islamic banking as a form of sharia economic movement encourages the emergence of ethical economic behavior among the people of Indonesia. Islamic economics is an economy that is in favor of truth and justice and rejects all forms of economic behavior that are not good, such as usury, speculation and uncertainty.

For real non-business needs, mudharabah financing is only possible if the borrower needs capital for business. From the developed business, it generates profit, and the profit from the business is divided according to the mutually agreed agreement (akad). Based on these assumptions, this profit-sharing system cannot be applied to prospective borrowers to meet consumptive needs. This Islamic financial institution is still just an alternative in the community but ideally in the future it should be the main solution in alleviating poverty, improving the community's economy and empowering MSMEs. Islamic financial institutions also hold the principle of justice and equality between institutions that provide loans and their customers, in contrast to conventional banks because conventional bank loans impose interest which does not see how the business results (profit) obtained by customers. In addition, the orientation of Islamic banks is not always profit oriented, but for social purposes. The ability of Islamic financial institutions to serve the real business sector is what the government really needs. The trust of financial institutions (including government-owned banks) in providing credit to small entrepreneurs does not arise based on empty ideas, but is based on experience. At the international level, it started when Muhammad Yunus, a Nobel Peace Prize laureate, established a special bank for financing small businesses, through Grameen Bank (Solihin, 2008).

The urge to empower the MSME sector by Islamic financial institutions is greater than that of conventional banks. Financing for underprivileged small businesses has the potential to be developed based on these Islamic values. Some of the Islamic financial institutions organize several small and medium-sized business groups. They organize borrowers and provide financial assistance. The aim is to strengthen their capacity in terms of business planning on a micro scale. Thus, LKS (Islamic Financial Institutions) can act as one of the partners of small or micro entrepreneurs, not only providing light capital assistance, but also providing guidance and empowerment. The presence of easily accessible Islamic financial institutions coupled with micro-credit organized by the government, for example the KUR (People's Business Credit) program, will gradually reduce the practice of moneylenders in the community. So here, there is cooperation between the government, BUMN and the private sector (including Islamic financial institutions), to eradicate the practice of moneylenders while empowering small and micro entrepreneurs (Muheramtohad, 2017).

CONCLUSION

It is concluded that with Islamic sharia principles, Islamic banking ¹² plays an important role in driving the wheels of the Indonesian economy through the development and empowerment of MSMEs. Both directly and indirectly, Islamic banking also supports the important role of MSMEs in economic growth, maintaining economic stability, absorbing labor, distributing development results, and developing the business world. Because ²¹ MSMEs have an important role in business development in ²⁰ Indonesia, and are also the forerunner of the growth of large businesses, this sector should receive special attention not only from the government and investors, but also from MSME actors themselves and the banking sector. funds from those who ¹³ have excess funds to those who need funds through efficient funding sources which will then drive economic sectors and spur economic growth. Islamic banking also plays a role in attracting foreign investors to Indonesia with various Islamic investment opportunities in Indonesia.

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