

Advancing the Financial Inclusion with Profit Sharing Scheme for the Sustainability of Indonesian MSMEs

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ABSTRACT

This community service is related to economic society development by introducing financial inclusion with the profit-sharing financing scheme for the sustainability of The Indonesian Micro, Small, and Medium Enterprises (MSMEs). The partner of this community service is Pondok Aren District, in this case, the Cooperatives & UMKM Service, South Tangerang, Banten 15228. Pondok Aren District is multiplying, with a population of around 294,996. This is directly proportional to the number of MSMEs reported based on the SKDU document, which is around 1,373. Currently, the government, through the Financial Services Authority (OJK), is calling on the public to continue to encourage the progress of the Sharia Financial Industry, which has grown rapidly in the last five years both. For this reason, there is a need for an advancement in understanding Sharia profit-sharing financing and literacy about Sharia financing products that can be implemented for the MSMEs

INTRODUCTION

MSMEs in Indonesia face various financial challenges, including in managing operational and capital expenditures (Arief et al., 2019; Saratian, 2024). In this case, capital costs and interest in the conventional bank significantly impact business advancement (Hartono & Hartomo, 2016). Indonesia is one of the countries with the largest number of MSME sectors, with the Ministry of Cooperatives and Small and Medium Enterprises (UMKM) recording 64 million, including in South Tangerang City (Radjab, & Tjambolang, 2022). Based on data from the South Tangerang City Cooperatives and SMEs Department, the number of MSMEs in 2020 was 90,128 spread across 7 different sub-districts, namely: Pamulang District, Setu District, Ciputat District, East Ciputat District, Serpong District, North Serpong District and Pondok Aren District.

Pondok Aren is a sub-district in South Tangerang City, Banten Province, Indonesia. Before South Tangerang City became an autonomous city, Pondok Aren was one of the sub-districts in Tangerang Regency with the largest area, 2,988 km². Pondok Aren District is a fraction of Ciledug District as its parent district, when it was still West Java province.

This sub-district is considered strategic because it borders the following areas:

North: Ciledug District and Larangan District

East: Pesanggrahan District

South: Ciputat District and East Ciputat District

West: North Serpong District and Serpong District

Pondok Aren also has the largest number of MSMEs in the South Tangerang City area, with detailed data as follows:

Table 1. Number of MSMEs in South Tangerang City

No.	Kecamatan	Jumlah
1.	Pamulang	17.919
2.	Ciputat	13.508
3.	Ciputat Timur	12.838
4.	Pondok Aren	17.944
5.	Serpong	12.607
6.	Serpong Utara	9.511
7.	Setu	5.801
Jumlah		90.128

The partner in this PKM is Pondok Aren District, in this case the Cooperatives & UMKM Service located on Jl. Graha Raya Bintaro No.1, Parigi Baru, Tangerang, South Tangerang City, Banten 15228. Pondok Aren District is multiplying, with a population of around 294,996. This is directly proportional to the number of MSMEs reported based on the SKDU document, which is around 1,373. Currently, the government, through the Financial Services Authority (OJK), is calling on the public to continue to encourage the progress of the Sharia Financial Industry, which has grown rapidly in the last five years both in terms of the number of players and sharia financial assets in banking, capital markets,

and Non-Bank Financial Institution. The market share of Sharia banking will still remain at around 7 percent as of 2021; the rest is conventional banking. In addition, as much as 87% of Indonesia's total population is Muslim. As many as 60% of them are people of productive age. As many as 45% of them are aged 15-35 years.

Apart from the OJK, the Ministry of National Development Planning/Bappenas also hopes that all parties can work together to increase the market share of Sharia banking. This can be realized by not only relying on the government or related authorities, but it is the duty of everyone. Firstly, general financial inclusion, including sharia, is a good mechanism to help reduce poverty and overcome various other development issues (Putri & Ros Bangun, 2023). Most MSME funding comes from self-financing or other funding sources whose cost of capital tends to be expensive. The greatest risk that MSMEs confront financially is cash flow mismatch; perhaps, this risk may be reduced by identifying profit-sharing-based Sharia financing.

LITERATURE REVIEW

Riba

Saratian et al. (2019) state that riba is widely regarded as the crisis's catalyst. Interest, fiat money, and the banking system's fractional reserve requirements are the three primary pillars of riba, which are seen as the primary drivers of the crisis (Ramli et al., 2019; Sihombing et al., 2019). Together, these three pillars facilitate the production of money and increase money circulation without the need for gold or other tangible assets, which leads to inflation and undermines the monetary system and the economy. The root of all issues is riba. Not a lack of work possibilities or education, but rather systematic harm created by the pillars of riba accounts for most poverty. According to Soelton et al. (2021), the riba system contributes to the overuse of natural resources by compelling developing nations to consume such resources to repay loans for principle and interest. Additionally, riba leads to the overuse of human resources. They have to go above and beyond to pay debts that, because most new money is produced through the banking system's channeling of credit, will never be paid off on a macro basis.

Sharia Financial Inclusion

Sharia financial inclusion is crucial for several reasons (Agustina, 2023). First, Sharia-based financial management is influenced by Islamic precepts, which can favor MSMEs' financial management and improve Indonesia's economic stability. Secondly, Sharia financial inclusion increases access to financial services, which is essential for the community's economic well-being. This is particularly important in Indonesia, where the majority of the population is Muslim (over 85%). Then, improving financial literacy and inclusion can lead to better financial behavior among the community, enhancing their overall financial management and welfare. Moreover, Sharia financial inclusion can contribute to sustainable and inclusive economic growth by promoting financial inclusion and financial literacy, which are critical components of a robust financial system. In the context of the government's role, they play a vital role in enhancing Sharia financial literacy and inclusion through policies such as the

National Strategy for Financial Literacy Indonesia (SNLKI) and the National Strategy for Financial Inclusion (SNKI). Finally, the integration of fintech with Sharia financial inclusion can further increase financial inclusion by providing convenient and accessible financial services, which is essential for the economic stability of MSMEs (Khotiawan & Luthfiansyah, 2017; Rachman et al., 2023; Hibatullah et al., 2023). Sharia financial inclusion is important for promoting financial literacy, improving financial behavior, enhancing economic stability, and contributing to Indonesia's sustainable and inclusive economic growth (Saratian et al., 2024).

Micro, Small and Medium Enterprise (MSMEs)

Three categories are used by Law of the Republic of Indonesia Number 20 of 2008 to regulate Micro, Small, and Medium-Sized Enterprises (MSMEs): (a) Micro Enterprises need to fulfill the subsequent requirements: The requirements for a small business are as follows: (i) have yearly sales of no more than Rp. 300,000,000.00 (three hundred million rupiah); or (ii) have a net worth of no more than Rp. 50,000,000.00 (fifty million rupiah), excluding land and buildings for company premises. (i) exceeding Rp. 50,000,000.00 (fifty million rupiah) in net value, with a maximum of Rp. 500,000,000.00 (five hundred million rupiahs), excluding real estate and structures used as commercial spaces; or (ii) having yearly sales of Rp. 2,500,000,000.00 (two billion five hundred million rupiah) or more, up to a maximum of Rp. 300,000,000.00 (three hundred million rupiahs), (c) Medium Enterprises The following criteria apply: either (i) has an annual sales volume of more than IDR 2,500,000,000.00 (two billion five hundred million rupiahs) up to a maximum of IDR 50,000,000,000.00 (fifty billion rupiahs); or (ii) has a net worth of more than Rp. 500,000,000.00 (five hundred million rupiah) up to a maximum of Rp. 10,000,000.00 (ten billion rupiah), excluding land and buildings for business. The requirements mentioned in letters a, b, and (2) of paragraph (1) as well as paragraph (iii) The nominal values of letters A and B are subject to change in line with developments in the economy as governed by Presidential Regulation.

METHODOLOGY

Interactive lectures, discussions, and question-and-answer sessions are the approaches employed in this community service project. Interactive lectures are a teaching method that combines traditional lectures with engaging activities to enhance student participation and learning outcomes. Interactive lectures aim to increase student engagement by incorporating activities such as group discussions, case studies, and immediate feedback. This lecture was packaged as a socialization activity held on January 24th, 2024, from 09.00 - 13.00 at the Districts Pondok Aren, Tangerang Selatan, Banten. Around 30 MSMEs from the Districts attended this activity.

This activity aims to provide socialization and counseling to introduce the concepts and simulations of the Sharia Financing Contracts with Profit-Sharing scheme in Pondok Aren, Tangerang Selatan, Banten. The objectives of this activity include (a) increasing MSMEs' understanding of the Sharia Financing Contracts with Profit-Sharing scheme, (b) being aware of the restrictions and

detrimental effects of *riba* on the economy, and (c) giving them an overview of Sharia financial instruments as a means of financing their enterprise.

RESULT AND DISCUSSION

The activity was carried out on Wednesday 24 January 2024, held offline to the local community in Pondok Aren District, namely the Cooperatives & UMKM Service which is located on Jl. Graha Raya Bintaro No.1, Parigi Baru, Tangerang, South Tangerang City, Banten 15228, with the theme ADVANCING THE FINANCIAL INCLUSION WITH PROFIT SHARING SCHEME FOR THE SUSTAINABILITY OF INDONESIAN MSMEs. What we do is through discussions and questions and answers to the audience regarding the management of MSME businesses with the sub-topic discussion of Sharia finance.

The contributions that the group will make in supporting this activity are:

- 1) There is good cooperation between members of the assisted MSMEs and the activity implementation team.
- 2) The assisted MSMEs are interested in and appreciate this activity.
- 3) High motivation from MSMEs as service partners.

In the activities that we have carried out with the target, we have chosen, namely MSMEs assisted by Pondok Aren District, South Tangerang. Where this community service seeks to carry out outreach and outreach to provide early knowledge and education regarding the importance of managing finances and gaining access to funding through sharia financial instruments in order to create prosperity, justice and sustainable profits.

Approximately 1 month after implementing the training, we conducted mentoring for partners in Pondok Aren District, South Tangerang. Mentoring is done offline. One of the discussions on mentoring focuses on how business actors can gain access to Sharia financial products, both in terms of funding and financing. In the mentoring, it was again explained how partners can access capital, especially through Sharia financing contracts.

Mitra started his business in 2022 after the pandemic by seeing opportunities and increasing demand for catering as daily activities returned offline. After outreach and mentoring partners have been able to provide partners with an idea of funding from Sharia finance with a profit-sharing-based financing agreement. Partners also hope for further programs to gain access to funding or investment in Sharia financial instruments, especially to support the sustainability of MSME businesses.

Based on the activities that have been carried out, it is recommended that partners obtain funding, especially in the midst of widespread financial inclusion, especially Sharia finance, so that they can expand their business more widely on a fair and safer profit-sharing basis. So it is hoped that MSMEs can compete not only locally but also scale up their business size with funding support from Sharia financial institutions. Sustainable community service activities with the theme of sustainable Sharia finance are needed so that the use of Sharia financial inclusion for Partners can be more optimal. Materials should be provided directly at the same time as carrying out simulations or practical examples so that partners can better understand the material being presented.

Mentoring activities are needed for MSME Partners who can also take advantage of the PKK's routine activity schedule in coaching in Pondok Aren District, South Tangerang.

CONCLUSION AND RECOMMENDATION

The precautionary principle, which has consequences for future hazards, is something that Sharia banks must consider (Suhaimi et al., 2022). To reduce these risks, the restructuring mechanism for non-performing finance must use hybrid contracts (Setiawan et al., 2022). Interest-based banks have an option in the form of the *mudhârabah* financing product. Prospective consumers' comprehension and wishes are considered when establishing the profit-sharing under the *mudhârabah* contract (Adirestuty et al., 2020). Sharia financing contracts generally aim to minimize risks while offering clients financing solutions and adhering to Islamic norms. Sharia finance institutions employ contracts that adhere to the DSN MUI fatwa and are grounded in Islamic law.

After conducting outreach and counseling, participants are expected to have additional knowledge and access to funding from Sharia Financial Institutions. Community program activities held in Pondok Aren District, South Tangerang, have the following aims: 1) Increase public understanding of the Sharia financial system, especially those based on profit sharing. 2) Understand the prohibition and negative impact of usury on the economy. 3) Introduce Sharia banking and finance as alternative solutions to funding MSMEs.

In order to maintain the success of the program, evaluation will be carried out at each stage of program development. After learning and application, monitoring and facilitation are carried out to maintain consistency and see the potential so that the continued use of Sharia financial products in the surrounding area runs well. As the closing statement, Prophet Muhammad Shallallaahu 'Alaihi Wasallam said: "Whoever sees (whatever is) *munkar*, then change it with his hands; and if he is unable to do so, then with his tongue; and if he is unable to do so, then with his heart; and that is the weakest faith" (HR. Muslim).

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