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The Support of Sharia Rural Banks Financing on National Financial Inclusion

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Abstract

The purpose of this study is to examine the effect Sharia Rural Banks Financing through Micro Small Medium Entreprise (MSMEs) financing on Financial Inclusion in Indonesia from 2011 to 2018. The study samples consists of Financial Reporting of Sharia Rural Bank from the Indonesian Financial Service Authority and Financial Inclusion from Growth Economi Report of Indonesia Central Bank. This study uses a quantitative approach with secondary Financial Inclusion data as measured by MSME Business Expansion Credit and Gross Domestic Product (GDP) using linear regression method to test the effect of variables.The results show that Sharia Rural Banks Financing has a significant effect to GDP (Gross Domestic Product) as a Financial Inclusion in Indonesia. The results of the study also showed that MSMEs Financing in Sharia Rural Banks did not have a significant relationship with Net Expansion credit because of Internal inhibiting the development of MSMEs such as low human resources, organizational management, addition limitations information technology and creativity.

Keywords:

Islamic financing MSMEs, Financial Inclusion, Net Expansion MSMEs Credit, Gross Domestic Product

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JEL: G.21, M.39

1. Introduction

National economic growth has increased over the last three years as indicated by the figures of GDP (Gross Domestic Product), which had a 4.88 per cent in 2015 to 5.18 percent in 2017, (PPN/BAPPENAS, 2018) According to BPS (Central Bureau of Statistics) figures were possible will continue to increase along with the growing number of businesses MSMEs industry in Indonesia. The role of SMEs is very important and strategic in national economic development, in addition to a role in stimulating economic growth by contributing to GDP by 57 percent, This business is also able to absorb 97 percent of the workforce of the entire national workers and play a role in distributing development outcomes (Bank Indonesia, 2015). World Bank Global Data Findex explained that Indonesia has a Financial Inclusion progress is quite high. Half of adults in Indonesia already have an account at the bank, carrying about 36 percent of adults in Indonesia has been transacting through banks and 49 per cent owner of the account and savings in financial institutions such as banks or microfinance institutions. (World Bank Global FINDEX, 2018). But the numbers gap between rich and poor is quite high at 20 percent. This illustrates that the economic growth in Indonesia is uneven. *Financial Inclusion Index* in Indonesia reached 19.6 percent in the years 2011, lower than countries in Asia. Low financial literacy society, contributes to the unequal distribution of financial inclusion in Indonesia.

Research related to the role of Islamic banks in the strengthening of SMEs also have a lot to do, citing the results of the analysis of the Ministry of Commerce that SMEs have a very important role in the economic growth of a country. Saleh & Hadiyat (2016), it is in line with the results of the study (Rini, 2017), (Prayogi & Siregar, 2017), (Kara, 2014), (Cheng & Degryse, 2010) in his research revealed that poor communities in border areas are able to improve their standard of living by empowering MSMEs, but are still constrained by the level of education in managing MSMEs. (Trimulato, 2017), (Aurora Lubis, 2016), (Darwanto, 2013) in his research identified that the most suitable Islamic banking financing for MSME financing is the Musyarakah contract. Islamic finance contracts and products are the focus of the research conducted (Nofinawati, 2014), (Lestari & Hisamuddin, 2015) mentioned that, Intermediation and Types of Islamic bank financing products have a positive relationship with bank risk and performance.

Their gab between financial literacy among consumers and financial services providers, gender roles, internet access, and high levels of poverty, less inequality triggers financial inclusion in Indonesia. Financial inclusion are believed to be able to build the economy and to reduce poverty in a country, as it creates an efficient payment mechanism, improve access to credit for entrepreneurs and SME business with the right financing mechanisms. Micro, small and medium enterprises often considered unable to meet the banking requirements (bankable). Precisely loan obtained from a loan shark's burdening businesses with great interest, so it is often SMEs that has long operated will be difficult to develop because of their turnover should be reduced by a large interest expense. Financial inclusion aims to encourage unbankable people to access financial services for every level of society, so as to reduce social inequalities, improve welfare, help small communities to be more empowered to manage their finances independently and able to get out of debt trap from loan sharks.

Financial Inclusion is a financial system that is built to improve access to financial services to Small and Medium Sized Enterprise (SMEs) in gaining access to finance, consumer protection and to strengthen financial regulation evenly, (Nengsih, 2015). The government is aware of the importance of implementing financial inclusion and issuing policies through BI

Regulation No.17 / 12 / PBI / 2015 which requires commercial banks to reach MSME credit ratios from total loans disbursed at least 20 percent to assist MSMEs businesses access capital, and Law No. 21 of 2008, concerning SRB, explains that SBR is a Sharia Bank whose activities do not provide services in payment traffic, but in their business conducting business based on sharia principles, economic democracy and the principle of prudence. (Cheng & Degryse, 2010). in his research also explained that the services provided in the banking sector as a credit service is very important to encourage the economic growth of a country, and encourage the creation of a better financial inclusion. Based on this litrature, we propose hypothesis that MSMEs financing by the SRB have significant effect to Increasing Financial Inclusion with Net Credit Expansion.

The development of Islamic Financial Institutions (LKS) in Indonesia is experiencing significant growth in assets, and the majority of its assets used for the financing of SMEs. This shows that Islamic banks have participated in the growth of SMEs. With the administrative system easily understood SMEs, SRB can reach financial transactions and closer to small and medium communities Sharia banking rule number 21 of 2008 SRB explains that Islamic banks in their activities do not provide services in payment traffic, therefore the SRB still has the same function as an Islamic bank. It is as a financial intermediary institution, so that the SRB as a financial intermediary institution can improve the welfare of the community, especially for MSMEs and can contribute significantly in increasing the National Financial Inclusion Index.

Research related to the financing of SMEs in boosting the national economy and the Financial Inclusion has done much earlier researchers, included in, (Nengsih, 2015) in his research on the role of Islamic banks in implementing financial inclusion, explaining that Islamic banking has great potential in implementing Financial Inclusion as seen from an increase and an increase in microfinance, certainly requires the synergy for all. Nengsih's research was also supported by research (Mohieldin M, Iqbal Z, Rostom A, 2012), which states that economic instruments in Islamic economics will accelerate the process of financial inclusion, this is in line with research by (Kamath, 2007), (Shahulhameedu, 2014) and (Chakrabarty, 2012), emphasizes how the conceptual framework measuring and analyzing the financial inclusion globally, it is in line with the thinking (Mohiuddin, Begum, & Rizvi, 2018), (Rifa'i .A, 2017) Financing Bank examined the role of Sharia in implementing financial inclusion through SMEs Financing, Rifa'i concluded that the SRB has managed to maintain and improve its capacity to channel financing. Mohiuddin et al., (2018) examines the reasons large companies in Pakistan are reluctant to go into business in Islamic banking, and are more inclined to choose banks conventional. Allen, Demirguc-Kunt, Klapper, & Martinez Peria (2016), in The Foundations of Financial Inclusion: Understanding Ownership and Use of formal Accounts explore the factors that drive a country's financial inclusion to be stronger. The realisation that financial inclusion is a key enabling element, both in the fight against poverty and in reaching the goal of inclusive economic development, is leading to an increasing focus on financial inclusion policies and initiatives, so that we propose second hypothesis that MSMEs financing by the SRB have significant effect to Increasing Financial Inclusion with Gros Domestic Produk.

Many studies acknowledge that MSMEs are able to contribute in improving the National Economy, so the government strongly encourages banking financial institutions to provide MSME capital funds, However, economic growth is not enough to improve national welfare, economic system more equitable and easier capital in small and medium public access is the most appropriate to be applied nationally is through an increase in Financial Inclusion. Shinkafi, Yahaya, & Sani, (2019) found that financial inclusion and ripe the benefit of tackling poverty, needed promoting sustainable, equitable growth and development. Based on the purpose of this study is to examine the effect Of Sharia Rural Banks Financing through Micro Small Medium Entreprise (MSMEs) financing on Financial Inclusion to be achieved, the author only limit the problems on Financing of SMEs in the SRB and its influence on Financial Inclusion in Indonesia.

The findings of previous researchers have certainly contributed to the scientific treasures in Indonesia. Some of the problems underlying this research are:

1. The phenomenon that Indonesia is a country where the majority of the population is Muslim, but people prefer to open accounts and make financing loans at conventional banks despite knowing the usury law.The results of initial observations on the financial statements of SRBS loans or financing are mostly realized are Murabahah loans, which tend to be used for consumptive use, while financing for Mudharabah and Musyarakah are less, whereas in reality these types of financing more reflect Islamic values.
2. The results of initial observations on Financing Quality SRB SRB showed an increase in the NPF, the question that arises then is whether the growing nilia NPF occur due to lack of customer assessment standards for not fully implementing 5 C as in conventional banks.
3. Financing of SMEs have been realized if it really can improve economic growth and financial inclusion.
4. The government has issued BI Regulation No.17 / 12 / PBI / 2015 which requires commercial banks to reach MSME credit ratios from total loans disbursed at least 20 percent, so that financial inclusion can increase, but Indonesia's Financial Inclusion Index is still low.

This research is different from other studies, because in general research with similar themes is carried out with a qualitative approach, namely by observing the increase or decrease in financing and comparing with economic growth and financial inclusion, while this research will focus more on analyzing the role of the Islamic People's Financing Bank in providing MSMEs financing products, and its impact on the National Financial Inclusion Proposed by the Net MSMEs Credit Expansion and Gross Domestic Product (GDP) as an indicator of the growth of National Financial Inclusion.

2. Research Method

This research was conducted to assess the effect of the financing of SMEs Sharia Rural Bank on Financial Inclusion in Indonesia. The study will be determine with a quantitative approach by used regression linier to secondary data MSMEs Financing on the SRB as a variable (X), Business Expansion Credit of MSMEs and Gross Domestic Product (GDP) as Indicators of Financial Inclusion as variables (Y1) and (Y2). The data processed are quarterly data in the period 2011-2018. The object of this study discusses the MSME Financing Products in the SRB for the Rural Bank were quite successful in financing micro and more in line with Islamic law in terms of transactions and the akad. The Financial Inclusion Variable in this study is proxied by the MSMEs Net Credit Expansion which indicates growth and development of Micro and GDP businesses (Gross Domestic Product) as indicators of Economic Growth.

This study are expected to be able to add to the scientific discourse of various studies that have been conducted which generally provide the view that Financing in Islamic Banking, more suitable for application in encouraging the development of SMEs through the capital more easily in reach, especially SRB believed closer to the community.

3. Results and Discussions

Banking has a very large contribution for economic in Indonesia. The role of banks as intermediaries for people who have more funds and people who need funds reflected by the number of DPK, Loans and Credit Financing distributed by these financial institutions to the public. According to Mohieldin M, et al. (2011) Islam has instruments and supports that are unconventional, which if implemented fully can facilitate poverty and inequality in Muslim countries that increase poverty, by making policies that are in line with infrastructure needs and financial regulations. The role of Islamic banking in encouraging small and medium microeconomic actors can be seen from the amount of Islamic bank financing for the MSMEs group that continues to increase, this is supported by research (Prayogi & Siregar, 2017). Trimulato, (2017) in his research revealed that the number of MSMEs entrepreneurs increased significantly but was not supported by Musyarakah financing which was believed to be fit for MSMEs financing. This is supported by data in the present by the Ministry (Trade 2013) that the amount of financing for SMEs is still low, so the Bank Indonesia helped in assisting the development of small businesses and cooperatives, to provide financial assistance to SMEs, known as Bank Indonesia Liquidity Credit (KLBI). To illustrate these conditions can be seen in the following table 1.

Table 1.
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PUMKM	32	1246116	4185589	2910292.00	892500.058
NEK	32	-28405	957047	445760.47	284167.124
PDB	32	47	67	54.78	6.588
Valid N (listwise)	32				

Source: secondary data processed, 2019

Table 1 shows the descriptive statistics of the study, in which the number of Sharia BPR samples in Indonesia conducting MSME financing was 32. The average value of MSME Financing by Sharia BPRs was still low at 2,910,292. This condition shows that investment financing and / or working capital based on sharia principles with a sale and purchase agreement (murabahah) to help micro, small and medium-sized businesses in business development is still low. Likewise, Net Expansion of Credit is also still low at 445,760.47, this shows that financial inclusion in Indonesia is still low. This result is based on the Financial Services Authority (OJK) survey data from 2011 to 2018, that the level of financial understanding (literacy) of the Indonesian people has only reached 29.66 percent. Meanwhile, the level of use or people who have access to financial services and services (financial inclusion) have not reached 50 percent. For this reason, it is necessary to increase financial inclusion in Indonesia by continuously expanding access to financial services in the regions by accelerating the penetration of financial inclusion in Indonesia. While indicators of Economic Growth (Gross Domestic Product) began to experience an increase from 2011 to 2018, amounting to 54.78. This condition shows that the total value of the production of goods and services produced by all companies whether owned by local or foreign in a country begins to increase.

Furthermore, the program credit management task has been transferred to three SOEs appointed by the Government, namely PT Bank Rakyat Indonesia (BRI), PT Bank Tabungan Negara (BTN), and PT Permodalan Nasional Madani (PNM). In this case, PT BRI functions as the coordinator of KUT, KKop and KKPA-TR schemes, PT BTN as the coordinator of KPRS and KPRSS skim distribution, while PT PNM is the coordinator of other credit scheme.

This effort is carried out in order to spur the growth of MSMEs in the riil sector so that they can contribute to Economic Growth and Financial Inclusion, this is supported by research (Nengsih, 2015), (Rifa'i .A, 2017), (Mohieldin M, Iqbal Z, Rostom A, 2012), in his research The Role of Islamic Finance in Enhancing Financial Inclusion in Organization of Islamic Cooperation (OIC) Countries, states that Muslims are more likely to have an official account in banking than non-Muslims. With redistributive instruments in Islamic economics, such as zakat, infaq, sadaqah, Muslims have great potential in conducting financial inclusion. Beside that (Makina & Walle, 2019) who focused their research in Africa, with the lowest level of financial inclusion in the world, found that financial inclusion as measured by the access dimension had a significant positive effect on economic growth in Africa. This finding reinforces the need for financial inclusion as one of the most effective tools for realizing inclusive growth.

Although technically already instructed the government to provide funding assistance to the SMEs, are still many who can not get access to bank (Aurora Lubis, 2016), so it can be assumed that there has been a gap in financing access to banks (unbankable), (Mohiuddin et al., 2018), and (Rini, 2017) in this case explaining the difficulty of procedures in accessing financing in Islamic banks, in addition, Laweyan batik SME entrepreneurs feel unfamiliar with financing products in Islamic banking, (Mohiuddin et al., 2018). Kara, (2014) in his research revealed that the role of Islamic banking have not been up to the SMEs, which is supported by a study (Maryati, 2014), which is more focused on the discussion of the characteristics of the SRB customers who obtain financing in West Sumatra. (Aurora Lubis, 2016) reveals the limitations of SMEs in the utilization of information technology, low investment and a lack of support from Government Institutions.

Increasing Number of bank financing to SMEs in the trust will be able to encourage businesses to develop their products and boost national economic growth which is reflected in the GDP. This is supported by empirically (Darwanto, 2013), which revealed the existence of creativity-based SMEs business operators in Central Java who need government support in the Protection of Copyright and formed clusters in the production process. Results of data tests conducted in this study are shown in the following table 2:

Table 2.
Test Result

Variable	B	Pearson Correlation	Significants
Y2	6,050	0,820	0,000
Y1	0,006	0,018	0,460
F test Y2			0,000

F test Y1		0,921
R Square		
Y2	0,672	
Y1	0,000	
Constant		
Y2	72.388	
Y1	4.2875	
X	SRB SME financing	

Source: secondary data processed, 2019

The results of this study explains that the financing of SMEs is channeled by the SRB has a strong correlation with variable Y2 (GDP) amounted to 0.820 percent, with a significant effect. The results of this study support (Nengsih, 2015), (Mohieldin M, Iqbal Z, Rostom A, 2012) and (Kamath, 2007). Research (Kwadwo Boateng, Y. Nagaraju, 2019) also suggests that MSMEs serve as a catalysts to distribution of development and wealth in the country, that sector contributes Gross Domestic Product (GDP) India’s about 30%. In line with Boateng, (Pratiwi, 2016) found that the Islamic banking’s Musharakah and Mudharabah on MSMEs was showing the positive correlation to financial performance. Hence, Islamic banking is strongly suggested to be more focused on these two types of partnership financing contract to UMKM.

While the financing of SMEs by SRB effect only amounted to 0.018 percent on Net credit expansion of SMEs that planned, this means that not all SMEs Financing can improve the Net Expansion. This happens because of the lack of human resources in managing finances, lack of knowledge of the development of product innovation, lack of financial literacy of small and medium micro economic actors. This result is in accordance with research (Trimulato, 2017) and (Aurora Lubis, 2016).

Mohiuddin et al., (2018) are suggested that to improve the awareness of Islamic Banking amongst customers needed (1) Knowledgeable employees staffed in Islamic Banks should have influencing sessions as guest speakers in various educational institutions. (2) Effective training sessions should be held for the employees of Islamic Banks to guide them on how to convince customers and prospective customers for Islamic Financing. (3) Some rewards should be announced for the employees who succeeded to have business from prospective customers. Furthermore, its value and volume is needed to be expanded to build Indonesia’s sustainable socio economic foundation. Then the positive gross domestic product (GDP) growth will be achieved.

Financing for SMEs although it has distributed and has increased since 2011-2018 (ojk.go.id, 2018), (Nengsih, 2015), but the constraints of SMEs own Internal inhibiting the development of SMEs, such as low human resources in managing financial and organizational management, in addition to the limitations in information technology, and creativity, as well as the lack of financial literacy, causing difficult to develop SMEs and require government assistance in providing technical training and understanding of Financial Literacy in order to avoid economic and social disparities in the community in small and medium enterprises.

R Square shows that the Gross Domestic Product can only be influenced by 0.672 or 67 percent by financing SMEs while the remaining 33 per cent of GDP is influenced by other factors outside the model.

Hypothesis 1 results obtained an F Test value of 0.921 so that H1o was rejected and H1a was accepted, meaning that MSME Financing by the SRB had no significant effect on the MSMEs Net Expansion. These results are consistent with the results of the study (Trimulato,

2017) and (Aurora Lubis, 2016), that the level of business development and SME loans much influenced by the Internal SMEs itself, and in need of assistance from all walks of life (government, SMEs society, students and financial institutions) to provide training in organizational management and understanding of financial literacy to the Community. Akenroye, Owens, Elbaz, & Durowoju, (2020) stated that the Factor Internally related to SMEs in Indonesia in general, as well as resources and capabilities, which can help them in public tenders. Need help understanding about the role of resources and the company's internal capabilities in increasing SME participation in the community.

This is consistent with the results of the study (Rusdarti, 2018) to Improve SME's business need extending marketing network and organizing training, assistance and technology upgrade for SMEs to improve their product standard, value and quality. According to Arun and Kamath in Kabakova & Plaksenkov, (2018), which is proposed to increase financial inclusion can be done through (1) mobilizing social grants to become cashless; (2) supports partnerships between the government and four major banks that support to improve access and use financial services; and (3) introducing special cards for low income, etc.

In Asia, internationalize SMEs is largely limited to exports, but political and legal norms of the country, limited access to capital and adding to information that has been obtained as some obstacles to internationalization of SMEs in developing markets (Das & Rangarajan, 2020). So that the government policy should can overcome the challenges of internationalization and facilitate SMEs to better challenges in the future.

While the results of the Second Hypothesis Test show that the F Test result is 0,000, meaning that H20 is accepted and H2a is rejected, which means that Sharia MSME Financing has a significant effect on Gross Domestion Products which is one indication of the achievement of Financial Inclusion. This research model explains that each MSME Financing of 6,050 million will contribute to an increase in GDP of 72.388 percent. These results are consistent with the results of the study (Nengsih, 2015), (Mohieldin M, Iqbal Z, Rostom A, 2012) and (Kamath, 2007). (Chakrabarty, 2012) writes that financial inclusion provides savings and enables efficient payment mechanisms, thereby strengthening the financial institution's resource base. Thus, financial inclusion becomes a necessity and banking is the main driver for the implementation of financial inclusion.

4. Conclusion

Islamic banks are that use sharia principles in carrying out their business activities with the principles of sharia from the Al-Quran and Al-Hadith Related to the financing MSMEs channeled by the SRB has an important role and significantly influences economic growth as an indication of growing Financial Inclusion, The phenomenon that exists in Indonesia is that the Financial Inclusion program in Indonesia is increasing rapidly, but Index Financial Inclusion Indonesia is still low compared with countries in Asia, According to the literature and the results of the study, low Index of Financial Inclusion in Indonesia are affected because there is still no gab between Financial Institutions and Public unbankable*,* uneven economic growth, and low financial literacy in the community, and the lack of use of information and technology. This research certainly has many shortcomings, in the future it is necessary to develop more extensive research on MSMEs financing not only at the BPRS, but also nationally with more Financial Inclusion Indicators.

This study are expected to be able to add to the scientific discourse of various studies that have been conducted which generally provide the view that Financing in Islamic Banking, more suitable for application in encouraging the development of SMEs through the capital more easily in reach, especially SRB believed closer to the community. So far the institutional role of the SRB as a sharia financial institution has been able to get involved in implementing inclusive finance through existing data which is consistently and focused on the MSME sector, as evidenced by the financial ratios that exist at the SRB.

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