

# The Financing Role of Sharia Banks Toward the Development of Micro, Small and Medium Enterprises (MSMEs) in Indonesia on Era Revolution Industry 4.0

Naning Fatmawatie  
*State Institute of Islamic Studies Kediri*  
 Kediri, Indonesia  
 naningfat@gmail.com

**Abstract** - The development of the sharia banking sector in Indonesia is growing rapidly. The presence of sharia banks has a positive impact on the growth of the real sector, especially MSMEs. This is because *mudharabah* and *musyarakah* pattern is a direct investment pattern in the real sector. The Industrial Revolution 4.0 is dominated by connectivity between humans, machines and other resources that are increasingly converging through information and communication technology. Therefore, the business sector must adapt to Industry 4.0 is no exception for MSMEs. This study aims to analyze the financing of sharia banks toward MSMEs in Indonesia, analyzing the development of MSMEs in Indonesia and analyzing MSME opportunities in Indonesia at the Industrial Revolution era 4.0. This study is a descriptive study with a qualitative approach. The results of this study show that: The financing of Islamic banks for MSMEs for both capital and consumption has increased over the years. This shows the government's attention in MSMEs is huge. This is because MSMEs are able to survive during the economic crisis. The development of MSMEs in Indonesia has continued to improve. Opportunities for MSMEs in Indonesia in the Era of Industrial Revolution 4.0 include: First, MSMEs can operate effectively and efficiently, and their products are quality. Second, For entrepreneurs in Indonesia has the potential to improve its business performance. To become a new entrepreneur is very easy. No need for big capital anymore, partnership patterns can be made.

**Keywords** - *Sharia Bank Financing, MSME and Industrial Revolution 4.0*

## I. INTRODUCTION

Sharia Banking has a role as agent of development in the state of affairs, as the main function of banking is as a intermediary agency, which is an institution that collects funds from the community in the form of savings and redistributes

it to the public in the form of credit or financing. According to its type, Islamic banks comprise *Sharia Public Bank (Bank Umum Syariah)* and *Sharia Financing Bank (Bank Pembiayaan Syariah)*[30,31]. In conducting its business activities, perational distribution of funds to Islamic banks based on the profit sharing principle (*mudharaba*), capital investment (*musyarakah*), sale of goods with profit (*murabahah*), pure rental without *ijarah* or with the option of transfer of ownership of the leased goods from the bank by another party (*ijarah muntahiya bitamlik*), *salam*, *istishna'* and other principles that are not against *sharia* [1]. When compared to the scope of its business activities that sharia banking products are more variable than conventional bank products [2]. This allows *sharia* bank products to provide greater opportunities for the public to meet the needs of depositors and debtors' customers according to their needs [3]. For channeling funds to the public, distribution of funds adjusted to the needs of the customers. In fact, the economic field in Indonesia is majority controlled by micro, small and medium enterprises (MSMEs)[ 4].

In general, the main problem faced by MSMEs sector is capitalization. MSME sector has difficulty getting capital from bank. One of the reasons is the high level of interest rates and the need to have collateral in obtaining difficult credit. The provision of credit facilities as the main activity of the banking institution has basically the same features since long ago. But in its current development still leads to variations and patterns that incorporate technological developments with its accompanying market segments and regulations. If viewed in terms of the object of distribution of Islamic bund funds MSMEs [5,6].

Industrial Revolution 4.0 is the fourth industry revolution and comes after the first industrial revolution with the discovery of a steam engine. The second industrial revolution related to electricity, the third computer revolution is all computerized. Industrial Revolution 4.0 marked the development of incredible technology and information. In this era often sounds the term

artificial intelligent, robotics, internet of things up to 3D printing machine. Because in principle, the industrial revolution 4.0 issues are not the size of the company, but rather the company's adaptation in accommodating or anticipating the change. In this case, MSMEs and cooperatives as one of the business actors will not want to be ready and anticipate this development. In the blue print of national development, MSMEs is an integral part of the business world, which is in the form of a people's economic activity that is domiciled, potentially and its role is very strategic in order to create a more balanced economic structure based on economic democracy [7,8].

In the national development blue print, MSMEs are an integral part of the business world, in the form of people's economic activities that are domiciled, potential and have a very strategic role to realize an increasingly balanced economic structure based on economic democracy. The presence of Islamic banks should have a positive good influence on the development of the desentralized sector, mainly MSMEs. The reason the *mudharabah* and *musyarakah* patterns are direct investment patterns in the real sector. And returns to the financial business (profit sharing). Thus, the existence of Islamic banks must be able to contribute to increasing the growth of the real sector. The function will be realized if the Islamic bank uses the profit and loss sharing agreement

Based on Sharia Banking Statistics 2014-2019 [10,11,12,13,17] can be inform that during 2014 to 2018, the total profit sharing financing channeled to Islamic banks in Indonesia to MSMEs tended to increase. This can be seen in 2014 of the total Islamic bank financing channeled to MSMEs by 39.09%, in 2015 financing at MSMEs decreased by 0.7% from 2014. Furthermore, in 2016 financing at MSMEs fell again by 3.13% from 2015. But in 2017, Islamic bank financing at MSMEs in Indonesia rose to 41.94%. Based on the latest data in 2018 the distribution of funding to MSMEs in Indonesia fell again by 2.88%. Fluctuations in the development of Islamic banking profit sharing financing at MSMEs do not affect the development of the number of MSMEs. Evidently the number of MSMEs in 2017/2018 experienced an increase of 3.1% compared to 2013/2014. In addition, the contribution of the micro, small and medium business sector to gross domestic product (GDP) increased from 57.84 percent to 60.34 percent in the last five years. The impact of labor absorption in this sector also increased, from 96.99 percent to 97.22 percent in the same period. Even so, indicators of contributions to the formation of gross domestic product (GDP) and labor absorption have increased, access to the micro, small and medium enterprises (MSME) sector to the global production supply chain is very minimal [24]. The contribution

(*mudharabah* and *musharakah*) as its core products. Based on the basic principles of these products, Islamic banks actually have a core product for profit sharing financing that is developed in *mudharabah* and *musyarakah* financing products [6,9].

The development of the sharia banking sector which is growing rapidly in Indonesia is expected to help the development of SMEs optimally. Micro, small and medium enterprises in the economy currently have a very important position, due to their contribution in employment and Gross Domestic Product (GDP), as well as their flexibility and resilience in the face of prolonged economic analysis. This makes MSME the main hope or the backbone of the improvement of the national economy. UMKM is also a strategic economic actor considering the number which reaches 99.95% of the total number of businesses in Indonesia [15].

But the growth of MSMEs is still constrained by by the problem of lack of capital so that it need a lot of funding. Not a few financing program, both from conventional banks, microfinance, and Islamic banks are no exception to MSMEs. But of all the credit offer schemes, only about 60% can meet the needs of MSMEs. Because they have not been able to take advantage of the offer properly. One of the reasons for MSME difficulties in obtaining credit / financing is the necessity for collateral or collateral to be owned.

of MSMEs in Indonesia to the global supply chain is only 0.8 percent.

Researchers are interested in researching this object, because the contribution of Islamic banking financing in MSMEs in Indonesia for working capital tends to decrease, but the contribution of syariah bank financing to MSMEs in Indonesia for investment tends to increase during 2014-2018. Whereas the development of syariah bank financing in MSME in Indonesia tends to increase. This study aims to analyze the financing of *sharia* banks toward MSMEs in Indonesia, analyzing the development of MSMEs in Indonesia and analyzing MSMEs opportunities in Indonesia at the Industrial Revolution era 4.0.

## II. METHOD

This type of research to use descriptive research methods with a qualitative approach. The information determination technique used is a purposive technique. Data collection techniques used in this study were observation, interview and documentation. The data analysis techniques used in writing this report are data reduction, data presentation, and drawing conclusions.

### III. RESULTS AND DISCUSSION

#### A. *Financing of Sharia Bank in MSMEs in Indonesia*

Total Islamic bank financing from 2014 to 2018 is likely to increase. For the financing of Islamic banks toward MSMEs for working capital, from 2014 to 2018 it is likely to be fluctuating. But NPF is always down every year. This shows that prudential principles in the financing of sharia banks in MSMEs for working capital are very tight. So the implications of MSMEs are many who refuse to apply for financing for working capital in sharia banks. Moreover, with the influence of the Industrial Revolution 4.0, SMEs operate partnership patterns with producers [8]. The Partnership Pattern is important for two reasons, first in today's increasingly globalized world there is no entity that can be alone to survive and develop. The second reason, this Era is characterized by the development of incredible information technology that affects various aspects of community life including consumer tastes [8]. The financing of *Sharia* bank for consumer-users MSMEs during 2014 up to 2018 is likely to experience significant increases [16]. But NPF values tend to increase. This suggests that financing for consumption has the potential to reap a lot of problems, even experiencing bottlenecks. Moreover, with the existence of an online marketing system in the era of the industrial revolution 4.0, people have been very tempted to always buy consumptive goods.

#### B. *Development of MSMEs in Indonesia*

Based on data compiled from the Ministry of Cooperatives and SMEs are as follows: In 2014-2016 the number of MSMEs is over 57.9 million units and in 2017 the number of MSMEs is estimated to grow to more than 59,000,000 units [18]. Furthermore, based on data from the National Development Planning Agency, Central Bureau of Statistics, and the United Nation Population Fund, predicts number of micro, small and medium enterprises (SMEs) in Indonesia in 2018 as much as 58.97 million people. While the population of Indonesia in 2018 is predicted to reach 265 million people. And there are 58.91 million units of micro enterprises, 59.260 units of small businesses and 4,987 units of enterprises.

Based on data from the Central Statistics Agency in 2018, 3.79 million [19]. MSMEs have utilized digital technology or e-commerce business. Most MSMEs players use the main market platforms in the country, such as Blibli, Tokopedia, Lazada and Bukalapak. This is to further encourage the utilization and optimization of digital technology utilization for cooperative business and MSMEs through various policies and programs in developing cooperatives and MSMEs towards digital economy [20].

MSME has become the backbone of the Indonesian and ASEAN economies. Approximately 88.8-99.9% of business forms in ASEAN are MSMEs with labor absorption reaching 51.7-97.2%. MSMEs has a proportion of 99.99% of total business actors in Indonesia or 56.54 million units. For that, the cooperation for the development and resilience of MSMEs should take precedence. The potential development of MSMEs in Indonesia is inseparable from banking support in capital [21,22].

#### C. *Opportunities for MSMEs in Indonesia in the Industrial Revolutionary Age 4.0*

MSMEs has a great opportunity to enter the era of industrial revolution 4.0. Mastery of application-based technology at the era of the industrial revolution 4.0 has become important in order for the business to grow [20]. With the digitization of MSMEs players can operate effectively and efficiently, and their products are quality. In addition the products are able to compete. Digitalization should further strengthen its industry sector. Indonesia needs a lot of MSMEs in various industries. Only in general, SMEs are still struggling in the food and beverage industry, fashion, handicraft, automotive, electronics and so on. For that reason, the government seeks to build synergies between digital infrastructure and small industries through online trading. This synergy is making more opportunities for SMEs players to expand their business.

The 4.0 Industrial Revolution also opened up opportunities for entrepreneurs in Indonesia to improve its business performance. To become a new entrepreneur is very easy. No need for capital. For example, to become a hotel entrepreneur, there is no need to build a hotel room. To become a taxi driver does not need to have a lot of cars. Simply having the application, we can already be hotel and taxis. In fact, for those cooking hobbies, they can sell their cooking results online. The Indonesian Institute of Sciences has a very strategic role in facilitating the running of the industrial revolution, particularly in promoting the development of small and medium enterprises (SMEs) based on the local creative and local markets [23]. Indonesia has the character and wealth of its own resources, this is the capital that can be the basis of determining Indonesia's position in the future world. Indonesia has a demographic bonus and with an internet user profile of 54.68 percent, which is 143 million out of a total of 243 million people. To invite the industry's 4.0 industrial revolution, MSMEs needs to strengthen institutionalization. Institutional and institutional strengthening should be undertaken, in terms of the clarity of the legal status of the institution and the legality of the productive activities undertaken. Legality is also a tool in developing an interest relationship with various

parties, especially in developing their business. In addition, it is also necessary to strengthen the capacity and management capabilities. Capacity and management capabilities become the key to growing a business. Development of business vision is very possible when MSMEs present a solid management that has the ability to manage internal and external factors that affect its existence. Modernization of process and involvement of science and technology is also important. For that era the digital economy emphasizes the need for synergy between process modernization and science and technology engagement to create enrichment of development ideas and efficiency that leads to increased competitiveness. Expanding the network must be done to build mutually reinforcing synergies. For that, networking is an effective tool for strengthening the existence of a business [35]. Through networking it is possible to build partnerships based on sharing economy. In line with that, assembling in a forum or organization is a partnership embryo [8]. Through the organization, the business actors will automatically connect with each other which impact on the development of intensive communication, sharing information, developing a variety of ideas and initiating collaborative collaborative initiatives such as market expansion, joint buying raw materials, distribution, joint capital, development Human resources, up date technology and more. Implementation of the partnership pattern needs to be developed so that MSMEs players are embraced until class [33,34].

#### IV. CONCLUSION

Sharia bank financing for MSMEs for both capital and consumption has increased over the years. This shows the government's attention in MSMEs is huge. This is because MSMEs are able to survive during the economic crisis. The reason is that MSMEs generally produce consumer goods services that are always needed by the community by utilizing local resources.

The growth of MSMEs in Indonesia continues to improve. In 2018, number of SMEs in Indonesia has reached 58.97 million people. While the population of Indonesia in 2018 is predicted to reach 265 million people. And there are 58.91 million units of micro enterprises, 59.260 units of businesses and 4.987 units of large enterprises. In 2018 recorded 3.79 million MSMEs have been using digital technology or e-commerce business. MSMEs has become a mainstay supporting economic activities of the Indonesian and ASEAN economies. Approximately 88.8-99.9% of business forms in ASEAN are MSMEs with labor absorption reaching 51.7-97.2%. MSMEs has a

proportion of 99.99% of total business actors in Indonesia or 56.54 million units.

Opportunities for MSMEs in Indonesia in the Era of Industrial Revolution 4.0 include: First, MSMEs can operate effectively and efficiently, and their products are quality. In addition, the product is named with a competitive price. Opens opportunities for SMEs to expand their business. Second, For entrepreneurs in Indonesia to improve their business performance. To become a new entrepreneur is very easy. No need for capital. Partnerships can be made. To pick up an industry-revolutionary opportunity 4.0, MSMEs need to strengthen institutionalized, strengthening capacity and management capabilities, developing business visions, modernizing processes and involving science and technology and extending networks.

#### REFERENCES

- [1] Undang-Undang Nomor 10 Tahun 1998 tentang Perubahan atas Undang-Undang Nomor 7 Tahun 1992 tentang Perbankan.
- [2] Undang-Undang Nomor 21 Tahun 2008 tentang Perbankan Syariah.
- [3] Sugema, Faith. (2007). "Islamic Banking The Fact and Challenges", paper presented at the 13th FE UI Islamic Studies Forum in Jakarta.
- [4] Nizarul, Alim. (2009). *Sharia Financing for Micro and Small Businesses: Case Studies and Solutions*, Cet. 1, Surabaya: PT. Fostering Science.
- [5] Zamroni. (2013). Peran Bank Syariah dalam Distribusi Dana Bagi Hasil Untuk Usaha Mikro, Kecil dan Menengah. *Iqtishadia*, 6 (2), 225-240.
- [6] Hariyati, N. (2010). *The Role of Islamic Banking in Optimizing MSMEs in the City of Yogyakarta*.
- [7] Bintang, Ilham. (2019). *UMKM Menjadi Tantangan Bagi Indonesia dalam Revolusi Industri 4.0* di <http://www.tribunnews.com>, di unduh pada 13 Maret 2019.
- [8] Nuryanto, Ruly. (2018), *Mewujudkan Sinergi Kemitraan UMKM Menuju Usaha Kecil Yang Tangguh di Era Revolusi Industri 4.0*, Makalah yang dipresentasikan Pada Workshop dan bisnis Temu UMKM.
- [9] Ramadhan, D., & Ritonga, H.D.H. (2012). The Role of Islamic Banking in the Development of Baitul Maal Wa Tamwil (BMT) in Medan City. *Journal of Economics and Finance*, 1 (1), 1-13.
- [10] Bank Indonesia. (2019). *Laporan Perkembangan Bank Syariah 2018*, Jakarta: Direktorat Perbankan Syariah.
- [11] Bank Indonesia. (2018). *Laporan Perkembangan Bank Syariah 2017*, Jakarta: Direktorat Perbankan Syariah.
- [12] Bank Indonesia. (2017). *Laporan Perkembangan Bank Syariah 2016*, Jakarta: Direktorat Perbankan Syariah.
- [13] Bank Indonesia. (2016). *Laporan Perkembangan Bank Syariah 2015*, Jakarta: Direktorat Perbankan Syariah.

- [14] Bank Indonesia. (2015). *Laporan Perkembangan Bank Syariah 2014*, Jakarta: Direktorat Perbankan Syariah.
- [15] <http://www.pesantrenvirtual.com/Sharia> Banks and Real Sector Development
- [16] Kara, M. (2013). Kontribusi Pembiayaan Perbankan Syariah Untuk Pengembangan Usaha Mikro, Kecil dan Menengah (UMKM) di Kota Makasar, *Ash-Shir'ah*, 471 (1), 269-303.
- [17] Bank Indonesia. (2015). Jumlah Akun Pembiayaan UMKM Syariah.
- [18] Kemenperin.go.id.  
[www.kemenperin.go.id/artikel/14200/Contribution-UMKM-Bangkit](http://www.kemenperin.go.id/artikel/14200/Contribution-UMKM-Bangkit)
- [19] Bank Indonesia. (2015). Profil Usaha Mikro, Kecil dan Menengah
- [20] [http://www.Liputan6.com/Revolusi Industri 4.0 Peluang Hebat Untuk UMKM](http://www.Liputan6.com/Revolusi%20Industri%204.0%20Peluang%20Hebat%20Untuk%20UMKM)
- [21] Irmawati,S (2013). Model Inklusi Keuangan dalam UMKM Berbasis Pedesaan. *Jalur Jurnal Ekonomi dan Bisnis*. 6 (2), 103-104
- [22] Kusudyarsana. (2010). Adopsi Inovasi Usaha Kecil dan Menengah (UMKM) di Surakarta dari Sistem Perbankan Syariah. *Jurnal Ekonomi Pembangunan*, 11 (1), 93-106.
- [23] Musa, Hubies. (2009). *Prospek Untuk Usaha Kecil dalam Kontainer Inkubator Bisnis*, Cet 1, Bogor: Galia Indonesia.
- [24] Furqani, H & Mulyani R. (2009). Perbankan Islam dan Pertumbuhan Ekonomi: Bukti Empiris dari Malaysia. *Jurnal Korporasi dan Pengembangan Ekonomi*, 30 (2), 59-74
- [25] Susilo, Y.S., Triandaru, S., & Santoso, A.T.B (2000). *Banks and Other Financial Institutions*. Jakarta: Salemba Empat.
- [26] Thierry, B., Jun, Z., Eric, D.D., Yannick. G. Z. S., & Landry, K.Y.S. (2016). *Causality relationship between bank credit and economic growth evidence from a time series analysis in a vector error correction model in Cameroon, Social and Behavioral Science*, 235, 664-671.
- [27] Undang-Undang No. 20 Tahun 2008 tentang Usaha Mikro, Kecil dan Menengah
- [28] Abduh, M. & Omar, M.A. (2012) Islamic banking and economic growth: the Indonesian experience. *International Journal of Islamic and Middle Eastern Finance and Management*, 5 (1), 35-47.
- [29] Abduh, M & Chowdhury, N.T. (2012) Does Islamic banking matter for economic growth in Bangladesh? *International Journal of Islamic and Middle Eastern Finance and Management*, 8 (3), 104-113.
- [30] Algaoud, M.L. & Lewis, M.K. (2001). The Role of Islamic Banking: Principles, Practices, and Prospects. Jakarta: PT. Porch of the Universe.
- [31] Arifin, Zainul. (2002). *Fundamentals of Bank Syariah Management*, Jakarta: Alvabeth.
- [32] Undang-Undang Nomor 9 Tahun 1995 tentang Uaaha Kecil dan Menengah
- [33] Arto, Ari dan Budi Susetyo Hutomo. (2013). Enam Pilar Insektisida “Kebijakan Pengembangan Dan Penguatan Umum Berbasis Kerjasama Kemitraan Dengan Pola CSR Sebagai Strategi Peningkatan Peran Pemerintah Dan Perusahaan Untuk Menjaga Eksistensi UMKM Dalam MEA 2015. *Economics Development Analysis Journal*, 2(2), 97-109.
- [34] Wajdi, M.B. Nizaruddin, Yuli Choirul Ummah dan Devit Etika Sari (2017). UKM Development Business Loan. *International Journal Of Entrepreneurship And Business Development*, 1(1), 2017
- [35] Lantu, D. Crestofel, dkk (2016). Pengembangan Model Peningkatan Daya Saing UMKM di Indonesia: Validasi Kuantitatif Model. *Jurnal Manajemen Teknologi*, 15(1), 77-93