The Effect of MSME Financing of Islamic Commercial Banksand Islamic Rural Banks on Economic Growth in Indonesia

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ABSTRACT
Economic growth is one indication to measure the economy in a country. The MSME sector is one of the sectors with a critical role in economic development in Indonesia. One way to support the MSME sector is through financing, especially Islamic bank financing. Islamic Banking in Indonesia is grouped into Islamic Commercial Banks and Islamic Rural Banks. This study aims to determine the relationship between MSMEfinancing of Islamic commercial and rural banks to economic growth in Indonesia. This study used monthly data for the period 2013-2022. The hypothesis testing used in this study is multiple linear regression. This study found that financing Islamic Commercial Banks and Islamic Rural Banks for the MSME sector significantly affects economic growth in Indonesia.

Keywords: Economic Growth, MSMEs, Islamic Commercial Banks, Islamic Rural Banks, Islamic Financing

INTRODUCTION

A profit-sharing system is a contract or a shared commitment to conducting business. In this business, there is an agreement between various stakeholders about the distribution of businessresults. A profit-sharing scheme is one of the services banks provide to the general public. Under Sharia, several parties must determine or agree upon a profit-sharing agreement at the beginningof the contract. There will be some profit-sharing under this arrangement; therefore, each side must be ready to get into it without coercion. (Astuty, 2018).

Banking has a role as an agent of development, namely the role of an institution that aims to support the implementation of national development, which has the main activity of raising fundsand distributing funds. In fund distribution activities, It can also be referred to as the term "allocation of funds" in fund distribution operations, one of which takes the form of loan or financingactivities at Islamic banks.

In economic development in Indonesia, the financial sector also plays a significant role as a driverin the growth of the rill sector. It can be seen from the ability of the financial sector in banking. Banking loans in October 2022 grew by 11.95 per cent year-on-year, of which investment loans grew by 13.65 per cent year-on-year. Also, monthly nominal loans from the banking industry increased by Rp58.61 trillion to Rp6,333.51 trillion. Meanwhile, third-party funds in October 2022recorded growth of 9.41 per cent year-on-year to Rp7,927 trillion, increasing from the growth ratein the previous month of 6.77 per cent year-on-year, mainly driven by increased demand deposits.(OJK, 2022)

Economic growth can be defined as the long-term process of increasing per capita output. Economic growth is a process, not a snapshot of the state of the economy at any given time. Economic growth and per capita output are related, meaning that total output (GDP) and population must be considered. Per capita output is calculated by dividing total output by population. The increase in per capita output should also be seen for a long time, about 10, 20, or 50 years even longer (Astuty, 2018). MSMEs are one of the business sectors with significant potential to promote macroeconomic growth in Indonesia. MSMEs also have an important role in the expanding global halal business.However, MSMEs have

several obstacles in several regions, including a lack of operating cash. Thus, financing, especially Islamic financing, is critical to encourage the increase in halal MSMEs (Setiawan, 2021). In the 2015-2022 period, the average growth of financing for MSMEs from Islamic commercial banks experienced a growth of 5% per year. Moreover, in the same period, the average growth of financing for MSMEs from rural banks has grown by 11% per year according Figure 1.
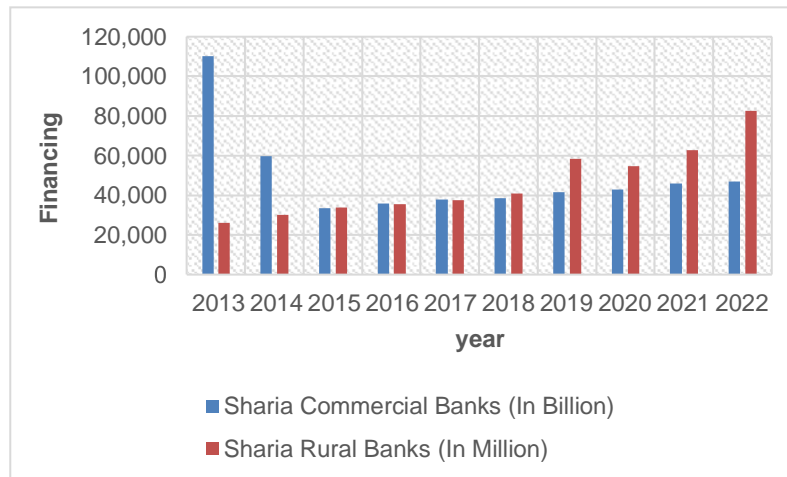
Figure 1. Development of MSME Financing for the 2013-2022 Period
Source: OJK, 2022
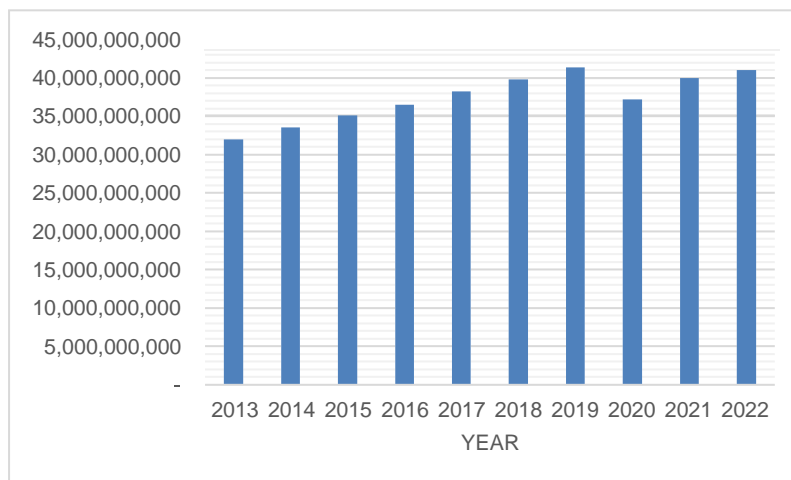
Figure 2. Economic Growth Index in Indonesia
Source: OJK, 2022

In Indonesia, the economic growth index has risen by an average of 2% annually over the previous ten years (2013–2022). The Islamic banking industry has an impact on one of them. Dueto its rapid expansion, Islamic banking impacts economic growth. The real estate industry can flourish and thrive due to Islamic banking. Financing in Islamic banking has a positive influence on economic growth, as the results of several previous studies such as Asngari (2014), Ishak (2016), Boukhatem & Ben Moussa (2018). Nas & Gulzar (2022) also found that Islamic banking assets, Islamic bank financing, and Islamic bonds influence the level of GDP in Muslim-majority countries. Anggraini (2019) added that the development of Islamic banking in Islamic financing has a role in economic growth both in the long and short term according to Figure 2.

There is still a dearth of evidence from various earlier studies that address funding in the MSMEsector. The MSME sector is a sector that has a massive role in a country's economy. The positionof MSMEs in the economy is quite significant because they are prevalent in Indonesia's economy. (Sarfiah et al., 2019). The MSME sector's sustained growth proves it can endure even amid a financial crisis. By incorporating a larger workforce into the national economy, the MSME sector can help lower unemployment and poverty while increasing people's income. Therefore, the contribution and role of MSMEs are significant for a country, so it is expected that the governmentcontinue to support the MSME sector by making regulations that support the MSME sector and also by strengthening the role of MSMEs as pillars in building a nation's economy optimally (Sarfiah et al., 2019).

Therefore, this study aims to determine how funding from Islamic commercial banks and Islamicrural banks, particularly in the MSME sector, affects Indonesia's economic growth. The findings of this study are anticipated to help legislators create rules that will maximize the impact of Islamicand rural banks on economic growth.

LITERATURE REVIEW

MSME Financing
Financing is one of the bank's duties, namely as a facilitator of providing funds to meet the needsof its customers. According to the nature of its use, financing can be divided into two: 1) ProductiveFinancing, used to meet production needs. Productive financing can be divided into two: CapitalFinancing and Investment Financing; 2) Consumer Financing, used to meet consumption needs, which is only used up to meet needs (Chamidun, 2015). In its implementation, Islamic bank financing, both Islamic commercial banks and Islamic rural banks, is divided into two types: financing for the MSME and non-MSMEs sectors. In the MSME sector, financing used is workingcapital financing and investment financing, which is productive financing, as previously explained(OJK, 2022).

Economic Growth
Economic growth is a macroeconomic indicator that is the main goal that needs to be achieved by the government. Economic growth is the development of activities in the economy that increase the production of goods and services in society and increase society's prosperity. Economic growth can also be interpreted as increasing national income due to an increase in the productioncapacity of an economy. An economy can be said to experience growth when the amount of actual remuneration for the use of factors of production in a given year is more significant than inthe previous year (Zachray, 2017).

The Effect of Islamic Financing on Economic Growth.
The effect of financing on economic growth, according to a study conducted by Prastowo (2018),is that financing in Islamic banking has a positive influence on economic growth. The study conducted by Asngari (2014) shows that Islamic financing in Islamic banking will increase economic growth.

This study seeks to prove that MSME sector financing at Islamic commercial banks and MSME sector financing at Islamic rural banks influence economic growth in Indonesia. Kamarudin & Kassim (2022) prove that Islamic banking influences economic growth in the long and short term.Ishak (2016) also explains that Islamic banking is vital for economic growth. It is also in line with the results of several previous studies, such as Asngari (2014), Ishak (2016), and Boukhatem & Ben Moussa (2018). Nas & Gulzar (2022) found that Islamic banking financing significantly and positively affects a country's economic growth. Therefore, the hypothesis in this study is as follows:
H_1 = MSME's financing of Islamic Commercial Banks positively affects economic growth.
H_2 = MSME's financing of Islamic Rural banks positively affects economic growth.

METHODS

Micro, small, and medium enterprises and Islamic banking in Indonesia are the objects of this research. This research used monthly secondary data from 2013M1 to 2022M12. The data usedin this study are MSME financing data for Islamic Commercial, and Rural Banks obtained from the Sharia Banking Statistics of the Financial Services Authority and economic growth dataproxied by the Industrial Production Index (IPI) obtained from World Bank Data.

The analysis in this study used a quantitative method with multiple linear regression tests. Multiplelinear regression tests were carried out to determine the relationship between the two variables and show the direction of the relationship between the independent and dependent variables. Before the multiple linear regression test, the classical assumption test was first carried out usingthe OLS (Ordinary Least Square) method (Setiawan, 2021). Tests to validate the data include multicollinearity, heteroscedasticity, and autocorrelation tests.

The multicollinearity test aims to test the correlation between independent variables. In contrast,the heteroscedasticity test aims to test the regression model to determine whether there is an unequal variance between the residuals of one observation and other observations. The autocorrelation test was carried out to determine the linear regression mode and whether there isa correlation between the confounding errors in period one and the previous period. A T-test willbe carried out through the multiple linear regression method to partially know the relationship of one or more independent variables to the dependent variable. In addition, an F test was also carried out to know the relationship of one or more independent variables simultaneously to the dependent variable (Ghozali, 2011). This method is also equipped with a coefficient of determination to see the feasibility of the model used in this study.

RESULTS

This study intends to examine the impact of Islamic commercial banks' and Islamic Rural Banks'funding of the MSME sector on Indonesia's economic growth. The results of this study can be seen as follows according to Table 1.

Table 1. Results of the Autocorrelation Test

| R	R Square	Adjust R Square	Durbin-Watson
.854ª	.729	.722	2.178

Source: Data Processed, 2023

The autocorrelation test based on Imam Ghazali (2011) states that a data model does not show symptoms of autocorrelation if the Durbin-Watson value is between (du) and (4-du). So from thedu value (1.7361) < Durbin Watson (2.178) < 4-du (2.2639) and based on this understanding, it can be concluded that the data on MSME Financing of Islamic Commercial Banks and Islamic Rural Banks on Economic Growth in Indonesia do not show signs of autocorrelation (Ghozali, 2011).

Table 2. Results of the Multicollinearity Test

Model	CollinearityStatistics	
	Tolerance	**VIF**
Islamic commercial banks	.685	1.459
Islamic rural banks	.544	1.838

Source: Data Processed, 2023

Based on Table 2, the multicollinearity test based on Imam Ghazali (2011) states that the data model does not show symptoms of multicollinearity if the tolerance value is more significant than(0.100) and the VIF value is less than (10.00). Therefore, from the test results in Table 2, it can be concluded that the data model for MSME Financing of Islamic Commercial Banks and IslamicRural Banks on Economic Growth in Indonesia does not have symptoms of Multicollinearity (Ghozali, 2011).
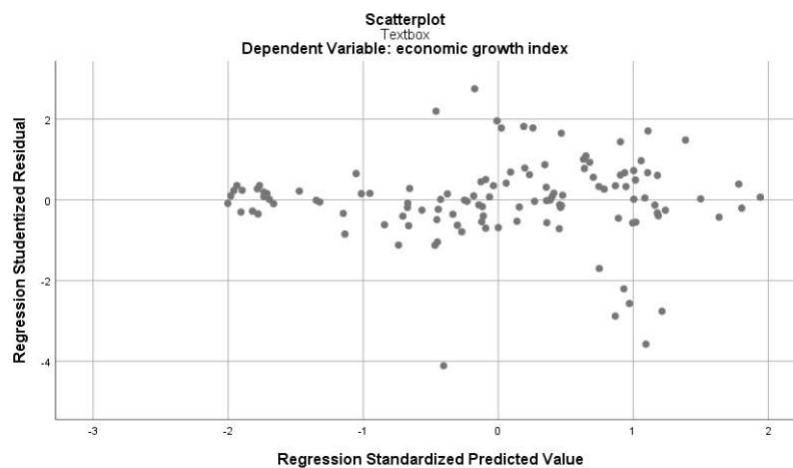
Figure 3. Results of the Heteroscedasticity Test
Source: Data Processed, 2023

Based Figure 3, the heteroscedasticity test, according to Imam Ghazali (2011: 139), states that there is no heteroscedasticity if there is no clear pattern of forming waves, widening or narrowingthe scatterplots imagery, and the dots spread over the number 0 on the X-axis. So it can be concluded that the data model In this study, no symptoms of heteroscedasticity were found because they met the criteria above according to Table 3. According to Sujarweni (2014: 155), if the value of T count > T table, then the independent variable (X) partially affects the dependent variable (Y). Based on the results of thet-test in Table 3, the results show that the T count is (-2.665) for Islamic commercial bank variables(X1), and the T count is (2.655) for BPRS variables (X2). Moreover, obtained T count from X1 (- 2.665) > T table (1.98045) and T count X2 (2.655) > T table (1.98045). In addition, the probability value of the two variables was also found to be lower than the 5% confidence level, so it can be concluded that the MSME financing variable for Islamic commercial banks (X1) negatively affectsIndonesia's economic growth variable (Y), and the MSME financing variable for Islamic rural banks has an effect positive for economic growth in Indonesia (Y).

Table 3. Results of T-Test

Model	Standardized Coefficients Beta	t	Sig.
1 (Constant)		5.076	.000
Islamic commercialbanks	-.156	- 2.665	.009
Islamic rural banks	.175	2.655	.009

Source: Data Processed, 2023

Based on Table 4, according to Imam Ghazali (2011: 101), if the Sig. <0.05, the independent variable (X) simultaneously influences the dependent variable (Y). Table 4 shows the results where the value of Sig is obtained. 0.000. Besides that, in addition, according to V. Wratna Sujarweni (2014: 154), if the value of F count > F table, it can be interpreted that the independent variable (X) simultaneously affects the dependent variable (Y). Furthermore, based on Table 4, the results of the F table are obtained with the formula (k; n-k) = (2; 118) = 3.07, and the results of the F count are 102,988, where the F count is

(102,988) > from F table (3.07).

<div align="center">**Table 4.** Results of F Test</div>

| Model	F	Sig.
Regression	102.988	0.000

Source: Data Processed, 2023

Based on the criteria above, it can be concluded that the variable financing for MSME Islamic commercial banks(X1) and Islamic Rural Banks (X2) simultaneously influences Indonesia's economic growth (Y). The coefficient of determination from this multiple linear regression results also obtained an R- square value of 0,729 (72 %).

<div align="center">**DISCUSSION**</div>

Islamic Commercial Bank MSME Financing for Economic Growth in Indonesia
The findings of this study show that Indonesia's economic growth is significantly and adversely affected by MSME financing for Islamic commercial banks. These results differ from several previous studies, such as Asngari (2014), Ishak (2016), Boukhatem & Ben Moussa (2018). Nas & Gulzar (2022) found that financing significantly and positively affects economic growth. The financing data of Islamic commercial banks reviewed in this study, namely financing for the MSME sector, may cause a discrepancy in results because financing in the non-UMKM sector behavesdifferently from financing in the MSME sector. According to information on MSME financing for Islamic commercial banks and the Industrial Production Index for the past 10 years, both of which are depicted in Figure 4, it was discoveredthat from 2013 to 2015, there was a fairly significant fall in MSME financing for Islamic commercialbanks. The industrial output index showed that Indonesia's economic growth rate was constant and somewhat elevated. This has a sizable detrimental impact on Indonesia's economic growth of MSME lending in Islamic commercial banks. This negative effect can also be caused by the priority of financing for Islamic commercial banks when economic conditions are relatively good, namely for financing in the non-MSMEs sector.
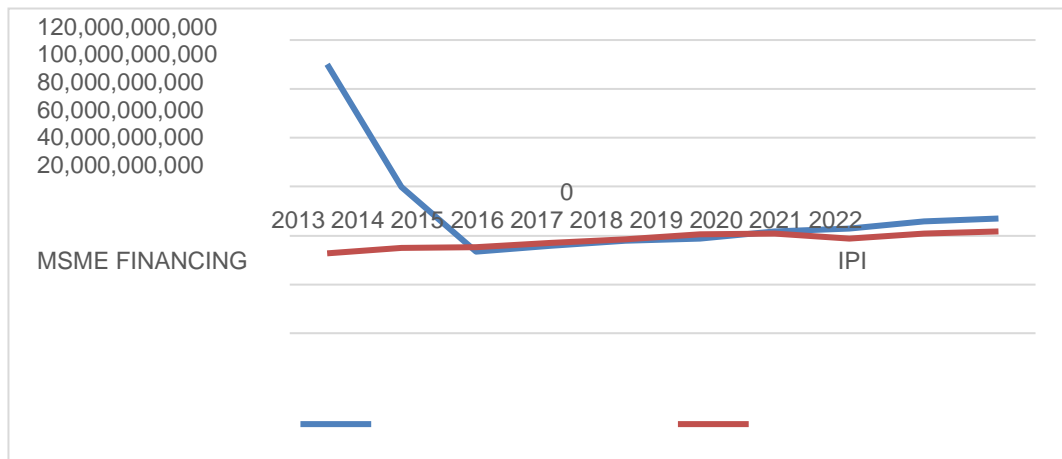

Figure 4. MSME Financing of Islamic Commercial Bank and Industrial Production Index
Source: OJK & World Bank, 2022

Based on the Islamic Banking Statistics Report (OJK, 2020), it was found that in 2014, Islamic commercial banks increased the amount of financing in the non-MSMEs sector, in contrast to the MSME sector, namely Rp. 139 trillion fromthe initial Rp. 74 trillion in 2013. However, in 2015, as with Islamic commercial bank MSME financing, financing for the non-MSMEs sector also declined drastically, even lower than in 2013,which was Rp. 46 Trillion. This indicates that the condition of Islamic Commercial Banks was unstable that year. OJK

(2015), in the 2015 Islamic Finance Development Report, stated that financing growth at BUS in 2015 slowed compared to the previous year due to ongoing economicpressures and bank strategies that were more careful in channeling funds.

Islamic Rural Banks MSME Financing for Economic Growth in Indonesia
The results of this study indicate that MSME financing of Islamic Rural Banks has a significant and positive effect on Indonesia's economic growth. This result is in line with several previous studies such as Asngari (2014), Ishak (2016), Boukhatem & Ben Moussa (2018). According to Nas & Gulzar (2022), funding has an enormous and advantageous impact on economic progress.These results also indicate that when compared to Islamic commercial banks, Islamic Rural Banksare more effective in developing MSMEs which ultimately helps a nation's economic growth.
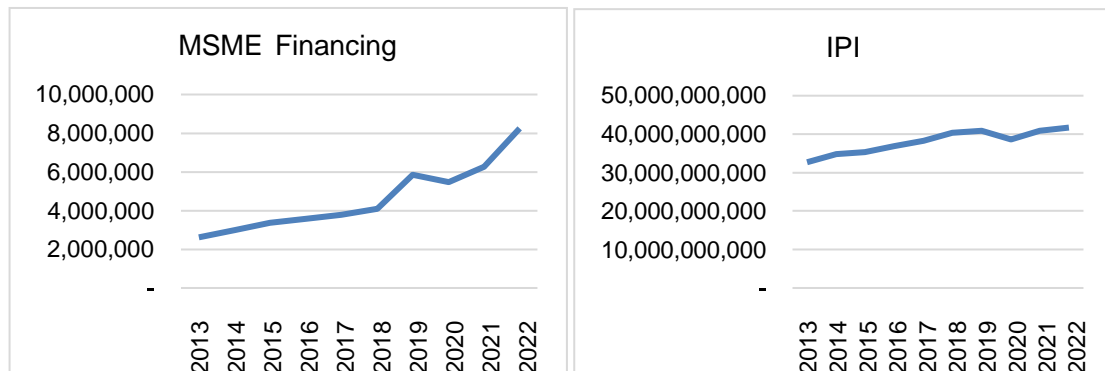
Figure 5. MSME Financing of Islamic Rural Bank and Industrial Production Index
Source: OJK & World Bank, 2022

Based on MSME financing data from Islamic Rural Banks and also data on Indonesia's economicgrowth over the last 10 years, it can be seen that both MSME financing and IPI have relatively increased from year to year. This explains the beneficial correlation between Islamic Rural Banks'MSME funding and Indonesia's economic growth, as measured by the Industrial Production Index(IPI). In addition, these results also show that Islamic Rural Banks are more effective in carrying out their role in supporting the MSME sector and increasing economic growth. Islamic Rural Banks are financial institutions particularly interested in the MSME sector. Hence MSME financingis undoubtedly a priority
for Islamic Rural Banks' operations.

Islamic rural bank is a financial institution that plays a financial intermediary between parties needing capital and those with excess funds. BPRS provides financial access to people who previously could not obtain financing from conventional financial institutions. Unbanked orunderbanked segments frequently receive financial services from Islamic rural banks. The BPRSpromotes inclusive economic growth by increasing financial inclusion and granting more individuals access to financial services. (Nugroho & Alexandi, 2017).

Islamic rural banks can aid in improving access to the financial system for those whom conventional or mainstream financial institutions previously underserved. Islamic rural banks provide doors for persons and businesses who could not previously obtain financing by providingSharia-compliant banking services. This can encourage financial inclusion and broaden the economic base, which in turn has a positive impact on economic growth. The potential of the community to carry out the necessary production or consumption will increase with the use of Islamic rural banks as intermediary institutions, increasing their ability to increase the flow of money for economic growth as a result of an increase in actual output. (Zachray, 2017).

CONCLUSION

MSME financing can make a sizable contribution to improving the performance of Islamic banking.Islamic banks have carried out their role as financial intermediary institutions by collecting funds from the public and then channeling them in the form of financing, one of which is financing for the MSME sector (Setiawan, 2021). The results of this study indicate that when compared to Islamic commercial banks, Islamic rural banks' MSME financing is more effective
at boosting Indonesia's economic growth, even though, in nominal terms, Islamic commercial banks' MSME financing is greater than that of Islamic rural banks. MSME financing for Islamic commercial banks significantly but negatively affects economic growth. This is because the two
Islamic banks have different target customers. Islamic rural banks are financial institutions for micro, small and medium-sized communities. Meanwhile, Islamic commercial banks tend to channel their funds to finance the non-MSMEs sector, especially when economic conditions are stable. The study's findings are anticipated to assist stakeholders in formulating policies that willmaximize the contribution of Islamic rural and commercial banks to Indonesia's economic growth.

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Shariah Economics,

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