



The Role of Syariah Banking in Strengthening Micro, Small and Medium Enterprises (MSME) in Indonesia

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ARTICLE INFO

Keywords: Islamic Bank, Micro, Small And Medium Entrepreneurs, MSME, UMKM, Social Institution

Received : 10, August

Revised : 15, September

Accepted: 28, October

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ABSTRACT

Islamic banks have the opportunity to realize the government's expectations as stated in the policy of regulatory changes with the priority of cooperatives, micro, small and medium entrepreneurs or the people's economic system that provides opportunities to all levels of society without discrimination. The axiological content that underlies the operation of Islamic banks is also a separate force in efforts to develop the overall economy of the community. This research aims to examine the role of Islamic banking as a social institution in strengthening micro, small and medium enterprises (MSME or known as UMKM in Indonesia). The type of legal research used in this legal writing is normative legal research with a statutory approach. The statutory approach is carried out by examining all laws and regulations related to the role of Islamic banking in strengthening MSMEs. The results of the research found that Islamic banking must be able to act as a social institution in addition to being a commercial institution. Acting as a social institution that can maximally improve the economy of MSMEs through al-qardh and al-qardh al-hasan financing. Both of these financing models are based on non-profit lending contracts.

INTRODUCTION

Islamic banks as a financial institution are tasked with collecting funds from the public in the form of deposits and channeling them back to the public in the form of financing. One of the main functions of Islamic banks is to distribute financing as explained in Law Number 21 of 2008 concerning Islamic Banking. The distribution of funds in the form of financing is the main source of business and is the main source of income for Islamic banks. Judging from the business activities in Islamic banks, it is more varied, when compared to business activities in conventional banks. Islamic banks in channeling financing to the community can be tailored to customer needs (Apriyanti, 2018). Currently, there are many people who are still trapped in interest-bearing credit which is forbidden by Allah S.W.T. so that instead of getting profits, they get losses.

The existing products in Islamic bank financing clearly still refer to murabahah, mudharabah, musyarakah, and ijarah financing where these contracts are used in the contract system and produce fair profits for the customer and for the Islamic bank itself (Kasdi, 2013). The murabahah agreement, for example, can be used for the purchase of assets on credit by setting the cost or acquisition price and a transparent selling price, the selling price is determined based on the appropriateness of the market price, then mudharabah and musyarakah, profit-sharing cooperation where profits are divided based on the ratio of each party agreed at the beginning of the contract, if the profit is shared and if the loss is borne together, and ijarah or lease contracts where this contract is first popular in the community (Bhakti, et al, 2013).

The financing agreements in Islamic banks are based on the principles of buying and selling, profit sharing, and leasing. So that the business activities of Islamic banks are truly obtained from these businesses by using contracts that are in accordance with sharia principles. Efforts to comply with sharia principles have been well taken by Islamic banks. Islam has provided guidance on sharia contracts to regulate muamalah. This concept provides greater opportunities for MSME actors to develop their businesses based on the principle of partnership as organized by Islamic banks. The position of MSMEs in the midst of society is very important in developing the national economy in Indonesia (Sulaiman, 2023).

According to data from the Ministry of Cooperatives, Small and Medium Enterprises in 2018, the number of MSME players was 64.2 million or 99.99% of the total number of business actors in Indonesia. The labor absorption of MSMEs is 117 million workers or 97% of the labor absorption of the business world. Meanwhile, the contribution of MSMEs to the national economy (GDP) is 61.1%, and the remaining 38.9% is contributed by large businesses, which amount to only 5,550 or 0.01% of the total number of business actors. The MSMEs are dominated by micro businesses totaling 98.68% with a labor absorption of around 89%. Meanwhile, the contribution of micro businesses to GDP is only around 37.8% (Kementerian Keuangan Republik Indonesia, 2020). Complete data collection of Cooperatives, Micro, Small and Medium

Enterprises will be carried out in stages from 2022 to 2024. The data collection until 2024 is 65 million KUMKM actors. The 2016 economic census data is used as a reference in determining the target data allocation, where in 2022 the target for complete data collection of KUMKM is 14.5 million data (Kementerian Koperasi dan UKM Republik Indonesia, 2022).

Previous research on the role of Islamic banking in strengthening MSMEs was conducted by Sujian Suretno and Bustam with the title *The Role of Islamic Banks in Improving the National Economy Through Working Capital Financing in MSMEs*. Sujian Suretno and Bustam stated that the working capital financing system in Islamic banks is considered very suitable for the development of MSMEs which are the lifeblood of the community's economy. Most of the Indonesian people have been entangled in debt so that the economy is getting worse. It can be said that MSMEs are the lifeblood of the national economy, because with the presence of MSMEs, the wheels of the economy can rotate and run well and balanced, besides that, by increasing MSMEs, it will facilitate the process of absorbing labor, facilitate the flow of buying and selling in the community because buying and selling are the needs of all humans that occur every time and reduce the presentation of the current unemployment rate (Suretno & Bustam, 2020).

MSMEs have proven to be powerful and strong, because they are able to survive and become the driving force of the economy. The second research was conducted by Lucky Nugroho and Dewi Tamala (2018) entitled *Perceptions of MSME Entrepreneurs towards the Role of Islamic Banks*. This study aims to determine the perceptions of MSME entrepreneurs towards Islamic banks in supporting their business activities. The result of this study is that there are 18 MSMEs out of 72 MSMEs assisted by the Kemayoran Akbar Night Market who are customers of Islamic banks. The reasons they do not use Islamic bank services are 37% of MSME players have difficulty finding the location of Islamic banks, 28% lack of promotion from Islamic banks to MSME players, 22% of MSME players do not understand the products of Islamic banking and 12% of Islamic banking products are less varied. Meanwhile, in the article that the author discusses, it is about *al-qardh* and *al-qardh al-hasan* financing which is a financing model based on a non-profit, productive borrowing contract such as (1) providing working capital and assistance, (2) guarantees for troubled small businesses, (3) establishing a production sector carried out by weak communities, (4) and other productive businesses.

METHODOLOGY

The type of legal research used in this legal writing is normative legal research or also called doctrinal legal research. According to Peter Mahmud Marzuki, all research related to law (legal research) is always normative (Marzuki, 2014). The nature of this legal research is prescriptive. Legal research is carried out to solve the legal issues raised, and provide prescriptions regarding the role of Islamic banking in strengthening MSMEs. In this research the author will use a statutory approach (statue approach). The statutory approach is carried out by examining all laws and regulations related to the role

of Islamic banking in strengthening MSMEs. The legal materials used are primary legal materials, namely applicable laws, and secondary legal materials. The legal material collection technique used in this research is the document study method or related library materials. This research analysis technique uses the syllogism deduction method and interpretation using deductive logic (Sukanto & Mamudji, 2006; Ali, 2021). According to Philipus M. Hadjon as quoted by Peter Mahmud, the deduction method is like the syllogism taught by Aristotle, the use of the deduction method stems from the submission of a major premise then a minor premise is proposed, from the two premises a conclusion is drawn regarding the role of Islamic banking in strengthening MSMEs (Ibrahim, 2006).

RESEARCH RESULTS AND DISCUSSION

The Role of Islamic Banks in Strengthening MSMEs in Indonesia

Banking is a financial intermediary institution, which bridges the surplus funds with the deficit funds. Sources of bank funds and credit/financing contribute to bank performance and contribute to the economy on both a micro and macro scale. Islamic bank financing and economic performances are predicted to have a causal relationship. The development of Islamic financial institutions will affect economic growth both in the short and long term. In the long term, efforts are needed to improve the Islamic financial system so that it can encourage activity and fix various problems in the economy. In principle, there is no significant difference between the stability of conventional and Islamic financial systems (banks). The stability of Islamic banking is determined by specific factors that are different from those in conventional banking. Financing, efficiency and risk management are factors that determine stability in Islamic banking (Kasri & Azzahra, 2020; Prasada, 2020).

The principle of profit sharing in Islamic banking can create a healthy and fair investment climate because all parties can share both profits and potential risks that arise so that it will create a balanced position between banks and their customers. Profit sharing is a halal instrument used for cooperation either *mudarabah* or *musyarakah*. In the long run, this will encourage national economic equality because the profits are not only enjoyed by the owners of capital, but also by capital managers. The role of Islamic banks in financing MSMEs is in the form of financing. Islamic banks provide financing in the form of working capital to MSME actors, so that with this working capital the real sectors in the community can increase so that the products needed by the community can be fulfilled. In developed countries, MSMEs are very important, not only do these business groups absorb the most labor compared to large businesses (UB), as is the case in developing countries, but also their contribution to the formation or growth of gross domestic product (GDP) is greater than the contribution of large businesses. MSMEs have proven to have a very positive effect on national income (Zuhroh, 2018).

Financing at an Islamic bank is the provision of funds or bills that are equivalent to it in the form of: a. profit sharing transactions in the form of *mudharabah* and *musyarakah*; b. lease transactions in the form of *ijarah* or lease purchase in the form of *ijarah muntahiya bittamlik*; c. sale and purchase

transactions in the form of murabahah, salam, and istishna' receivables; d. lending and borrowing transactions in the form of qardh receivables; and e. service leasing transactions in the form of ijarah for multi-service transactions based on an agreement or agreement between an Islamic Bank and/or UUS and other parties that require the party being financed and/or given a facility to return the funds after a certain period of time in exchange for a fee. Service leasing transactions in the form of ijarah for multi-service transactions based on an agreement or agreement between a Sharia Bank and/or UUS and other parties that requires the party being financed and/or given a fund facility to return the funds after a certain period of time in exchange for ujah, without reward, or profit sharing (Law Number 21 of 2008, concerning Islamic Banking, article 1). Therefore, for the bank industry, which in this case is an Islamic bank, the process of channeling financing that they do to the MSME sector is more profitable than the non-MSME sector, because the MSME sector has stronger business resilience. In addition, other supporting factors that will also benefit Islamic banks are related to MSME financing, which currently receives a large allocation of assistance from the government related to the development of these MSMEs, because the allocation of substantial financing was born and triggered by the government's desire for the national bank industry to have a greater contribution in encouraging the development of MSMEs.

Constraints Faced by MSMEs in Business Development and the Contribution of Islamic Banking in Indonesia

MSMEs are the spearhead of the country's economy because only MSMEs are considered capable of surviving amidst the onslaught of business competition and the nation's economic crisis. Although they can boost the economy, unfortunately there are still problems that are often faced by MSME business actors. The contribution made by MSMEs is very large to the Indonesian economy from the past to the present. There are several reasons why MSMEs were able to survive the 1997 monetary crisis and the 2008 crisis, which claimed many economies in various European and even Asian countries. First, most MSMEs produce consumer goods and services with low income elasticity of demand, so the average income level of the community has little effect on the demand for goods produced. Conversely, an increase in income levels also has no effect on demand. Second, most MSMEs do not receive capital from banks. The implication is that the downturn in the bank sector and the rise in interest rates have not affected this sector much (Singgih, 2007).

In Indonesia, MSMEs use their own capital from savings and have very low access to bank financing. The role of micro, small and medium enterprises in driving the national economy is that they can absorb a large workforce, can increase gross domestic product (GDP), and can withstand economic crises. In the MSME sector, the main problem that often occurs is the issue of capital. High credit interest rates and the need for collateralized property assets are among the factors that cause MSMEs to experience difficulties in obtaining business capital. The existence of profit-sharing financing products offered by Islamic banks can help the growth of the MSME sector to work optimally.

Thus, the contribution of Islamic banks in the development of MSMEs is expected to run more optimally. One example is by increasing the accessibility of financing, namely providing easier requirements and conducting business training and mentoring. Islamic banks are expected to continue to grow in empowering MSMEs. MSMEs that have great potential in increasing gross domestic income are still constrained by capital and limited access.

Islamic banks are banks that operate in accordance with the principles of Islamic sharia, meaning that banks in their operations follow the provisions of Islamic sharia, especially those concerning the procedures for conducting business in Islamic teachings. In the life of muamalah, a Muslim cannot be separated from the muamalah contracts that they do in their daily lives. Islam has provided guidance on sharia contracts to regulate muamalah. The development of Islamic banks has a significant role in the growth of Islamic banks in Indonesia. With the lively development of Islamic banks, it is hoped that it can optimally help the development of MSMEs. The MSME sector makes a very important contribution to the Indonesian economy during times of crisis where MSMEs have the endurance to face the economic crisis that occurs.

In Indonesia, MSMEs are currently considered an effective way to alleviate poverty. MSMEs have been regulated by law number 20 of 2008 concerning micro, small and medium enterprises. MSMEs are the largest group of economic actors in the Indonesian economy and the largest sector contributing to national development. MSMEs themselves face various unresolved issues related to the business climate. The biggest problems of MSMEs are difficulties in accessing capital, traditional business management, inadequate quality of human resources, and low production scale and techniques (Maulida & Greece, 2015).

In Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking, it states that a Bank is a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of credit and or other forms in order to improve the lives of many people (Law Number 10 of 1998 Article 1). Based on this definition, the main activity of banks is to collect funds from the public in the form of deposits which become the source of bank funds, then the bank distributes them in the form of credit, with the aim of improving people's lives. However, understanding usury and its dangers must be a principle of life for every Muslim (Suretno, 2018). This is what makes the role of Islamic banks very much needed in financing MSMEs because they use sharia principles in every financing contract.

Islamic Bank's Efforts in MSME Development in Indonesia

Islamic banks must be able to act as social institutions in addition to being commercial institutions. Acting as a social institution that can maximally improve the economy of MSMEs through al-qardh and al-qardh al-hasan financing. These two financing models are based on a loan and borrowing contract that does not take profit (non-profit). Etymologically, qardh is a loan. Terminologically, qardh is (1) giving property to others that can be collected or

requested back; or (2) lending without expecting a return. The law of qardh is *mubah* (permissible) based on the principle of mutual help (Nurul Huda, et al, 2016; Prasada, 2020). While *al-qardh al-hasan* is a soft loan given on the basis of social obligation alone, where customers are not required to return anything, except capital. The provision of *al-qardh al-hasan* funds is based on the obligation to help weak communities in the form of capital to build or develop (Antonio, 2000).

General Provisions of *al-Qardh* based on the National Shari'ah Council Fatwa No. IX: 19/DSN-MUI/IV/2001 concerning *al-Qardh* is as follows:

1. *Al-qardh* is a loan given to customers (*muqtaridh*) in need.
2. The *al-qardh* customer is obliged to return the principal amount received at a mutually agreed time.
3. Administrative costs are charged to the customer.
4. Sharia Financial Institutions (LKS) can request collateral from customers if deemed necessary.
5. The *al-qardh* customer can provide additional (donations) voluntarily to the LKS as long as it is not agreed in the contract.
6. If the customer is unable to return part or all of his obligations at the agreed time and LKS has confirmed his inability, LKS can: a) extend the repayment period, or b) write off part or all of his obligations.

The source of *al-qardh* funds needed to help customer finance quickly and short-term, taken from bank capital, while the source of *al-qardh al-hasan* funds needed to help very small businesses and social purposes, the source of funds can come from *zakat*, *infaq*, and *sadaqah*. In addition, scholars and banking practitioners see another source for *al-qardh al-hasan*, namely from doubtful revenues such as interest on letter of credit guarantees in foreign banks and so on (Antonio, 2000). The distribution of productive *zakat* funds can be done through (1) the provision of working capital and assistance, (2) guarantees for small businesses that are in trouble, (3) the establishment of the production sector undertaken by weak communities, (4) and other productive efforts. While *al-qardh al-hasan* funds sourced from *infaq* and *sadaqah*, then the distribution is not specified recipients (Mursyid, 2006).

CONCLUSIONS AND RECOMMENDATIONS

MSME financing by Islamic banks to MSME actors plays a very important role. With this financing, Islamic banks can develop the community's economy and can also reduce poverty and absorb a lot of labor so that it automatically reduces unemployment. With a profit sharing system with a *Musyarakah* or *Mudharabah* contract based on partnerships so that it can bring benefits between the Islamic bank and the MSME actors. With the presence of Islamic banks in MSME financing provided, it is hoped that it will provide positive things in the economic growth of the community, business actors can develop their businesses and be able to finance their lives consistently, and of course it will create prosperity. Islamic banks must be able to act as social institutions in addition to commercial institutions. Acting as a social institution that can maximally improve the economy of MSMEs through *al-qardh* and *al-qardh al-hasan*

financing. Both of these financing models are based on non-profit lending contracts.

Currently, Islamic bank financing is still dominated by consumptive financing. Although consumptive financing can also be used for working capital financing, the amount is still very small. Meanwhile, if productive financing is intensified, it can encourage the improvement of the community's economy, so that people will be prosperous and at the same time can strengthen purchasing power which creates a healthier national economic circulation. The author hopes that Islamic banks should not only be an alternative transaction in financing but also a solution for the MSME sector.

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