

MECHANISMS THROUGH WHICH ISLAMIC BANKING PROMOTES MICROECONOMIC GROWTH: A THEORETICAL AND EMPIRICAL ANALYSIS

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Abstract

This study aims to analyze the role of Islamic banking in microeconomic development in Sumbawa Regency. Islamic banking, with principles based on Islamic law, has great potential in supporting the development of the microeconomic sector which is the backbone of the regional economy. The research method used is a qualitative approach through a literature study containing theories relevant to the topic raised. This research collects and analyzes literature from various sources such as books, journals, scientific articles, and other related documents. The qualitative approach allows researchers to understand the context, dynamics, and complexity of the role of Islamic banking in microeconomic development in Sumbawa Regency. The results show that Islamic banking not only acts as a capital provider, but also as a strategic partner in increasing the capacity of micro businesses through mentoring and financial education programs.

Keywords: *Sharia Banking; Growth; Microeconomics; Sumbawa Regency*

Abstrak

Penelitian ini bertujuan untuk menganalisis peran perbankan syariah dalam pembangunan ekonomi mikro di Kabupaten Sumbawa. Perbankan syariah, dengan prinsip-prinsip yang berlandaskan pada hukum Islam, memiliki potensi besar dalam mendukung perkembangan sektor ekonomi mikro yang menjadi tulang punggung perekonomian daerah. Metode penelitian yang

digunakan adalah pendekatan kualitatif melalui studi pustaka yang berisi teori-teori yang relevan dengan topik yang diangkat. Penelitian ini mengumpulkan dan menganalisis literatur dari berbagai sumber seperti buku, jurnal, artikel ilmiah, dan dokumen terkait lainnya. Pendekatan kualitatif memungkinkan peneliti untuk memahami konteks, dinamika, dan kompleksitas peran perbankan syariah dalam pembangunan ekonomi mikro di Kabupaten Sumbawa. Hasil penelitian menunjukkan bahwa perbankan syariah tidak hanya berperan sebagai penyedia modal, tetapi juga sebagai mitra strategis dalam meningkatkan kapasitas usaha mikro melalui program-program pendampingan dan edukasi keuangan.

Katakunci: Perbankan Syariah; Pertumbuhan; Ekonomi Mikro; Kabupaten Sumbawa

A. INTRODUCTION

The first Islamic bank in Indonesia is Bank Muamalat Indonesia, which was established in 1991 before the enactment of the new banking law, namely Law No. 7 of 1992. Law No. 7 of 1992 stipulates that banks can operate based on profit-sharing, not interest. Law No. 7 of 1992 was later amended by Law No. 10 of 1998, which regulates that banks can be established based on Sharia principles and traditional banks can obtain a Sharia window through the introduction of Sharia entities. (Ari Susanto, Adiana Novita, Deni Alatas, 2023).

Islamic financial institutions have experienced significant development, marked by the number of Islamic Commercial Banks reaching 14 with total assets amounting to 304.292 billion rupiah as of October 2018. (Amin et al., 2023). This growth reflects an increase in public interest and trust in the sharia-based financial system, which offers alternatives in accordance with Islamic principles. Based on data from the Financial Services Authority (OJK), the number of sharia mutual funds has also seen a significant increase, reaching 10.61% of the total mutual funds. This figure indicates a substantial growth compared to 2010, when it was only 7.84%. With this development, sharia financial institutions are expected to continue expanding their reach and contribution in supporting national economic stability and growth.

Islamic banking plays a crucial role in supporting microeconomic development in various regions, including Sumbawa Regency. With principles based on Islamic law, Islamic banking not only focuses on profit but also on empowering the economy of the community through sustainable and inclusive financing. Sumbawa Regency, as part of Indonesia rich in local economic potential, needs the right strategies to improve access to capital and financial services that support the growth of micro-enterprises.

Islamic banking also plays a role in providing guidance and mentoring to micro-entrepreneurs. Through training and consultation programs, Islamic banking helps enhance the capacity of micro-entrepreneurs in managing their businesses effectively and efficiently. This not only impacts

the increase in productivity and the quality of the products or services produced but also the sustainability of micro-businesses in the long term.

In Sumbawa Regency, West Nusa Tenggara Province, there is great potential to develop micro enterprises. However, most micro-enterprises in this region face major challenges in terms of access to capital. (Irawan, 2021). Many of them come from economically disadvantaged backgrounds and often get trapped in expensive borrowing practices from loan sharks, which hinders the growth and profitability of their businesses. This problem is exacerbated by their lack of knowledge about alternative financing, where information often circulates only through word of mouth. With a significant number of micro-enterprises in Sumbawa Regency, it is important for them to switch to sharia financing. This can not only help increase their income but also protect them from the trap of the usury system, which often worsens their financial condition.

B. METHOD

This research uses a descriptive qualitative approach, which according to Arikunto (2019), is a type of research aimed at investigating the state, condition, or phenomenon that has been previously mentioned, and the results are presented in the form of a research report. The focus of descriptive research in this context is to gain a deep understanding of the role of Islamic banking in the development of microeconomics in Sumbawa Regency. This method allows researchers to comprehensively explore information regarding the contribution of Islamic banking in enhancing access to capital, providing business assistance, and promoting Islamic economic principles in that local context.

C. RESULT AND DISCUSION

Definition of Islamic Bank

The word "bank" comes from the Latin word "banco," which means bench or table. In the 12th century, the term "banco" referred to the table or counter used by money changers. (Arnes, 2022). Therefore, the basic function of a bank is to provide a safe place to store money and to offer payment instruments that enable the transaction of goods and services. As time progresses, banks do not only function as places for storing and exchanging money, but also as institutions that provide various other financial services such as loans, investments, and asset management. This makes banks an important pillar in the modern economic system, helping to facilitate the flow of funds, manage risks, and support economic growth.

The definition of a bank and banking according to the Republic of Indonesia Law No. 10 of 1998 Article 1 states that "A bank is a business entity that collects funds from the public in the form of deposits and redistributes them to the public in the form of credit and other forms with the aim of improving the standard of living of the general public." Meanwhile, "Banking is everything related to banks, including institutions, business

activities, as well as the methods and processes of conducting their business activities."

The Sharia banking law No. 21 of 2008 states that Sharia banking encompasses everything related to Sharia banks and Sharia business units, including institutions, business activities, as well as the methods and processes in carrying out their business activities. Meanwhile, a Sharia bank is a bank that conducts its business activities based on Sharia principles and, by type, Sharia banks consist of Sharia commercial banks.

In this context, Islamic banking encompasses all operational and managerial aspects related to business units that operate in accordance with Islamic law. This includes institutional structure, types of services offered, as well as procedures and regulations governing the implementation of their business activities. Islamic banks themselves are financial institutions that conduct all their business activities based on Sharia principles, which include the prohibition of usury, speculative activities, and investments in sectors forbidden by Islamic law. Islamic banks are a type of Islamic bank that provides general banking services in accordance with these principles.

Definition of Microeconomics

Microeconomics is a branch of economics that studies the behavior of individuals and firms in making decisions related to the allocation of limited resources (Khodiron et al., 2022). Studies in microeconomics include the analysis of how households and firms interact in the market, determine the prices of goods and services, and how they maximize their utility and profit.

Micro enterprises, which are very small business units with limited number of employees and income, operate within the framework of microeconomics. Micro enterprises often become the backbone of the local economy, providing jobs and contributing to economic growth. They face challenges such as access to capital, technology, and broader markets, but also offer great opportunities for innovation and local economic empowerment. The analysis of micro-enterprise behavior helps in understanding the dynamics of smaller markets and provides important insights for economic policies that support the growth and development of the small business sector.

The main characteristic of micro enterprises is the limited resources they possess. (Indarto & Santoso, 2020). They often face challenges in accessing capital, technology, and broader markets. Due to these limitations, micro-enterprises usually rely on their own capital or small loans from microfinance institutions. In addition, they often lack managerial skills and access to adequate training or business support. However, despite facing various challenges, micro-enterprises are also known for their flexibility and ability to quickly adapt to changing market conditions.

The Role of Islamic Banking in Microeconomic Growth

Microbusiness operators in Sumbawa Regency mostly fall into the category of weak economy and generally lack capital. They are often trapped in the clutches of loan sharks and other usurers who offer quick loans without administrative fees. However, behind that convenience, there are

very high interest rates or late fees. As a result, they often face difficulties in developing their businesses. Small entrepreneurs and traders in economically weak conditions often have to take pragmatic steps by borrowing money from loan sharks to meet their capital needs. Unfortunately, this step often causes them to get trapped in a cycle of ever-increasing debt. As time goes by, the increasingly heavy debt burden can threaten the sustainability of their business, even to the point of shutting it down.

To address this issue, the government has appointed Bank Syariah Indonesia (BSI) as one of the financial institutions responsible for distributing People's Business Credit (KUR). This appointment provides a new option for the community, especially micro-business operators who need interest-free loans. Previously, the majority of providers of People's Business Credit (KUR) were conventional financial institutions that charged interest on their loans. (Islamida et al., 2022). Through BSI, micro-entrepreneurs can now obtain interest-free and usury-free loans, with the 6% KUR interest rate mechanism replaced by a return system based on Ijarah, Murabahah, or Musyarakah Mutanaqishah.

Bank Syariah Indonesia (BSI) offers three types of KUR loans: KUR Kecil, KUR Mikro, and KUR Super Mikro. Each type of loan has different requirements according to the working capital and investment needs of micro-entrepreneurs. KUR Super Mikro, for example, is designed to help entrepreneurs meet their working capital and investment needs with a funding limit of up to Rp10 million, which can be managed independently by the customers.

For micro-entrepreneurs who need larger amounts of funding, BSI offers KUR Mikro with loan limits ranging from Rp10 million to Rp50 million. This loan is also designed to meet working capital and investment needs, providing more flexibility for entrepreneurs in developing their businesses. BSI Micro KUR provides an opportunity for micro-entrepreneurs to access more significant capital compared to Super Micro KUR. Additionally, BSI also offers Small KUR with larger loan limits, ranging from Rp50 million to Rp500 million. This program is aimed at micro-businesses that require substantial funding for working capital or investment. BSI Small KUR provides substantial financial support, enabling micro businesses to further develop their operations and achieve larger scales of operation.

With various types of loans offered, Bank Syariah Indonesia (BSI) plays an important role in supporting the growth of micro-enterprises in Sumbawa Regency. Through financing mechanisms that adhere to Sharia principles, BSI helps create a more inclusive and equitable financial environment for micro-entrepreneurs, providing them with easier and more ethical access to the financial resources needed for growth.

In addition to providing business capital, Islamic banks also build networks and partnerships with various parties, including government institutions, non-governmental organizations, and business communities, to create an ecosystem that supports the growth of micro-enterprises. Through

these networks, micro-entrepreneurs can gain access to additional resources, such as advanced training, market opportunities, and a wider business network.

Some Islamic banks develop business incubation programs that provide intensive support for micro-entrepreneurs who are just starting out or are in the development stage. This program includes access to initial funding, business mentoring, co-working spaces, and various other support services that help accelerate the growth and success of micro-enterprises.

D. CONCLUSION

Islamic banking plays an important role in the microeconomic growth in Sumbawa Regency by providing interest-free financing that adheres to Sharia principles, which greatly supports micro-entrepreneurs who often face capital constraints. Through various mentoring and financial education programs, Islamic banks help improve managerial skills, financial management, and technology use for micro-entrepreneurs. This approach not only strengthens their business capacity but also creates a more inclusive and sustainable economic environment, thereby encouraging overall local economic growth and prosperity.

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