

Revitalizing MSMEs through Innovative Financial Products in Islamic Banking

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ABSTRACT

Empowerment of Small and Medium Enterprises (SMEs) and Cooperatives have a crucial role in national development based on a people's economic system, with the aim of not only reducing income disparities and employment, but also achieving economic inclusiveness and justice. Islamic banking is a financial institution that acts as an intermediary in financial matters by complying with Islamic sharia principles, collecting, managing and distributing funds to the public. This study uses a qualitative descriptive analysis method to examine the roles and products offered by Islamic banking to SMEs and cooperatives. The results of the study show that the products offered, such as murabaha, musyarakah, and people's business loans, contribute to advancing SMEs and cooperatives. In addition, Islamic financial institutions continue to innovate with various banking products and services, supporting sustainable economic growth. Thus, empowering SMEs and cooperatives through sharia banking is the main foundation in supporting national development that is just, inclusive and forward-looking to achieve sustainable development goals.

1. Introduction

Empowerment of Small and Medium Enterprises and Cooperatives in the dimension of national development based on a people's economic system is not only aimed at reducing the problem of disparities between income groups and between actors or employment. More than that, MSME development is able to broaden the economic base and can make a significant contribution in accelerating structural change, namely by increasing the regional economy and national economic resilience. MSME development is a priority and is very vital (Ponirah, Yuliana, & Nasution, 2021)

The Islamic finance industry in Indonesia is experiencing quite good development (Ribowo & Nurdin, 2022). The development of the sharia banking industry is influenced by various factors, namely internal factors such as Human Resources (HR), funding, good corporate governance, as well as external factors such as economic growth and national and international sharia institutional infrastructure. One of the sharia institutional infrastructures at the national level that encourages the growth of sharia banks is the Financial Services Authority (OJK). OJK continues to encourage and direct Islamic banks towards a healthy, sustainable Islamic banking industry that contributes positively to supporting quality economic development (Apriyanti, 2018a).

Islamic banking is an institution in the financial sector that has a role as an intermediary institution or an institution that bridges financial problems such as receiving funds, managing funds, and distributing them to the public, of course, by always adhering to Islamic sharia principles. Islamic banking is an institution in the financial sector that has a role as an intermediary institution or an institution that bridges financial problems such

as receiving funds, managing funds, and distributing them to the public, of course, by always adhering to Islamic sharia principles. Islamic banks have a big role in economic development in Indonesia because almost all sectors of companies and individuals related to financial activities will require various banking services (Nabila, 2023).

Product innovation is very important because competition between banks is already heating up and the banking market is filled with almost homogeneous products. Islamic banks are also not free from the obligation to innovate products. Islamic banking products must be able to meet the needs of society as an industry that continues to grow so that Islamic banks must continue to innovate. This product innovation is influenced by changes in market tastes, technological advances, and economic conditions. The market, in this case, is the customer, who has tastes that are constantly changing according to trends, lifestyles, socio-cultural values and globalization. Economic conditions affect banking business strategy, for example in a recession, banks focus on the Micro, Small and Medium Enterprises (MSMEs) sector (Atmadjati, 2018).

The research method used in this study is a qualitative descriptive analysis technique (Creswell, 2014). This approach aims to describe in depth the results of the research and provide a comprehensive picture of the topic under study. The data generated and presented is in the form of a description, enabling the researcher to understand in more detail the phenomenon under study. To collect data, this study uses an online and printed literature study approach, and literature that is relevant to the research topic. By referring to trusted sources, researchers can collect accurate and up-to-date information about the problem under study. This approach also allows the researcher to

involve different viewpoints and approaches, thereby enriching the analysis and overall research results. By using a qualitative descriptive analysis method and relying on a comprehensive literature study approach, this research is expected to provide in-depth insights into Islamic banking financial product innovations in the development of MSMEs. The results of this study are expected to contribute to increasing understanding and strategies for developing competitive financial products for MSMEs in the context of Islamic banking.

2. Literature Review

Following are some literature reviews regarding financial product innovation for MSMEs:

Research with the title Development of an Innovation Strategy for Islamic Banks in Building MSMEs, by Alfian (2023) with the results of his research is that with the increasingly rapid development of Islamic banks, and the development of financial markets that is much more rapid, innovations in Islamic business models are needed so that Islamic banks can compete in the financial market. In addition, product innovation must pay attention to risk management factors to minimize exposure or losses. We propose eight sharia business models that have this hedging element. These eight business models are Value-Based Greetings and an innovation strategy for the development of Islamic banks. We hope that with the addition of the sharia business model, sharia banks will be more competitive and increasingly reckoned with in the financial market by both domestic and foreign investors. Research with the title Development of Islamic Financial and Banking Product Innovation in Maintaining and Increasing Customer Satisfaction, by Al Yozika &

Khalifah (2017) with the results of his research is that one of the developments of Islamic banking product innovation is to develop financing to the corporate sector by implementing 1) syndicated financing , namely financing provided to one mudharib or debtor by banks that are members of one cooperation (musyarakah). 2) Innovation with Trade Finance, a facility provided to finance debtors' trading activities related to foreign trade (export-import) and domestic (buying and selling) transactions. 3) Cash management products. 4) Start up financing, is a business that uses information technology as a basis for its products. 5) Business Development, which is one of the company's management functions in an effort to develop the business owned by the company.

Research with the title Analysis of Working Capital Financing Product Innovation in Increasing Interest in Financing for MSME Customers (Case Study of Indonesian Sharia Banks Cirebon Dr Cipto Branch Office), by Nabila (2023) with the results of his research is that Based on the research results which refer to the formulation of the problem and research objectives, the conclusions of this study are as follows:

- 1) Innovation of working capital financing products in increasing interest in financing micro, small and medium enterprise customers at Bank Syariah Indonesia KC Cirebon Dr Cipto, by adding existing product lines to working capital financing products, namely by adding financing in the form of KUR products. From the KUR product, it was innovated again in terms of the ceiling provided, prior to innovating the available ceiling was Super Micro KUR with a ceiling of IDR 5,000,000 – IDR 10,000,000, Micro KUR with a ceiling of > IDR 10,000,000 – IDR 50,000,000, Small KUR has a ceiling of IDR 50,000,000 – IDR 500,000,000. After innovating the available ceiling, namely Micro KUR has a ceiling of > Rp. 10,000,000 – Rp. 100,000,000, Small KUR has a ceiling of > Rp. 100,000,000 – Rp. 500,000,000, while Super Micro KUR cannot receive financing because BSI is currently focused on providing financing > 10,000,000. Whereas the BSI Micro Business working capital financing product was temporarily suspended because many customers experienced problematic financing. With the innovation of working capital financing products in one of the products, namely the KUR product, it can increase

interest in financing micro, small and medium enterprise customers at BSI KC Cirebon Dr. Cipto.

- 2) Obstacles faced in innovating working capital financing products to increase interest in financing MSME customers at Bank Syariah Indonesia KC Cirebon Dr. Cipto. Constraints that occur include the lack of promotion on KUR product financing to customers due to a lack of human resources (HR), lack of socialization and approaches related to working capital financing products. The next obstacle occurred in the financing of BSI Micro Business products, namely the result of problematic financing.
- 3) Solutions to deal with obstacles encountered in innovating working capital financing products to increase interest in financing MSMEs customers at Bank Syariah Indonesia KC Cirebon Dr. Cipto. Solutions that can be made regarding these constraints are by adding and developing human resources, and providing education regarding how to manage finances and providing relief to customers who apply for payment relief.

Research entitled Halal Product Innovation in Islamic Microfinance Institutions in Supporting Financial Inclusion to Meet the Needs of Umkm and Millennials, by Latifah (2019) with the results of her research that the Sunan Drajat Islamic Boarding School Cooperative has innovative halal products in the form of cash waqf savings products, walimah savings, pregnant women savings, santripreneur savings, education savings, umrah savings, rihlah savings, mudharabah savings, pious child savings, old age savings to meet the needs of millennials and MSMEs to support financial inclusion. The products above are able to meet the needs of the millennial generation and MSMEs with various facilities they have.

Research entitled The Role of Islamic Banking in the Existence of MSMEs in the Laweyan Batik Home Industry, by Rini (2017) with the results of her research that based on the research, (1) the analysis and discussion above can be concluded that the role of Islamic banking in the existence of MSMEs in the household industry in Laweyan batik is still lacking. This is evidenced by the lack of participation of Islamic banks in solving the

problems faced by batik MSMEs in Laweyan, especially capital problems. Therefore, Islamic banks need to approach Laweyan batik MSMEs by way of outreach. (2) In addition to the financing program, Laweyan batik MSMEs also still need assistance programs, because the problems faced by MSMEs are not only capital problems, but also operational problems, such as management, management, and so on. Assistance programs also need to be carried out by Islamic banks. By providing a mentoring program, the community will automatically get to know Islamic banks without having to carry out socialization which is sometimes ineffective. (3) Objectively, this research still needs to be developed and the time difference is very influential because what happened in the field during the research cannot be used as a benchmark that the same thing will happen at different times. With the existing limitations, it is hoped that this research can be followed up and become input for further research.

3. Result and Discussion

Products of Islamic Financial Institutions as capital for MSMEs

This discussion focuses on problems in MSME capital by aligning products from Islamic microfinance institutions to create solutions for this capital. It needs to be underlined that LKMS are easy to access to meet the capital of MSME actors to run their businesses, because access to lending capital to banking institutions is very difficult and there are very many requirements for MSME business actors (Azizah & Nafi'ah, 2022).

In assisting MSMEs with capital through Islamic microfinance institutions, they provide solutions easily through the superior products they have, including:

Murabahah

Murabahah (Bilateral Mutual Adjustment) in product development innovation, an alternative model that can be used in financing is the murabaha contract model (bilateral mutual adjustment). This contract is designed for risk sharing between the bank and the customer in the event of a long-term murabaha contract (long-term asset purchase arrangement) (Rahayu, 2016). If there is an increase in return, in a murabaha contract with installment payments it is not allowed to increase the agreed price because this price is a debt. The question is how to protect both parties from fluctuations in returns. The mechanism of the agreement is as follows: when the rate of return goes up, the customer is required to pay more installments, with the consequence of reducing the debt repayment period. For banks, getting more cash will provide opportunities to reinvest.

If the rate of return goes down/lower, then the customer can pay less in installments, with the consequence of increasing the debt repayment period. For banks, the advantage is getting security in paying customer debts. So in this case fluctuations in the rate of return are reflected in fluctuations in the installment payment period. Because changes to the amount of installment payments and installment payment periods are made by mutual agreement when the rate of return changes, debate can be avoided. Business development in a form of business for the business itself so that it can develop even better and so that it reaches a point or peak towards success. Business development is carried out by businesses that have begun to be processed and it seems there is a possibility to go even further (Women, 2015)

Musharakah

Another financing alternative that can protect financier/bank capital is a combination of deferred sales with partnerships. So in this contract, the bank/financier provides the company's needs/inputs (for example, commodities) with a payment term determined by a sale plus a number of company shares. So the bank/financier secures its capital at a selling price for payment within a specified period, and gets profit sharing through ownership of company shares that are expected to have good performance. In this case, the company will not object because the bank/financier shares the risk with it, that is, if the company does not perform well (Trimulato, 2017).

Financing products People's Business Credit (KUR)

Financing facilities intended for micro, small and medium enterprises to meet capital and investment needs. This KUR product is a margin subsidy program from the government. This KUR can be used as additional productive capital in the form of credit/working capital financing. Customers can also use this credit/financing facility as investment credit. This KUR is to meet the capital and investment needs of MSMEs. However, for now, most customers apply for this KUR to meet their business capital needs (Nabila, 2023).

Strategy of Islamic Financial Institutions in Product Innovation for MSMEs

In accordance with Kotler's theory in Tjiptono (2015) in developing new products there are six dimensions of product innovation, one of which is carried out by BSI namely, additions to existing product lines. Additions to existing product lines are new products that complement or add to an existing company product line so that products become more diverse, giving rise to many choices. In theory, innovation means something that has

never been done by an agency or by a company that is now implementing it and the level of novelty is new for the company. Innovation is not only a form of creating new products produced by companies, but can also be interpreted as improving the quality (both raw materials, physical form or capabilities) of products that have previously been marketed (Tsani, Mauluddin, Tinambunan, & Maulani, 2022).

In carrying out its business activities, Islamic banking is based on the principle of profit sharing (Masulah, 2014). The characteristics that exist in this Islamic banking product provide an alternative banking system that is mutually beneficial for both parties, namely the community and banking, and prioritizes aspects of fairness in transactions, ethical investment, shared values and ukhuwah in production, and avoids speculative activities in transactions (Apriyanti, 2018a).

Sharia banking products are currently being developed by providing a variety of banking products and services with a more varied financial scheme. This effort is an effort that is referred to as innovation in Islamic banking products. This Islamic banking product innovation is the main pillar in the development of Islamic banking (Himatansi 2009). This effort can make Islamic banking an alternative banking system that is credible and can be enjoyed by all Indonesian people without exception. Product innovation that is in line with meeting community needs can produce a variety of bank products (Apriyanti, 2018b). Product innovation by Islamic banking can be in the form of products that will be repackaged or new products.

In the context of product innovation by providing a variety of products that are close to the community, Islamic banks must increase their network. This is done to provide

better service, namely by integrating muamalah transactions with other businesses through the use of existing technology and media. The breadth of the network with other businesses will make it easier for banks to provide services and products that are close to the community. The closeness of Islamic bank products can be pursued through bank distribution channels, with service offices or branches and through websites (one of the uses of technology) (Apriyanti, 2018b).

Currently, the banking market is generally identified as leading to demand for fast loan services such as collateral-free loans and small-scale (micro) loans. The same thing happened to Islamic banking due to the same target market and the tendency of product replication (product mirroring) of Islamic banking from conventional banking. However, this kind of product can lead to an increase in consumptive financing. Therefore, a balancing product is needed that supports the productive sector. In addition, products that increase the togetherness of banks and customers also need to be studied and developed, so that the core product of sharia banking, which is the sharing economy, can be maintained. For this purpose, studies on profit-sharing products, namely musyarakah mutanaqisah and mudharabah muqayyadah, must be actively carried out (Falakhussyafusoni, Purwanto, & Trihudiyatmanto, 2022).

4. Conclusion

Products offered by Islamic financial institutions to MSMEs are generally murabaha, musyarakah and people's business loans. In the Islamic banking product innovation strategy, it is currently being developed, namely by providing a variety of various banking

products and services with a more varied financial scheme. This effort is an effort that is referred to as innovation in Islamic banking products. This sharia banking product innovation is the main pillar in the development of sharia banking.

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