

Analysis of the Effect of Sharia Bank Financing and Investment on Economic Growth through Micro, Small and Medium Enterprises (MSMEs) Credit

Helmy Syamsuri¹, Abdul Wahab², Abdul Sumarlin³

^{1,3} Sekolah Tinggi Ilmu Ekonomi YPUP Makassar

² Universitas Islam Negeri Alauddin Makassar

Corresponding Author: Helmy Syamsuri helmysyamsuri@stie.ypup.ac.id

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ABSTRACT

This study seeks to examine the impact of sharia bank financing and investment on economic growth in Indonesia by analyzing lending to micro, small, and medium enterprises (MSMEs) utilizing time series data. This research characterizes economic growth through the Gross Regional Domestic Product (GRDP) for each province in Indonesia. This study utilizes secondary data from 2011 to 2022 sourced from BPS, OJK, and Bank Indonesia, analyzed using the Path Application. This report assesses the direct and indirect funding of Islamic banks and their involvement in economic growth via Micro, Small, and Medium Enterprises (MSME) credit. The research findings indicate that the Islamic bank funding variable does not significantly influence the MSME credit variable; nevertheless, the investment variable does have a substantial impact on the Micro, Small, and Medium Enterprises (MSME) credit variable.

INTRODUCTION

The financial sector must be involved in order to play a significant role in enhancing people's wellbeing in the face of uncertain global economic conditions. Because it will affect economic development, income inequality reduction, and poverty relief. Research in the field of development economics has long focused on the connection between financial transactions in the capital market, the financial sector—which is defined as an increase in the volume of banking products and services and other intermediary institutions and economic growth. Economic growth is influenced by the financial sector's development and vice versa. More funding sources will be directed toward profitable economic sectors if the financial sector grows well. This will eventually boost the capital development of the economy to boost its productivity in sustaining economic growth.

A nation's economic performance is significantly positively correlated with the financial sector's growth and success. As the major engine, the financial sector drives total economic growth in addition to providing essential support for the real sector of the economy. Numerous studies demonstrate that the banking industry in this case, sharia banking, which is an essential component of the national banking system, plays a significant role in promoting both community welfare and economic progress. Businesses across a range of industries, particularly in developing nations, rely heavily on banking finance as their primary source of funding to sustain their operations. In a nation with the greatest Muslim majority in the world, like Indonesia, sharia banking plays a unique role in promoting economic progress. The emphasis that Islamic financial institutions make on raising productivity is one of the key features of Islamic banking that positively affects the expansion of the real sector and the economy. Financial institutions that prioritize the principle of asset and production-based systems are known as sharia financial institutions. The primary manifestations of this concept are *musyarakah* and *mudharabah*. Both the financial and real sectors will move in balance with such a funding strategy. Therefore, the more sharia banking expands, the more it contributes to economic growth and performance by lending money to micro, small, and medium-sized businesses.

Good economic performance will immediately address the levels of unemployment and poverty. Sharia finance and banking are based on the idea of risk sharing, which encourages banks and depositors to share economic risks. This idea will push bank management to exercise caution when allocating funds or making investments, while also encouraging depositors to exercise caution when selecting a bank. Empirical studies on the connection between Indonesia's economic growth and the financial sector have been carried out in the country. by representing the financial sector with the banking industry and capital markets. Aside from Sharia Bank Financing, a variety of factors may affect a nation's economic growth, and investment is one of the most important ones that has a big impact. In the context of economics, investment refers to financial contributions made by outside parties to a business in order to maintain its ongoing operations. With the help of these funding, businesses

may boost their operational effectiveness and production capacity, which can lead to higher earnings. Indirectly, state revenue will benefit from the increased firm productivity brought about by this investment, particularly through the micro, small, and medium enterprises (MSMEs) credit mechanism. Investment may be a catalyst for equitable and sustainable economic growth by giving MSMEs improved access to finance. This will boost the competitiveness of the small and medium-sized company sector, which will ultimately aid in the general economic development of the nation.

Although there has been prior research on Sharia Bank funding, investment, economic growth, and MSMEs, many of these studies are still constrained by the use of non-specific factors. Alghifary et al.'s research from 2021 examined the impact of sharia banking on the output value of MSMEs in Indonesia by examining the effects of working capital financing and sharia bank investment on MSMEs' output value. The test results indicated that the variables of sharia bank working capital financing, sharia bank investment financing, deposits, and employee count were all present at the same time. Because work has a big impact on MSMEs' output value in Indonesia, Islamic bank financing products are seen to be a good way to boost MSMEs' production value. Investment-related research by Sadli et al. (2022) significantly and favorably impacts Indonesia's economic development. This indicates that one of the elements influencing Indonesia's economic development is investment. According to study by Pracoyo and Pratiwi (2021), a nation's economic development is positively impacted by the number of MSMEs. Credit contributes to the growth of MSMEs. The number of micro, small, and medium-sized firms (MSMEs) in Indonesia is growing annually, as is the amount of MSME loans extended to small businesses. Because of this, a thorough investigation into the elements influencing Indonesia's economic growth is required. To this end, researchers examine both directly and indirectly whether Islamic bank investment and financing have an impact on Indonesia's economic growth through credit for Micro, Small, and Medium-Sized Enterprises (MSMEs).

LITERATURE REVIEW

Sharia Financing, Micro, Small and Medium Enterprises (MSME) Credit and Economic Growth

There is a two-way hypothesis between funding in Islamic banks and economic growth, according to studies by Elhachemi & Othman (2015) that examined the instance of Islamic banking in Iran from 1990:1 to 2010:4 using the ARDL model to illustrate short- and long-term correlations. This suggests that the presence of Islamic banks can sustain Iran's economy. Furthermore, studies by El Ayyubi et al. (2017) demonstrate that funding from sharia banks significantly influences Indonesia's economic expansion. After conducting a qualitative study of the link between Islamic banking and economic growth, Zirek et al. (2016) came to the conclusion that Islamic banks often contribute positively to economic stability and that there is a strong and positive correlation between Islamic financing and economic growth. Additionally, the

proportion of Islamic loans, assets, and deposits in all banking instruments rose, which boosted economic expansion. Prastowo (2018) found that sharia banking financing has a beneficial impact on economic growth based on empirical investigations completed in 13 different nations. The MSME sector is one area where Islamic bank funding plays a significant role in promoting economic growth. According to research by Azis & Azizah (2022), Islamic banks can assist MSMEs by disbursing capital. This indicates that Islamic banks have the ability to boost MSMEs' funding in order to promote economic expansion. Micro, Small, and Medium-Sized Businesses (MSMEs) can receive credit or funding directly from commercial banks.

The economic performance of a nation is linked to Islamic bank financing for MSMEs and economic growth, and Islamic bank financing may positively impact economic growth by offering loans that supports MSMEs' company development and boosts overall economic growth. Berliana and Suriya, 2023. Islamic bank funding is crucial to economic expansion, especially for Indonesia's Micro, Small, and Medium-Sized Enterprises (MSME) sector. According to the findings of the conducted investigation, sharia banking funding has the most impact on economic growth (Ridlo, 2023). This indicates that Islamic banks have the ability to boost MSMEs' funding in order to promote economic expansion. By offering finance that supports MSMEs in growing their enterprises and boosting general economic growth, Islamic bank financing can positively impact economic growth (Suri & Berliana, 2023). As a result, Islamic bank financing plays a significant role in bolstering Indonesia's economic expansion by providing loans to MSMEs.

Investment, Micro, Small and Medium Enterprises (MSME) Credit and Economic Growth

Investment plays a critical part in a nation's economic development. Economic growth is positively impacted by investment, particularly in the MSME sector, according to research, and growing MSME investment will boost economic growth in general. The foundation of study by Masâ et al. (2021) that attempts to examine the impact of investment, direct spending, and indirect spending on economic growth and employment in the city is investment, which is also acknowledged as the source of Indonesia's economic recovery efforts from 2007 to 2018. According to the empirical study's findings, investment positively and marginally influences economic growth.

According to Harrod and Domar's theory of economic growth, investment is essential for promoting rapid economic growth. Investment or capital investment may boost national production and expand the stock of capital goods (Rahardja & Manurung, 2008). The findings of this study support those of Sumadiasa et al. (2016), who came to the conclusion that PMA significantly and favourably influences Bali Province's economic growth. This is further supported by study by Tran & Hoang (2019), which shows that FDI significantly and favourably impacted Vietnam's economic development between 2012 and 2015.

A nation's economic growth is significantly influenced by investments made in the Micro, Small, and Medium Enterprises (MSME) sector. According

to Ikhlaszul & Satria's research, MSME investment can positively impact economic development (2023). MSME investment is money given to micro, small, and medium-sized businesses by third parties. According to Ikhlaszul & Satria's (2023) analysis, MSME investment plays a significant role in economic growth. The variable of MSME investment has a positive effect on economic growth, and increasing MSME investment will promote overall economic growth and have a positive impact on sustainable economic development.

Micro, small, and medium-sized business (MSMEs) lending has a beneficial effect on Indonesia's economic growth. Given that the MSME sector is heavily reliant on national income, particularly from MSMEs, it is clear that MSME investment plays a significant role in bolstering Indonesia's economic growth (Lestari, 2019).

METHODOLOGY

Sekaran & Roger (2017) describe research techniques as scientific approaches to gathering data for certain applications and goals. A quantitative descriptive approach was the research methodology employed in this study. Path analysis is a technique for examining the direct and indirect effects of the variables under study. The path analysis model used in this study can assist in determining whether the relationship between variables occurs directly or through intermediate variables. It can also compare the magnitude of the influence, both direct and indirect (Widarjono, 2010). As stated by Sugiyono (2007), the documentation method was the data collection approach employed in this study. The library study method and documentation method were also used for data gathering reasons. All secondary data from reports posted on the websites of the Central Bureau of Statistics and OJK Sharia Banking Statistics for the 2011-2022 observation period was gathered for the documentation.

RESEARCH RESULT AND DISCUSSION

To find out a description of the conditions of the variables in this research, descriptive analysis will be carried out. The variables used in this research include the independent variable, namely sharia bank financing and investment, and the dependent variable, namely economic growth (GRDP), as well as the intervening variable, namely Micro, Small and Medium Enterprises (MSME) Credit during the observation period 2011 - 2022.

Tabel 1 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1,504	1,492		-1,008	,340
FinancingX1	,159	,310	,106	,511	,622
InvestmentX2	,950	,223	,881	4,265	,002

a. Dependent Variable: KreditY

It is known that the significance value of the sharia bank financing variable is 0.511 (>0.005), so it is concluded that the sharia bank financing variable does not have a significant effect on the MSME credit variable, so H1 is rejected. Meanwhile, the significance value of the investment variable is 0.002 (<0.005), so it can be concluded that the investment variable has a significant effect on the MSME credit variable, so H2 is accepted.

Tabel 2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,982 ^a	,964	,956	,10064

a. Predictors: (Constant), InvestasiX2, PembiayaanX1

Based on the R Square value of 0.964, this means that the contribution of Islamic bank financing and investment variables to MSME credit is 96.4%. Meanwhile, the e1 value is 0.189.

Tabel 3 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	11,397	,440		25,885	,000
Pembiayaan X1	,040	,088	,082	,451	,664
InvestasiX2	,302	,108	,864	2,791	,024
KreditY	,015	,093	,047	,162	,875

a. Dependent Variable: PDRBZ

Based on table 3, it is known that the significance value of the sharia bank financing variable is 0.664 (>0.005), so it can be concluded that the sharia bank financing variable does not have a significant effect on the economic growth variable (GRDP), so H3 is rejected. The significance value of the investment variable is 0.024 (<0.005), so it can be concluded that the investment variable has a significant effect on the economic growth variable (GRDP), so

that H4 is accepted. Meanwhile, the significance value of the MSME credit variable is 0.875 (>0.005), so it can be concluded that the MSME credit variable has no significant effect on the economic growth variable (GRDP).

Tabel 4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,988 ^a	,976	,967	,02814

a. Predictors: (Constant), KreditY, PembiayaanX1, InvestasiX2

Based on table 4, it is known that the R Square value is 0.976, which means that the contribution of Islamic bank financing and investment variables to economic growth (GRDP) is 97.6%. Meanwhile, the e1 value is 0.155.

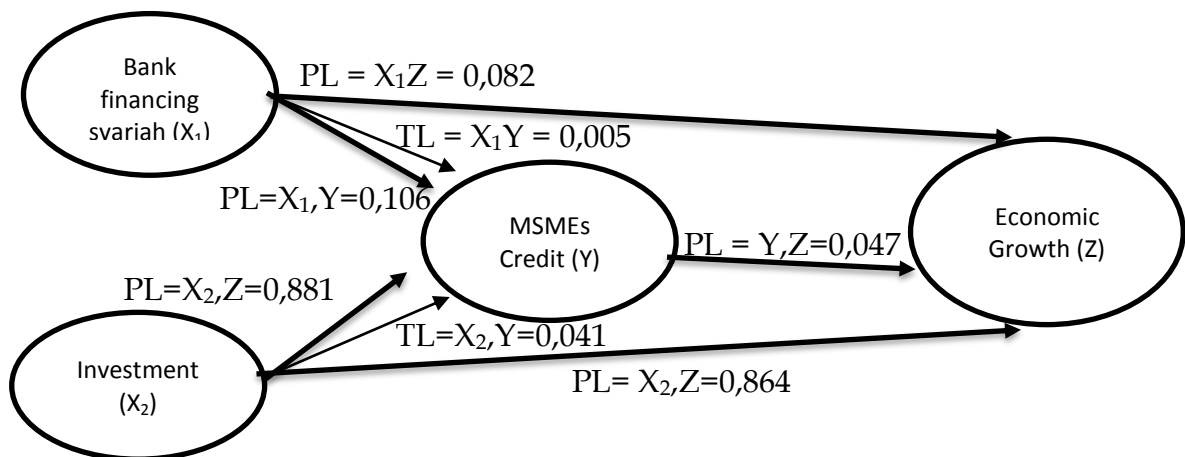


Figure 2. Path Diagram of Direct and Indirect Effect Coefficient

Path Analysis Interpretation Results

A method for examining cause-and-effect linkages that arise when an independent variable either directly or indirectly affects a dependent variable is called path analysis. The causal link between the variables of Islamic bank funding (X₁), investment (X₂), MSME credit (Y), and the economic growth variable (Z) may be described by the findings of the analysis of the path coefficients in this study hypothesis, specifically:

1. The impact of sharia bank financing on economic growth through MSME credit: sharia bank financing is known to have a direct impact of 0.082 on GDP. In the meanwhile, there is a 0.005 indirect impact on GDP from sharia bank funding via MSME loans. It can be inferred from the above calculation that sharia bank financing through MSME credit does not significantly affect economic growth (GRDP) because the direct effect is 0.082 and the indirect effect is 0.005, indicating that the indirect effect is smaller than the direct effect. Accordingly, hypothesis H5 is rejected.

2. The impact of investment on GDP through MSME credit: It is well known that investment directly affects GDP at a rate of 0.864. In the meantime, there is a 0.041 indirect impact of investment through MSME loan on GDP. The aforementioned calculation indicates that the direct effect is 0.864 and the indirect effect is 0.041. This indicates that the indirect effect is less than the direct effect, indicating that the hypothesis is rejected because indirect investment through MSME credit has no discernible impact on GDP.

CONCLUSION AND RECOMMENDATION

The hypothesis is disproved by the study's findings, which show that the Islamic bank funding variable has no discernible impact on the MSME credit variable. In the meanwhile, the idea is accepted since the investment variable significantly affects the loan variable for MSMEs as well. Nonetheless, 96.4% of credit for Micro, Small, and Medium-Sized Enterprises (MSME) comes from Islamic bank financing and investment factors.

The hypothesis is rejected because the economic growth variable (GRDP) is not significantly impacted by the Islamic bank funding variable. Nonetheless, the hypothesis is accepted as the economic growth variable (GRDP) is significantly impacted by the investment variable's significance value. In contrast, the economic growth variable (GRDP) is not significantly impacted by the significance value of the Micro, Small, and Medium Enterprises (MSME) credit variable from 2011 to 2022. Nonetheless, the R Square value contributes a substantial 97.6%.

The hypothesis is rejected based on the path analysis's findings, which indicate that indirect sharia bank funding through MSME loans has no discernible impact on GDP. The hypothesis is deemed to be rejected since the indirect examination of investment through Micro, Small, and Medium Enterprises (MSME) loans also shows no discernible impact on GDP. Furthermore, more investment in the MSME sector boosts MSMEs' competitiveness, innovation, and production capacity – all of which eventually support general economic expansion. The findings of the study demonstrate that MSMEs have the potential to become the primary engine of the economy, generating employment and lowering economic inequality, provided they receive the proper assistance.

ADVANCED RESEARCH

The investigation of the impact of Islamic bank financing and investment on economic growth through loans to micro, small, and medium-sized businesses (MSMEs) may be further investigated in much more detail. A comparison of the efficiency of conventional and sharia finance in promoting the growth of MSMEs is one of them. This study can look at how the two forms of funding differ in terms of their economic effect, consumer happiness, and success rates. In addition, future studies might examine how sharia finance technology, or fintech, affects MSME funding availability and how fintech integration can boost financial inclusion among MSME participants. Another possible study topic is an examination of how sharia venture capital and other

sharia-based investment options assist creative entrepreneurs and MSMEs. Research may also be expanded by examining how sharia investment and finance affect other socioeconomic metrics including job creation, community welfare, and poverty reduction. Thus, in addition to adding to the body of knowledge on Islamic financing and MSMEs, this follow-up study offers more thorough policy suggestions for equitable and sustainable economic growth.

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