

## Analysis of Sharia MSME Financial Knowledge in Kuningan, West Java

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### Abstract

*The purpose of this study was to determine the factors inhibiting the interest of the Kuningan, West Java society, in applying for financing to sharia MSMEs. This research uses field research with a qualitative approach. The types of data used in this study are primary data and secondary data. Data collection techniques are through observation, giving questionnaires, and documentation. The population in this study is the community of Kuningan, West Java, which includes the general public and owners businesses in the area. The results of the research on the background of the community not applying for financing are the lack of public knowledge of the existence of sharia SMEs, and the lack of socialization about sharia SMEs. The inhibiting factors for public interest in applying for financing at Islamic banks are the distance of Islamic banking locations, collateral, lack of socialization, different perceptions of sharia MSMEs for each individual.*

### Keywords

Sharia MSME; financial knowledge



## I. Introduction

Financial institutions, like banks or others have an important role in the economy of a country. Banking brings together parties who need funds with those who have excess funds. Contributions are given in the form of lending, banks try to meet the needs of the community to facilitate their business. Support for the business world will create jobs and improve people's welfare. In addition, banking is also a supporter of the smooth payment system, implementation of monetary policy and the achievement of financial system stability, so that a healthy, transparent and accountable banking system is needed. The community's economy will continue to develop in line with the development and progress of banking in serving the needs of the community in financial products. The rapid development of the economy demands the emergence of financial products that can facilitate payment transaction activities in the community's business so that banks are required to be able to follow developments and create banking products, which can assist the community in meeting the needs of payment traffic.

The economic crisis in the pandemic era has had a negative impact on economic development in Indonesia. The current shock to the economy has resulted in large companies slumped and exposed to liquidation, and conventional banking is no exception. Conventional banking has lost the level of public trust due to the crisis in the midst of the pandemic. In this regard, Lubis (2014, 56) explains: "To fix this problem, today the banking world is required to implement various strategies to obtain the maximum number of customers by offering products that are needed by the community". For this reason, the presence of Islamic banks is based on a discourse on Islamic economics that expects a banking system that is able to meet the needs of the Muslim community to obtain Islamic financial transactions. The presence of Islamic banks is believed to be able to improve the conventional economic system based on interest (usury). Allah SWT has strictly prohibited usury.

The development of Islamic financial institutions at this time also has rapidly an impact on the development of Islamic microfinance institutions. especially in the role of microfinance institutions in encouraging the people's economy. The provision of broad access to microfinance to the people's economy has even been considered a key program for efforts to eradicate poverty (Pratiwi, 2014:85). In Indonesia, there are several examples of Islamic financial institutions, namely Islamic banks, Islamic insurance, Islamic capital markets and others. In addition to sharia banks, currently there are also many Sharia Microfinance Institutions, such as Sharia Rural Banks, Baitul Maal Wattamwil, and sharia-based cooperatives. In Sharia Microfinance Institutions, sharia cooperatives are not just social financial institutions. However, sharia cooperatives are also business institutions in order to improve the people's economy. Understanding the meaning of financial institutions is at least understandable than what is stated in the Big Indonesian Dictionary, which gives the understanding that financial institutions are "financial bodies in charge of withdrawing money and distributing it to the public" (<http://kbbi.web.id>).

There are problems faced by SMEs. One of the biggest obstacles is the issue of business capital financing. Business capital certainly has an important role for every MSME, where a business that does not have sufficient capital will be difficult to develop and carry out its activities. Businesses without sufficient capital will be very difficult to increase the quantity and quality of the products produced. This is also stated by Hapsari (2014, 43):

"MSMEs prefer to use personal financial sources to run and develop their businesses. MSMEs also seem reluctant to apply for financing in banking and non-banking financial institutions for various reasons, such as complicated procedures, the amount of financing which are few, require collateral, the absence of banks in remote areas and so on"

From various previous research results, it was found that many factors that influence interest, such as knowledge, reference groups, motivation and location, such as Nurul Azmi and Muhammad Haris Riyaldi (2019) The results of Chamidun's (2015) research also show that procedures, reputation and services have a significant effect on the interest of MSMEs to apply for financing in Islamic financial institutions. The same thing can also be seen from the results of his research. Supposedly, by having a the diversity of products and various advances, the achievements of Islamic banks can attract the interest of many customers, especially the MSME sector. This is a very unfortunate thing because the contribution of MSMEs cannot be ignored in playing various roles in the economy, both micro and macro. There are many problems, in an effort to develop MSMEs, especially MSMEs in the Ponorogo sub-district, according to one of the MSME owners in the Ponorogo sub-district, the problems in their development efforts mainly concern management, production, financing, and marketing. These various problems arise due to the difficulty of MSMEs in accessing various economic sources, in addition to not many community groups who have a commitment to the development of MSMEs. Azrul Tanjung (2017, 96) "Besides that, although the government pays attention to MSMEs, this attention is not comparable to the attention given to large private companies and BUMN. One of the problems that arise is regarding finance. To get a lot of consumers, one way to do this is to create customer loyalty (Harahap, 2021). Service quality and innovation are two elements that can build competitive advantage, because the quality of service as a infrastructure that is adequate in providing services, while innovation is applied because consumers want a renewal in the services perceived by consumers, so the end result of service quality and innovation is the creation of competitive advantage (Kusumadewi, 2019).

Most of the people in rural areas are not familiar with the term financial technology as a whole about how to use it, what are the benefits, advantages and objectives that can be

obtained from its use due to the lack of government literacy in introducing a good financial system. Therefore, socialization steps and discussions through social media networks are needed both to get public attention and as an effort to seek input for improving the existing system, due to low financial literacy knowledge, people do not have a good financial management plan. Basically, financial technology provides many conveniences to the community, but this facility contains various risks, one of which is the opening of opportunities for cybercrime. The highly sophisticated cyber world makes it easy for hackers to track financial transactions, while security in remote areas has not yet reached the point of perfect security. Customer protection is one of the main issues in the development of the SP-fintech business which is regulated and supervised by Bank Indonesia. In this research, the researcher wants to investigate how the understanding of MSMEs in the community, especially the people in the Kuningan area, West Java. Therefore, the problem that will be raised in this research is how is the role of micro, small and medium enterprises in improving the welfare of the community in the Kuningan area, West Java? Then, the second thing is: What is the level of understanding of the community in the Kuningan area, West Java, regarding sharia MSMEs?

The definition of MSMEs is regulated in the Republic of Indonesia Law No. 20 of 2008 concerning SMEs. Article 1 of the law states that "micro-enterprises are productive businesses owned by individuals or individual business entities that have the criteria for micro-enterprises as regulated in the law.". Laksmana (2009, 10) explains, "Sharia Financial Institutions are business entities whose activities are in the financial sector based on sharia principles. In other words, they are sourced from the verses of the Qur'an and As-Sunnah relating to the ethics of muamalah and economic transactions, both in the form of banks and non-banks. In Islam, not all economic transactions are prohibited, and vice versa, not all economic transactions are allowed. Things that are forbidden in Islam, one of which is usury. Riba is the determination of the excess or additional loan amount charged to the borrower, or in the banking world termed 'interest'.

Financial institutions, including Sharia MSMEs, are companies whose businesses are engaged in the financial services sector, this means that the activities carried out by these institutions will always be related to the financial sector, whether raising funds, distributing, and/or other financial services. According to the National Sharia Council, Islamic financial institutions are financial institutions whose activities are issuing Islamic financial products and obtaining operational permits as Islamic Financial Institutions. The National Sharia Board in Islamic financial institutions becomes the benchmark for fatwas on products in the form of technical contracts that are formulated by the National Sharia Council and supervised by the Sharia Supervisory Board. Simply put, the existence of Islamic financial institutions today shows an increasingly rapid development. This is in line with the increasing awareness of most Muslims to carry out Islam kaffah. Regarding this, Barrimi et al, (2013). This development certainly provides new hope for business actors to run a business that does not only operate on material profits, but also in accordance with the spirit of sharia law which promises to fulfill spiritual needs.

## II. Research Methods

This study uses a qualitative research with a descriptive approach which means to describe a situation of SMEs in Kuningan, West Java, which is factual in a systematic and accurate manner, to analyze individual phenomena, situations, certain groups, accurately with the aim of describing the activities and transactions of SMEs. what's happening right now. In descriptive research. Basrowi dan Suwandi (2008) explained: "The researcher uses interviews, unstructured observations, and structured observations to describe the phenomenon under study".

This research was Kuningan area, West Java. When viewed from the data source, data collection can use primary sources and secondary sources. Furthermore, when viewed in terms of data collection methods or techniques, the techniques in data collection can be done by observation, interviews, documentation. The existence of Islamic financial institutions in Indonesia has experienced significant developments to accommodate and provide opportunities for the development of Islamic banking. Furthermore, the existence of the law was also reinforced with the issuance of Law Number 21 of 2008 concerning Islamic banking which explicitly recognizes the existence of Islamic banking and distinguishes it from the conventional banking system (Nugroho et al., 2018).

## III. Results and Discussion

It is undeniable that the growing financial industry in Indonesia is still dominated by conventional finance. This is one proof that the growth of Islamic finance is still far behind compared to conventional finance. Nevertheless, the COVID-19 pandemic has driven the acceleration of digital transformation, including digital transactions. The pandemic has had a significant impact on all aspects, especially the economy. General Chairperson of the Association of Islamic Economists, Sri Mulyani, said that recovery efforts by the sharia economic sector must be well organized so that public confidence can increase. business model innovation in the form of products also needs to continue to be developed accompanied by education with various elements of the risk.

So that, Islamic finance can increase trust and security for people who transact according to Syariah. One of the things that distinguishes the conventional financial system from Islamic finance lies in the application of interest rates. The application of interest rates that are included in the category of usury in conventional finance can clearly harm the public. Interest is an exploitative tool that drains people's wealth. Not only has an impact on the individuals concerned, usury also has an impact on overall economic stability. In Islam, usury creates people who are lazy to work and are afraid to take risks to develop their wealth, which clearly can damage human resources. In addition, usury is the main cause of inflation, hampering its rate the economic growth, creating social inequality, and even being the main factor causing the global economic crisis.

During this time, it was difficult for MSMEs to receive assistance in the field of capital. There are several reasons why capital from conventional banks is dominated by conglomerates. It is common knowledge that entrepreneurs who are close to power (public policy makers) have easier access to sources of capital, thus sacrificing capital that should be directed to small and medium-sized entrepreneurs. Capital is often allocated to non-productive and non-real things that are beneficial to many people, but to speculative businesses in the amount of billions of rupiah, causing the collapse of the private sector in pandemi due to the soaring interest expense.

Today's Islamic financial institutions are still just an alternative in the community but ideally in the future they should be the main solution in alleviating poverty, improving the community's economy and empowering MSMEs. Islamic financial institutions also hold the principle of fairness and equality between institutions that provide loans and their customers, in contrast to conventional banks because conventional bank loans impose interest that does not see how the business results (profit) obtained by customers. This is because conventional banks do not apply a profit-sharing system contract. In addition, the orientation of Islamic banks is not always profit oriented, but for social purposes. The ability of Islamic financial institutions to serve the real business sector is what the government really needs

With the Syariah system, its finance is expected to provide more social impact during the pandemic and help the government in economic recovery. Unfortunately, this has not been matched by the number of MSMEs that have gone digital. Data from the Ministry of Cooperatives & SMEs states that to date only eight million MSMEs or around 20 percent of the total MSME population in Indonesia have used digital technology to sell. This means that MSMEs need to be encouraged more optimally to take advantage of digital technology in the future. Public interest in becoming a customer of a bank can be seen from various aspects, one of which is the aspect of marketing or product socialization carried out by Islamic financial institutions. Sharia MSMEs are financial institutions that become financial intermediaries in carrying out their sharia businesses, especially in funding and lending. The community is the main key in the success of Islamic financial institutions, such as Sharia MSMEs. This is because they are the beneficiaries of the services provided by Sharia MSMEs. So that the higher public knowledge about Sharia UMKM will be a determinant of the sustainability of the financial business carried out by Sharia UMKM. Here are some informants who have knowledge of the existence of Islamic banks in the regions, such as in the Kuningan area, West Java

As for the respondents in this study, namely the community in the city which includes several villages t. a Kuningan, West Java. The number of respondents in this study was 50 respondents representing 25 respondents from each research case study. Questionnaires were distributed to each respondent who was met directly at home or met on the road based on predetermined criteria. An overview of the respondent's profile is presented in the following tables:

**Table 1.** Characteristics of Respondents by Gender

NUMBER	GENDER	TOTAL
1	Male	38
2	Female	12

The data based on the age of the people in the Kuningan area are:

**Table 2.** Characteristics of Respondents by Age

NUMBER	AGE	TOTAL
1	25 - 30	21
2	30 - 40	14
3.	> 40	15

To see the responses given by respondents to the knowledge variable, it is shown in

**Table 3.** Respondents' Knowledge Responses

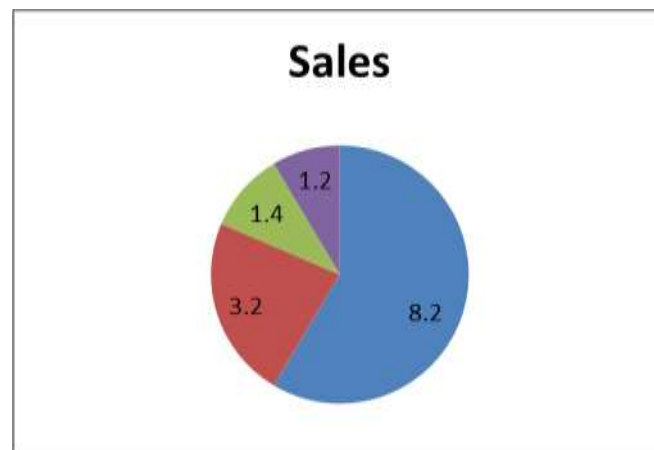
	<b>KNOW</b>	<b>NOT</b>	<b>DOUBT</b>
I know, what is the benefits and also how to manage it financially well and wisely	<b>40</b>	<b>10</b>	<b>-</b>
I know the conditions that must be met in taking credit	<b>30</b>	<b>15</b>	<b>-</b>
I know what MSME means	<b>38</b>	<b>6</b>	<b>2</b>
I know what is the difference between conventional and sharia financing	<b>32</b>	<b>16</b>	<b>2</b>
I trust sharia financing institutions more	<b>13</b>	<b>37</b>	<b>-</b>

Based on the tests the first hypothesis, there is a simultaneous influence between knowledge, trust and individual competence on the level of Islamic financial literacy. Based on the results of calculations that have been carried out, it shows that the influence of the independent variable with other variables is quite low, namely 0.25. This value means that the level of Islamic financial literacy is influenced by knowledge, trust and individual competence. The results of the study indicate that with the knowledge, trust and individual competence possessed by the community, the level of literacy or financial understanding of the community will also increase. With good financial literacy in the community, the public will be more familiar with financial institutions and also know their products well and can avoid harmful forms of investment and can overcome the risks that occur in financial terms. This is also inseparable from the role of related financial institutions in providing education to the public such as providing brochures about the benefits of Islamic financial institutions, or by holding small seminars in every sphere of society, both urban and rural communities, which are far from Islamic financial institutions. Thus, the public will be more familiar with Islamic financial institutions, in order to avoid financial management that violates Islamic law and away from practices that are prohibited in Islamic rules.

Based on the results of the second test, there is a significant influence between knowledge on the level of Islamic financial literacy. The results showed that finance had a significant influence on the level of Islamic financial literacy in the Kuningan community. This means that the more a person increases his knowledge, the better his literacy level will be. Financial knowledge that a person has can be a big influence for an individual in tackling financial risks that occur in family and social life, with good financial knowledge, then that person can minimize the occurrence of risks and losses that befall someone in terms of finances, for example unable to pay high interest. Based on the results of testing the third hypothesis, it shows that the trust of financial institutions does not have a significant influence on the level of Islamic financial literacy in the community in Kuningan, West Java. However, the trust of financial institutions may have a significant effect, due to the lack of knowledge about Islamic financing institutions. This is in line with the statement of Septiyani and Sanny (2013) told that individual competence is the basic characteristic possessed by each individual which includes aspects of knowledge, skills, and ability to work together in solving a problem. The best employee work discipline must be instilled in every employee, on the contrary not on coercion or demand but based on awareness from within each employee to get good work discipline employees must obey strict rules, obey company regulations, obey to the rules of conduct at work and to obey other rules. (Sutrisno and Sunarsi, 2019)



Regarding the public's lack of understanding of sharia MSMEs, even though healthy financing is the main goal to be achieved by every Islamic financial institution, administration can be defined as a design for a complete financing application. efficient and in accordance with Islamic law. The administration of financing applications includes activities in the form of information, presentation of recording data, mastery of documents related to the process of financing activities, systems or procedures in financing. Based on the questionnaire and observations, it can be seen that one of the factors inhibiting public interest in applying for financing to sharia MSMEs is the location factor of Islamic banks which are farther away when compared to conventional banks and other financial institutions that do a lot of innovation. One way of their marketing innovation is to do marketing with a ball pick-up system or directly to the community in the area concerned. This is a barrier to interest people apply for financing to Islamic banks, and make people not apply to Islamic banks. The location of Islamic banking is far from people's homes, so people will be more interested in applying for financing at banks or other konvensional financial institution, that are closer and easier to be accessed. The inhibiting factors for public interest in applying for financing to sharia MSMEs can be seen in the following diagram:



The results of research conducted in the Kuningan area of West Java, there are four reasons why people do not apply for financing at Islamic banks, namely:

1. Public knowledge about existing contracts in Islamic banks is about 25%.
2. The community does not need financing.
3. The experience of the community environment, such as the experience of neighbors, relatives and the experience of the community itself.
4. obstacles in the way of thinking which is one of the requirements when applying for financing at Islamic banks

This is in accordance with the theory written by Ali Chaminudin that interest can arise due to several things, namely:

- a. From within the individual concerned, for example, age, gender, experience, feelings of ability, personality.)
- b. Comes from outside the individual, including the family, school and community.

In addition, crowd and crowd argue that there are three factors that generate public interest in financing, namely:

- a. Impulses within the individual, such as curiosity drives.
- b. Social motives can be a factor that arouses interest in carrying out certain activities.
- c. Emotional factors, interest has a very close relationship with one's emotions

Based on the research results, the lack of knowledge and public trust can also be analyzed, due to the lack of socialization carried out by Islamic banking, interest can arise if there is encouragement from outside the individual, when viewed from the role of Islamic banking, there is very little socialization in the Kuningan community. The socialization carried out by Islamic banking was carried out by banking 5 years ago, this was certainly a factor in the community applying for financing at Islamic banks, the public was not interested due to the lack of understanding from the public regarding financing at Islamic financial institution, like UMKM syariah.

## V. Conclusion

Based on the results of the research and discussion described above, the following conclusions can be drawn:

1. Lack of knowledge has a significant influence on the interest of MSME entrepreneurs to apply for financing in Sharia MSMEs.
2. Motivation does not affect the interest of MSME entrepreneurs to apply for financing in Syariah MSMEs.
3. On average, people who become MSME customers in Kuningan City, only complete their education at the high school level. The majority of research respondents are aged 25 - 50 years, most of them have a profession. The respondents studied are dominated by male customers. Most of the respondents have a monthly income of approximately Rp. 100.000-200.000 per day. For this reason, the level of understanding of the community is very less, towards the existence of MFIs or Conventional, compared to the level of understanding of MFIs or Syariah.

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