
ANALYSIS OF MICROFINANCING IN THE DEVELOPMENT OF MSME CUSTOMERS

Yolanda Chintya Bella¹

Institut Agama Islam Al-Khairat, Pamekasan, Indonesia
chintyabella2120@gmail.com

Risca Dwiaryanti²

Institut Agama Islam Al-Khairat, Pamekasan, Indonesia
riscadwiaryanti83@gmail.com

Lailatul Hasanah³

Institut Agama Islam Al-Khairat, Pamekasan, Indonesia
lailatulhasanahgenol@gmail.com

Abstract

Sharia banks primarily operate in accordance with Islamic law, which is based on concepts of fairness, balance, benefit, and the avoidance of prohibited aspects such as gharor, maisir, and usury. Bank Syariah Indonesia (BSI) is an exemplary sharia-compliant financial organization that offers financing and other services. It operates using sharia-compliant contracts that have been certified by the National Sharia Council. Microfinance has played a vital role in the financial sector since the early 1980s, with the goal of offering financial services to individuals and small and medium-sized enterprises who are economically disadvantaged. The primary focus is on achieving sustainable development by effectively managing and harmonizing the financial, social, environmental, and governance dimensions. The study employs a qualitative methodology to examine the impact of microfinancing on the development of micro, small, and medium enterprises (MSMEs), as well as the various forms of MSME development. The study examines the provision of funding by banks to businesses and self-employed individuals, with a focus on factors such as trust, agreements, duration, and associated risks. Financing has multiple purposes, such as encouraging commerce and economic activities, mitigating unemployment, allowing the movement of products and money, and fostering economic progress. MSMEs have a substantial impact on the Indonesian economy by making considerable contributions to the country's gross domestic product and employment rates.

Keywords: Financing, MSME Development, BSI

INTRODUCTION

In the current banking world, in terms of function, Islamic banks have the same role as conventional banks, namely collecting and distributing public funds. However, one different thing is the principles of Islamic Sharia, economic democracy, and the principle of prudence which serve as guidelines for the operating system of sharia banks themselves. Apart from their main task as institutions responsible for collecting and distributing public funds, Sharia banks have the aim of supporting the implementation of national development to support increased justice, togetherness, and equal distribution of welfare among society (Rahman & Handayati, 2023).

Banking is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and/or other forms to improve the standard of living of many people. Activities to collect funds from the public are carried out in the form of current accounts, savings and deposits. Savings from the public are usually given attractive compensation such as flowers and other gifts (Rahman & Pratikno, 2022). Fund distribution activities include providing loans to the community, while other banking services are provided to support the smooth running of the main activities of collecting and distributing community funds (Aditya, 2012; Rahman et al., 2023).

Based on Law No. 21 of 2008 concerning sharia banking, sharia banks are banks that carry out business activities based on sharia principles or principles of Islamic law. The principles of Islamic sharia in question include the principles of justice and balance (*adl wa tawazun*), benefit (*maslahah*), universalism (natural), as well as not containing *gharor*, *maisir*, *usury*, unjust and haram objects, as regulated by Indonesian ulama' (Adiyadnya dkk, 2020).

Bank Syariah Indonesia (BSI) in general is a financial institution whose main business is providing financing and other services in cross-financing as well as money circulation which operates in accordance with sharia principles. Financing in banking activities in general, perhaps you are familiar with the word credit. However, for Sharia banking activities, this is known as financing. However, it's not just a difference in name. Financing is one of the programs of sharia banks which aims to help the community in providing funds and/or goods or other facilities (Aladejebi, 2019).



In this case, the financing process must also be carried out following sharia principles, all forms of sharia bank financing are based on contracts that have been issued a fatwa by the National Sharia Council of the Indonesian Ulema Council (DSN MUI) or a statement of sharia conformity from the DSN MUI.

LITERATURE REVIEW

Microfinance has provided financial services to individuals and small and medium-sized organizations (SMEs) who were previously excluded from the traditional banking system since the early 1980s. The sector aims to provide financial services to the most economically disadvantaged individuals through micro-lending, micro-insurance, micro-savings, and money transfers. This helps establish the industry as a financially sustainable organization in the long run (Toha & Habibah, 2023).

The distinguishing features of microfinance institutions include their financial structure, the significant roles played by foreign donors (Garca-Pérez et al., 2018), the heterogeneity in terms of size, location, and legal status (Ledgerwood, J,1999), and the specific risk control mechanisms employed by MFIs (Morduch, 1999), as stated in the literature.

Sustainable development is a comprehensive idea that includes achieving social and economic progress while staying within the limits of the planet's resources (Steffen et al., 2015). The present socio-economic progress is therefore connected to the future generations' dedication to well-being.

Sustainability is the concept of achieving a balance between finance, social, environment, and governance. This balance is crucial in both the short and long term, as emphasized by various studies (Kusumastuti, 2021).

RESEARCH METHOD

The research used in this case is descriptive research using a qualitative approach (Fauji et al., 2021a), namely a method that uses descriptive data in the form of written or

spoken language from people and actors who can be observed and this research was conducted at Bank Syariah Indonesia (BSI).

There are two data sources used in this research, namely primary and secondary data. Primary data is data collected by researchers themselves in the form of observations and using a list of interview guidelines submitted to sources (Rahman, Mukhlis, et al., 2023). Meanwhile, secondary data is data obtained by researchers from existing sources. There are two research focuses in this report, namely micro financing in developing MSMEs and types of MSME development.

RESULTS AND DISCUSSION

According to Kasmir, financing is an agreement between the bank and the customer in which the bank provides funds. The customer will return the funds within the specified time period. Financing is any type of loan that requires the borrower to repay the funds provided along with interest according to the agreement (F. Rahman, 2023).

From this definition, it can be concluded that financing is an agreement between the fund provider (bank) and the fund borrower which requires the customer to pay off his obligations in accordance with the agreement. Meanwhile, micro financing is financing provided by banks to borrowers (customers) who work as self-employed business owners or entrepreneurs so that the funds provided are used for working capital and investments related to the business. Microfinance is indicated for small-scale entrepreneurs so that their businesses can develop well (Kunaifi & Qomariyah, 2021).

Financing is provided to customers with several aspects, namely: trust; The bank believes that the funds that have been given to customers can be received back in accordance with the agreement. An agreement is made between the bank and the customer which will be stated in a material agreement signed by both parties. Time period ; a period of time is given to customers to repay the funds that have been given. If the customer cannot pay back, the customer will be subject to a fine or the collateral will be auctioned.

The bank bears a big risk whether the customer can repay the funds that have been given according to the agreement. The time period for providing financing affects the risk,



the longer the period given, the greater the risk borne by the fund provider (bank). Banks provide financing in the hope of getting profit sharing that must be paid by customers. The function of financing according to Hasibuan, 2009, in providing financing products, of course has a function and purpose, namely to be an encouragement to increase trade and economic activities, reduce unemployment levels, facilitate the flow of goods and money, advance relations between countries, develop the productivity of existing funds, develop the utility of goods, become an inspiration for society, increase company capital, and change the way people think or act to be more economical. (Nurhayati, N., Nasir, M., Mukti, A., Safri, A., Hasibuan, L., & Anwar, K. (2022).

The objectives of financing distribution include obtaining profits from profit sharing, utilizing and making productive use of existing funds, carrying out bank operational activities, meeting requests for micro financing from the community, expediting micro financing payments, increasing the company's working capital, and increasing community income and welfare.

MSME is an abbreviation for micro, small and medium enterprises. Or it can be concluded as an economic effort carried out by lower middle class people. MSMEs have an important role in the Indonesian economy because they make a significant contribution, especially in the formation of gross domestic product and employment (Rahman, F, Sudarmiati, Hermawan, 2023). Entrepreneurship is the key to the progress and prosperity of a nation (Asy'ari, Dwiaryanti: 2022). MSMEs are also believed to have high economic resilience so they can support the stability of the financial and economic system, such as beauty MSMEs, namely businesses operating in this sector, such as skin care and beauty equipment (Anggraini, dkk, 2013).

The characteristics of MSMEs are that the goods in their business are not fixed (can change at any time) or the place where they run their business can move at any time or their business has not yet implemented administration (personal and business finances are still combined. The strategy for developing an MSME business is through establishing good relationships good with customers. In building an MSME business, consumer satisfaction is

number one because it will be easy to communicate with sellers via social media. Improve product quality. The use of advanced technology but not accompanied by product quality will remain in vain, because maintained product quality will improve business quality Knowing market/consumer needs. observing trends that are booming at the moment. this product is what people need (Kunaifi & Syam, 2021). Utilizing social media, the role of social media must be utilized to develop the MSME business that we have because people prefer to shop online (more economical and practical) social media is here as a means of product promotion, a means of sales, receiving customer complaints and a means of payment transactions. Promotion using online platforms, continuing to innovate both in terms of products and advertising, because creativity will bring MSME businesses more advanced (Fauji et al., 2021).

Business development is a form of effort towards the business itself so that it can develop better and reach a point/peak of success. In many countries in the world development, and the growth of micro, small and medium enterprises (MSMEs) is the driving force of economic growth. that in one of the characteristics of good economic dynamics and performance with high growth rates in East Asian and Southeast Asian countries such as Singapore, Taiwan, Korea, which have very good performance.

MSME is an abbreviation for micro, small and medium enterprises, which means micro, small and medium enterprises. There are three types of MSMEs based on their size and income: a) Micro businesses: these are businesses with assets of less than IDR 50 million and annual income of less than IDR 300 million. Examples include small food stalls, hairdressing places, and street vendors; b) Small businesses: these are businesses with assets between IDR 50 million and IDR 500 million and annual income between IDR 300 million and IDR 2.5 billion. Examples include small restaurants, clothing stores, and small-scale manufacturing businesses; c) Medium businesses: these are businesses with assets between IDR 500 million and IDR 10 billion and annual income between IDR 2.5 billion and IDR 50 billion. Examples include mid-sized manufacturing businesses, wholesalers, and distributors (Rahman et al., 2024).

Apart from that, BSI also provides working capital financing, investment financing, multipurpose financing and sharia financing to MSMEs. BSI is committed to increasing



financing distribution to the MSME segment with a projection of 18% to 20% on an annual basis. As more and more competitors dominate the market, an institute or business institution is forced to form their best strategy to attract consumers. Likewise with sharia financial institutions. After getting several customers, the next step is how these customers remain loyal to the financial institution to maintain the number of customers so that they do not turn to competitors (Dwiaryanti et al, 2023). In this way, BSI will remain the choice of the community, especially BSI customers, to become work and business partners.

CONCLUSION

Financing as a contractual arrangement between a financial institution and a client, wherein the institution disburses monies that the client is obligated to reimburse within a predetermined timeframe. This funding encompasses interest-bearing loans that serve many objectives, including microfinancing for entrepreneurs to bolster their company endeavors.

The financing process encompasses elements such as confidence (the assurance that the consumer would reimburse the cash), contracts (the terms and conditions established between the bank and the customer), and durations (the specified timetables for payback). The bank assumes the risk based on the duration of the repayment period, which can impact the overall amount of risk.

Micro, small, and medium companies (MSMEs) have a substantial impact on the economy through their contributions to the Gross Domestic Product (GDP) and job creation. These businesses can take advantage of many financing choices, including working capital, investment, multipurpose, and sharia financing, to expand their operations. BSI and similar financial institutions are dedicated to providing financial support to Micro, Small, and Medium Enterprises (MSMEs) through the distribution of funds and the establishment of strategic business alliances.

In order to facilitate the expansion of MSMEs, it is crucial to cultivate strong customer relationships, employ social media platforms for promotional and communicative purposes, enhance product quality, comprehend market demands, and consistently engage in

product and advertising innovation. In general, the provision of funds and assistance for micro, small, and medium enterprises (MSMEs) is crucial for promoting economic expansion and ensuring stability.

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