DEVELOPMENT OF DIFFERENT NETWORKS THROUGH MICRO FINANCE BY ISLAMIC BANKING IN INDONESIA

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ABSTRAK

Tujuan dari artikel ini adalah menggambarkan secara umum tentang pengembangan network yang berbeda melalui keuangan mikro di Indonesia oleh perbankan Islam, terutama dilihat dari sudut pandang keuangan mikro Indonesia dari bank Islam . Akan dijelaskan bagaimana pengembangn network yang berbeda mampu mengangkat keuangan mikro melalui peran perbankan Islam.

Network yang berbeda tersebut terdiri dari hubungan network intraorganizational dan hubungan network inter-organizational. Network intraorganizational ditandai dengan membangun hubungan antara pelaku individu di dalam organisasi tersebut. Hubungan inter-organizational dihasilkan pada saat para pelaku di dalam suatu organisasi membentuk suatu hubungan dengan organisasi lainnya. Usaha Mikro adalah usaha produktif milik orang perorangan dan/atau badan usaha perorangan yang memenuhi kriteria Usaha Mikro sebagaimana diatur dalam Undang-Undang Nomor 20 Tahun 2008 tentang Usaha Mikro, Kecil dan Menengah (UMKM). Kriteria aset maksimum yang dimiliki adalah 50 juta rupian dan kriteria omzet maksimum yang dimiliki adalah 300 juta rupiah. Karena usaha mikro biasanya memiliki akses yang kurang terhadap sektor perbankan komersial, usaha ini sering mengandalkan " pinjaman mikro " atau kredit mikro dalam hal pembiayaan, yang diselenggarakan oleh Lembaga Keuangan Mikro (Microfinance).

Kata Kunci : Jaringan, Keuangan Mikro, Perbankan Islam

INTRODUCTION

The rural-based micro enterprises as observed by Anderson et. al. (1982) and Macuja (1981) plays a predominant role compare to large scale industries particularly in solving a nation's economic problems by generating employment opportunities for rural

people. Further to that, the studies conducted by the United Nations Development Program in (UNDP 1993, p.41) Sub-Sahara region shows that, the micro enterprises (MEs) in the informal sector expanded by 6.7 percent a year between 1980 and 1989 (salient are the MEs, which are mainly run by family members, for micro entrepreneurs do not observe any formal procedures to initiate their business activities). Farooque (1958), in his study observed that the ability of MEs to generate greater employment opportunities at a low cost particularly suits those developing countries that are confronted with a rapidly growing population.

In least developed countries, as in developing countries in general, micro entrepreneurs play significant roles in the elimination of the unemployment problem, which remains a serious impediment to a nation's economic growth. Although the large-scale industries are involved in mass-production and invest large amounts of capital, these industries are mostly urban based. Consequently, large-scale industries fail to play a significant role in solving unemployment problems related to the rural people. This is exactly where micro entrepreneurs succeed better (Anderson et. al, 1982; Macuja, 1981).

To develop this micro finance, Islamic financing schemes assessed potential for micro financing purposes. Islamic finance has an important role for furthering socioeconomic development of the poor and small (micro) entrepreneurs without charging interest. Furthermore, Islamic financing schemes have moral and ethical attributes that can effectively motivate micro entrepreneurs to thrive. It also a link between Islamic banking and microfinance as many elements of microfinance could be considere consistent with the broader goals of Islamic banking.

THEORETICAL APPROACH

Networks

Network consists of relations that act as a bridge between two sets of persons, objects, events, or nodes (Kuklinski & Knoke, 1988). A network structure has theoretically been described by various authors (Kuklinski & Knoke 1988, Cook & Emersson 1984, Easton & Araujo 1991, Håkansson 1993, Anderson & Carlos 1976, and Aldrich & Whetten 1981), as a pattern of relations that influences and limits the actions of individual members' i.e. individuals or organizations. A different networks describe about intra-organizational network relationships and inter-organizational network relationships. An internal or intra-organizational network is characterized by building up relationships between individual actors within the organization. In an organization activities at different levels are interdependent requiring close ties among the individuals within the organization. Departmental as well as interdepartmental links within the organization are essential to promote the organizational efficiency and an internal network plays an important role in this respect by providing facilities to grow strong ties among individuals and groups in the organization. Intra-organizational

networks consists of 6 groups, they are : person, organization, community, industry, institution and society.

An external or inter-organizational relation emerges when actors form relationships with other organizations. In this regard Aldrich (1979, p.281) observed that an inter-organizational network consists of all organizations linked by a specified type of relation and is constructed by finding the ties between all organizations in a population.. The inter-organization relationships here wil be the relationships between Islamic Bank, Micro Finance, and the Networks.

Microfinance

Microfinance means " programme that extend small loans to very poor people for self employment. Projects that generate income in allowing them to take care of themselves and their families " (Microcredit Summit, 1997). According to the Laws No. 20 Year 2008 about Micro, Small and Medium Enterprise, (UMKM), Micro Enterprise is a personal productive business property that according to the criteria of micro enterprise as regulated in the Law. Maximum assets criteria for this micro enterprises is 50 millions rupiah and maximum omzet is 300 million rupiah.

Islamic Banking

Islamic Banking is banking activity that is consistent with the principles or sharia and its practical application through the development of Islamic economics. Sharia prohibits the fixed or floating payment or acceptance of specific interest or fees for loans of money. Investing in businesses that provide goods or services considered contrary to Islamic principles is also haram.

The Islamic Financing System (IFS) includes different financing organizations that are guided by sharia (Islamic law) based financing principles. These organizations use different financing techniques and lending procedures than those in the other financing systems. The IFS is a mix of market-based and non market-based financing systems. The organizations in the IFS functions beyond the market-based economy, since the exchange relations of this system, are mainly ethics based originating from religious beliefs, trust and faith (Alma 2002).

ANALYSIS

1. Micro Entrepreneurs and Their Problems and Prospects : A Brief Literature Review

A number of researchers (Ashe & Cosslett, 1989; Little, 1988; Little et al. 1987) in their studies have highlighted the issue as to how and to what extent MEs contribute towards the development of a nation's economy. The most important economic role that the ME sector plays is the creation of job opportunities for unemployed people in the rural but also urban areas. In this regard the authors Ashe & Cosslett (1989, p.17) observe that "In rural areas, in addition to the region of subsistence and small farmers, there is a growing percentage of individuals whose primary source of income is trading, cottage industries and a wide range of services, generally categorized as off-farm activities: the figure ranges from 19 to 23 per cent in countries like India, Sierra Leone and Colombia, from 28 to 38 per cent in Indonesia, Pakistan, Kenya and Philippines, and as high as 49 per cent in Malaysia".

Not only do MEs create job opportunities but they also contribute to a considerable extent to economic solvency among the resource-poor class in the rural areas. In almost all least developed countries under the phase of rapid population growth, MEs may thus play a unique role in the development of a nation's economy. Due to various problems, such as the lack of sufficient funds caused by inadequate infrastructural and institutional arrangements and shortcomings in the area of marketing and distribution, the growth of the MEs in the rural areas is less pronounced than could be expected. The slow growth of MEs, in turn, results in the migration of manpower from rural to the urban areas, which ultimately increases problems, such as overcrowding, increased competition for fewer jobs etc., in the urban areas. Moreover, due to the limited job opportunities such urbanization additionally hampers the nation's economy (Myrdal (1968, p.527).

Almost all previous studies carried out by various authors have analyzed the problems of MEs within various national contexts. Further to these studies on MEs, it may be noted that under the auspices of the United Nations Economic Commission for Asia and the Far East (ECAFE), UNIDO and Asian Development Bank (ADB) many studies were conducted on small-scale industry in the ECAFE region. Among these, a number of studies¹ highlight the root causes of the impediments to the development of MEs and also make suggestions for solving these problems.

2. Islamic Bank and Its Tehcniques

From the viewpoints of Islamic Shariah (law), in order to be justified as an Islamic way of dealing with financial transaction the banking system has to avoid interest. Consequently, financial intermediation in Islamic banking between the bank and the client takes place as a partner rather than a debtor-creditor. The financial activities of modern conventional banks are based on a creditor-debtor relationship between depositors and bank on the one hand and between the borrower and the bank on the other. Conventional bank regards interest as the price of credit reflecting of the opportunity cost of money.

As interest is prohibited in Islam, commercial bank in Islamic framework could not based on the creditor-debtor relationship. The other aspect of the theoritical basis of Islamic banking is that the interest free bank is not risk free. This principle is applicable to two main factors of production, for example labour and capital. According to this principle, as no payment is allowed to labour unless it is applied to work, capital should be allowed, unless it is exposed to business risk.

The techniques in Islamic bank are :

- a. Wadiah Contract : A contract between the owner of the goods (the money) and the custodian for safekeeping.
- b. **Mudharaba Contract** : A contract between a capital provider and an entrepreneur or a fund manager, whereby the entrepreneur or fund manager can mobilize the funds of the former for its business activity within the Sharia guidelines. Profits made are shared between the parties according to a mutually agreed ratio.
- c. **Musharaka Contract** : A contract between two parties whereby both parties provide capital and both may be active in managing the venture. Losses are shared

on the basis of how much capital has been contributed. Profits are shared in any way the partners decide.

- d. **Murabaha Contract** : The sale of goods at a price, which includes a profit margin agreed to by both parties. The purchase and selling price, other costs, and the profit margin must be clearly stated by the seller at the time of the sale agreement.
- e. Salam Contract : A contract in which the seller undertakes to supply some specific goods to the buyer on a future date at a mutually agreed price fully

paid at the time of contract.

- f. Isthisna Contract : A contract in which the seller undertakes to supply some specific goods to the buyer on a future date at a mutually agreed price and method of payment.
- g. Ijara Contract : The selling of benefit or use or service for a fixed price or wage.
- h. Qardh Contract : A loan in which the debtor is only required to repay the amount borrowed.
- i. Equivalent rate of return/profit sharing/fee/bonus :

Indicative rate of return from Placement of Funds or Source of Funds of the reporting bank.

Table. 1. Financing Composition of Islamic Commersial Bank and Islamic Business Unit in Billion IDR Feb – Okt 2011

Akad	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct
Mudharabah	8,606	8,767	8,843	9,077	9,549	9,766	9,989	10,020	10,150
Musyarakah	14,677	14,988	15,057	15,396	16,295	16,421	17,131	17,379	17,769
Murabahah	38,983	40,877	42,453	44,118	46,161	47,453	49,455	49,883	52,148
Salam	0	0	0	0	0	0	0	0	0
Isthisna	360	328	315	317	322	319	319	335	329
Ijarah	2,417	2,572	2,630	2,730	2,927	3,076	3,208	3,209	3,336
Qardh	6,407	6,721	6,427	6,980	7,362	7,521	10,4371	12,013	13,037

Financing Composition of Islamic Commersial Bank and Islamic Business Unit in Percentage Feb – Okt 2011



The Development of All Akad in Feb - Oct 2011



Table 2. Financing Composition of Islamic Rural Bank in Million IDR Feb – Okt 2011

Akad	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct
Mudharabah	63,080	64,963	68,145	69,188	72,177	76,422	79,774	77,476	77,644
Musyarakah	221,510	224,816	225,507	232,499	239,430	246,849	255,598	257,560	263,986
Murabahah	1692,259	1706,035	1753,431	1848,734	1930,667	1984,548	2044,532	2031,35	2079,543
Salam	165	165	216	201	201	81	81	51	22
Isthisna	25,955	26,253	25,714	25,427	25,196	23,999	23,923	23,798	23,492
Ijarah	13,821	14,338	11,913	14,314	14,762	15,345	15,698	15,695	16,186
Qardh	65,801	67,201	69,476	72,862	77,454	80,230	80,102	78,496	75,383



Financing Composition of Islamic Rural Bank

The Development of All Akad in Feb - Oct 2011



Sources : Statistik Perbankan Syariah (Islamic Banking Statistics), October 2011

3. The Present Situation of Micro Finance Entrepreneurs & Micro Finance in Indonesia

Micro Finance Entrepreneurs

Small and Medium Enterprises (SMEs) abbreviated is a term that refers to a type of small business that has a net worth of more than Rp 200 million excluding <u>land</u> and buildings. And stand-alone business. According to the Presidential Decree no. 99/1998 Small Business sense is: "The economic activities of the people are small-scale business sectors that constitute the majority of business activities in Indonesia, SMEs are the backbone of the Indonesian economy. SMEs in Indonesia is very important for the economy because it accounts for 60% of <u>GDP</u> and 97% to accommodate <u>the workforce</u>. Proved during the Indonesian financial crisis in 1998 SMEs survive and this is what has saved the economy in Indonesia, but access is limited to financial institutions. Indonesian government, SMEs, through the Department of Cooperatives and SMEs, in each province or district and need to be protected to prevent unfair competition.

Potential development of Micro, Small and Medium Enterprises (MSMEs) in Indonesia can not be separated from the support of banks in lending to MSMEs. Annually credit to MSMEs growth and generally higher than the growth in total bank credit. MSMEs loans are loans to borrowers of micro, small and medium that meets the definition and criteria of micro, small and medium enterprises as stipulated in Law no.20 of 2008 on MSMEs. Under the Act, MSMEs is a productive enterprise with a business that meets the criteria specified limits net worth and annual sales results.

MSMEs credit statistics are presented with various items that Net Expansion (NE), Baki Debit (BD), Non Performance Loan (NPL), and Allowance Pull, equipped with a variety of groups based bank, Economic Sector, and Type of Project Location on each province and scale details of Micro, Small and Medium Enterprises.

Statistics Publication MSMEs loan based on the definition and criteria of business based on Law no. 20 of 2008 on SMEs was implemented for data monthly bank statements since January 2011. Until the end of 2010 statistics are based on the definition of MSME credit ceiling, namely: (1) with a ceiling of micro sd Rp 50 juta, (2) small loans with a ceiling over Rp 50j uta up to Rp 500 million, and (3) loans with a ceiling high over Rp 500 juta sd Rp 5 miliar . In this definition, all types of credit including the use of consumer credit entry in the MSMEs credit statistics.

Microfinance

Microfinance is usually understood to entail the provision of financial service to micro-entrepreneurs and small businesses, which lack access to <u>banking</u> and related

services due to the high transaction costs associated with serving these client categories. The two main mechanisms for the delivery of financial services to such clients are (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. In some regions, for example Southern Africa, microfinance is used to describe the supply of financial services to low-income employees, which is closer to the retail finance model prevalent in mainstream banking. For some, microfinance is a <u>movement</u> whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also saving, insurance and fund transfer. Many of those who promote microfinance generally believe that such access will help poor people out of poverty. For others, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses. Microfinance is a broad category of services, which includes <u>microcredit</u>. Microcredit is provision of credit services to poor clients.

Bank Indonesia noted that funding channeled to the Islamic banking sector micro, small and medium enterprises (MSMEs) to reach 70 percent. As of September 2012 financing provided to MSMEs amounted to Rp 58 trillion for working capital and investment, and USD 23.9 for the consumer. Islamic banking sector realize the MSME sector is the largest in Indonesian society. There are about 52 million MSME units are active in Indonesia. A total of 9 percent of them engaged in the micro sector. The finance sector is synonymous with Islamic banking finance the productive sector, the sector that is disa advocated for Islamic banking. Islamic bank financing is channeled not only through direct financing. Some Islamic banks utilize the Baitul Maal wat Tamwil (BMT) for channel financing. Currently there are about 100 thousand BMT that become an extension of Islamic banks to reach out to micro clients. This is in addition to facilitating access also to the efficiency of Islamic banking. Because when delivering direct financing, the bank will be a great expense. Recorded until the third quarter of BSM channel financing to micro sector by 78 percent. Total financing to MSMEs in BSM to September reached Rp 33 trillion. The rest of the funding, which is channeled Rp 9 trillion to corporations. Of total MSME financing amounting to Rp 15 trillion productively channeled to MSMEs. The rest is distributed to the consumer sector. Focus channel bank financing to the sector development agribisnis sources.

4. Roles of Islamic Bank In Developing Micro Entrepreneurs Through Micro Finance

Financing Composition of Islamic Commercial Bank and Islamic Business Unit

The global economic recovery was getting stronger at the end of 2009. It has shown the optimism condition for the economic development of Indonesia in 2010.

Indonesia, which witnessed an inflation rate reaching 6.96% in 2010 achieved a 6.1% GDP growth up from 4.58% in 2009. This is an indication that the global situation did not significantly influence the condition of Indonesia's Islamic banking.



The development of Islamic banking, particularly Islamic commercial banking and the Islamic business unit, has been influenced by the competition between Islamic banking and conventional banking. If we compare the Third Party Funds (TPF), the TPF of Islamic banking contributed only 3% of the total 2,500 trillion IDR. Then, in terms of financing, Islamic banking only has a 4% market share from the total financing 1,800 trillion IDR.



Third Party Funds (2,500 Trillion IDR)

Although Islamic banking still has a very small market share, Indonesia's Islamic banking has a significant growth in recent years. The Cumulative Annual Growth Rate (CAGR) of TPF in the last 5 years (2005-2010) has increased by 37% with an estimated value of 76 trillion IDR in FY-2010. The highest growth has occurred from 2009 to 2010 with a 45% growth. (Source: Central Bank of Indonesia). From the consumer's perspective, the Islamic banking development in Indonesia was still influenced by the lack of education on Islamic economics and finance, although 85% of Indonesia's population is Muslim. From the total TPF (conventional banking and Islamic banking) which was estimated at 2,500 trillion IDR, Islamic banking contributed only 3.45%. This growth is expected to continue beyond 2011.

Competitive Landscape

Islamic banking is closely associated with the distribution of wealth to improve the standard of living for the community at large. Hence, the distribution of financing by Islamic banks also needs to be analyzed further. The competition of Islamic banking players was more interesting and attractive, since the number of Islamic banks has increased in recent years, and foreign banks have increased their Islamic window presence in the market.



source: Process from Annual Report

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synonymous with Islamic banking finance the productive sector, the sector that is recommended for Islamic banking.

5. Network Development Through Micro Finance

According to Janson's (2002), networks intitutions model show the integrated network with institutions and viewed the network from an institutional perspective. The author used a network approach and developed a theory to analize such lingkages. The network relationships are not only found within the authority and control systems of organizations but also linkages between financing organizations within a particular financing system. Janson, in his network theory developed the concepts of oth external and internal network relationships. An external or inter-organizational relation emerges when actors form relationships with other organizations. And an internal or intra-organizational network is characterized by building up relationships between individual actors within the organization.



The networking is between Islamic banking in its micro financing to some other parts such as person, organization, community, industry, institution and society. The main thing here is how the networking works between this actors. This network relationships is based on trust.

Personal networks consists of social tie or relations, which are from and characterized by social norms, based on culture, family, relatives and friends and acquitances. Organizational units may also establish their relations for social reasons. Organizations are established due to three different reasons such as individual attribute, same social group and that they belong to the same cultural group. Community is a group of people who have same activity, culture, habit, and tradition. Industrial network theory is partly built on the social eschange theory, being based on actor's relationships. An industrial network is a relationship that tkaes place among all actors that are involved in making the industrial functions efficient and effective. Institutional based trust in networks. Since trust relates to the effective lender-borrower network relationships and also influence the authority and control system of a business organizatioan it is decided to discuss this particular issue in order to study the influence of trust in estblishing lender –borrower relationship between FOs in different financing systems and SCIs units in different SCI system. Society is consists of some differents groups of community.

6. The implementation of development of different networks through micro finance by Islamic Banks in Indonesia as follows

Islamic bank financing is channeled not only through direct financing. Some Islamic banks utilize the Baitul Maal wat tamwil (BMT) for channel financing. Currently there are about 100 thousand BMT that become an extension of Islamic banks to reach out to micro clients. This is in addition to facilitating access also to the efficiency of Islamic banking. Because when delivering direct financing, the bank will be a great expense.

The technique of financing divided into two ways as follows : 1. Islamic Banking directly finance to the micro entrepreneurs through network 2. Islamic Banking finance to the micro entrepreneurs by indirectly finance, through BPRS and BMT.





CONCLUSION

a. This paper is about development of different networks through micro finance by Islamic banking in Indonesia

b. Islamic Bank is a bank which the transaction base on syariah laws

c.. Microfinance is usually understood to entail the provision of financial services to micro entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs associated with serving these client categories

d. Network consist of relation that act as a bridge between two sets of person, objects, events or nodes. A network as a pattern of relations that influences and limits the action of individual members', i.e. individuals or organizations.

e. The relationships between Islamic Banking, micro finance and the micro entrepreneurs (network groups) increase or well developed. It shows from the increasing trend of financing composition of Islamic Commercial Bank and Islamic Rural business unit.

f. A good network is very important factor to develop succesfull Islamic Banking, micro financing in Indonesia

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