

## Determinant Analysis of The Role of Islamic Banking in Micro Small Medium Enterprises in The New Normal Period

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### **ABSTRACT**

*The purpose of this study was to identify and analyze the role of Islamic banking in MSMEs in the new normal period because Islamic banking is a financial intermediary institution that has a role in economic development and in this case the focus of research on MSMEs can drive economic activity. Problems in research due to this new normal period need to be studied whether MSMEs increase their income during the new normal period and whether Islamic banking has played a role. This research methodology was conducted using primary data obtained through a survey of 116 business actors engaged in the food business and other businesses located in the city of Medan. The results of this study indicate that MSMEs survive from their own capital in the form of assets and savings owned, even though the interest and desire of MSME actors is very dominant in wanting to transact to obtain assistance in the form of capital from Islamic banking, which is equal to 86%. 52.6% of MSMEs have capital problems in this new normal period. Thus it can be concluded that Islamic banking has not provided assistance to MSMEs in the new normal period and Islamic banking has the potential to increase its role as a financial intermediary institution in the future.*

**Keywords:** MSME, Islamic Banking, Financing

### **A. INTRODUCTION**

At the beginning of 2020, the Covid-19 outbreak that occurred globally, including in Indonesia has triggered negative sentiment in various business lines, especially the MSME business. The spread or development of the number of Covid 19 cases has resulted in a productive decline in the economic sector, in

Micro, Small and Medium Enterprises (Bara and Pradesyah 2021); (Trianto, Yuliaty, and Sabiu 2021).

MSMEs in Medan City during the Covid-19 pandemic itself had a major impact on the pace of business development, where many MSMEs in Medan City stated that they had difficulty running their business due to the imposition of restrictions on community activities (PPKM). With the restrictions on activities during the Covid-19 period, MSMEs' turnover at that time decreased, besides that, distribution constraints and a lack of capital made it difficult for MSMEs to develop (Bhakti 2013); (Putri, Melenia, and Akbary 2021).

Apart from the lack of business turnover and a decrease in business capital, many MSMEs in Medan City do not have reserve funds to deal with the strong Covid-19 pandemic so that the businesses they have founded cannot run well. This is evident from a survey conducted by the Ministry of Cooperatives and Small and Medium Enterprises in Medan City, where 58% of MSMEs experienced a decrease in sales turnover due to the Covid-19 pandemic, and only 8% of MSMEs were able to 'survive' amid the pandemic. Covid-19.(Amri 2020)

From the aspect of the lack of turnover/income, which reduced business capital until there were no reserve funds prepared by MSMEs in Medan City during the Covid-19 period, Islamic banks had to tighten their promotion of venture capital financing products during the Covid-19 period. (Muheramtohad 2017) because from these two aspects the role of banking as an intermediary institution for MSME actors can be assessed, so that Islamic banking can be appreciated in government programs to help MSME players during the Covid-19 period.

Therefore the relationship between Islamic banking and MSMEs is very important to note. Apart from the role of sharia banking, the exploratory mindset of MSME actors is the key to continuing business activities in the midst of a crisis (Purnamasari and Darmawan 2017). Therefore, efforts are needed to increase public interest in MSMEs and provide motivation for the community to continue running a business or take advantage of existing opportunities to open new businesses in the midst of the ongoing Covid-19 pandemic (Istiatin and Marwati 2021).

With the existence of sharia banking as an intermediary medium with the public, it is hoped that sharia banking can play a major role in assisting aspects of business capital, especially for the development of MSMEs in the new normal

period. Where with all the limitations in the New Normal era, there are still opportunities for MSMEs in various fields.

Problems in research due to this new normal period need to be studied whether MSMEs increase their income during the new normal period and whether Islamic banking has played a role. MSMEs need to be assisted by Islamic banking so that MSMEs can survive under any conditions. Through this research, it provides advice especially to Islamic banking whether its financial intermediary role has helped MSMEs and can also find out how much MSME actors desire to transact with Islamic banking.

## **B. THEORITICAL**

The indicators of this study are the role of financial intermediaries, Islamic bank financing, and income and capital from MSME actors. The survey was carried out through questionnaires given to respondents in answering the questions needed in this study.

### **Islamic Banking**

The word bank comes from the word "banque" in French, and from the word "banco" in Italian which means chests, cupboards and (Pohan 2019); (Aziz and Tri 2021). In general, what is meant by an Islamic bank is a financial institution which main business is providing financing and other services in payment traffic and money circulation that operate according to sharia principles (Elasrag 2016). Therefore, bank business will always be related to money issues as its main tool (Endri 2018).

### **Micro, Small and Medium Enterprises (MSMEs)**

Micro, Small and Medium Enterprises (MSMEs) are productive business units that stand alone, which are carried out by individuals or business entities in all economic sectors (Halim 2020); (Herliansyah et al. 2020). Based on Law No. 20 of 2008, the MSME scale is divided into three forms of business, namely micro businesses that have assets of a maximum of IDR 50,000,000 excluding land and buildings with a maximum annual sales revenue of IDR 300,000,000, small businesses with a value of assets more than Rp. 50,000,000 up to a maximum of IDR 500,000,000 assets excluding land and buildings where the business has annual sales proceeds from IDR 300,000,000 to a maximum of IDR 2,500,000,000, and medium businesses with a net worth of more than IDR

500,000,000 to a maximum of IDR 100,000,000,000 of annual sales proceeds above IDR 2,500,000,000,000 billion up to a maximum of IDR 50,000,000,000 (Suci 2017); (Nugroho and Nugraha 2020)

### **New Normal**

New Normal is a new stage after the stay at home or work from home policy or social restrictions were imposed to prevent the massive spread of the corona virus outbreak. New Normal mainly lets residents who need activities outside the home can work using the set health standards. So it's not just free to hang out or wander around (Nadyan, Selvia, and Fauzan 2021). To survive in the new normal era, MSMEs need to prepare a number of things. First, innovation is the key to adaptation. With creativity and nimble innovation, businessmen can actually create new profitable business opportunities. For example, innovation in terms of sales channels, from synergizing offline with online, digital adoption is very vital. Or also, innovating in terms of products, so that in this new normal period it is hoped that MSMEs can progress and develop. (Cahaya, Widyastuti, and Fatharani 2021)

### **Financing**

According to banking law no. 10 of 1998, financing is the provision of money or bills that can be equated with it, based on an agreement or agreement between the bank and other parties being financed to return the money or bills after a certain period of time in return or profit sharing. Financing is a very important activity because with financing the main source of income will be obtained and will support the continuity of the bank's business. (Rahmayati 2019)

### **Capital**

Capital is a source of economic resources other than human-made labor. Sometimes capital can be seen in terms of money or in terms of the total value of non-human economic resources (Mujiatun, Rahmayati, and Ferina 2021). Capital in agricultural business can be distinguished between own capital and loan capital. Capital is one of the factors of production in agriculture besides land, labor, and employers. While credit as a tool to help create capital (Panelewen, Tilaar, and Kalangi 2020)

### C. METHODOLOGY

In this study the research approach used is a qualitative approach which is a research method based on the philosophy used to examine natural conditions (Sugiyono 2016). Using descriptive analysis techniques where statistics are tools used to analyze data by describing or illustrating data that has been collected in the form of tables, graphs, and diagrams. In this study, the data sources used came from respondents. The respondents in question are MSME actors in Medan City by taking primary data, where primary data is a source of data derived from observations, interview results, documentation results, and the results of filling out questionnaires by respondents as many as 116 MSME respondents who were interviewed by researchers. The process carried out is by making questions with a focus on knowing how the role of Islamic banking is in increasing assistance from MSME actors, then after obtaining the answers, the researchers carry out analysis and interpretation of the research.

### D. RESULTS AND DISCUSSION RESULTS

According to the results of interviews with informants on the capital aspect of MSME owners in Medan City, they have recovered from the Covid-19 pandemic. During the new normal, sales have increased again and allowed businesses to revive.

Meanwhile, from the funding aspect, many businesses already have reserve funds after the Covid-19 incident. These funds are used if the Covid-19 pandemic occurs again. Based on the results of interviews and questionnaires, there are at least 11.2% of MSME owners in Medan City who already have reserve funds originating from Islamic bank financing. The rest comes from allowance for product sales and conventional bank loans.

In increasing the role of Islamic banking in helping MSMEs, Islamic banking must attract the interest of the community, especially MSMEs in Medan City. Based on the results of interviews and questionnaires, at least (86%) of MSMEs in Medan City are interested in applying for financing in Medan City. MSME owners are attracted because of good service, easy transaction processes and promotions carried out by Islamic banking

## DISCUSSION

### Characteristics of Respondents

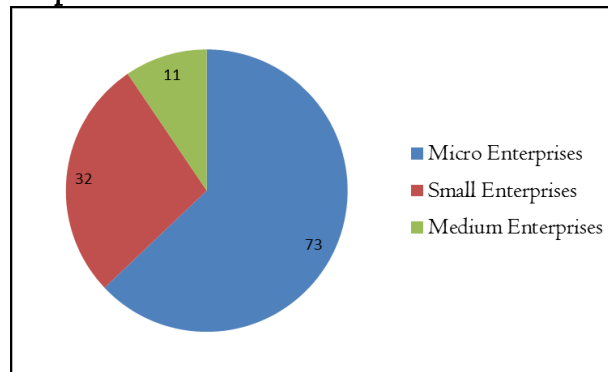


Figure I. MSME criteria in Medan City

Referring to the primary data that has been processed in Figure 4.1., there are 116 MSMEs originating from 21 sub-districts in Medan City with various business fields such as food product businesses, clothing product businesses, and service businesses. The business under study has been established for 2 to 3 years. With a micro business scale of 73 respondents (62.9%), a small business scale of 32 respondents (27.6%), and a medium business scale of 11 respondents (9.5%).

### MSME Capital in Medan City in the New Normal Period

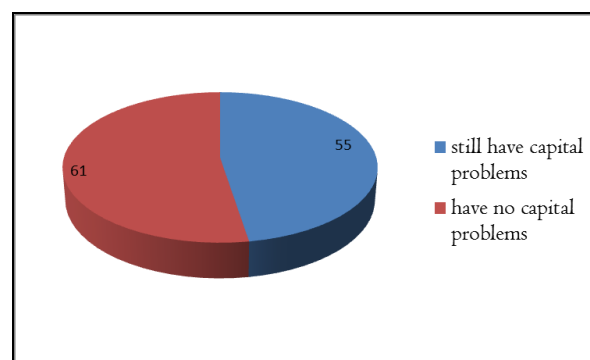
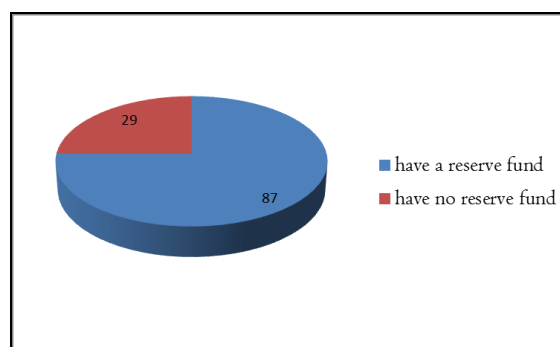


Figure 2. MSME Capital in Medan City in the New Normal Period

There are 61 MSMEs in Medan City (52.6%) which still have capital constraints during the new normal period. Meanwhile, the other 55 MSMEs

(47.4%) had no capital problems during the new normal period. Based on research results from informants, businesses that have resurrected during the new normal period have their income increase by an average of 20%, this can help recover their capital due to the Covid-19 pandemic crisis. So it can be concluded that the role of Islamic banking in helping MSME capital in Medan City during the new normal period still does not exist.

### Medan City MSME Reserve Fund in the New Normal Period

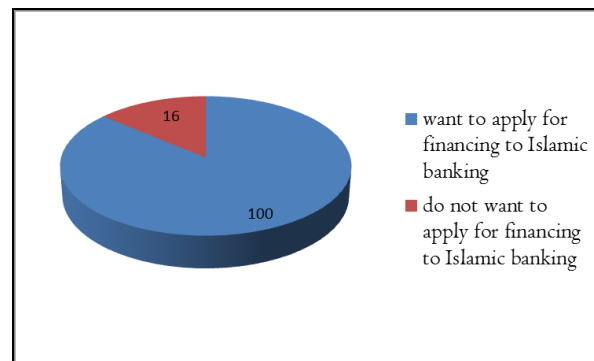


**Figure 3.** Medan City MSME Reserve Fund in the New Normal Period

There are 87 MSMEs in Medan City (75%) which already have reserve funds during the new normal period. of which there were 70 MSMEs in Medan City (60.3%) who had reserve funds during the Covid-19 period, so there were around 17 MSMEs in Medan City (14.7%) who had prepared reserve funds after the end of the Covid-19 period. Based on research results, the role of Islamic banking in helping to prepare reserve funds already exists but has not been realized properly. There are 17 MSMEs in Medan City (14.7%) have reserve funds sourced from setting aside their income, some are sourced from sharia banking financing when they set up a business, and there are also MSME actors who apply for financing to seek reserve funds for their businesses during the Covid-19, but these funds are still not sufficient for their reserve fund needs so that there are 13 MSMEs in Medan City (11.2%) which choose to increase their reserve funds by financing in Islamic banking during the new normal period.



### The Desire of MSME Actors in Medan City to Submit Financing to Islamic Banking in the New Normal Period



**Figure .4.** The Desire of MSME Actors in Medan City to Submit Financing to Islamic Banking in the New Normal Period

On average there are 100 MSMEs in Medan City (86%) which wish to apply for financing during the new normal period. This figure was obtained from the intense competition between Islamic and conventional banks, the services of Islamic banks which were considered good, the ease of processing Islamic banking transactions, to the interest of MSME customers after the promotion carried out by Islamic banking (Ritonga and Sinaga 2021). Based on the research results, many MSME actors in Medan City do not yet require financing, but the level of willingness of MSME actors to apply for financing is quite high. So from Islamic banking must add insight and knowledge to MSME actors by conducting literacy and inclusion studies for MSME actors in Medan City. So that MSME actors are increasingly interested and encouraged to finance Islamic banking.

### E. CONCLUSION

Based on the results of the research, it can be concluded that Islamic banking does not help the capital aspects of MSME owners in Medan City, because during the new normal period, transaction activities were normal where business income increased and capital recovered.

In assisting in providing reserve or development funds, Islamic banking has helped provide reserve or development funds to 13 (11.2%) out of 46 business owners (60.3%) who did not have reserve funds during the Covid-19 period, with



a total of helping 87 business owners (75%) out of 116 business owners since the Covid-19 pandemic period until the current new normal period.

Then 100 (86%) of the 116 business owners stated that they wanted to finance Islamic banking because the process was easy, the service was good, and they were interested in promotions carried out by Islamic banking during the new normal period. Thus Islamic banking has succeeded in carrying out its role in providing reserve funds or development and attracting the wishes of MSMEs in Medan City during the new normal period.

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