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## ASSISTANCE OF SHARIA BANKING FINANCE PROGRAM IN MSME DEVELOPMENT IN MALANG REGENCY

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**Abstract:** The MSME sector has a vital role in supporting the economy of Malang Regency. The factor that makes it difficult for MSMEs to access Islamic banking financing is an unorganized financial administration system characterized by operational costs inseparable from household expenses. Technical constraints make MSME owners less concerned about their long-term business goals or strategic plans. Karangsono Village, located in the Malang Regency area, most of the population still relies on the MSME sector as a livelihood. This service aims to make MSME actors understand financial management, sharia accounts, financing rules from Islamic banks, preparation of financial reports, and the formation of proposals for submitting financing to Islamic banks.

**Keywords:** Financing; MSMEs; Islamic Bank

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## INTRODUCTION

The Micro, Small, and Medium Enterprises (MSME) sector plays an essential role in the Indonesian economy. The MSME sector can drive the Indonesian economy because of its dependence on foreign currencies, especially the United States (Ermaya, 2019). The MSME sector was proven to survive when Indonesia experienced an economic crisis in 1998. The significant contribution of the MSME sector in the national economy prompted the government to focus more on empowering and developing MSMEs through the Ministry of Cooperatives and Small and Medium Enterprises by implementing various programs, including providing entrepreneurship training, facilitating certification and standardization of MSME products, providing assistance to People's Business Credit, facilitating the making of Notary Deeds for Micro Enterprises, facilitating Micro Small Business permits, facilitating promotions and exhibitions for MSMEs, developing partnerships and investment cooperation for MSMEs, and providing assistance for land rights certification for MSMEs. (Ministry of Cooperatives and SMEs, 2019).

As one of the backbones of the national economy, MSMEs are not a sector that does not have problems. Bank Indonesia (2015) released several obstacles or obstacles faced by MSMEs in developing their business. One of them is the lack of access to finance to banks. The factor that causes the difficulty of MSMEs in obtaining access to bank financing is that MSME managers do not yet have a good financial administration system. In addition, MSME business management is traditionally managed. MSME owners have not separated operational money for households and businesses. Technical constraints make MSME owners less concerned about their long-term business goals or strategic plans.

MSMEs have a vital role in supporting the economy of Malang Regency. The number of MSMEs in Malang Regency as of July 2020 is 425,561 businesses. In the same year, Sanusi as Malang Regent reminded that the number of cooperatives and SMEs must be balanced with

quality improvement. Improving the quality of SMEs can be realized if human resources are also equipped with good managerial skills. Training is one of the strategic forums and efforts to strengthen the cooperative and micro-enterprise sector. (Fizriyani, 2020).

Karangsuko Village, located in the Malang Regency area, most of the population still relies on the MSME sector as a livelihood. According to Suwarno, as the head of the MSME group, the entire MSME sector in Karangsuko Village is 62 MSMEs. In this MSME sector, the community in the village still needs to increase knowledge about MSME development by developing business through Islamic Banking financing so that MSME actors (partners) can manage their business in a blessed, efficient, productive, and independent manner. That is the main problem for MSME actors in Malang Regency so that due to lack of knowledge, the productivity results in the MSME sector are also less than optimal. Some participants already know about financial management, transaction recording, and Islamic bank financing, but few of the total 25 participants know. Overall, the implementation of mentoring can be successful because participants can master the material both on financial and financial management, understanding of Islamic banking, and even reports on making financing proposals at Islamic banks. Based on the questionnaires filled out by participants, 87.20% of participants were able to make proposals, which was much higher than before the training, which only reached 18%.

In terms of channeling funds to the public, the practice in Islamic banks is different from what is done in conventional banks. The most fundamental difference is that Islamic banks have no usury or interest, and they use a profit-sharing financing system (*musharakah* and *mudharabah*). Islamic banking has enormous potential in the economy. This Islamic banking system is suitable for developing MSMEs with a strategic role in driving national economic development. Thus, the contribution of Islamic banking in the development of MSMEs is expected to run more optimally. One example is by increasing the accessibility of financing by providing easier requirements and conducting

training and business assistance. Islamic banking is expected to grow in empowering micro, small and medium enterprises. (Karnina, 2018). In this case, Islamic banking and MSME actors get a huge opportunity or opportunity to collaborate. Based on these problems, it is necessary to hold mentoring activities for MSME actors in Karangsono village to manage finances by using proposals for submitting Islamic bank financing.

Many problems at Partners are related to financial aspects, including capital problems, insignificant company development, poor financial performance, difficult company profits to increase, inability and unwillingness of resources to use accounting, and others. Of these problems, the main problem is the inability and unwillingness of resources or MSME actors to make proposals for submitting MSME capital financing to Islamic banks.

## METHOD

For the implementation of the activities to run well, the flow of activities for community service activities uses the following stages: The Implementation of this Community Service activity is carried out using the lecture, tutorial, and discussion methods. The systematic implementation of this service activity is as follows:

- a. Step 1 (Lecture Method):
  - Participants are motivated to have the will to use sound financial management in their business activities. In addition, participants were given an overview of MSME financial management and the vital role of financial management for MSMEs. The first step is held for 1.5 hours.
- b. Step 2 (Tutorial Method):
  - Training participants are given the proposals material for submitting Islamic banking financing from recording to preparing financial reports. The second step was held for 5 hours.
- c. Step 3 (Discussion Method):
  - Training participants can discuss problems related to MSME finance and sharia banking that they have faced so far. The third step is held for 1.5 hours.

In addition to steps 1, 2, and 3, it is planned to assist in preparing proposals, financial report assistance, and assistance to Islamic banks, for 8 hours with a schedule adjusting the target audience participants so that the number of hours of community service is fulfilled 16 hours.

## RESULTS AND DISCUSSION

The results of this program assistance are activities that include:

- a. Lectures, Tutorials, and Discussions

The team carried out assistance activities for SMEs' Islamic banking financing program at the Karangsono Village Joint Building. This activity was implemented after several coordinations with MSMEs in Karangsono Village regarding the materials and materials submitted. It also community service participants in the Karangsono Village area who were the target of mentoring, the timing of PKM implementation, and appropriate locations as planned in the activity plan document. In this mentoring, participants are given a module regarding the material that the resource persons will deliver of the activity. The MSME business actors who were given the training were 25 participants consisting of MSME business actors in the Karangsono Village area.

The implementation of mentoring is on January 16 and 23, 2021, at 19:00. The beginning of the event begins with participant registration and opening. Furthermore, it is continued with the provision of material with material on the basics of financial management. This material discusses the importance of recording all kinds of transactions for MSMEs to form good financial management. The second material with the theme of explaining Islamic accounts and financing rules from Islamic banks. The provision of material to participants is intended to understand the basic material of this assistance better. It is hoped to guide participants to ask questions and proactive discussions during the activity or form a proposal for submitting financing to Islamic banks. At the discussion stage, 11 participants were active and prepared

the requirements needed to apply for bank financing. Participants were asked to compile financial reports in their MSMEs and form proposals for submitting funding in the last mentoring session.

Another problem faced when mentoring is that not all entrepreneurs in Karangnongko Village, Malang Regency can attend on a mutually agreed schedule. Improvisation is done to maximize mentoring activities, namely by the door to door. The results of the door-to-door activity went as planned. The service team comes when the MSME entrepreneurs have free time on Sundays, and the hours are more flexible depending on the request of the MSME entrepreneurs.

#### b. Assistance in Drafting Proposals

Assistance in the preparation of proposals by the Community Service team is carried out with a discussion system for MSME entrepreneurs who are serious about submitting proposals to Islamic banks; this is because the team is more effective and focused on the needs of MSME entrepreneurs. With a total of 21 participants who have plans to make proposals. After all the material was delivered, a question and answer session was held to learn more about participants' financial profiles and needs. Submission of material is made in a language that is easy to understand. For smooth, comfortable, and orderly discussions, the strategy taken is to conduct interactive dialogues at each procedure and stage presented. This is so that the assistance in preparing proposals is more fluid and on target.

#### c. Financial Report Assistance

The stage of assisting the financial statements of the participants is one of the benchmarks to determine the readiness of MSMEs in submitting proposals that have been made previously. In this stage, every material presented by the PKM team received active response from all participants with optimal attention. Likewise, the allocation of time for discussion and the participants' activities are also monitored. Most of the participants are very active in asking questions, even repeatedly following the financial statement problems faced

in their business, and quite relevant to the stages presented or still related to financial management. The team tried to provide answers by providing examples in overcoming every problem that has been experienced and is being faced by using language that is easy for participants to understand because some participants still do not use financial reports regularly.

Of the 21 participants, there were only 15 who were ready for financial statements. The other 5 participants could not continue because they did not have any financial statements, and 1 participant did not want to open an account with a bank

#### d. Assistance to Islamic Banks

At this stage of mentoring to Islamic banks, participants have explained the simulation of saving at Islamic Banks using three different types of contracts: *wadiah*, *wakalah*, and *mudharabah* contracts. They directed participants to follow the stages and procedures in MSME financing, be it iB KUR Micro or iB KUR Small. This simulation is carried out only for 5 participants; this is done based on time efficiency. The rest will be carried out using the domino effect/snake bite method to other participants.

## CONCLUSIONS

The conclusions resulting from community service activities that have been carried out are as follows:

1. The evaluation results carried out to the partners at the end of the activity indicate that the partners stated that the materials provided support the managed financial management activities.
2. Fundamentals of financial management, explanation of sharia accounts. Financing rules from Islamic banks, preparation of financial statements, and formation of financing proposals submitted and well received by participants
3. The implementation of systematic financial reporting, the preparation of proposals for

submitting financing to Islamic banks have started to be implemented

4. With this Islamic banking financing program's implementation, all parties benefit, especially MSME business actors in Karangsono Village, Malang Regency. The Service Team can provide knowledge to the community about making proposals for submitting financing for capital or developing their businesses. Cooperation was established between the Karangsono Village and lecturers implementing community service programs in particular and the Islamic University of Malang in general.

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