

OPTIMIZATION OF ISLAMIC FINANCIAL SCHEMES FOR MSMEs DEVELOPMENT



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Abstract

The growth rate of Micro, Small, and Medium Enterprises (MSMEs) in the City/District of Tasikmalaya has increased steadily over the past six years at around 6.18% annually. MSMEs face challenges related to capital and business development, and the proposed solution is cooperation with financial institutions. However, MSMEs find it difficult to obtain financing from formal financial institutions due to a lack of collateral and sufficient knowledge about financing schemes suitable for their businesses. As a result, MSMEs have to seek funding from non-formal lenders with ribawi contracts, which contradict Islamic principles and local regulations. This practice is also inconsistent with Local Regulation No. 7 of 2014 of Tasikmalaya City and Governor Regulation No. 1 of 2022 of West Java. The aim of this research is to analyze opportunities, challenges, and strategies for optimizing shariah finance in the MSME sector in Tasikmalaya City/Regency. The type of research carried out was descriptive research with a mixed-method approach (qualitative and quantitative) using the Analytic Network Process (ANP). There were 8 respondents in this research, consisting of academics, practitioners, and regulators of Islamic financial institutions in Tasikmalaya City/Regency. The research results show that there are four problems and four solutions to optimize Islamic financial schemes in developing MSMEs, namely community problems, institutions, access, and regulations. The problems and solutions that must be addressed are primarily in society. Massive Islamic financial education needs to continue to be carried out, supported by access to Islamic financing and also the government's firmness in supporting MSMEs through Islamic financial institutions.

Tingkat pertumbuhan UMKM di Kota/Kabupaten Tasikmalaya meningkat stabil selama enam tahun terakhir dengan pertumbuhan 6,18% setiap tahunnya. UMKM mengalami kendala terkait modal dan pengembangan usaha, dan solusi yang diusulkan adalah kerjasama dengan lembaga keuangan. Namun, UMKM kesulitan mendapatkan pembiayaan dari lembaga keuangan resmi karena tidak memiliki jaminan dan pengetahuan yang cukup tentang skema pembiayaan yang cocok untuk bisnis mereka. Akibatnya, UMKM harus mencari dana dari pemberi pinjaman non-formal dengan akad ribawi, yang bertentangan dengan prinsip Islam dan regulasi setempat. Praktik ini juga tidak sejalan dengan Peraturan Daerah Kota Tasikmalaya Nomor 7 Tahun 2014 dan Peraturan Gubernur Jawa Barat Nomor 1 Tahun 2022. Tujuan dari penelitian ini adalah untuk menganalisis peluang, tantangan dan strategi optimalisasi keuangan syariah pada sektor UMKM di Kota/Kabupaten Tasikmalaya. Jenis penelitian yang dilakukan adalah penelitian deskriptif dengan pendekatan Mixed Method (kualitatif dan kuantitatif) dengan menggunakan Analytic Network Process (ANP). Terdapat 8 orang responden dalam penelitian ini yang terdiri dari praktisi, akademisi, dan regulator lembaga keuangan syariah di Kota/Kabupaten Tasikmalaya. Hasil penelitian menunjukkan bahwa terdapat empat permasalahan dan empat solusi untuk mengoptimalkan skema keuangan syariah dalam mengembangkan UMKM, yaitu permasalahan masyarakat, kelembagaan, akses, regulasi. Permasalahan dan solusi yang harus dibenahi terutama pada masyarakat. Edukasi keuangan syariah secara masif perlu terus dilakukan, didukung dengan akses pembiayaan syariah dan juga ketegasan pemerintah dalam mendukung UMKM melalui lembaga keuangan syariah.

INTRODUCTION

The Islamic financial system is a financial system that, in its implementation, uses Islamic principles, namely adhering strictly to the Al-Quran and hadith. One implementation of this financial system is in Islamic financial institutions, both banks and non-banks, such as Islamic cooperatives/Savings and Loans Cooperatives and Islamic Financing (KSPPS)/Islamic Financial Services Cooperative (KJKS)/Baitul Mal wa Tamwil (BMT). The implementation of a financial system with Islamic principles is supported by the government through the issuance of Tasikmalaya City Regional Regulation Number



7 of 2014. In Chapter IV, Article 11, it is stated that every Muslim in carrying out muamalah must use and/or prioritize the Islamic economic system. Everyone is prohibited from carrying out economic business activities through the practice of usury and/or debt bondage. Apart from that, every Muslim who carries out economic business in the field of financial financing services must implement the Islamic economic system (Tasikmalaya City Regional Regulations, 2014). West Java Governor Regulation Number 1 of 2022, in Chapter VI, Article 18, Point C, reads about providing access or coverage of universal and inclusive Islamic financial products and services for the people of West Java (Regulations of the Governor of West Java, 2022).

The existence of regional regulations and governor regulations makes it clearer that Muslim business actors must apply Islamic principles in their business activities and the capital sources they use. Tasikmalaya City and Regency have quite good development of MSMEs because they experience growth every year. The following is data on the development of MSMEs in Tasikmalaya City and Regency:

Table 1. Development of MSMEs in Tasikmalaya Regency and City

Tasikmalaya Regency			Tasikmalaya City		
Year	Number (unit)	%	Year	Number (unit)	(%)
2016	188.068		2016	91.113	
2017	199.704	6,18712381	2017	96.750	6,18682296
2018	212.060	6,17815699	2018	102.737	6,1881137
2019	225.181	6,18739979	2019	109.093	6,18667082
2020	239.114	6,18746697	2020	115.843	6,18738141
2021	253.908	6,18700703	2021	123.010	6,18682182

Source: (Department of Cooperatives and Small Businesses 2023)

The data in Table 1 provides information on the number of MSMEs in Tasikmalaya City/Regency each year experiencing an increase, but the development tends to fluctuate. If you look at this condition, of course there are many reasons why. In theory, one of the problems faced by MSMEs is capital.

The problem faced by creative economy actors such as MSMEs, apart from capital, is business development. In order to meet capital limitations, of course the right solution is to collaborate with official institutions such as Islamic financial institutions, both banks and non – banks. However, the fact is that MSMEs face obstacles in accessing financial institutions to obtain financing. According to information released on the Bank Indonesia website, there are two obstacles, namely technical and non – technical obstacles. Technical obstacles include not having/not enough collateral, while non – technical obstacles include limited information regarding suitable financing patterns for certain commodities. On the other hand, financial institutions also need information about commodities that have the potential to be financed (Bank Indonesia, 2022). Below is data on the proportion of credit or financing received by MSMEs:

Table 2. Proportion of MSME credit to Total Credit in West Java

Year	%
2015	16,8
2016	17,7
2017	18,5
2018	19,8
2019	21,1

Year		%
2020	19,41	– 1,69
2021	21,67	2,26

Source: (Department of Cooperatives and Small Businesses 2023)

The percentage composition of the amount of credit/financing received by MSMEs in West Java is relatively small, not experiencing significant growth. Even in 2017 and 2020 there was a decline from the previous year. This may be due to limited access to financial institutions. The limited access to financing experienced by MSMEs has forced some business actors in the MSME sector to take shortcuts, namely by making loans to loan sharks. The proliferation of loan sharks is, of course, due to the increasing demand for fast funds from the public, both for consumptive and productive purposes.

This fact is very contrary to the government regulations above. One of the articles contained in the regional regulation above clearly prohibits the practice of usury in economic activities, including financial institutions. However, despite this, in the city and district of Tasikmalaya there are still financing practices carried out by moneylenders under the guise of cooperatives. (Permana 2022) as Head of OJK Tasikmalaya said that many cooperatives have turned into loans, but they have become illegal loans. Interest rates are set high, hacking personal data to intimidation.

(Mawardi 2022), as a member of Commission III DPRD Tasikmalaya City, said that the existence of BPRS Al Madinah, which is owned by the regional government of Tasikmalaya City, could be an alternative for micro and small business actors to get rid of the increasingly disturbing habit of people borrowing money from loan sharks or emok banks. If BPRS Al Madinah can facilitate and become a solution, then the community will love this institution, especially if there is regular program assistance in terms of business management, finance, and others.

Islamic – compliant finance is based on the principles of justice, transparency, and social responsibility. Islamic finance prohibits interest – based transactions, speculation, and investment in businesses that are considered haram, such as gambling, alcohol, and pork (Ministry of Finance Republic Indonesia, 2023). The Global Islamic Economic Report estimates that the value of Islamic – compliant financial assets increased 13.9% in 2019, from \$2.52 trillion to \$2.88 trillion (Dinar Standard 2020).

The Indonesian government has recognized the importance of Islamic finance in supporting economic recovery and reducing poverty through empowering businesses and communities. The National Committee for Islamic Economics and Finance (KNEKS) was formed to accelerate the development of Islamic finance in Indonesia. KNEKS aims to strengthen Indonesia's economic resilience by encouraging the development of Islamic finance (National Islamic Economics and Finance Committee, 2023). Bank Indonesia, as Indonesia's central bank, is also committed to promoting and developing Islamic – compliant finance in Indonesia.

Islamic financial principles refer to Islamic Islamic, which is primarily guided by the Al Quran and Hadith (Ihsan, 2022; Maharani, 2022; Putri & Ramadani, 2022; Ramadhona, 2022). Some of these principles include prohibitions such as usury (Badruzaman, 2019; Kalsum, 2014; Umam, 2017) as well as maysir and gharar (Lewis et al., 2001a; Muchtar, 2017; Sahban, 2017a); haram goods (Fidhayanti, 2018; Lewis et al., 2001b). Apart from that, Islamic principles also emphasize the aspect of fair profits (Sahban, 2017b).

There are several types of Islamic financial contracts that are commonly used in Islamic banking, namely wadiah, mudharabah, musyarakah, murabahah, salam, istisna', ijarah, and ijarah mutahiyah bit tamlik. The existence of various alternative contracts that

can be used by the community and can provide potential for the development of MSMEs. MSMEs are regulated through Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises. Based on this law, MSMEs are owned and operated by individuals or small groups and offer quality products or services at affordable prices.

The Ministry of Cooperatives and SMEs recorded that the number of MSMEs reached 64.2 million with a contribution to GDP of 61.07% or 8,573.89 trillion rupiah. The contribution of MSMEs to the Indonesian economy includes the ability to absorb 97% of the total existing workforce and can collect up to 60.4% of total investment (Limanseto, 2021). MSMEs have an important role in strengthening the local economy. They can provide employment opportunities for local residents and increase people's purchasing power through increased income. MSMEs also help reduce social and economic disparities by providing opportunities to people who may find it difficult to obtain work or business capital in the formal sector.

However, despite the enormous benefits and influence, MSMEs often face challenges in developing their business. Some of these challenges include access to capital, limitations in terms of marketing and distribution, and lack of access to technology and quality human resources. To overcome these challenges, governments and financial institutions need to provide the right support, such as affordable training and funding as well as access to wider business networks and markets.

Currently, there is a significant amount of research concerning the effectiveness of Islamic finance for the growth of MSMEs in Indonesia. Several studies focus on optimizing Islamic banks instruments and products (Purnamasari & Darmawan, 2017; Faisal, 2017); (Hakeem, 2019); (Suhirman, 2022). Other research discussed how Islamic social finance contributes to the development of small enterprises (Waldan, 2022), such as Zakat (Sukesti & Budiman, 2018; Saifullah et al., 2022; Hakimi et al., 2024) and waqf (Thaker, 2018; Merlinda et al., 2021; Rifai, 2024). Furthermore, MSMEs can utilize Islamic fintech, which is currently emerging as a source of funding (Apriliani et al., 2019; Sulaeman, 2020).

There are several previous studies regarding the optimization of Islamic financial schemes for the development of MSMEs in Indonesia. One research focus is on optimizing waqf as a productive instrument for MSMEs. The study concluded that optimizing waqf for MSMEs can be done through providing investment capital and working capital, as well as training, mentoring, and improving skills to increase productivity (Rohim, 2021a). Another study conducted by Rohim (2021) discusses the optimization of waqf as an instrument for financing the halal industry, including MSMEs. This study emphasizes the importance of efficient management of waqf assets to ensure sustainable financing for MSMEs. This study also highlights the need to develop Islamic financial regulations and governance, as well as increased research and development capacity to support the growth of Islamic finance in Indonesia.

Following from the prior research, alongside the background that access to capital for MSMEs, especially in Islamic financial institutions, is still not popular with the public. The above conditions certainly need to be resolved by finding the causes of the Islamic financial scheme not being optimal and finding solutions to solve these problems. Apart from the need for solutions to optimize Islamic financial schemes, Islamic financial strategies are also needed to develop MSMEs, because the economic potential in Tasikmalaya City and Regency is quite good. This research aims to analyze problems and solutions for optimizing Islamic finance for the development of MSMEs in Tasikmalaya from multiple perspectives.

METHOD

The type of research that will be carried out is descriptive research with a mixed – method approach (qualitative and quantitative). This research design means that researchers can get a picture of the actual situation regarding the object being studied based on existing facts, events, and data. Then the data is processed, analyzed, and processed on the basis of theories that are used as research material, and ultimately conclusions can be drawn. Using the Analytic Network Process (ANP) method. The selection of respondents in this research was carried out by considering the respondent's understanding of the problem being studied. The respondents in this study consisted of twelve people, with the consideration that they were competent enough to represent the entire population.

This research involved 8 respondents who are experts in the field of Islamic finance and MSMEs in the Tasikmalaya City and Regency areas. Based on the data obtained, respondents who were successfully contacted and were willing to provide data came from different origins or agencies in order to obtain more complete data. The following is data on respondents who were successfully contacted and provided data for the purposes of this research:

Table 3. List of Research Respondents

No.	Institutions
1.	SMART Indonesia (Researcher)
2.	KSPPS BMT Sahabat Tasikmalaya
3.	BPRS Al Madinah Tasikmalaya City
4.	Chambers of Commerce and Industry/Kamar Dagang dan Industri (KADIN) Kabupaten Tasikmalaya
5.	Bank Indonesia Tasikmalaya Representative Office
6.	Indonesian Ulama Council (MUI) Tasikmalaya Regency
7.	Masyarakat Ekonomi Syariah Tasikmalaya
8.	Bank Syariah Indonesia Office Branch HZ Mustofa Tasikmalaya City

Source: Primary Data, 2023, data proceed

The questions in the ANP questionnaire are in the form of pairwise comparisons between elements in a cluster to find out which of them has a greater influence (more dominant) and how big the difference is seen from one side. The 1 – 9 numerical scale used is a translation of the verbal assessment. Respondents must be accompanied by researchers when filling out questionnaires to maintain consistency of the answers given. In general, the number of questions on the ANP questionnaire is very large, so non – technical factors can cause a high level of inconsistency.

Table 4. Comparison of Verbal Scale and Numerical Scale

VERBAL SCALE	NUMERIC SCALE
The impact is much greater	9
	8
The impact is much greater	7
	6
Greater influence	5
	4
Slightly bigger impact	3
	2
Just as big an influence	1

Source: (Ascarya 2005)

The decomposition was made after conducting field research through in – depth interviews with respondents regarding Islamic financial schemes for developing MSMEs

in Tasikmalaya. Based on the results of the research that has been carried out, it is known that there are several problems in optimizing Islamic financial schemes in Tasikmalaya that can hinder the development of MSMEs. The author divides it into two categories, namely problems and solutions. The following are the problems in Islamic financial schemes that can hinder the development of MSMEs in Tasikmalaya, which are divided into four issues, namely: 1) Community Problems; 2) Institutional Issues; 3) Access Issues; and 4) Regulatory Issues. The table presents research results from open – ended interviews with experts on issues and solutions.

Table 5. Problems and Solution for optimizing Islamic financial schemes for the development of MSMEs in Tasikmalaya

Issues	Problems	Solution
Community Problems	<ol style="list-style-type: none"> 1. Education level of MSME players. 2. Lack of business knowledge from MSME players and ignorance about the need to involve Islamic financial institutions for business financing 3. Lack of knowledge and desire to use Islamic financial services, as well as beliefs about Islamic (Islamic financial institutions are the same as conventional) 4. Consumptive lifestyle that defeats the belief to avoid conventional interest – based financial institutions, both formal and informal (loan sharks) 5. Few people know about the existence of Islamic financial institutions 6. People have poor character and this is a consideration when applying for financing and people tend not to want to bother with the requirements when applying for financing to Islamic financial institutions 	<ol style="list-style-type: none"> 1. Education related to Islamic finance: increasing literacy for customers or prospective customers/the MSME community, accompanied by assistance activities in accessing Islamic – based financing 2. The role of universities through community service regarding Islamic business 3. The role of universities is to explain and provide public access to Islamic financing products for MSMEs 4. The role of associations such as the Islamic Economic Community (MES) in educating the public about Islamic financial institution product schemes 5. The role of community leaders, religious leaders, or educational and social institutions to increase public awareness to be smarter in financial management and Islamic consumption patterns
Institutional Issues	<ol style="list-style-type: none"> 1. Competition between Islamic and conventional financial institutions, both formal and non – formal (such as loan sharks) 2. The bureaucracy of non – formal financial institutions such as loan sharks is easy, fast and accessible so that people prefer it 3. There are Islamic financial institutions that do not want to provide access to financing to MSMEs because the smoothness of financing is related to their character. 4. Competition in margin levels on financing products between Islamic 	<ol style="list-style-type: none"> 1. Islamic financial institutions have financing product schemes with margins or profit sharing that are more competitive with conventional financial institutions 2. Simplify the bureaucracy of financing applications: clear SOPs, improving service excellence, service development agreements in the financing process, and improving the financing

Issues	Problems	Solution
	<p>and conventional financial institutions, both formal and non – formal (such as loan sharks)</p> <p>5. Operational costs and procurement of limited human resources for product/scheme/modification development with a wide area coverage</p> <p>6. The infrastructure of Islamic financial institutions is inadequate, such as the limited number of branch offices and ATM machines</p>	<p>disbursement system</p> <p>3. Conduct research on product innovation schemes for MSMEs</p> <p>4. Building communication and friendship with the community/customers to build chemistry/kinship so that there is mutual trust between the community and Islamic financial institutions</p> <p>5. Islamic financial institutions carry out outreach and build collaboration with various parties: KADIN, religious leaders, MUI, MSME groups/paguyuban</p> <p>6. Increase the creativity of Islamic financial institutions so they can enter society and penetrate the market</p>
Access Issues	<p>1. Competition for access between Islamic financial institutions and conventional formal and non – formal financial institutions.</p> <p>2. The minimal role of religious figures or religious institutions in providing access to knowledge related to Islamic finance.</p> <p>3. The lack of marketing human resources for Islamic financial institutions to reach the community with a wide area coverage</p>	<p>1. Optimization of religious institutions in conveying Islamic financial literacy</p> <p>2. Have special human resources for marketing Islamic financial product schemes to MSMEs</p> <p>3. Optimizing online media to educate Islamic financial financing products for MSMEs</p> <p>4. Islamic financial institution facilities are increased, such as the addition of ATMs and financing facilities (number and type).</p> <p>5. Easy financing facilities for MSMEs, easy and fast bureaucracy</p>
Regulatory Issues	<p>1. The minimal role of regional governments in implementing Islamic regional regulations (perda) relating to muamalah in accordance with Islamic law</p> <p>2. The minimal role of the Financial Services Authority in socializing the use of Islamic financial institution products to MSMEs.</p> <p>3. The minimal role of Bank Indonesia as a mediator between Islamic financial institutions and the MSME community</p>	<p>1. Optimization of BI in mediating network improvements between MSME players and Islamic financial institutions</p> <p>2. Require Islamic boarding schools to access Islamic financial product services for the development of their business units</p> <p>3. Firmness from the government in dealing with loan sharks through implementing existing regulations</p> <p>4. Capital assistance from the government channeled through</p>

Issues	Problems	Solution
		Islamic financial institutions, accompanied by training, assistance and monitoring for MSMEs

The ANP network model in order to identify problems and solutions for optimizing Islamic financial schemes for the development of MSMEs in Tasikmalaya can be seen in the following figure 3. After creating the ANP network model, the next step is to create a questionnaire and distribute it to expert respondents to find the most priority answers to the problem being researched. After the questionnaire is distributed, it is input and analyzed using super decision software. To find out the results of individual assessments from respondents and determine the results of opinions in one group, an assessment was carried out by calculating the geometric mean. Apart from that, based on data from respondents, the Rater Agreement value is also known

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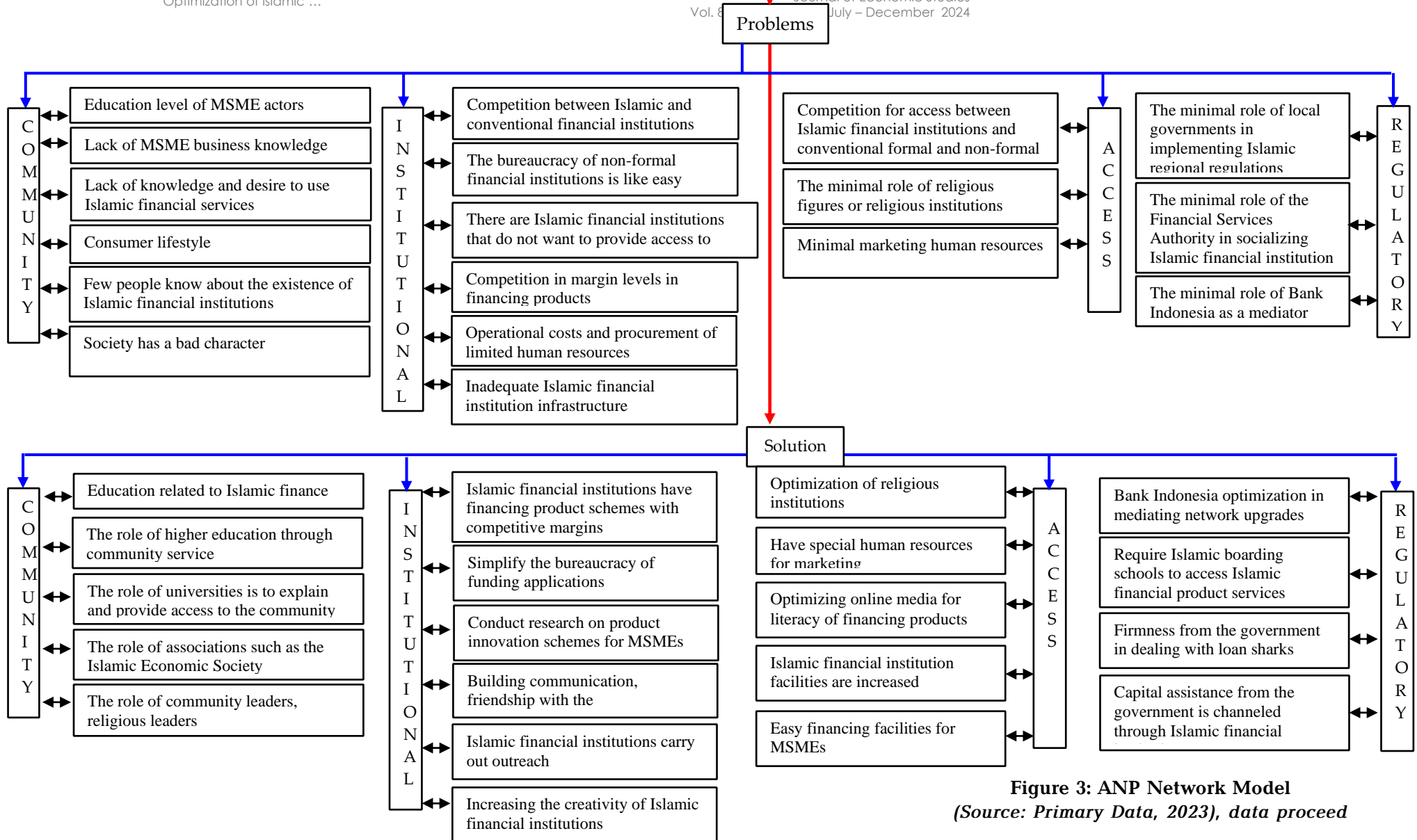


Figure 3: ANP Network Model
(Source: Primary Data, 2023), data proceed

RESULT AND DISCUSSION

Result

This is to measure that shows the level of conformity (agreement) of the respondents (R1 – Rn) regarding a problem in one cluster. Below is the data obtained on the geometric mean and rater agreement values on the problem and solution:

Table 6. Problems

Problems	Mean
Community Problems	0.3108575
Institutional Problems	0.23603
Access Problems	0.2279075
Regulatory Problems	0.2252

Source: Questionnaire, Interview, data proceed, 2023

Overall, based on the results in Table 5 above, it can be seen that from a problem perspective, based on the average value, the biggest problems occur on the community side with a value of 0.31, followed by institutional problems with a value of 0.236. Meanwhile, the problems of access and regulation have slightly different average values of 0.227 and 0.225, respectively. The rater agreement value is $W = 0.1296875$, or 12.67%, which means it shows agreement between respondents in answering the problem.

a. Community Problems

Table 7 shows that in terms of community problems, based on the average value, the biggest ones are the lack of knowledge and desire to use Islamic financial services, as well as beliefs about Islamic (Islamic financial institutions are the same as conventional). The second order is the consumerist lifestyle. The rater agreement value is $W = 0.226339286$, or 22.63%, which means it shows agreement between respondents in answering community problems.

Table 7. Community Problems

Community Problems	Mean
Education level of MSME actors	0.17721375
Lack of business knowledge from MSME players	0.18504625
Lack of knowledge and desire	0.2138825
Consumer lifestyle	0.18509
Few people know about the existence of Islamic financial institutions	0.12103125
Society has a bad character	0.117735

Source: Questionnaire, Interview, data proceed, 2023

b. Institutional Problems

Based on Table 7, it can be seen that regarding institutional problems, based on the average value, the biggest problem is the bureaucracy of non – formal financial institutions such as easy loan sharks. The second order is competition between Islamic and conventional financial institutions. The rater agreement value is $W = 0.331696429$, or 33.17%, which means it shows agreement between respondents in answering institutional problems.

Table 8. Institutional Problems

Institution Problems	Means
Competition between Islamic and conventional financial institutions	0.227075
The bureaucracy of non – formal financial institutions is like easy moneylenders	0.26214625
There are Islamic financial institutions that do not want to provide access to financing	0.09609375
Competition in margin levels in financing products	0.098665
Operational costs and procurement of limited human resources	0.15124125
Inadequate Islamic financial institution infrastructure	0.16477875

Source: Questionnaire, Interview, data proceed, 2023

c. Access Problems

Table 8. Access Problems

Access Problems	Mean
Competition for access between Islamic financial institutions and conventional formal and non – formal financial institutions	0.341745
The minimal role of religious figures or religious institutions	0.27003
Minimal marketing human resources	0.38822375

Source: Questionnaire, Interview, data proceed, 2023

Table 8 shows that from the perspective of access problems, based on the average value, the problem is a lack of marketing human resources. The second order is competition for access between Islamic financial institutions and formal and non – formal financial institutions. The rater agreement value is $W = 0.140625$ or 14.06%, which means it shows agreement between respondents in answering access problems.

d. Regulation Problems

Table 10. Regulation Problems

Regulation Problems	Mean
Minimal role of local government	0.44207125
Minimal role of the Financial Services Authority	0.2716075
The minimal role of Bank Indonesia	0.28632125

Source: Questionnaire, Interview, data proceed, 2023

Based on Table 9, it can be seen that from a regulatory problem point of view, based on the average solution value, it can be seen that the most dominant problem according to respondents is the minimal role of local government. Second place is the minimal role of Indonesian banks. The rater agreement value is $W = 0.42578125$, or 42.58%, which means it shows agreement between respondents in answering regulatory problems.

e. Solutions

Tabel 11. Solutions

Solutions	Mean
Community Solutions	0.2879275
Institutional Solutions	0.24692375
Access Solutions	0.20353625
Regulation Solutions	0.26161

Source: Questionnaire, Interview, data proceed, 2023

Based on Table 10, it can be seen that from a solution point of view, based on the average value, according to respondents, the most dominant one is the community

solution. The second order is regulatory solutions. The rater agreement value is $W=0.104688$ or 10.47%, which means it shows agreement between respondents in answering the solution.

f. Community Solutions

Table 12. Community Solutions

Community Solutions	Mean
Education related to Islamic finance	0.25273
The role of higher education through community service	0.1883275
The role of universities is to explain and provide access to the community	0.17015
The role of associations such as the Islamic Economic Society	0.17283125
The role of community leaders, religious leaders	0.21596375

Source: Questionnaire, Interview, data proceed, 2023

Table 11 shows that from the perspective of community solutions, based on the average solution value, it can be seen that the most dominant problem according to respondents is education related to Islamic finance. The second order is the role of community figures and religious figures. The rater agreement value is $W = 0.15$ or 15%, which means it shows agreement between respondents in answering community solutions.

g. Institution Solutions

Table 13. Institution Solutions

Institutional Solutions	Mean
Islamic financial institutions have financing product schemes	0.20082375
Simplify the bureaucracy of funding applications	0.1669025
Conduct research on product innovation schemes for MSMEs	0.09352
Building communication, friendship with the community/customers	0.19107125
Islamic financial institutions carry out outreach	0.184925
Increasing the creativity of Islamic financial institutions	0.16275875

Source: Questionnaire, Interview, data proceed, 2023

Based on Table 12, it can be seen that from an institutional solution point of view, based on the average solution value, it can be seen that the most dominant solution according to respondents is that Islamic financial institutions have financing product schemes. The second order is building communication and friendship with the community/customers. The rater agreement value is $W= 0.169642857$ or 16.96%, which means it shows agreement between respondents in answering institutional solutions.

h. Access Solutions

Table 14. Access Solutions

Access Solutions	Mean
Optimization of religious institutions	0.2986325
Have special human resources for marketing	0.18674125
Optimizing online media for literacy of financing products	0.174505
Islamic financial institution facilities are increased	0.13323875
Easy financing facilities for MSMEs	0.20688

Source: Questionnaire, Interview, data proceed, 2023

Table 13 shows that from an access solution point of view, based on the average solution value, it can be seen that the most dominant solution according to respondents is the optimization of religious institutions. Second place is the ease of financing facilities for MSMEs. The rater agreement value is $W= 0.34375$ or 34.48%, which means it shows agreement between respondents in answering access solutions.

i. Regulation Solutions

Table 15. Regulation Solutions

Regulation Solutions	Mean
BI optimization in mediating network upgrades	0.197495
Require Islamic boarding schools to access Islamic financial product services	0.161555
Firmness from the government in dealing with loan sharks	0.3482025
Capital assistance from the government	0.29275125

Source: Questionnaire, Interview, data proceed, 2023

Based on Table 14, it can be seen that from the perspective of regulatory solutions based on the average solution value, it can be seen that the most dominant solution according to respondents is the government's firmness in dealing with loan sharks. The second order is capital assistance from the government. The rater agreement value is $W = 0.3328125$ or 33.28%, which means it shows high agreement between respondents in answering regulatory solutions.

Finding

Several earlier studies can be used to further explain these findings, which are based on the data processing output shown in the previous section. The interpretations will be divided down into sections according to the problems and solutions which the respondents addressed in the questionnaire.

Community problem and solution

The result of this study stated that the highest mean on community problems is that the MSMEs lack awareness and knowledge in using Islamic finance instruments for their business. This result supports previous research conducted by Khoiriyah and Labibi (2022); Sari. and Pradesyah (2023); Novida and Dahlan (2020), which concluded that minimal knowledge and low public desire to use Islamic finance are the causes of not joining financial institutions. Islamic and prefer to use loans with an interest concept such as loan sharks.

In line with these problems, the solution to promote literacy and education related to Islamic finance for prospective customers or MSMEs has the highest value compared to other solutions. The results of this research support previous research, namely Kusuma and Hayati (2018); Yusuf and Asytuti (2022); Melis (2019); Rusdianto, Hutomo, and Ibrahim (2016); Subardi and Yuliafitri (2019); Jamil, Yulyanti, and Andriani (2023), that the strategy used to increase Islamic financial literacy is by conducting outreach and education to the public, education through mass media, or when people come directly to the office so that it has an influence on the marketing performance of Islamic commercial banks because people want to use Islamic financial institutions to meet their economic needs.

Institutional problem and solution

The second problem that conducted in this study is from the institutional side. Respondents argued that access and bureaucracy of MSMEs to non – formal institutions are easier and faster compared to formal Islamic financial institutions. As a result, MSMEs are more likely to employ ribawi scheme. The results of this research strengthen previous research conducted by (Novida and Dahlan 2020); (Khoiriyah & Labibi, 2022); (Yahya 2021); (Rahayani and Ediwidjojo 2021); (Mokodenseho and Puspitaningrum 2022) with the conclusion that the process is fast and the procedure which easily becomes one of the factors for people to access loans from moneylenders.

The solution commonly agreed upon by respondents to this problem is that Islamic

financial institutions need to offer products with financing schemes with margins and profit sharing that are more competitive than conventional institutions. The results of this research supports previous research conducted by Khasanah and Muamar (2020); (Harjoni and Fahmi 2018), which concluded that one of the factors influencing customers to use Islamic banking services is product differentiation based on customer perceptions caused by customer knowledge of the product with only a return of principal and a profit sharing system so that participants/customers who use capital from Islamic financial institutions will not be burdened with returning the excess because the loan is free from usury elements.

Access problem and solution

The next issue concerns the availability of Islamic financial institutions for MSMEs. The respondents confirmed that the biggest problem is the lack of marketing initiatives by institutions. These results strengthen previous studies that stated that there is a lack of marketing for financing products (Inne et al. 2020) so that public interest and trust are still low (Rusydzianaw (2016).

According to respondents, the main solution that needs to be implemented is the involvement and participation of other religious institutions to convey literacy related to Islamic finance. The results of this research support previous research conducted by Mutafarida and Sariati (2019) and (Hasibuan 2022), which concluded that Islamic education boarding schools and general education have an important role in facing the world of work. Literacy in the field of Islamic economics is needed by all parties to prepare them for the global world of work. Ulama play a role in socialization and education programs involving the OJK, Islamic mass organizations, practitioners, and academics on a regular basis.

Regulation problem and solution

This study's final problem is about regulation. Respondents agree that the role of the local government in socializing financing products to the public is very minimal. The results of this research support previous research, namely Surya et al. (2023), who concluded that the implementation of regional regulations in the Islamic tourism sector experienced obstacles because entrepreneurs and the public were given two alternatives, namely conventional tourism or halal tourism, so that the development of halal tourism tended to be slow because entrepreneurs in particular were only profit-oriented.

Based on these problems, according to respondents, the government needs to take firm action against loan sharks and other non-formal institutions. The results of this study support previous research conducted by Afisa, Mulyadi, and Sandi (2023) and Nasrulloh (2020), who concluded that to overcome loan sharks is to increase the provision of additional capital for MSMEs through the community business credit (Kredit Usaha Rakyat/KUR) program, as well as firmness from the government in dealing with loan sharks, including providing sanctions.

CONCLUSION

The results of this research provide information regarding the problems most experienced by Islamic financial institutions in optimizing Islamic financial schemes in order to develop. According to the agreement of respondents who are experts in Islamic finance and MSMEs, problems and solutions consist of four parts, namely society, institutions, access, and regulations. The research results concluded that the most felt problem in society is the lack of knowledge and desire to use Islamic financial services, as well as beliefs about Islamic (Islamic financial institutions are the same as conventional).

The biggest institutional problem is the bureaucracy of non – formal financial institutions, such as loan sharks, which are easy, fast, and accessible, so they are preferred by the public. Access problem: lack of marketing human resources for Islamic financial institutions to reach the community with wide area coverage. Regulatory problems: the minimal role of regional governments in implementing Islamic regional regulations (PERDA) relating to mu'amalah in accordance with Islamic law.

These impacts will of course disrupt the optimization of Islamic financial schemes to develop MSMEs. Therefore, in this research, a solution was obtained that was considered appropriate according to the respondents in overcoming the above problems. Community solutions: education related to Islamic finance: increasing literacy for customers or prospective customers/the MSME community, accompanied by assistance activities in accessing Islamic – based financing. Institutional solutions: Islamic financial institutions have financing product schemes with margins or profit sharing that is more competitive with conventional financial institutions. Access solution: optimizing religious institutions in conveying Islamic financial literacy. Regulatory solution: firmness from the government in dealing with loan sharks through the implementation of existing regulations.

This research provides information or findings. for improving Islamic financial institutions in aspects of Islamic financial schemes. Several parties, including academics and researchers, can use research as a reference for future research. Furthermore, it can be utilized as recommendations and feedback for the establishment of financing products, particularly for MSMEs, by relevant regulators and other Islamic financial institutions. The findings of this study can also be used as literacy and educational resources to raise awareness and understanding of Islamic finance among all groups, including MSMEs.

However, of course this cannot be separated from limitations, namely the absence of respondents from relevant government parties such as the Financial Services Authority (OJK), who are expected to be able to provide data from a policy perspective in optimizing Islamic financial schemes to develop MSMEs.

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