

The Analysis On the Development of Islamic Banks on the Growth UMKM through Monetary Policy in Indonesia

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ABSTRACT: *The banking industry continues to experience improvement, but many UMKM are still untouched, even though the government has been promoting UMKM and many have provided stimuli in the form of low interest, but why is this still a dilemma for UMKM. This research is a study that discusses the relationship between the development of Islamic Banks / Syariah financing on UMKM through Bank Indonesia's policy, is the BI interest rate. And in this study it can be concluded that the direct increase in Islamic Banks has a negative relationship with Bank Indonesia policies, in this case, the policy of determining interest and directly Islamic banks is positively related to the development of UMKM. And indirectly the BI rate is not very related to UMKM. Overall, the development of UMKM is not related to the BI rate because UMKM only need financing for capital in order to increase their business. The study used secondary data from 2008 to August 2019 which was obtained from data from BPS, OJK and Bank Indonesia and processed using the Path Application.*

KEYWORDS : *Revenue, Islamic Banks , BI interest rate, umkm*

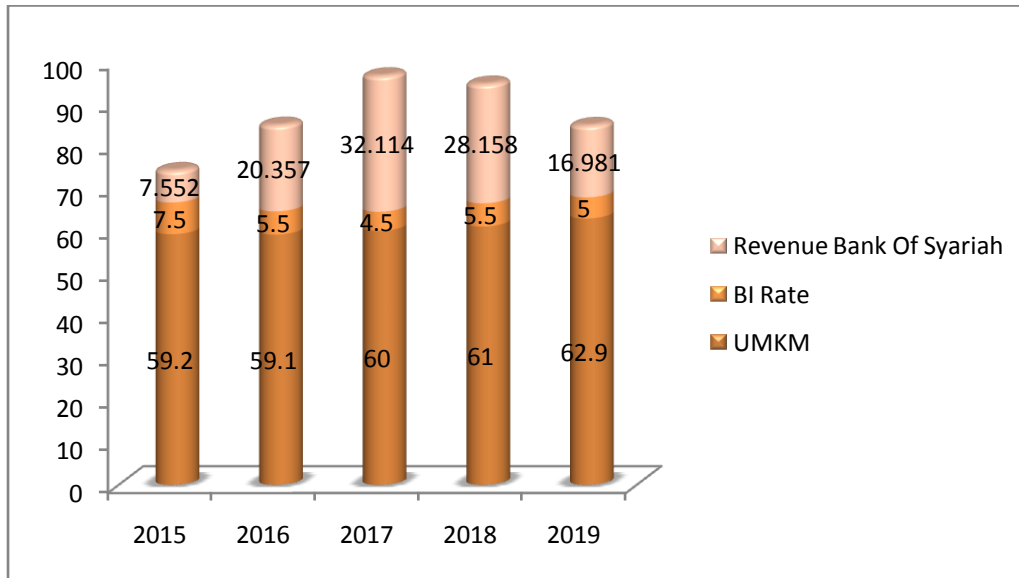
I. INTRODUCTION

The national Islamic banks industry continues to grow with varying growth rates according to economic conditions and various factors that have influenced its development since more than two decades, to be precise since 1992. Banking authorities, both when assumed by Bank Indonesia and after becoming the duties and authorities of the Financial Services Authority (OJK) , consistently makes various efforts to encourage the development of the national Islamic banks industry so that it can grow healthily, sustainably and make more and more positive contributions in supporting quality economic development. The potential benefits from the development of the Islamic banks industry for the benefit of the national economy have been proven and felt from the history of Islamic banks in Indonesia and other countries. The development of the sharia banking industry that is faster and bigger at least has made a positive contribution in supporting financial inclusion, especially for people who want financial services that meet sharia principles at various levels of business. Starting from corporate businesses to grassroots communities who have not been reached by formal financial services. OJK is preparing a new strategic plan for the development of the national Islamic banks industry. This strategic plan is called the 2015-2019 Indonesian Sharia Banking Roadmap. The names and ranges of the planning period are adjusted to the roadmap for other financial services sectors in the OJK. This roadmap is expected to provide guidance on the direction to be achieved, including planned initiatives to achieve the established development targets and to realize the development goals of the national Islamic banks industry.

In the 2010-2015 period, the profit of islamic banks and syariah units in the last five years also grew 73 percent to IDR 1.8 trillion. However, the slowdown in the domestic economy and the weakening of the rupiah exchange rate meant that the profit of Islamic banks in 2015 grew only slightly by three percent from the previous year. The Islamic Finance Development Report 2018 from Thomson Reuters shows Indonesia is

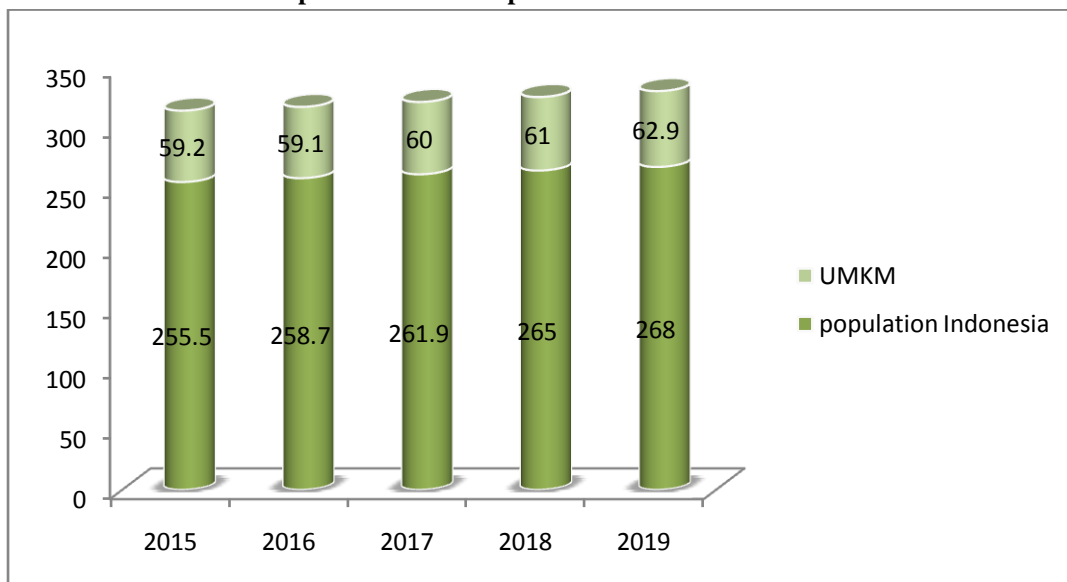
included in the list of ten countries with the fastest growing Islamic financial market in the world. Indonesia is ranked 10th out of 131 countries in the 2018 Islamic Finance Development Index with a score of 50

Figure 1.1
Revenue Of UMKM and Bank Of Syariah



The performance of syariah subsidiaries and syariah business units (UUS) of state-owned banks continues to increase (Kontan.co.id). Take, for example, a subsidiary of PT Bank Negara Indonesia Tbk (BNI) through BNI syariah which by the end of 2018 managed to earn a profit of IDR 416 billion, obtained from digital transactions, hasanah cards (financing cards), cash management and remittance businesses.

Figure 1.2
Comparison of total Population and Number of UMKM



From various data obtained, such as data from the National Development Planning Agency (BadanPerencanaan Pembangunan Nasional), the Central Statistics Agency (BadanPusatStatistik), and the United Nation Population Fund, it is predicted that the number of micro, small and medium enterprises (UMKM) in Indonesia in 2018 will be 58.97 million people. Meanwhile, the population of Indonesia in 2018 is predicted to reach 265 million people, meaning that nearly 25% of Indonesia's population develops UMKM businesses.

The Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM) stated that as many as 3.79 million micro, small and medium enterprises (UMKM) have used online platforms to market their products. This number is around 8 percent of the total UMKM players in Indonesia, namely 59.2 million. 8 Million UMKM Go Online. Through this collaboration, the government also hopes to accelerate the transformation of UMKM in Indonesia to digital. Kemenkop said, in addition to empowering UMKM, this movement will help provide financial access to entrepreneurs. The Ministry of Cooperatives will help and ensure that the products produced by UMKM are competitive and have sufficient capacity so that they get the trust of funding sources. I WayanDipta stated that "In order to enter this online business, we are slowly improving our UMKM by improving product quality and standardizing their products. The Ministry of Cooperatives will also help increase human resources and access to sources of financing, because one of the reasons why UMKM have yet to progress is due to lack of capital.

It is undeniable that startup capital often becomes an obstacle for people to start and develop a business. Apart from the fact that access to startup capital was difficult for the community, fear of borrowing and debt was a common reason that prevented banks from starting to aggressively distribute loans to UMKM. The UMKM business is no longer seen as a second-class business. Evidently, lending to the UMKM sector has gradually grown. In general, the growth was higher than total bank credit

II. RESEARCH QUESTION

Based on the figure from the above and economic problemsaboutsyariah bank related to increase of UMKM the writer wants to make questions related to the research

2.1. Does the increase of UMKM affect to the growth of Islamic banking directly or through Monetary policies in Indonesia?

I want to analyze the influence of the development of umkm on the growth of Islamic banking, either directly or through government monetary policies

2.2 Does the increase of technology affect the growth of Islamic banking directly or through monetary policy?

Based on the question I want to analyze technological developments on the growth of Islamic banking, either directly or through monetary policies established by the government

III. DEFENITION OF VARIABLES

3.1 Definition of UMKM

According to Rudjito, the definition of MSMEs is a business that has an important role in the economy of the Indonesian state, both in terms of the jobs created and in terms of the number of businesses.

According to Ina Primiana, the definition of UMKM is the development of four main economic activities which are the driving forces for Indonesia's development; Manufacturing industry, Agribusiness, Marine business, Human resources. In addition, Ina Primiana also said that UMKM can be interpreted as the development of a mainstay area to accelerate economic recovery to accommodate priority programs and development of various sectors and potentials. Meanwhile, small businesses are an increase in various community empowerment efforts

3.2 Revenue

According to Winardi ,revenue is all money or other material results received by a person or household during a certain period of time in an economic activity.

According to Niswonger, revenue is the amount requested from customers for goods or services provided to him. According to Russell Swanburg, revenue is the income from selling products and services. According to Keynes, revenue is the primary determinant of how much people choose to consume

3.3 Islamic Banks

According to SiamatDahlam, a syariah bank is a bank that runs a banking business based on or observing the principles of syariah which are contained in the Al-Qur'an and Hadith.

According to Scahik, the definition of Islamic banking is a form of modern bank based on Islamic religious laws, which was developed in the middle ages of Islam by using the concept of profit sharing and risk sharing as the main system and abolishing a financial system based on the assumption of certainty of profits that have been predetermined.

According to Sudarsono, Islamic bank is one of the state financial institutions that provides credit and other banking services in the payment traffic and circulation of money which operates on the basis of Islamic religious principles or Islamic principles.

3.4 Bank Indonesia Rates

The Bank Indonesia benchmark interest rate or BI Rate is a policy interest rate that reflects the monetary policy stance or stance set by Bank Indonesia and announced to the public. The BI Rate is implemented in monetary operations carried out by BI through liquidity management on the money market to achieve the operational targets of monetary policy. Taking into account other factors in the economy, BI will generally raise the BI Rate if future inflation is expected to exceed the predetermined target. On the other hand, BI will lower the BI Rate if future inflation is predicted to fall below the predetermined target

IV. RESEARCH FRAMEWORK

4.1 Previous Research

1. Islamic banking has a close relationship with financial services to the micro and small business segments. The implication of this relationship is that Islamic banking must have products that meet the needs of micro and small entrepreneurs, which in fact are low income people. Furthermore, some experts in Islamic finance believe that Islamic banks are a solution for low-income people who are unable to obtain credit or financing facilities from conventional banks because they cannot meet requirements such as the availability of collateral (unbankable) Arafah&Nugroho (2016)

2. Islamic banks has implemented all the systems stipulated in accordance with Law no. 21 of 2008 (UUD No.21 Tahun 2008) concerning Islamic banking, is providing financing based on a contract that does not contradict syariah principles, is profit sharing that does not harm the customer so that they can run their business. Bank Indonesia (BI) noted that the distribution of sharia financing to the micro, small and medium enterprises (UMKM) sector reached 70% of total financing, or IDR 58 trillion by the end of September 2012. This proves that Islamic banks have an important role in empowering UMKM (Amah, 2013)

3. Bank Indonesia as the taker of monetary policy which functions to control the money in circulation and control the inflation rate (by controlling the bank rate). An increase in interest rates at commercial banks will have an impact on the performance of Islamic banks. An increase in interest rates will be followed by an increase in deposit and loan interest rates at conventional banks. As a result of this increase, customers will tend to decide to save at conventional banks. The increase in interest rates is a big problem for Islamic banking. Increase in credit interest rates at conventional banks will move customers to borrow from Islamic banks (Bank Indonesia)

4.2 Research Hypothesis

Hypothesis is a temporary answer to the problem that is the object of research, where the level of truth still needs to be tested empirically. This hypothesis is used as a temporary answer to research on the development of Islamic bank financing on the growth of UMKM through interest / profit sharing policies. From the formulation of the problem above, the authors provide the following hypothesis

1. Revenue has a direct positive effect on interest rates
2. Amount of Islamic Banks has a direct negative effect on interest rates
3. Revenue has an indirect positive effect on umkm
4. The amount of Islamic Banks has an indirect negative effect on umkm
5. Interest rates on umkm have a negative effect

4.3 Conceptual Framework

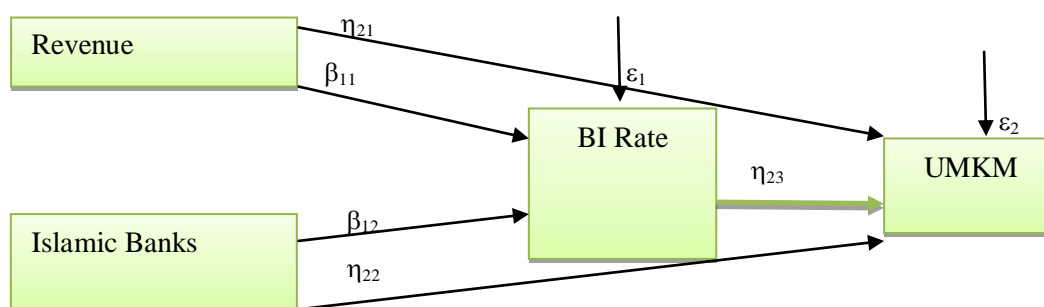


Figure 2.1 Conceptual Framework

V. RESEARCH METHODS

Research is defined by many authors as a systematic process. defines scientific research as a systematic, controlled, empirical and critical investigation of social phenomena that is guided by theories and hypotheses about conjecture relating to social phenomena guided by theories and hypotheses about conjectures related to these phenomena. The purpose of this study is to obtain evidence regarding the effect of increasing UMKM through Islamic financing.

This study uses a quantitative approach, where the approach has been predetermined using secondary data and numerical data. Linking variables in problems and hypotheses. Quantitative data, namely data in the form of numbers or extruded qualitative data (Sugiyono, 2014). Secondary data with the type of time series (time series) in the period 2003 - 2018. The data collection method in this study is the collection of secondary data obtained from Bank Indonesia, BPS (Central Bureau of Statistics) and library techniques, such as collecting data from books, journals , and research results as well as reading sources or written material relevant to this thesis Based on the research theories and hypotheses, the variables used in this study are as follows.

1. The dependent or dependent variable

Is a variable that is influenced or becomes a consequence due to the existence of independent variables (Sugiyono, 2014) Competition which is implemented as inflation

2. Independent or independent variables

Is a variable that affects or causes changes or the emergence of the dependent variable (Sugiyono, 2014). In this study, the independent variables are the number of subscribers and the number of BTS / networks

5.1 Data Analysis Techniques (Path Analysis)

Path analysis is an analysis used to study relationships in the form of systems. The word relationship refers to the correlation value. Path analysis explains the direct and indirect relationship between variables, both

independent and dependent variables. Thus, the multicollinear requirements do not apply in path analysis, because it is precisely multicollinearity that will be discussed in Path to show an indirect relationship. This direct relationship and indirect relationship will be added together to determine the total relationship between the independent variable and the dependent variable. Path analysis is confirmatory, not explanatory. So, the variables used in the path must be based on theory or at least previous research. Unlike the case with regression that assumes *ceteris paribus*, it can be used for explanatory purposes, whose results are confirmed by this path analysis. If you just want to confirm the theory that there is an X and Y relationship and don't use an equation formula to predict the value of Y, then the path can be considered. The basic assumption used in Path is a linear model and all variables are measured in the minimum interval scale. So between X and Z there are two relationships, is a direct relationship that leads to Z, and an indirect relationship through V and through Y. These V and Y variables are called the mediator variables. This variable can strengthen the relationship between X and Y and vice versa, which is weak. Later it can be seen from the negative or positive sign of the correlation value. To test the hypotheses in this study, the path equation will be used as follows

$$\begin{aligned} Y_1 &= \alpha + \beta_{11} X_1 + \beta_{12} X_2 + \varepsilon_1 \\ Y_2 &= \alpha + \eta_{21} X_1 + \eta_{22} X_2 + \eta_{23} Y_1 + \varepsilon_2 \\ Y_1 &= \text{Monetary Policy/BI Rate} \\ Y_2 &= \text{UMKM} \\ X_1 &= \text{Revenue} \\ X_2 &= \text{Islamic Banks} \\ \alpha &= \text{constant} \\ \beta_1, \beta_2, &= \text{Coeffisient} \\ \eta_1, \eta_2 &= \text{Coeffisient} \\ \varepsilon_1, \varepsilon_2, &= \text{Error} \end{aligned}$$

The value of the regression coefficient is very decisive as the basis for analysis. This means that if the coefficient β is negative (+), it can be said that there is a unidirectional influence between the independent variable and the dependent variable. Meanwhile, if the value coefficient β is negative (-) this indicates a negative effect where an increase in the value of the independent variable will result in a decrease in the value of the dependent variable.

According to Ghozali (2014), the accuracy of the sample regression function in estimating the actual value can be measured by its goodness of fit. Statistically measured by the value of the coefficient of determination (R^2), the statistical value of F (model feasibility test) and the t statistical value (significant test for individual parameters).

VI. FINDINGS

6.1 Direct Effect

$$\begin{aligned} Y_1 &= \alpha + \beta_{11} X_1 + \beta_{12} X_2 + \varepsilon_1 \\ Y_1 &= \alpha + 0.154 X_1 - 0.697 X_2 + \varepsilon_1 \\ Y_2 &= \alpha + \eta_{21} X_1 + \eta_{22} X_2 + \eta_{23} Y_1 + \varepsilon_2 \\ Y_2 &= \alpha - 0.81 X_1 + 0.872 X_2 - 0.44 Y_1 + \varepsilon_2 \end{aligned}$$

a. X1 related to Y1 (Revenue is positively related to monetary policy (BI rate) and is not significant

This means that if the BI rate increases by 1%, Islamic banks revenue will increase by 1.54 billion rupiahs but it is not significant or has no impact. Due to the increase in interest rates, in this case the profit sharing will cause the interest income / profit sharing to increase.

b. X2 is negatively related to Y1 (Amount of Islamic banks is negatively related to BI policy (BI Rate) and Significant

This means that if the BI rate rises 0.697%, the amount of Islamic banks will decrease by 1 unit. An increase in interest rates effect to increase of inflation, causes an increase in raw material prices and other operational costs, this will have an impact on the profit or profit of the umkm operating which is still of a small type. If the umkm earns a small profit, how can he develop his business while to develop his business he needs a lot of capital and financing is what the umkm expect. And umkm will discourage its intention to borrow, because no one borrows, eventually banking / financing will reduce its assets, one of which is the office

c. X1 has a negative relationship with Y2 (revenue has a negative related to UMKM) but not significant

If UMKM increase, the income of Islamic banks will decrease. This means that Islamic banks have carried out their obligations in helping the progress of UMKM by channeling loans to UMKM

d. X2 has a positive relationship with Y2 (the amount of Islamic banks has a positive relationship with UMKM) and is significant

This means that if the amount of Islamic banks increases by 1, the umkm will grow by 872. This means that financing plays a very important role in the progress of the umkm as a provider of capital to umkm who want to expand their business to increase their business branches

e. Y1 has a negative relationship with Y2 (BI interest rates have a negative effect on umkm) and is not significant

This means that if BI as the maker of monetary policy raises its benchmark interest rate by 1%, the number of umkm will be reduced by 44 thousand

6.2 Indirect Effect

a. $X_1 \longrightarrow Y_1 \longrightarrow Y_2 = \beta_{11}X_1 \times \eta_{23}Y_1 = 0.158 \times -0.44 = -0.069$ (because it is greater than sig 0.05) which means it has no effect Indirectly, the relationship between the amount of Islamic banks revenue to the umkm has no effect through the BI interest rate

b. $X_2 \longrightarrow Y_1 \longrightarrow Y_2 = \beta_{12}X_2 \times \eta_{23}Y_1 = -0.697 \times -0.44 = 0.306$ (greater than sig 0.05) means it has no effect Indirectly, the relationship between the amount of sharia financing to the umkm through BI policies, namely the reference interest rate has no effect

6.3 Total Efek

= $-0.069 + 0.306$
= 0.237 (greater than sig 0.05)

This means that overall the amount of Islamic banks revenue, the amount of Islamic banks has no effect through the BI interest rate. If we conclude that umkm, it doesn't really matter BI's policy of raising or lowering BI interest rates because umkm really needs the role of Islamic banks as a support for capital in increasing their business. Therefore, the government, in this case BI as the monetary authority, should be very careful about determining its policies because there are umkm that need special attention from the government. Meanwhile, Umkm currently contributes greatly amidst our current weak economic growth

VII. CONCLUSION

1. Revenue of Islamic Banks has a negative impact directly on the umkm but not significant. Because umkm businesses are generally small entrepreneurs who really don't understand finance. Starting from the financial statements to the business administration, they only use a family system. As a result, many UMKM entrepreneurs cannot pay credit installments, namely the UMKM payment system becomes stuck due to a lack of knowledge in terms of managing their business finances. This has an impact on the financial cycle of Islamic banking. Therefore, the banking sector in providing loans to UMKM is more selective.

2. The amount Islamic Banks directly has a positive and significant impact on umkm and is significant because umkm is a small business that really needs help or special attention from the government, for example business capital is used to increase its small business so that it becomes a large business and can compete between foreign countries and automatically will increase economic growth through foreign exchange obtained from exports.

3. BI interest rate policy has no effect on umkm. This means that UMKM do not really care about the interest rate, because they think that if the business is large then they will definitely be able to pay their obligations.

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