Micro Financing Regulation in Sharia Banks Connected with the Bank Function as Financial Intermediary Institution

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Keywords: Micro Financing, Regulation, Sharia Banks.

Abstract: A bank, as a financial intermediary institution, collects funds from fund surplus party (excess funds) and distributes to fund minus party (lack of funds). As an agent of development,it distributes funds through microfinance distributed to micro enterprises aimed at improving the level of people's incomes to overcome income gap problems. Micro small enterprises need to get support for strengthening technology, information, marketing, capital, access to financial resources, and access to good markets as well as big enterprises. The institutional role has not been maximally overcome the gap problems seen from the lack of Sharia Bank issued micro finance products. Meanwhile, sharia cooperatives and BMTs given attention to UMKMs face the problem of bad financing and sharia compliance in its implementation. Therefore, this research is conducted to know the regulation of micro financing in sharia banks connected with the function of banks as the Financial Intermediary Institution and the constraints faced in implementation. The method used is descriptive analysis with normative juridical approach. Data type consists of secondary data and primary data. The data is collected by literature study and interview.

1 INTRODUCTION

Sharia banking has an important role in encouraging the growth and equity of the national economy through its intermediary role of collecting funds from people who have excess property with those who have lack of funds for both consumptive and capital and business development. It has a characteristic as multi finance of financial institution and a function to bridge economic problems such as economic disparities, unemployment, etc. Indonesia is one of the countries whose current economic gap is quite worrisome because of the unbalanced of poverty and wealth rate. It is proven by Bank Indonesia recorded about the increasing economic gap (Gini Ratio) of 0.41% from 2012 to 2013 and the lowest Indonesia's ratio in 2008 of 0.35%.

Poverty level in March 2014 was 11.25% or decreasing 0.11% compared to March 2013. This decline was followed by gini ratio in which, since 2011, it became increasingly slower. Absolutely, it was decreasing less than 1 million of poor society each year because of present poverty conditions that have reached chronic step and yet optimum macroeconomic conditions. Disparity among provinces has been happening in which the poverty level in provinces in eastern Indonesia is relatively higher than western Indonesia. In other parties, Gini Coefficient was increasing until 0.42 in 2013 (Rahma, 2014). According to Syamsyuddin (2011), inequality tended to increase in 2009-2010 and needed a local justice formula to muffle enhancement rate of GINI ratio magnitude coefficient. This poses a challenge to Bank Indonesia to help reducing the poverty rate and the level of disparities in Indonesia.

In March 2017, the Central Bureau of Statistics (BPS) noted the level of inequality of Indonesian population expenditure as measured by gini ratio is 0.393. The GINI ratio decreased 0.001 points from 0.394 in September 2016. Meanwhile, it decreased 0.004 points from 0.397 in March 2016. The gini ratio in urban areas in March 2017 of 0.407 decreased from 0.409 in September 2016 and 0.410 in March 2016. Meanwhile, gini ratio in rural areas in March 2017 of 0.320 increased from 0.316 in September 2016 and 0.327 in March 2016. While the Gini Ratio in rural areas in March 2017 was 0.320, it was 0.316 in September 2016 and 0.327 in March 2016. It is also revealed that Indonesia's gini ratio experienced fluctuations nationally and ranging from March 2015 to March 2017 began to decline as

Nurhasanah, N. and Imaniyati, N.
Micro Financing Regulation in Sharia Banks Connected with the Bank Function as Financial Intermediary Institution.
In *Proceedings of the 1st International Conference on Islamic Economics, Business, and Philanthropy (ICIEBP 2017) - Transforming Islamic Economy and Societies*, pages 763-767
ISBN: 978-989-758-315-5

an improvement in the distribution of expenditure in Indonesia.

Based on the explanation above, microfinance is defined as the provision of legitimate small businesses and individuals who have limited access to traditional banking services, financial and supplementing social services in terms of macroeconomic effect on the smoothing of social tension in society, improving living standards, employment, and development of entrepreneurship (Churchill and Frankiewicz, 2006). Promotion of economic growth, reduction of poverty, achievement MDGs (Millennium Development Goals) and employment creation are among the first important policy priorities and strategy pillars of the Government of Sudan to address the challenges of high poverty, unemployment, an increase of inflation due to the secession of the South in 2011.Within this context and as articulated in the Interim Poverty Reduction Strategy Paper IPRSP for Sudan, microfinance is one of the major tools given due to priority by the government to alleviate poverty particularly in marginalized and conflict areas.

Salwana et al. (2013) revealed that traditional microfinance has failed to satisfy the Muslims communities because of its shift from poverty to focus on profit oriented business. Riwajanti (2013) suggests that Islamic Microfinance should be considered contributing to poverty alleviation, financial development, and also financial inclusion because it offers unique characteristics with rich of values and human oriented. Salwana favours the Islamic Microfinance because risk is shared between financial institutions and beneficiaries, allowing the entrepreneurs to concentrate on what they do best. A survey conducted in Azad Kashmir Pakistan by Al Huda Centre of Islamic Banking and Economics in 2011, exhibited that 99% of respondents showed strong demand for Islamic microfinance services.

Microfinance is one of the efforts to overcome the level of disparities in society through distributing funds to micro-enterprises. The financing instrument is ideally expected to assist the government in addressing this gap issue such as some contracts in sharia banking i.e. *rahn, qardh al hasan*, and *mudharabah*. These contracts do not only contain blessings, but also empirically show great benefit for respective parties (*shahibulmaal* and *mudharib*), especially in *mudharabah*. This is in line with what Allah has coveted in QS.Al-Hashr [59]: 7 follows:

مَا أَفَاءَ اللَّهُ عَلَى رَسُولِهِ مِنْ أَهْلِ الْقُرَى فَلِلَّهِ وَلِلرَّسُولِ وَلِذِي الْقُرْبَى وَالْيَتَامَى وَالْمَسَاكِينِ وَابْنِ السَّبِيلِ كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ وَمَا آتَاكُمُ الرَّسُولُ فَخُذُوهُ وَمَا نَهَاكُمْ عَنْهُ فَانْتَهُوا وَاتَّقُوا اللَّهَ إِنَّ اللَّهَ شَدِيدُ الْعِقَابِ

"And what Allah restored to His Messenger from the people of the towns - it is for Allah and for the Messenger and for [his] near relatives and orphans and the [stranded] traveller - so that it will not be a perpetual distribution among the rich from among you. And whatever the Messenger has given you - take; and what he has forbidden you - refrain from. And fear Allah; indeed, Allah is severe in penalty".

The word *duulah* (دولة) is something that is circulated and obtained by succession. The sentence **كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ** intends to affirm that property should not be people's asset and powet, but it must be circulated to be enjoyed by all members of society. With these verses, Islam rejects all kinds of monopolies, but holds the principle of equitable circulation of wealth for all members of society (Shihab, 2007). According to Meby and Latif (2015), KUR (Micro Business Loan) distribution is hampered by high interest rates and access difficulty. Conceptually, KUR is categorized as a passive poverty reduction program that does not make poor households as the main targeted recipient. In the implementation of KUR, executive banks remain bound and follow microprudential banking rules such as NPL, LDR, CAR, and GWM.

On the contrary, distributing KUR to UMKM owned by poor households is seen to increase bank risk and violate microprudential principles, such as rising NPLs. About 70%–80% of government guarantee have to bear their own likelihood of non-performing loans (NPL) about 20%–30%. To minimize the increasing NPL, it appears the tendency to continue to require collateral to UMKM in proposing KUR. The problem is that poor households often do not have something (according to bank) to be their collateral. Hence, in its implementation, micro financing has not been optimally implemented, including in sharia banking. Thus, this study was conducted to know the regulation of microfinance in sharia banks and the role of regulation in encouraging the role of intermediary social sharia banking.

2 METHODS

The method used in this research was descriptive analysis with normative juridical approach. Its data source consisted of primary data obtained from Sharia Banks to get description about the implementation of micro financing in sharia banking and secondary data obtained through tracing primary, secondary and tertiary legal documents, and reviewing legislation and government policies related to microfinance in sharia financial institutions (Soekanto, 1995). Data collection methods were interview and documentation, then it is analyzed qualitatively.

3 DISCUSSION

3.1 Micro Financing Regulation in Sharia Banking

Micro financing optimizes the intermediary role of sharia banking to overcome the problem of economic inequality and poverty. One of its products is KUR program in which its lending is done by government banks such as BRI and distributed by Bank Syariah Mandiri (the only bank appointed to distribute KUR that also has "Warung Mikro" as its product). Quantitatively, according to Muhammad (2013), its role is still not satisfactory to UMKMs because there are fundamental issues related to sharia financial system, function of sharia banks, lack of currency standards, and permissive mindset of capitalistic environment.

Wulandari (2012) explains that microcredit is a small lending program to the poor society who have a yield of 100 million per year to finance their productive activities in earning income. According to Law No.20 Year 2008, micro small and medium enterprises are a productive business owned by individuals and/or business entities. There are four financial institutions that distribute credit/micro financing: Formal Microfinance Institutions (Bank and Non-Bank), Non-Formal LKM (legal and non-legal), LKM of government programs, and informal LKM (regular social gathering, loan sharks).

Related to microfinance, June 8, 2007, the government launched Inpres no. 6/2007 on the Policy of Real Sector Development Acceleration and UMKM Empowerment as the legal basis. It is started by launching KUR program to improve UMKM access to capital sources from formal financial institutions in accelerating poverty reduction, job creation, and income generation. Then, there is an MoU among the government, the distributing bank, and the guarantor company. In 2008, Presidential Regulation 2/2008 on Guarantee Institution, Addendum I MoU on the maximum loan value of KUR of IDR. 5.000.000,- with maximum interest rate of 24%, PMK No.135/PMK.05/2008 on Loan Amortization (IJP) of 1.5% and a guarantee of 70%. In 2010, Addendum II and Addendum III MoU on Micro KUR with maximum loan ceiling of IDR 20,000,000,- and maximum interest rate of 22%, and Retail KUR with maximum loan ceiling of IDR 500,000,000,- and maximum interest rate of 14%, as well as underwriting KEP-07/M.EKON/01/2010 on the addition of KUR distributing banks (13 BPDA). PMK No.189/PMK.05/2010 on the addition of IJP is from 1.5% to 3.2%. In 2011, PMK No.99/PMK.010/2011 on the Paid-in Capital Shift is from IDR50M to IDR 25M for regional credit guarantee company. In 2012, KEP-07/M.EKON/01/2012 is the addition of two local credit guarantee companies under the scheme KUR in Jamkrida Jatim and Jamkrida Bali Mandara. Then, Kep-08/M.EKON/-1/2012 is related to the addition of KUR distributing bank (13 BPDB).

For sharia banking, the rules of micro financing are PBI No.14 Year 2012 subsequently amended by PBI No.17/12/PBI/2015 on Credit Financing or Financing by Commercial Banks and Technical Assistance in the Framework of Development of micro, small, and medium enterprises. Article 2, commercial banks are required to provide UMKM credit or financing. The lowest credit is 20% based on the ratio of UMKM credit or financing to total credit or financing, the achievement of UMKM credit or financing ratio at the end of each year, the achievement of UMKM credit or financing ratio gradually, and the calculation of UMKM credit or financing percentage conducted jointly for all Commercial Bank offices. Article 2 paragraph (4) begins to apply for Sharia Commercial Bank and Sharia Business Unit in 2014 about the obligations of commercial banks to distribute micro credit or financing at least 20% with gradual percentage of distribution. In 2017, the ratio of UMKM credit or financing to total credit or financing is 15% and becomes 20% since 2018.

Other amendment is about the realization report of UMKM credit or financing to BI conducted by online and offline with the deadline set. In article 12, if the achievement of UMKM financing at the end of the year is not fulfilled in accordance with the stipulated percentage in Article 2, Sharia Commercial Bank is obliged to conduct training, organizing, and allowances for micro, small, and medium enterprises that have not yet been getting/never received UMKM financing. Article 13 regulates administrative sanctions, certain nominal payments, and recommendation from BI to the supervisory authority of the bank to take action.

According to Imaniyati (2015), sharia banks provide some services to support the implementation of national development to improve justice, togetherness, and equity of the people's welfare. As intermediary agent, banking service provider does not violate sharia, monetary policy transmission instrument, fund or investment manager, and social function manager (ZISWA). Operationally, in Law No.21 Year 2008, the functions of sharia banking (BUS and UUS) are (1) to collect and distribute public funds, (2) to perform social functions in *baitul mal* institutions that receive funds from *zakat*, *infak*, alms, grants, or other social funds and distribute them to *zakat* organizations, (3) to collect funds from *wakaf* and distribute it to *wakaf* managers (*nazhir*) in accordance with *wakaf* (*wakif*) willingness. The social functions implementation in paragraph (2) and (3) are corresponding to the provisions of legislation.

As the executor of social activities, sharia bank performs social activities by prioritizing justice, prosperity, and economic equality regularly to encourage the growth of sharia entrepreneurs from micro to macro level, while conventional bank engages these activities not periodically. Besides that, *halal* promotion, business unit establishment, and income opportunities increase investment because of transparent and equitable benefits. These activities are supported by sharia banking legal such as Law No. 21 Year 2008 for PT to distribute funds for social activities and PBI No. 17 Year 2017 that requires sharia bank to distribute financing at least 20% in stages.

3.2 The Function of Sharia Banking as a Social Intermediation Institution

The fundamental differences between sharia and conventional banking is not only in business practices but also on the values that are not only expressed in the transaction activity to achieve the *halal* transaction (*sharia* compliance), but also much more broadly than the role of sharia banking for the community as a manifestation of the wealth of Islamic values and commitment to the issues. Acoording to Nurhasanah (2015), as collectors and distributors of public funds (financial intermediary), sharia banking needs to facilitate the wheels of community economy and carry out business (*tijarah*) regulated in the provisions of article 4 paragraph (1) of Law No.21 Year 2008. Its religious functions are regulated in the provisions of Article 4 paragraph (2), (3), and (4) of the same Law.

In performing business functions, sharia banking also performs a social function (*tabarru'*) in the form of *baitulmaal* institution which has the same distribution with its function above. Based on Article 4 paragraph (2) of Law No.21 Year 2008, sharia banking also collect other social funds, such as bank receipts from the imposition of sanctions against customers (*ta'zir*). Thus, the status of Sharia Bank and UUS, besides being profit-seeking company, is also as a social body in the community that needs many strategies that are easily understood by the community to achieve the goal of economic empowerment (Usman, 2012).

According to Bennett in Antonio (2013), social intermediation is an investment process formed by development of human capital and financial institutions aimed at increasing the poor's confidence as a preparation for them to use formal intermediation. The empowerment of groups through the provision of social services consisted of mentoring, training and enhancing skills, insight, financial literacy, and technological introduction. This activity has been regulated in BI Regulation No.17 Year 2017 regarding changes in credit and microfinance to provide coaching and mentoring if they cannot meet targeted percentage of their financing distribution.

In implementing micro credit service program, sharia bank organizes the poor into its borrowers in small groups to strengthen them having the capacity in planning and making decision as media liaison with branch offices where sharia bank field officers must attend group meetings every week. Micro financing distribution are more profitable because of stronger resilience than non UMKM in sharia banking industry (Wulandari, 2012). Besides that, not all BUS, BPRS, and UUS distribute microfinance. By the end of September 2012, it was recorded that the distribution of sharia financing in micro, small, and middle enterprises (UMKM) reached 70% of the total financing or about IDR 58 trillion (Amah, 2013). According to Wulandari (2012), only a few banks such as BTPN Sharia, BRI Sharia, and BSM disbursed microfinance.

In general, sharia economic and financial institution distributed micro finance through: (1) sharia cooperative/*BaitulMaal wat Tamwil* (BMT) with a significant spearhead of micro community empowerment, remarkable growth especially in the last two decades, and development about tens and hundreds billions rupiahs (Antonio, 2013; Jaenal 2010), (2) *zakat*, *infaq*, alms, and *wakaf* (ZISWAF) in which the proportion of *mustahik*microfinance in economic programs are distributed by accredited

BAZ and LAZ, on average, reached 30%–40% of the total distribution of funds, and (3) sharia banking institutions via BPRS and via micro unit/division of BUS/UUS in which BPRS financing for micro, small, and medium enterprises (UMKMs) reached 84.8%, while UMKM financing of BUS/UUS reached 64%.

The optimization of the social intermediary role of sharia banking does not only pay attention to profit, but also the system that contributes positively to the socio-economic goals of the Muslim community (summarized in the *Maqasid al-Sharia)* (Chapra, 1997). As a business entity system based on sharia values, sharia banking is expected to fulfill the Islamic economic objectives of ensuring that wealth can spin fairly and equitably, without disserving any parties. Hence, it will tend to strengthen the relationship between banks and entrepreneurs that is a multi-purpose bank milestone (Chapra, 1985).

4 CONCLUSIONSAND SUGGESTIONS

4.1 Conclusions

Micro-finance regulation in sharia banking is adequate. Socialization and supervision of sanction implementation and sanctioning are yet effective, so some sharia banks assume no obligation to distribute micro finance, no implementation, and no getting any sanction.

The intermediary roles of sharia banking include financial and social intermediation. It is already contained in the Sharia Banking Law and reflected in other rules such as the PBI.

3.2 Suggestions

BI and authority parties should socialize and oversee the implementation of more intensive microfinance provisions through various means and media.

The literature on sharia banking concepts should be encouraged. The function of sharia banking as a social intermediation should be explained in the Law of the PT so that it is aligned with the UUPS and not interpreted differently.

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