

# The Implementation of Micro Financing in Sharia Commercial Banks in Undertaking Social Intermediary Function

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**Abstract**—This research aimed at describing the implementation of microfinance in BUS and the application of intermediary social function of sharia bank. The method used descriptive qualitative approach about the implementation of microfinance in BUS in West Java with library research, documentation, and interviews. The results showed that the implementation of microfinance in BUS was distributed directly to individual customers and MSMEs or through sharia microfinance institutions such as sharia cooperatives. The contract used *mudharabah*, *musyarakah*, and *murabahah*. The finance ceiling was between Rp. 2 million to Rp. 200 million with and or without collateral, and with and without assistance. Based on the distribution of microfinance to customers by using *mudharabah* contracts for investment or working capital (not consumptive), the objectives, and the targets of customers, the intermediary social function of BUS is adequate good. However, the use of *murabahah* contracts oriented to bank's profit and the existence of collateral showed that the intermediary social function of BUS has not been optimal yet.

**Keywords**—micro financing; sharia commercial banks; income gap

## I. INTRODUCTION

Banking is one of the agents of development in state life because the main function of banking is as a financial intermediary institution. It means that an institution that collects funds from the public in the form of deposits and redistributes them to the community in the form of credit or financing [1]. Such a function becomes a concern of sharia banking, namely raising funds from the community and channeling it back to the people who need funds. Besides being a sharia bank fundraising institution, sharia bank also functions as a fund channeling institution (commonly referred to as financing terms) and as an institution that manages *zakat*, *infaq*, and alms (*ZIS*, *Zakat*, *Infaq*, and *Sedekah*).

The existence of sharia banking in Indonesia has experienced a significant and increasingly strong development after the emergence of Law Number 21 Year 2008 concerning Sharia Banking which explicitly acknowledges the existence of sharia banking and distinguishes it from the conventional banking system. Article 1 paragraph 7 of Act Number 21 Year

2008 concerning Sharia Banking explains that sharia banks are the banks that conduct their business activities based on sharia principles and according to their types they consist of Sharia Commercial Banks (BUS, *Bank Umum Syariah*) and Sharia Financing Banks (BPRS, *Bank Pembiayaan Syariah*) [1]. The existence of sharia banking affects financial development positively through composite financial index compositions in general [2]. This proves that the presence of sharia banking brings benefits in financial development in Muslim countries [3].

The function of sharia bank is as an intermediary agent. Banking service providers in general insofar not against sharia are a means of transmitting monetary policy (similar to conventional banks), fund or investment manager, and social functions manager (*ZISWAF*, *Zakat*, *Infaq*, *Sedekah*, dan *Wakaf*). Based on these functions, the relationship between banks and customers in the practice of sharia banking is a partnership. Operationally, as stated in Law Number 21 Year 2008 that the functions of sharia banking (BUS and UUS, *Unit Usaha Syariah/Sharia Business Unit*) are (1) under an obligation to carry out the function of collecting and channeling public funds; (2) able to conduct social functions in the form of sharia-based microfinancing institutions or *baitul maal* institutions by receiving funds originating from *zakat*, *infaq*, alms, grants, or other social funds and distributing them to *zakat* management organizations; and (3) able to collect social funds originating from money *waqf* and distribute them to *waqf* managers (*nazhir*) in accordance with the will of the *waqf* giver (*wakif*). The implementation of social functions as referred to in paragraph (2) and paragraph (3) is in accordance with the provisions of legislation and fatwa of DSN-MUI.

In the activity of distributing funds, sharia banks conduct investment and financing. It is called investment because it used the principle of funds investment or participation, and its profits will be obtained depending on the business performance that becomes the object of participation in accordance with the profit sharing ratio previously promised. It is called financing because sharia banks provide funds to finance the needs of customers who need it and deserve it [4]. Sharia banks distribute microfinance to customers directly, not through sharia microfinance institutions such as sharia cooperatives

(BMT, *Baitul Maal wat Tamwil*) by distributing finance to MSMEs (Micro, Small, and Medium Enterprises). According to the research of SMEs (Small and Medium Enterprises) Center FEB UI, the development of MSMEs in this country has two main obstacles, namely capital and marketing difficulties. Capital problem hampered MSMEs actors from expanding their businesses and “promoting to next grade”. This problem is extremely related to financing access matters. The current trend shows that the majority of MSMEs financing access rests on the banking sector. In fact, the potential for financing through other sectors is still wide open with a wider access range. Based on the data of SMEs Center FEB UI, more than 90% of creative economy sector are MSMEs group [5].

According to Minister of Cooperatives and Small and Medium Enterprises, Amak Agung Gede Ngurah Puspayoga, MSMEs in Indonesia have increased significantly and come through “psychological limits” of MSMEs’ percentage of developed countries category as high as 2%. In 2013/2014, it only reached 1.67% and then had risen to 3.1% in the first half of 2017. After that, regarding the MSMEs contribution to gross domestic product (GDP or PDB, *Pendapatan Domestik Bruto*). The numbers recorded at the beginning of 2017 reached 61.41%. However, in August 2017, some observers predicted that the contribution of MSMEs to GDP would have decreased by the end of year because of the sluggish trade and industry sectors. These two facts above are contradiction. On the one hand, the growth and percentage of MSMEs are significantly increasing and implying a surge in economic passion and optimism to strengthen the role of MSMEs in the country’s economy. However, its contribution to GDP was not even liable with the number of SMEs’ quantity increase [6]. Research related to microfinance has existed, but it is associated with efforts to empower and increase MSMEs as the functions of banks as agent of trust, agent of development, and agent of services [7] while, in this research, it is seen from the intermediary social function. The purpose was to describe the implementation of microfinance in BUS and the application of sharia bank function as intermediary social through microfinance through the achievement of microfinance’s goal in BUS.

## II. METHODS

This research used descriptive analysis with a normative juridical approach as its method. The data source consisted of primary data and secondary data. To obtain the primary data, the research was conducted to BUS to obtain an overview of the implementation of microfinance in BUS. Secondary data was obtained through searching documents related to microfinance in the form of primary, secondary, and tertiary documents, and examining the implementation of microfinance and the achievement of microfinance’s objectives in BUS [8]. Data collection techniques used interviews and documentation, which then were analyzed qualitatively. The object of the research was BUS in West Java, which issued micro financing products. Of 13 BUSs, six BUSs have these products in which three of them are still active in carrying out microfinance, namely Bank Syariah Mandiri (BSM), Bank Rakyat Indonesia Syariah (BRIS), and BTPN Syariah.

## III. RESULTS AND DISCUSSION

In the level of implementation, based on the previous research conducted by Yunus et al. [9], BUS is still prioritizing its business activities on achieving profit targets. Therefore, other aspects, such as the fulfillment of sharia principles, the achievement of *maqashid sharia* objectives, and the distribution of microfinance (social role) are still not optimal. Besides that, Suhendri [10] claimed that Islamic micro-entrepreneurs have lack of understanding and familiarity with the products of *mudharabah* financing so that it is the same as a regular credit financing.

In line with this, this research has found some types of microfinance at BRIS (Bank Rakyat Indonesia Syariah). First, Micro 25 iB with financing limit of Rp. 5 million - 25 million, financing tenure of 3-12 months, and without collateral. Second, Micro 75 iB with financing limit of Rp. 25 million -75 million, financing tenure of 6-36 months (working capital) or 6-60 months (investment), and collateral for motorized vehicles, kiosks, vacant lots, land and buildings, and BRIS deposits. Third, Mikro iB with financing limit of Rp. 75 million-200 million, financing tenure of 6-60 months, and collateral for motorized vehicles, kiosks, vacant lots, land and building, and BRIS deposits. The BRIS microfinance scheme uses *murabahah* (sale and purchase) contracts with the purpose of financing for working capital, investment, and consumption (as high as 50% of the customer’s productive goals).

In addition, micro business financing in BSM (Bank Syariah Mandiri), financing facilities are aimed at self-employed customers or traders. Financing ceiling is up to Rp. 200 million, the requirements for customers who want to apply for microfinance include: their business must have been running for at least 2 years, business certificate, *non golbertap* (non-fixed income group), entrepreneur/trader, financing limit up to 200 million, financing objectives for working capital and investment, and duration for working capital is 48 months and for investment is 60 months.

Additionally, BTPN Syariah has a unique concept in its micro products. With the aim at increasing the number of MSMEs touched by banks, BTPN Syariah provides financing to women who are considered to have great potential in conducting business, dare to try, be disciplined, be willing to work hard, and have solidarity to encourage others to grow to be a reliable entrepreneur. Every super micro customer can obtain funding of Rp. 2 million each person. The loan scheme is quite easy because the bank does not ask for collateral. Each customer can obtain additional financing after one year of financing period by increasing the ceiling in accordance with the customer needs and bank policies.

Based on the objectives and requirements, the aforementioned funding is intended to provide opportunities for SMEs to improve their business. Some BUS do not survive with microfinance such as Bank Victoria Syariah and Bank Muamalat that have stopped this micro financing product.

BRIS, in terms of its objectives, has shown an indication of intermediary social function, namely financing that is used for working capital and is intended for communities who have MSMEs. In addition, this funding is used for micro business

development and not consumptive financing. The obligation of customers to provide collateral is only for financing above Rp. 500 million, while for up to Rp. 25 million and Rp. 50 million, customers are not charged to include collateral in financing. However, its contract used *murabahah* contract (*tijari* contract) which aims at making profits.

Besides that, BSM, in the implementation of microfinance to develop productive businesses to entrepreneurs or traders (not groups with fixed income) as target markets, shows an indication of intermediary social function. BSM still requires collateral for all microfinance customers. The contract used is *murabahah* contract (*tijari* contract) which aims at making profits.

The BTPN Syariah Bank has a segment of financing distribution for super micro entrepreneurs or productive poor people with a financing scheme using *mudharabah* contracts and not using collateral. In addition to financing, BTPN Syariah also provides assistance to give opportunities for women in the productive poor segment to participate in increasing family income. This intermediary social function has been carried out properly because the allocation of financing is truly for unbankable communities and poor people who have productive business activities.

#### IV. CONCLUSION

The implementation of microfinance in BUS is distributed directly to individual customers and MSMEs and several of them are distributed through sharia microfinance institutions such as sharia cooperatives. The contracts used are *mudharabah*, *musyarakah* and *murabahah*. The finance ceiling is between Rp. 2 million to Rp. 200 million with and or without collateral, and with and without assistance. Based on the distribution of microfinance to customers by using *mudharabah* contracts for investment or working capital (not consumptive), the objectives, and the targets of customers,

BUS has been adequate good in undertaking the intermediary social function that are the characteristic of sharia banks. However, the use of *murabahah* contracts oriented to bank's profit (*tijari* contract) and the existence of collateral showed that the intermediary social function of BUS has not been optimal yet.

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