

The Implementation of Islamic Banking in Developing Micro, Small and Medium Enterprises (UMKM) in Southeast Sulawesi

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ABSTRACT

This research is a quantitative study aiming to implement Islamic banking in the UMKM sector in Southeast Sulawesi. The data used are primary and secondary. Population and sample are the UMKM actors in Southeast Sulawesi and analyzed by using multiple linear regression. The results showed that Islamic banking activities apply sharia principles, including (1) Mudharabah, that is financing based on the principle of profit-sharing; (2) Musyarakah, that is financing based on equity participation; (3) Murabahah, that is the principle of buying and selling goods for a profit; (4) Ijarah, that is financing capital goods based on the principle of the pure lease without options; (5) Ijarahwa Iqtina, that is financing goods ownership which is leased from the bank by the customer. The results of the implementation analysis of Islamic banking to UMKM in Konda, South Konawe Regency. The analysis obtained that the more application of sharia banking to UMKM is enhanced, the more development of these UMKM.

Keywords: *financing, islamic banking, UMKM*

INTRODUCTION

Islamic banking implementation applies sharia principles in financing and business development, such as home industry businesses, culinary, food stalls, shops, advertising, salons, handicrafts, carpentry services, workshops, and various real businesses managed by each the businessmen and the labor. However, not all of UMKMs are in the scope of the sharia economy. So that Islamic banking is limited to UMKMs that meet economic principles and enable them to implement them in

business activities. Because sharia principles in Islamic banking operations are the whole financing distribution based on the real economic activities, such as buying and selling capital goods through the murabahah scheme, cooperating in business development through the mudharabah and musyarakah mechanism, renting of tools needed for business development (ijarah) and soft assistance (qardhul hasan).

According to Fauzan (2010), in Inzani (2015), economic activities that involve many professionals while ignoring religious values are often seen as the trigger for the destruction of various life orders in society. Travis (2007) in Inzani (2015) researched the relationship between religion and entrepreneurship in America, finding how religiosity can increase entrepreneur productivity. The same thing is also found by David (2007) in Inzani

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(2015), which explains that religiosity values influence a person's decision to become entrepreneurial. According to Inzani (2015), micro-entrepreneurs with high religiosity are generally more prosperous than micro-entrepreneurs with low religiosity.

UMKMs in Southeast Sulawesi is currently employment and source of income for UMKM actors. Since the 2013-2017, the absorption of working capital has continued to increase. UMKMs in 2013 was Rp 493 billion, with 114,852 labors, increased in 2014 to Rp. 764 billion with 119,357 labors, in 2015, became Rp 788 billion, with 143,983 labors, in 2016 as much as Rp. 3,467 billion with 177,410 labors, and in 2017 was Rp 3,818 billion with 195,150 labors (Hary, 2018).

Southeast Sulawesi consists of 17 districts/cities with the UMKM actors. The various business such as food stalls, kiosks, shops, salons, carpentry services, handicrafts, tailoring businesses, workshops, culinary, home industries, and other businesses that explicitly support government programs in providing employment and absorption of labor in the real sector. On the other hand, UMKM is also the center of innovative national creativity. One side is the inclusion of workers in the UMKM sector to be creative and innovative in processing UMKM resources into substitute products such as banana chips, seaweed, bread, various cakes, and other products and services. So it is not surprising that capital and resources quickly shake UMKM, including human resources.

The constraints faced by UMKMs in Southeast Sulawesi are the constraints of capital resources, trained labor, and the operational infrastructure of UMKMs. Besides that, there is no optimal coordination yet with related agencies internally and externally, resulting in a lack of guidance, supervision, and empowerment of UMKMs. These constraints occur because in carrying out business activities, each UMKM is dealing

directly with faith, the people benefit, khalifat, property, justice, brotherhood, ethics, leaders, responsibility, and cooperation, which are certainly not easily controlled by parties outside the UMKM without any planning, classification, direction, and supervision from other parties such as Islamic banking by promoting Islamic economic principles.

There is much Islamic banking in Southeast Sulawesi but still constrained by sharia financing, sharia profit sharing, education, quality of human resources, and religiosity. Islamic banking still applies the interest system to UMKMs. Sharia financing and profit-sharing should be exempted from interest, but this condition is still not optimal. On the other hand, education, human resources, and religious activities of UMKMs are not optimal yet because rules established businesses without keeping the sharia aspects.

According to Syed Nawab Haider Naqvi (2009: 28), in short, Islamic economics is a study of Muslim economic behavior in modern Muslim societies. According to Mohamed Aslam Mohamed Haneef Islam (2014: 90), in conventional economics, religion is not related to economics. Religion only serves to provide strength in overcoming daily problems, being hospitable towards others, and religion should be separated from economic activities as much as possible. In other words, religion does not regulate how an individual should carry out economic activities; religion is the matter with God. The dichotomy between religion and human life, sacred and profane, between religion and other aspects of human life results from the secularization process practiced by Christians/Westerners, especially since the 17th century (Isnaini, 2015: 13).

Islamic banks are banks that leave usury activities. Islamic banks are banks that operate without relying on interest (Muhammad, 2005: 13). Islamic banks or so-called interest-free banks are financial institutions that provide credit and services

under Islamic principles. M Syafi'i Antonio (2001: 40) said that the Islamic Bank has general functions including:

1. Responsible for depositing customer funds
2. Managing investment from the funds obtained
3. Providers of financial transactions
4. Manager of zakat, *infaq*, and *sadaqah*

Islamic banking principles are made with rules and agreements between service providers and users who enforce Islamic law in the process. Referring to www.syariahbank.com, the following are several principles implemented in Islamic banking:

1. Mudharabah that is financing based on the principle of profit-sharing;
2. Musyarakah that is financing based on equity participation;
3. Murabahah that is the principle of buying and selling goods for a profit;
4. Ijarah that is financing capital goods based on the principle of the pure lease without options; and
5. Ijarahwa Iqtina, which is financing goods ownership that is leased from the bank by our side

RESEARCH METHODS

This research was conducted in Konda, South Konawe, considering that the location faces UMKM problems.

Informants purposively selected in the study according to the needs. Researchers considering that the selected informants were able to provide accurate information to researchers. The subjects in this study were general doers. The informants were the leaders and ten members of the UMKM.

The type of data used is Qualitative data that is a descriptive research and tends to use an inductive approach. It means that we need to be very competent at seeing a case and using it as research data either in interviews, observation, or literature review. Quantitative research requires numbers, start from data collection, interpretation of the data, and the results. Likewise, it will be better to attach pictures,

tables, graphs, or other displays at the research conclusion.

Data Sources used: Primary data sources that are data that come from direct interviews with informants. In this study, data obtained through the Bajo community who worked as fishermen. Secondary data sources were obtained from reference books, journals, newspapers, articles, and various documents related to the adaptation strategy of the Bajo fishermen to their environment.

Data collection techniques used in this study are: Observation techniques that are used to extract data noted cases, places or locations, and objects. Observations can be made directly by recording the actual state of the research object systematically. Observation is a data collection technique that needs researchers to go into the field to observe. This documentation method is used to trace historical data so that many social facts are stored as documentation.

Miles and Huberman (1984) see that qualitative data analysis consists of three activities that coincide, namely data reduction, data presentation, and conclusion/verification. These three components interact and relate to each other to not be separated from data collection activities. Therefore, data analysis can be carried out before, during, and after the data collection.

RESEARCH RESULTS

The research conducted at Konda UMKM found that Islamic banking implements a banking system based on Islamic law. Usury is not allowed in Islamic law that is transactions with interest. Islamic law is also prohibited in investing in things that are contradicting religious teachings because they are haram. It is based on Hadith and Qur'an as a reference for doing good things.

Islamic banking principles are made with rules and agreements between service providers and service users who enforce Islamic law in the process. Implementation of Islamic banking principles, including

mudharabah, namely financing based on the principle of profit-sharing; musyarakah, namely financing based on equity participation; murabahah, namely the principle of buying and selling goods at a profit; Ijarah, namely the financing of capital goods based on the principle of the pure lease without an option; and Ijarahwa Iqtina, namely financing with ownership of goods leased from the bank by our side.

In carrying out the activities, Islamic Bank keeps the sharia principles for all its Islamic banking products. Islamic banking or Islamic financial institutions are livelier with the support of Islamic banking development, including the application of a "dual banking system" where conventional banks open sharia business units. The Islamic banking system is not limited to customers who have religious ties (Muslim community). Islamic banking services could be enjoyed by whoever, regardless of their religion, as long as they are willing to follow the sharia. Society needs financial institutions that are healthy, transparent, fair, and committed to helping the economy and customers' businesses improve.

Agreement Principles of Islamic Banking Business Management implemented through contract principles in sharia banking business activities or operations, namely:

- a. Fund-raising. Banks can collect funds through savings, giros, and deposits mechanism. Specifically for Islamic banking, savings and giros are divided into two types, namely: savings and giros based on a wadiah agreement, and savings and giros based on a mudharabah agreement. Meanwhile, the mudharabah agreement is only used specifically for deposits because deposits are intended for investment purposes.
- b. Lending. It can be done by the agreement of murabahah, mudharabah, musyarakah, or qard. As a funds provider, the banks will receive compensation as the profit margin for murabahah, profit sharing for

mudharabah and musyarakah, and administrative costs for qard.

- c. Bank services. Bank business activities in the service sector can take the form of providing bank guarantees (kafalah), letters of credit (L/C), Hiwalah, Wakalah, and buying and selling of foreign exchanges.

Based on the provisions of Article 3 of Bank Indonesia Regulation Number 9/19/PBI/2007 about Implementation of Islamic Principles in raising funds, distributing and servicing consists of:

- a. Fundraising is using Wadi'ah and Mudharabah agreement.
- b. Distributing in the form of financing use Mudharabah, Musyarakah, Murabahah, Salam, Istishna', Ijarah, Ijarah Muntahiya Bitamlik and Qard agreement.
- c. Servicing use Kafalah, Hawalah, and Sharf agreement.

DISCUSSION

UMKM has a business climate-adapted to laws, regulations, and policies. Including the following aspects: (a) Funding aspect, aims to expand funding sources and facilitate UMKM entrepreneurs to get information about funding access either from bank credit, financial institutions non-bank, or financial institutions. Providing convenience in obtaining funding quickly, precisely, cheaply, and non-discriminatory using conventional or sharia system with guarantees provided by the government under statutory regulations. (b) Facilities and Infrastructure aspects are intended to provide the public infrastructure that can encourage and develop the growth of UMKMs and provide specific infrastructure tariff relief for UMKMs. (c) Information aspect, this aspect is aimed to form and to simplify the use of banks and business information network data. Organizing and disseminating information on markets, financing sources, commodities, guarantees, designs and technology, and quality. It also guarantees

transparency and equal access for all UMKM actors to all business information. (d) The partnership aspect is intended to encourage relationships with mutual benefits in the business transactions between Micro, Small, Medium, and Large Enterprises. It is developing cooperation to improve the bargaining position of UMKMs. Moreover, it encourages a market structure that guarantees the growth of healthy business competition. It also protects consumers to prevent market control and termination by specific individuals or groups detrimental to UMKM. (e) Licensing is intended to facilitate the broadest possible requirements, licensing procedures, and a one-stop information service system. Moreover, exempt licensing fees for Micro Enterprises and provide licensing fees for Small Businesses. (f) The business opportunity aspect includes providing market locations, shop spaces, industrial center locations, appropriate locations for street vendors, and other locations. This aspect is also aimed to reserve fields and business activities that have specific processes, labor-intensive, and have a genetic, cultural heritage. Determine the business fields reserved for UMKMs and open business fields to Large Enterprises with the condition that they need to cooperate with UMKMs. It is prioritizing the use of products by UMKMs through direct procurement. Provide legal service and advocacy assistance. (g) Trade promotion aspect, this aspect is aimed to increase the promotion of UMKM products at domestic and abroad. Providing incentives for UMKMs that provide independent funding and facilitate rights owners on intellectual property over UMKM products and designs in domestic and export business activities. (h) Institutional support aspect aims to develop incubators function, business development service institutions, financial consultants, bank partners, and other similar professional institutions.

CONCLUSION

The implementation of Islamic banking principles through rules and agreements between service providers and users referring to some principles implemented in Islamic banking, including (1) mudharabah that is financing based on the principle of profit-sharing; (2) musyarakah, that is financing based on equity participation; (3) murabahah, that is the principle of buying and selling goods at a profit; (4) Ijarah, that is the financing of capital goods based on the principle of the pure lease with no options. (5) Ijarahwa Iqtina is financing which goods ownership leases from the bank.