

The Challenges of Islamic Bank for Accelerating the Growth of Micro, Small and Medium Enterprises (MSMEs) in Indonesia

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Abstract

Islamic banking has a huge role in accelerating the growth of Micro, Small and Medium Enterprises (MSMEs) in Indonesia. The largest Muslim population in Indonesia is one factor for the development of MSMEs. This paper explains how the Problems and Challenges of MSMEs in Indonesia; Development of MSMEs in Indonesia; Relationship Between Islamic Bank and MSMEs in Indonesia; The Role of Islamic Bank for Development MSMEs; and The Challenges of Islamic Bank for Accelerating the Growth of MSMEs in Indonesia. The end of this paper, the authors offer solutions to Islamic banking challenges in accelerating the growth of MSMEs such as: First, to improve mudhorobah and musyarakah financing schemes to accelerate and develop MSMEs in Indonesia; Secondly, to reduce the dependence on the use of Murabahah contract products that are consumptive and targeted middle and upper only, Third, improve the financing scheme Qordhul Hasan contract by cooperating against Islamic social institutions, such as BAZNAS, BAZDA, LAZ, BWI, and Mosque, etc by maximizing the utilization of zakat funds, infaq, alms, waqf which has been only consumptive. Fourth, the cooperation of linkage program to BPRS and BMT so that the funds channeled can be directed to remote areas and on target. Fifth, coaching, mentoring, and mentoring to BPRS, BMT, MSMEs business practitioners, and Islamic social institutions in order to develop funds that are stored productively. Sixth, allocate Hajj and umroh investment funds to MSMEs business practitioners.

Keywords: Islamic Bank, Linkage Programme, Islamic Social Institution.

Abstrak

Perbankan syariah memiliki peran besar dalam mempercepat pertumbuhan Usaha Mikro, Kecil dan Menengah (UMKM) di Indonesia. Populasi Muslim terbesar di Indonesia merupakan salah satu faktor bagi pengembangan UMKM. Makalah ini menjelaskan bagaimana Permasalahan dan Tantangan UMKM di Indonesia; Pengembangan UMKM di Indonesia; Hubungan Antara Bank Syariah dan UMKM di Indonesia; Peran Bank Syariah untuk Pengembangan UMKM; dan tantangan bank syariah untuk mempercepat pertumbuhan UMKM di Indonesia. Akhir tulisan ini, penulis menawarkan solusi terhadap tantangan perbankan syariah dalam mempercepat pertumbuhan UMKM seperti: Pertama, memperbaiki skema pembiayaan mudhorobah dan musyarakah untuk mempercepat dan mengembangkan UMKM di Indonesia; Kedua, untuk mengurangi ketergantungan pada penggunaan produk kontrak Murabahah yang konsumtif dan

ditargetkan menengah dan atas saja, Ketiga, memperbaiki skema pembiayaan Qordhul Hasan dengan bekerja sama melawan lembaga sosial Islam, seperti BAZNAS, BAZDA, LAZ, BWI, dan Masjid, dll dengan memaksimalkan pemanfaatan dana zakat, infaq, sedekah, wakaf yang selama ini hanya bersifat konsumtif. Keempat, kerjasama program linkage ke BPRS dan BMT sehingga dana yang disalurkan bisa diarahkan ke daerah terpencil dan sesuai target. Kelima, pembinaan, pendampingan, dan pendampingan kepada BPRS, BMT, pelaku usaha UMKM, dan lembaga sosial Islam untuk mengembangkan dana yang tersimpan secara produktif. Keenam, mengalokasikan dana investasi haji dan umroh kepada praktisi bisnis UMKM.

Kata Kunci: *Bank syariah, keterkaitan program, lembaga sosial Islam.*

Introduction

Research into small and medium sized enterprises (SMEs) has grown during the last decade. A huge majority of firms worldwide are SMEs, and they play a significant role in the economy. Consequently, the performance of the SME sector is closely associated with the performance of the nation (Islam, et.al, 2011: 289).

Bhasin and Venkataramany, (2010: 95) state that Small and medium sized enterprises (SMEs) are a key engine of growth for Indonesia's economy as they are for most developing countries in South and Southeast Asia. Indonesia has been through a very rough patch in its development since independence in 1949. It is the fourth largest country in the world in terms of population and the world's third largest democracy, the world's largest archipelagic state, and home to the world's largest Muslim population. It is facing

numerous challenges, including alleviating poverty, controlling overpopulation, improving education, fighting terrorism, consolidating democracy after decades of authoritarian rule, stemming endemic corruption, coping with natural disasters, environmental damage, and implementing economic and social reform.

Small Medium Enterprises (SMEs) have significant role in employment creation and growth of gross domestic products of developing country. In the case of Indonesia, SMEs account for more 99.9 percent of all firms and employ 96.2 percent of the workforce. However, in order to grow and contribute more to the economy, SMEs face some constraints, such as: (1) lack of finance and marketing difficulties, (2) SME innovation capability is low, (3) representation of women entrepreneurs is still relatively low and can be attributed to the low level of education

and cultural / religious constraints (Tambunan, 2011: 68).

The main constraints faced by SMEs is the lack of finance. Islamic bank financing products may help to solve this problem. The Islamic participatory schemes, such as *mudarabah* and *musharaka*, integrate assets of lenders and borrowers; Therefore, they allow Islamic banks to lend on a longer-term basis to projects with higher risk-return profiles and, thus, to support economic growth. However, as Islamic banks try to avoid uncertainties, the mentioned schemes are not used (Huda, 2012: 179).

Based on this, our paper will discuss more deeply related problems, barriers and root problems related to the development of SMEs in Indonesia, and identify the role of Islamic banking in accelerating the growth of SMEs in Indonesia.

Problems and Challenges of MSMEs in Indonesia

SMEs have historically been the main player in domestic economic activities. Their roles in domestic economy are very significant as SMEs contribute to the improvement of income distribution, employment creation, poverty reduction,

rural development, industrial development, and export growth. For low income households in rural areas, such enterprises especially micro- and small ones have also assumed a significant role as an important engine for the development of rural economy and communities' wellbeing (Abdullah and Hoetoro, 2011: 36).

SMEs still face many challenges, domestic and external, which could hinder their resilience and competitiveness. They include: i) Ongoing difficulties in obtaining funds from financial institutions and the government. Usually the interest charges by financial institutions on loans borrowed by SMEs are high, and this is compounded by a lack of financial transparency by SMEs, ii) A lack of human capital is the most significant challenge facing SMEs. It is often too expensive for SMEs to employ a professional and competent workforce, iii) A high level of bureaucracy in government agencies hinders efficient SME business development operations, iv) A low level of research and development expenditure and v) A substantial orientation towards the domestic rather than international market place (Islam, et.al, 2011: 295).

Small and medium enterprises (SMEs) in developing countries are important

socially and economically for a number of reasons, including: (1) wide dispersion across rural areas and important for rural economies; (2) their ability to employ a significant amount of the labour force in their local economies; and (3) their ability to provide an opportunity for entrepreneurial and business skill development (Tambunan, 2006).

Development of MSMEs in Indonesia

The development of Micro, Small, and Medium Enterprises (MSMEs) growing so fast. Here is the data of Micro, Small, Medium Enterprises (MSME).

Furthermore, the following is Credit Position of Micro, Small and Medium Enterprises (MSMEs) at Commercial Banks (Billion rupiah), 2012-2015

Indicator	Amount	Market
Micro Enterprises (MIEs)	58.521.987	98,74 %
Small Enterprises (SEs)	681.522	1,15 %
Medium Enterprises (MEs)	59.263	0,1%
Large Enterprises (LEs)	4.987	0,01%
Micro, Small, and Medium Enterprises	59.262.772	99,99 %
Total	59.267.759	100%

*Annual Report of Ministry Of Cooperation And Small And Medium Business In 2016

Details	2012	2013	2014	2015
Micro, Small and Medium Enterprises				
Business field				
Agriculture, Livestock, Forestry, and Fisheries	43,609	51,912	58,658	65,530
Mining and excavation	5,427	4,753	4,763	4,838
Processing industry	59,500	60,084	67,558	76,518
Electricity, Gas and Water Supply	1,474	1,750	2,187	2,079
Construction	30,594	38,780	40,614	43,246
Trade, Hotel and Restaurant	262,584	341,354	376,342	422,013
Transport and Communications	20,219	23,882	24,033	25,488
Finance, Real Estate, and Corporate Services	40,465	46,003	48,665	51,858
Services	62,524	40,449	48,900	48,230
Not identified	-	1,062	0	1
Type of Use				

Capital	403,047	445,235	490,262	537,186
Investation	123,350	164,792	181,459	202,615
Not identified	0	1	-	0
Scale enterprises				
Micro	97,177	118,767	140,272	164,869
Small	164,273	187,729	201,976	215,925
Medium	264,947	303,533	329,473	359,008
Credit with Certain Guarantee				
Micro	17,161	23,536	26,967	10,816
Small	20,149	20,416	19,375	8,461
Medium	2,447	2,641	1,960	2,502

*Indonesian National Agency For Statistic.

In order to enhance the role of the Cooperative and SMEs, the Government has provided stimulation in the form of "revolving fund" for business capital strengthening assistance. The revolving funds in question are funds allocated by Ministries / Agencies / Working Units of the Public Service Bodies for business capital strengthening activities for Cooperatives, micro, small, medium and other enterprises under the supervision of State Ministries / Institutions (Permenkeu,

99 / 2008). Of the total revolving funds channeled, the business sector that absorbed LPDB-KUMKM's largest revolving fund as of December 31, 2016 is the business sector of Trade, Hotel and Restaurant with loan / financing amounting to Rp.4.061.079.831.350 (50.2%) and business sectors that absorb the least and LPDB-KUMKM is the business sector of electricity, gas and water supply with loan / financing amount Rp.35.846.688.731 (0.4%) as the following table:

The absorption of revolving funds by business sector in 2016

No.	Business Sector	Unit of MSMEs	Percent	Fund Value Utilized	Percent
1	Agriculture, Livestock, Forestry and Fisheries	238,132	24.7%	1,906,672,225,303	23.6%
2	Mining and excavation	7,399	0.8%	56,790,807,105	0.7%
3	Processing industry	33,893	3.5%	311,996,580,885	3.9%
4	Electricity, Gas and Water Supply	6,084	0.6%	35,846,688,731	0.4%
5	Building	20,597	2.1%	184,166,402,023	2.3%

6	Trade, Hotel and Restaurant	523,388	54.2%	4,061,079,831,350	50.2%
7	Transportation	15,214	1.6%	525,731,709,364	6.5%
8	Finance, Leasing and Company Services	17,022	1.8%	182,545,617,516	2.3%
9	Services	103,956	10.8%	822,421,621,087	10.2%
	Total	965,685	100%	8,087,251,483,364	100%

*Annual Report of Ministry Of Cooperation And Small And Medium Business In 2016

In order to accelerate the improvement of quality cooperatives Ministry of Cooperatives and SMEs implement the Cooperative Reform through several stages, as follows: *First*, Rehabilitation: Renewal of cooperative organizations through updating of data and freezing and will be followed up with the dissolution of the cooperative. *Second*, Reorientation: Changing the paradigm from the quantity approach to the cooperative institutional quality approach. The efforts and steps that have been done to date, namely: (a) Increasing the capacity of human resources through education and training cooperatives; (b) Inspection of cooperative business permit; (c) the examination of the management and membership of the cooperative; (d) Checking the financial performance of the cooperative. *Third*, Development: Gradually and measurably improving and developing business capacity and cooperative institutions to encourage becoming a large-scale

international cooperative. The efforts and steps that have been done to date, namely: (a) Assessment of institutional health of cooperatives; (b) Capacity enhancement of cooperative human resources through Education and Training and Technical Cooperative Guidance; (c) Facilitation of People's Business Credit (KUR); (d) Facilitate Revolving Fund through LPDB-KUMKM.

Mourougane (2011: 33) recommends the strategy to foster SME productivity: *First*, Business environment and labour market: (1) Systematically review all significant existing business licensing requirements at the national and local levels, with a view to simplification and ensuring they remain cost-effective. Sanction regional governments that fail to make significant progress in simplification and consolidation. (2) Public finances permitting, increase public outlays on cost-effective infrastructure projects beyond what is already planned. (3) Lower

electricity subsidies and have recourse to cash-transfer schemes to compensate poor households for the rise in electricity price. (4) In provinces where minimum wages are high in relation to average wages, resist increases that exceed trend productivity gains. Introduce a sub-minimum wage for youth directly linked to the general minimum wage. Reduce onerous severance payments and ease dismissal procedures in the formal labour market. In return introduce unemployment benefits coupled with individual unemployment saving accounts. (5) Improve the enforcement of intellectual property rights.

Second, Access to finance: (1) Clarify property rights for land. (2) Make the information collected by the credit bureau available to all non-bank financial institutions. (3) Remove the tax exemptions granted to venture-capital companies to support investments in some industries and the existing restriction of 85% on foreign ownership of such companies. (4) Step up efforts to pass a new micro-finance law, and expand the coverage of the regulatory framework.

Third, Human capital: (1) Extend conditionality in income-support programmes to include attendance in

secondary education. Increase the per-student transfer under the School Operations Fund (BOS) programme for schools located in remote areas and catering for poor students or alternatively increase conditional cash transfers. (2) Rigorously assess the cost-efficiency of all programmes aimed at upgrading dropouts and workers' skills, and phase out those found to be inefficient. (3) Remove formal education from the negative investment list. (4) Encourage tertiary education financing through student loans. (5) Create a national training fund to consolidate resources allocated to training and direct them to their most cost-efficient use.

Fourth, Policy support: (1) Clarify government responsibility in the delivery of support to small firms. Regularly assess the efficiency of existing programmes, phase out inefficient measures, and redirect resource to the most cost-effective schemes. (2) Re-examine the effectiveness of policies to encourage the formation of clusters, to reserve certain industries for small firms alone, and to require foreign direct investors to partner with local SMEs.

Relationship Between Islamic Bank and MSMEs in Indonesia

Indonesia has a progressive Islamic banking industry which relies on the performance of the real sector. There are some engines of growth, which trigger the development of such industry especially the big Moslem population and, support from the government, banking regulators, parliament and Islamic scholars products of Islamic Banking in Indonesia (Ismal, 2011: 2).

As we know that, the main constraints faced by SMEs is the lack of finance. Islamic bank financing products may help to solve this problem. Islamic Banking Products in Indonesia divided into several kinds (Sharea Banking Statistic, 2017: 7).

a. Wadiah Contract

A contract between the owner of the goods (the money) and the custodian for safekeeping.

b. Mudharaba Contract

A contract between a capital provider and an entrepreneur or a fund manager, whereby the entrepreneur or fund manager can mobilize the funds of the former for its business activity within the Sharia guidelines. Profits made are shared between the parties according to a mutually agreed ratio.

c. Musharaka Contract

A contract between two parties whereby both parties provide capital and both may be active in managing the venture. Losses are shared on the basis of how much capital has been contributed. Profits are shared in any way the partners decide.

d. Murabaha Contract

The sale of goods at a price, which includes a profit margin agreed to by both parties. The purchase and selling price, other costs, and the profit margin must be clearly stated by the seller at the time of the sale agreement.

e. Salam Contract

A contract in which the seller undertakes to supply some specific goods to the buyer on a future date at a mutually agreed price fully paid at the time of contract.

f. Istishna' Contract

A contract in which the seller undertakes to supply some specific goods to the buyer on a future date at a mutually agreed price and method of payment.

g. Ijara Contract

The selling of benefit or use or service for a fixed price or wage.

h. Qardh Contract

A loan in which the debtor is only required to repay the amount borrowed

Huda (2012: 186) state that Islamic financing scheme could be used to solve financing problem faced by Small and Medium Enterprises (SMEs) in the context of developing country. He recommends that Islamic banks should use more of profit sharing scheme as the Islamic participatory schemes, such as *mudarabah* and *musyarakah*, integrate assets of lender and borrowers; therefore, they allow Islamic banks to lend on a longer-term basis to projects with higher risk-return profiles and, thus, to support economic growth.

The Role of Islamic Bank for Development MSMEs in Indonesia

Aisyah (2009) state that Islamic banking has a strategic role in improving the MSMEs business, especially in the matter of funding and supporting in technical and non technical assistance. Qualitatively, Islamic banking has been implementing several strategies (1) innovative financing strategies; (2) linkage Program; (3) pilot project; (4) utilization of social funds; (5) technical assistance cooperation. Sholahuddin, (2013: 496) support support

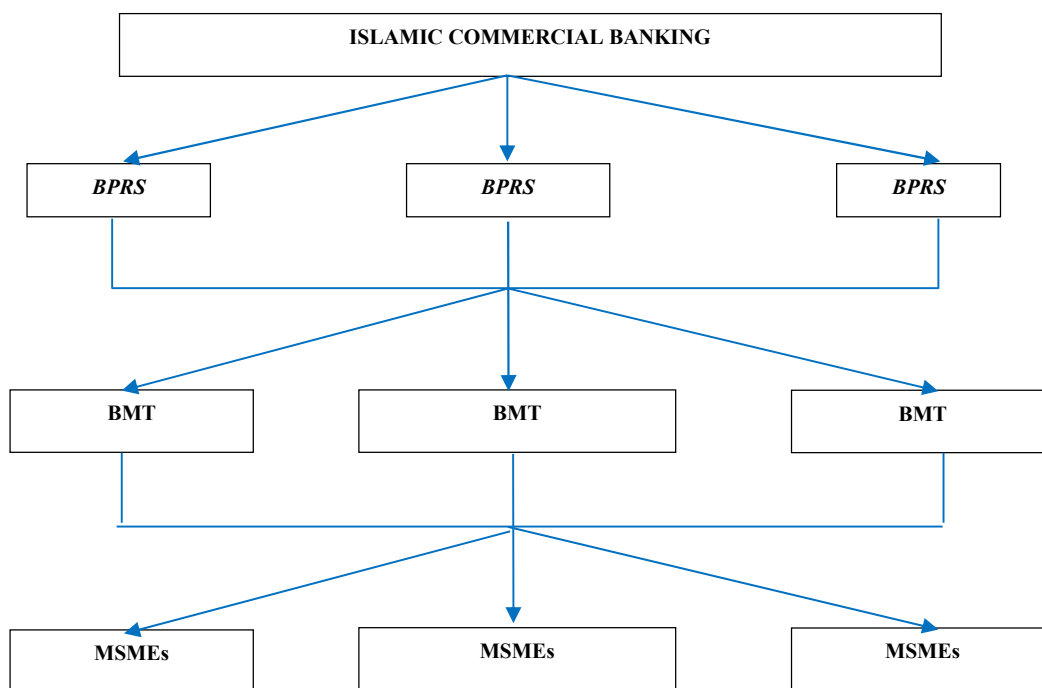
qualitatively but not quantitatively. He state that quantitatively, the role of Islamic banking to SMEs is still not satisfactory. Many parties have too great expectations of the role of Islamic banking to MSMEs. Though national Islamic financial system has fundamental problems that caused the various stakeholders have difficulty in optimizing the function of sharia as a mercy to all mankind. The main challenges of Islamic financial institutions are to resolve the fundamental problems consisting of the financial system framework is still based on interest rates, volatility currencies standard and permissive mindset due to the capitalistic worldview.

To overcome the problem of capital access in the sector of MSMEs, the current sharia banks have cooperated in the distribution of financing to the sector. The cooperation is in the form of financing cooperation that uses the concept of linkage, in which larger Islamic banks channel their MSMEs financing through smaller sharia financial institutions, such as BPRS and BMT. This is done because the coverage of large Islamic banks that have not reached remote corners of small business community or small sharia financial institutions more directly touch

with business actors MSMEs. Linkage financing schemes by Islamic banks with BPRS or BMT can be channeling, executing or joint financing. The channeling scheme places the BPRS or BMT as a BUS / UUS intermediary with MSMEs. While the executing scheme is performed when BUS / UUS provides funding that can be utilized by the BPRS or BMT in their financing to

its MSME customers. Meanwhile, joint financing scheme is a scheme in which BUS / UUS and BPRS / BMT work together to provide financing to MSMEs (Kara, 2013: 292).

Based on this discussion, we can illustrate the linkage program relationship between Islamic Bank, BPRS and BMT for developing MSMEs as follows:



However, the danger that can occur in the linkage program is if the number of BMT and BPRS suffered losses, bad debts, and default, then Islamic Bank will bear the consequences of losses. This is called by “domino effect”. As we know that, many BMTs in Indonesia are collapsed due to the

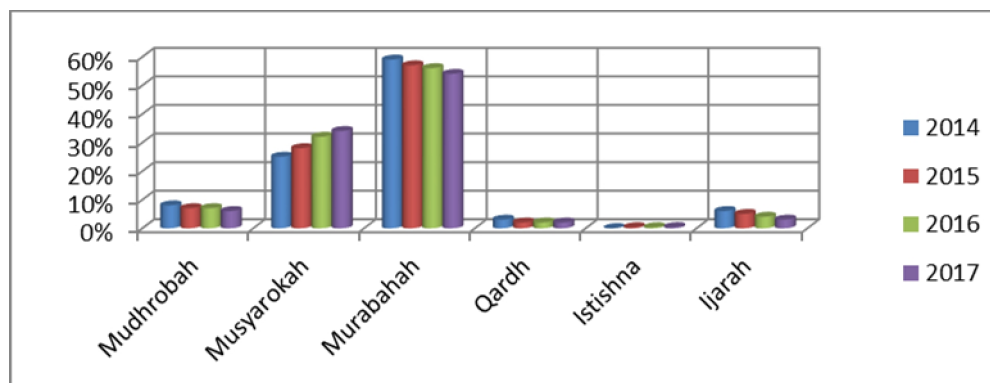
lack of reliable human resources, minimal funding, unsupportive technology, mutual consumer scramble against BPRS and Islamic Bank, as well as high selling prices. To minimize this, the interconnections between Islamic Banks, BPRS and BMT are urgently needed; mentoring, mentoring and

training needs to be undertaken for skills development; as well as the distribution of consumer market share made as much as possible so as not to compete for potential customers.

The Challanges of Islamic Bank for Accelerating the Growth of MSMEs in Indonesia

The harsh reality that, allocation of sharia banking financing related to the core

product of sharia bank is the scheme of musyarakah financing and mudharabah is still small compared to the murabaha scheme. Based on the statistical data of sharia banks, the financing distribution of sharia banking is still dominated by Murabahah financing, from 2014 to September 2017 reaching more than 50%, Musyarakah less than 35%, and others (Mudhorobah, ijarah, istishna and qardh) only less than 10%.



*data developed from sharea banking statistics September, 2017

The following is the data of Islamic banking fund distribution in Indonesia

	2014	2015	2016	2017
Mudhorobah	15,049	15,698	16,241	17,095
Musyarakah	49,478	60,817	78,511	94,080
Murabahah	117,380	122,118	139,575	146,426
Qardh	5,965	3,951	4,731	5,230
Istishna	633	770.2129	878.1324	1094.135
Ijarah	11,621	10,634.91	9,150.843	8,851.995
Total	200,125	213,989	249,087	272,776

*data developed from sharea banking statistics September, 2017

Based on the above data, it is reasonable that Islamic Bank is currently experiencing criticism and dilemma is so sharp. These

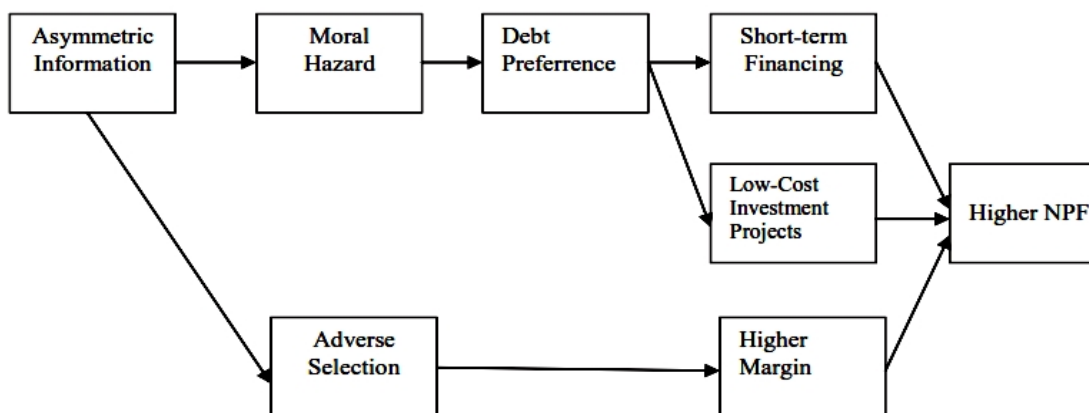
criticisms can be attributed to several indicators, among others: First, the dominance of non-profit-sharing contracts

(murabahah) in the practice of Islamic Bank that can only be enjoyed by middle-class society. Second, the lack of innovative products of sharia banking that can touch the poor. In the end, the presence of sharia banking is not much different from conventional banking.

Seeing these conditions, the role of Islamic Bank in developing the MSMEs has not been maximized. In fact, if the Mudharabah and Musyarakah contracts are increased, it will stimulate the real sector, increase investment, new jobs are widely available so that unemployment will decrease, poverty decreases, economic growth increases and will realize the goal

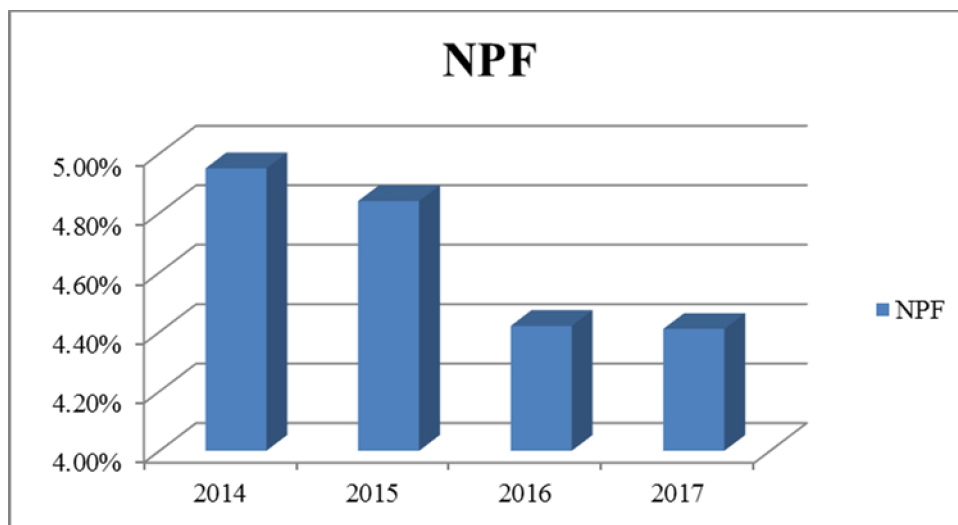
of Indonesian development that is the prosperity of society.

Moreover, the financing disbursed has a controversy that never goes away. This is based on the discrimination of the poor against the difficulty of financing in Islamic Bank. The difficulty of the poor in the use of financing products is due to the risk of financing to be borne by Islamic banks have an impact so great (high risk). Asymmetric information, moral hazard, and adverse selection are subject to unresolved issues. Huda (2012: 186), illustrates that, the assymetric information can increase the NPF. Their relationship can be constructed as follow:



The development of NPF in Islamic Banking is getting better every year. By 2014, the NPF reaches 4.95%, and eventually declines annually by 4.84% by

2015, 4.42% in 2016, and in September 2017 NPFs in Islamic banking accounted for 4.41%.



*data developed from sharea banking statistics September, 2017

According to Huda (2012: 186), the government can play roles in decreasing the assymetric information by doing the following:

1. Act as strategic partner for Islamic bank to identify the potential SMEs. As SMEs are widely dispersed, the government, particularly the local government, can help the banks to identify not only the location of SMEs, but also the viability of the business. The government should have database of SMEs in their region. To survive in SME market, the banks must reduce its operational costs. If government can provide reliable data on SMEs, it will help the banks to lower its operational costs.
2. In assessing the viability of the business, the government should work together

with academia to create innovative credit scoring for SME valuation. The credit scoring should allow the banks to quickly assess the risks of the business. If the government and academia can work together in providing such scoring system, the banks will be able to provide the financing products with simple bureaucracy without neglecting prudent banking principle.

Competition between conventional banks and Islamic banks is also increasingly tight. *First*, Moreover, the scheme of Islamic Bank funds is only slightly when compared with Conventional Banking. It is reasonable to observe from the historical development of conventional banks that are much longer standing when compared with Islamic banks. *Second*,

Almost all Islamic banks have not yet established independently. It can be seen from the existing capital is part of conventional Commercial Bank. As for the proposal to merge and only have one Islamic Bank in Indonesia, it is still a debateable. *Third*, With minimal funding scales, fewer market share for Muslim consumers and Muslim consumer loyalists can be said to be not 100% using Islamic Bank products, it can lead to high Islamic banking margins compared with Conventional Bank. *Fourth*, most of the investment funds of hajj and umroh still settles on the Conventional Banking. Thus, it is necessary for Islamic banking to initiate by working together in developing Islamic social funds to develop MSMEs in Indonesia.

Developing Islamic Social Capital For MSMEs in Indonesia

The ongoing journey of Islamic banking is criticized, because it has not been able to move on the true nature of sharia banking. Sharia banking as a derivative of the Islamic economic system should be directed to the full Islamic economic goal of *Falah* (maslahat dunia-akhirat). This means that the presence of sharia banking should be

felt by all groups of society, either from middle or upper class society or vice versa (the poor) (Antonio and Nugraha, 2013: 125).

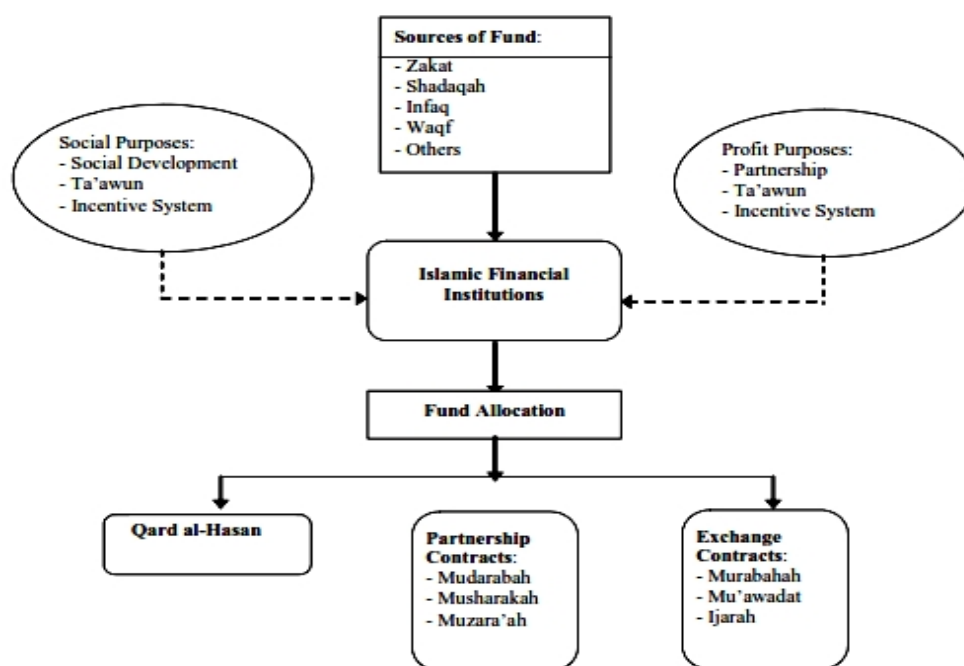
Poor people experience polemic in the use of Islamic banking products. This is based on the discrimination of the poor against the difficulty of financing. The difficulty of the poor in the use of financing products due to the risk of financing to be borne by Islamic banks have a high impact (high risk) and costly due to the high cost of screening and monitoring. Seeing the problematic, it can be indicated that, the role of Islamic Banking in realizing the social intermediary of the bank has not been maximized.

Sharia banking has a strategic position as a financial institution that can touch or involve the poor into the market segmentation of its financial institutions through the role of social intermediation. In the process of implementation, funds for the social intermediary role of sharia banking can use social funds funding in accordance with Islamic views, namely zakat, infaq, shadaqah, waqf, and grant (ZISWAH). The role of social intermediation can be applied to an additional product or policy of sharia

banking in serving the poor through several strategic model offerings, namely: (1) through the establishment of a special social intermediation business unit and (2) cooperation through a special MSMEs for the poor (Antonio and Nugraha, 2013: 125).

Sharia banking should not only focus on the financial sector alone, the achievement

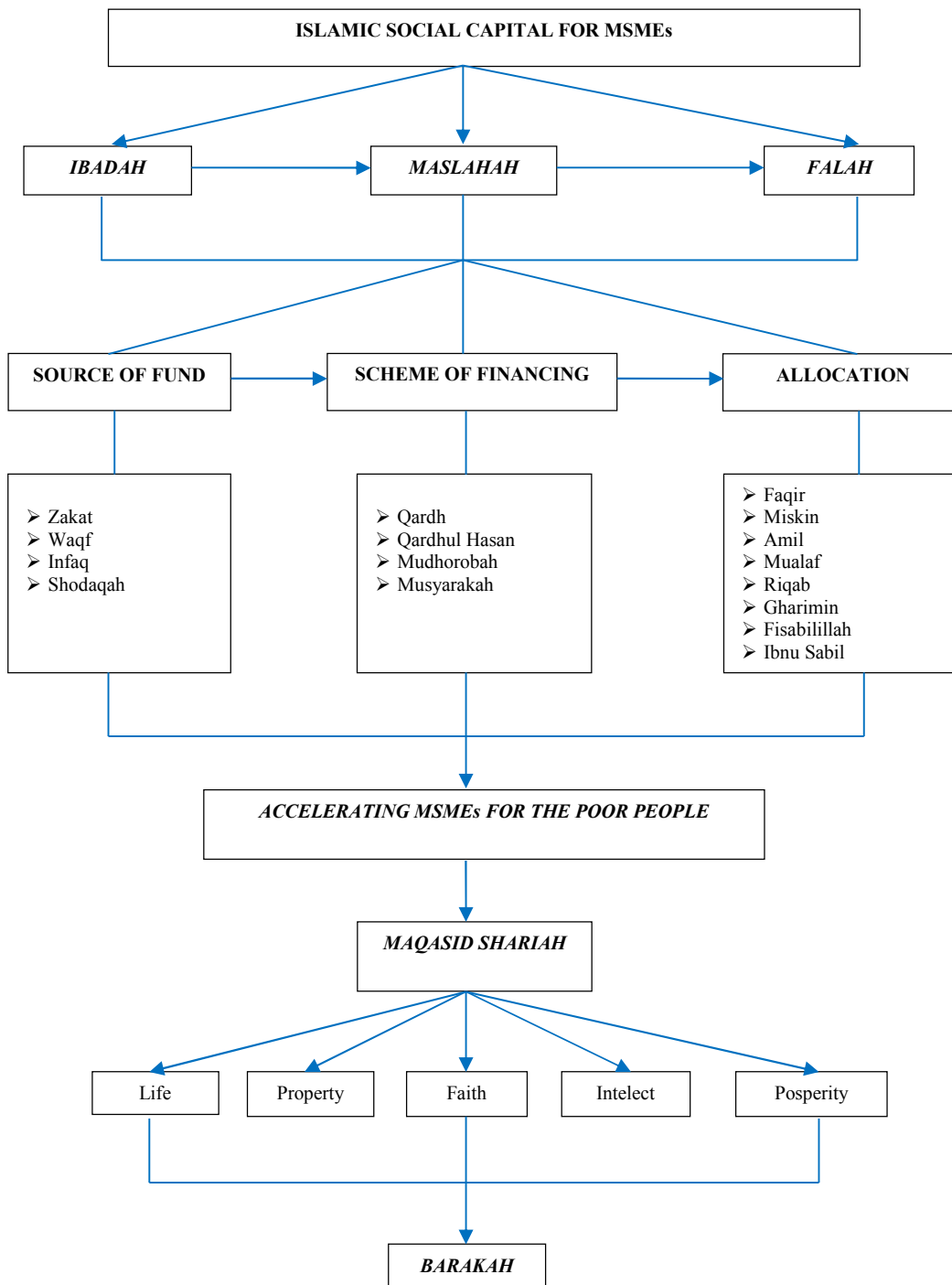
of social goals is a mission that must be implemented (Zubairu et.al, 2012; Goyal and Joshi, 2011). Thus, we agreed with Islamic Financing Model in SMEs conducting by Abdullah and Hoetoro (2011: 41)



Islamic Bank is necessary to cooperate with Islamic social institutions. The potential of zakat funds amounting to 217 Trillyun, waqf funds, mosque infak funds has been focused on consumptive activities. Is a fresh fund to be played by sharia banks to advance MSMEs in Indonesia. The steps in the formation of Islamic Social Capital

are: *First*, the source of zakat funds, infak, alms, waqf (ZISWAF) serve as capital. *Secondly*, the financing scheme starts from *qardh* contract, then if the poor already have business progress then, the financing scheme will increase into *qardhul hasan*, *mudhorobah*, and *musyarakah* scheme. *Third*, the allocation of funding refers to 8

asnaf, namely: indigent, poor, amil, convert, riqab, fisabilillah, and ibn sabil. From the above discussion, the following is an offer in the formation of Islamic Social Capital:



Conclusion

Based on the discussion, the results of previous research, and data analysis in the above discussion, it can be concluded that Islamic Bank has various barriers, in developing MSMEs in Indonesia. *First*, Moreover, the scheme of Islamic Bank funds is only slightly when compared with Conventional Banking. *Second*, Almost all Islamic banks have not yet established independently. It can be seen from the existing capital is part of conventional Commercial Bank. As for the proposal to merge and only have one Islamic Bank in Indonesia, it is still a debateable. *Third*, With minimal funding scales, fewer market share for Muslim consumers and Muslim consumer loyalists can be said to be not 100% using Islamic Bank products, it can lead to high Islamic banking margins compared with Conventional Bank. *Fourth*, most of the investment funds of hajj and umroh still settles on the Conventional Banking. *Fifth*, the *Murabahah* financing scheme that still dominates in Islamic banking and always above 50% every year. *Sixth*, the difficulty of middle to low society to get sharia banking financing scheme. This is due to concerns of Islamic banks in

getting high risk of asymmetric information, moral hazard, adverse selection, and default.

Thus, our proposals for Islamic banking challenges in accelerating the growth of MSMEs are as follows: *First*, to improve *mudhorobah* and *musyarakah* financing schemes to accelerate and develop MSMEs in Indonesia; *Secondly*, to reduce the dependence on the use of *Murabahah* contract products that are consumptive and targeted middle and upper only, *Third*, improve the financing scheme *Qordhul Hasan* contract by cooperating against Islamic social institutions, such as BAZNAS, BAZDA, LAZ, BWI, and Mosque, etc by maximizing the utilization of zakat funds, infak, alms, wakaf which has been only consumptive. *Fourth*, the cooperation of linkage program to BPRS and BMT so that the funds channeled can be directed to remote areas and on target. *Fifth*, coaching, mentoring, and mentoring to BPRS, BMT, MSMEs business practitioners, and Islamic social institutions in order to develop funds that are stored productively. *Sixth*, allocate Haj and umroh investment funds to MSMEs business practitioners.

The government also needs to take action by supporting wholeheartedly to the regulation of Islamic banks: Giving hajj and umroh funds fully to Islamic banks, Improving fund support programs such as people's business credit (KUR), as well as improving facilities and technology for MSMEs progress. Furthermore, the establishment of communities between business actors and loyalty consumer of MSMEs products is needed. Moreover, if sales can spin between communities, then the economy will run smoothly.

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