

DETERMINANTS OF SHARIAH BASED FINANCING AND IT'S CONTRIBUTION FOR SMEs DEVELOPMENT

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ARTICLE HISTORY

Received:
07 Juni 2016

Accepted:
26 Juni 2016

Online available:
30 Juni 2016

Keywords:

*Shari'ah financing,
Shari'ah
commercial banks,
Micro Small and
Medium
Enterprises (SMEs)*

ABSTRACT

This study examines the factors that affect the volume of Shariah-based financing for results and its contribution to the SMEs development in Indonesia. The determinant of shariah-based financing covers third party funds, financing problems (Non-Performing Finance), inflation rates, interest rates on working capital loans, investment credit interest rate, and the Gross Domestic Product. This study uses secondary data sourced from Indonesian Banking Statistics published by Bank Indonesia with the observation period between 2007-2014. The analytical method used are descriptive and multiple regression. The results showed that the Gross Domestic Product (GDP), Third Party Funds, and investment credit interest rates positive and significant impact on the volume of sharing based financing. The development of Shariah banking financing in the development of SMEs in Indonesia during 2007-2014 has increased fluctuate, but generally still has significant prospects. Shariah banking financing contribution in the SMEs development is needed because there are still many SMEs which have not obtained financing facility.

ABSTRAK

Kata Kunci:
*Pembiayaan
syariah, Bank
Umum Syariah,
Usaha Mikro Kecil
Menengah
(UMKM)*

Penelitian ini menguji mengenai faktor-faktor yang mempengaruhi jumlah pembiayaan *Shariah-based* yang berkontribusi terhadap pertumbuhan UMKM di Indonesia. Determinan pembiayaan syariah-based meliputi Dana Pihak Ketiga, permasalahan pembiayaan (Non-Performing Finance), tingkat inflasi, tingkat suku bunga untuk pinjaman modal, suku bunga pinjaman investasi, dan *Gross Domestic Product*. Penelitian ini menggunakan data sekunder dari Data Statistik

Perbankan Indonesia yang dipublikasikan oleh Bank Indonesia dengan masa periode antara 2007-2014. Metode analisis yang digunakan adalah deskriptif dan regresi berganda. Hasil menunjukkan bahwa GDP, Dana Pihak Ketiga, dan suku bunga pinjaman investasi memiliki hasil positif dan berpengaruh signifikan pada jumlah pembiayaan yang berdasarkan bagi hasil. Pertumbuhan pembiayaan bank syariah dalam pengembangan UMKM di Indonesia selama 2007-2014 mengalami peningkatan secara fluktuasi, namun secara umum memiliki hasil yang signifikan. Kontribusi pembiayaan bank syariah dalam perkembangan UMKM sangatlah dibutuhkan karena masih banyak UMKM yang belum memperoleh fasilitas pembiayaan.

INTRODUCTION

Article 1 (7) of UU No. 21 / 2008 about Perbankan Syariah explained that Islamic banks are the banks running their business based on shariah principles. By type, consisting of Shariah Commercial Banks (BUS) and Islamic Financing Bank (BPRS). In carrying out its business activities, Islamic banks provide financing based on the principle of sharing (*mudârabah*), equity (*mushârahah*), sale of goods with a gain (*murâbahah*), pure rental without option (*ijârah*), or with the choice of transfer of ownership of goods leased from the bank by another party (*ijârah wa iqtinâ*), *salam* contract, *istithnâ'* contract, the lease is terminated by ownership (*ijârah al-muntahiya bi al-tamlîk*), and other principles that are not contrary to Islamic principles (Akhbar, 2006).

Continuous Government policies provide support to Islamic banking, causing shariah banking in Indonesia increase a significant growth despite the value of Islamic banking assets still 4.66 percent of total national banking assets. According to the Indonesian Shariah Banking Statistics published by Bank Indonesia, in 2007 the number of Shariah Commercial Bank (BUS) in Indonesia only 3 with 112 branches. In November 2014, BUS number increased to 12 with 2,147 units. Similarly, Shariah Business Unit (UUS) grew from 23 to 104 offices in 2007 and increased to 354 offices in November 2014.

Profit-loss share financing 2007 only reached 35.73 percent of total financing even from November 2014 only reached 32.03 percent much below the non-profit-share financing when the profit-loss share financing as the essence, and characteristics distinguishing between shariah banking and conventional banking. A principle for profit-loss share is a common characteristic and the basis for the Islamic bank as a whole (Shafii, 2001). Ideally, profit-loss share funding should be more

dominant and preferred Shariah banking than non-profit-loss financing. Non-profit-loss share financing character is only as a support of the profit-loss share financing.

Profit-loss share financing can play a major role in moving real sector, increase goods and services productivity, and impact on the national economy performance improvement, and can be seen from the GDP (the value of goods and services produced within a country by factors of production owned by the State and the foreign State). Shariah banking role in developing the real sector or the business can be seen from at least two indicators. *First*, intermediation function of shariah bank, through Financing to Deposit Ratio (FDR); and *second*, Shariah bank financing allocation according to economic sector or financing purposes (Tamanni, 2005).

Funding which be collected by Shariah bank from the public in the Third-Party Funds (DPK) form and then distributed to a variety of financing, including profit-loss share financing, and TPF increase will affect the profit-loss share financing volume. The increase the non-performing financing caused shariah banks must establish Allowance for Earning Assets (PPAP) larger, so diminish the profit-loss share financing fund. The increase in inflation causes uncertainty in the real sector, which led to an interest decrease in businessman to develop their business, thereby decreasing the profit-loss share financing volume.

Interest rates for working capital credit and investment credit interest rates affect the profit-loss share financing. The Shariah banking will balance with a decrease in the level of profit-loss sharing at the time of lending rates for working capital and investment credit interest rate is rises, thereby will decrease response businessman to apply for business financing. Customer rationality, in this case the businessman is also a consideration in determining the pattern of business funding. This will affect the profit-loss share financing volume. Economic growth can be seen through an indicator of Gross Domestic Product (GDP). The higher economic growth will increase the profit-loss sharing financing demand.

Dar and Persley's research (2001) identified seven factors that cause an imbalance of the profit-loss share financing management and control, and its affect decrease of profit-loss sharing schemes in shariah banking practices. This study is in line with several other publications such as: Alchaian and Demstz (1972); Khaf and Khan (1992); Ahmad (1993); Errico and Farahbarksh (1998). Lack of the profit-loss share financing that have been going on since a long time can make negative perception of society that shariah banking is almost no different from conventional banking, so it will be able to damage the image and reputation of shariah banking itself. Therefore, the first objective of this study is whether the Third-Party Funds, Non-Performing Financing, inflation, interest rates on working capital loans, investment credit interest rate, and the Gross Domestic Product affect the profit-loss share financing volume of shariah banking in Indonesia.

Seeing the scope of its business activities can be stated that shariah banking products is more varied compared to conventional bank products. This allows the shariah banking products provide broader opportunities in order to meet the needs of depositors and borrowers according to their real needs. Specifically in funding to society, the financing scheme can be adapted to customers' requirements. Meanwhile economic sector in Indonesia is factually largely supported by micro, small, and medium enterprises (SMEs). At the time of economic crisis, the sector is able to survive. SMEs sector has advantages and great potential to be developed through an appropriate policy and support of appropriate institutions as well (Sri Adiningsih, 2008)

Based on the basic principles of such products, the Shariah bank actually has a core product for the results developed in *musharakah* and *mudarabah* financing products (Muhammad, 2005). The presence of Shariah bank should give a tremendous impact on the growth of the real sector, especially SMEs. This is because the *musharakah* and *mudarabah* pattern as direct investments pattern in the real sector and the financial sector return (profit sharing). Thus, the existence of Shariah bank should be able to contribute to improve the real sector growth. The function will be realized if the Shariah bank use profit and loss sharing agreement (*mudarabah* and *musharakah*) as its core product (Irfan, 2008).

The development of SMEs is still constrained problem of lack of capital and thus requires financing to support it. Many credit facilities offered, whether it be from conventional banks, microfinance, and are not exempt from Shariah banks to SMEs. But of all the bids of the credit scheme, only about 60% that can meet the needs of SMEs because they have not been able to take advantage of the offer well. One reason for the difficulty SMEs to obtain credit / financing is the necessity of collateral held (Aswadi, 2007).

Financing provided by the Shariah bank with different characteristics with credit / loans of conventional banks are expected SMEs will be able to meet the capital requirements referred to. The problems arise relation to this case is about what kind of financing that are suitable for SMEs and how best of Shariah banks to respond the SMEs need. Thus, the second objective of this research is how many contributions of Share financing on the Micro-SMEs development.

LITERATURE REVIEW

Shariah banking development can be seen from the change in deposits and financing from 2007 until 2014, as the following table:

Table 1
The development of Third Party Fund (DPK) in Shariah Banking and National Banking 2007 - 2014 (in billion rupiah)

Year	Shariah Banking		National Banking
	Nominal	Share	Nominal
2007	25.658	1,78%	1.437.600
2008	36.852	2,39%	1.538.840
2009	52.271	2,67%	1.950.712
2010	76.036	3,25%	2.338.824
2011	125.415	4,50%	2.785.024
2012	147.512	4,57%	3.225.198
2013	183.534	5,01%	3.663.968
2014	209.644	5,09%	4.114.420

Source: Shariah Banking Statistic 2007-2014 and Indonesia Banking Statistic 2015

Third Party Fund (DPK) that have been collected shariah banking in December 2007 amounted to 25.658 billion rupiahs, or reaching 1,78 percent of total national banking deposits reached 1.437.600 billion rupiahs. During the study period, Shariah banking experienced an average increase in deposits of 36 percent per year. An average increase of Shariah banking deposits far exceeded the average increase in national banking deposits which only reached 16 percent per year. An increase in deposits during this period in line with the increase in the number of banks and shariah banking office network, so that people's access to shariah services easier.

Table 2
The development of financing in Shariah banking and Credit of National Banking 2007 – 2014 (in billion rupiah)

Year	Shariah Banking		National Banking
	Nominal	Share	Nominal
2007	26.548	2,76%	962.389
2008	38.195	1,90%	2.015.221
2009	46.886	2,05%	2.282.179
2010	68.181	2,47%	2.765.912
2011	102.655	3,01%	3.412.463
2012	147.505	3,54%	4.172.672
2013	184.122	3,82%	4.823.303
2014	198.376	3,63%	5.468.910

Source: Shariah Banking Statistic 2007-2014 and Indonesia Banking Statistic 2015, Secondary data processed

Based on Table 2, the volume of shariah bank financing at the end of 2007 amounted to 26.548 billion rupiahs or equivalent to 2,76 percent of the total financing or credit and national banks in Indonesia, in November 2014 rose to 3,63 percent of the national banking or amounted to 198.376 billion rupiahs.

Realization of the profit-loss share financing for shariah banking as shown in the following table.

Table 3
Compositions of the profit-loss share financing in shariah banking
2007 – 2014 (in trillions rupiahs)

Year	<i>Musharakah</i>		<i>Mudharabah</i>		Financing Total	
	Nominal	Share	Nominal	Share	Nominal	Share
2007	4.406	15,77%	5.578	19,96%	9.984	53,73%
2008	6.205	16,25%	7.411	19,40%	13.616	35,65%
2009	6.597	14,07%	10.412	22,21%	17.009	36,28%
2010	14.642	21,48%	8.631	12,66%	23.273	34,13%
2011	18.960	18,47%	10.229	9,96%	29.189	28,43%
2012	27.667	18,76%	12.023	8,15%	39.690	26,91%
2013	39.874	21,66%	13.625	7,40%	53.499	29,06%
2014	48.611	24,73%	14.356	7,30%	62.967	32,03%

Source: Shariah Banking Statistic 2007-2014, Secondary data processed

Based on composition, volume *musharakah* shariah banking in December 2007 amounted to 4.406 trillion rupiahs, and then increased every year, and in November 2014 amounted to 48.611 trillion rupiah. In November 2014 the profit-loss share financing only reached 32,03 percent. In the last four years of the profit-loss share financing has increased. Factors affecting the increase in the the profit-loss share financing is the growing cooperation between the shariah banking and non-bank financial institutions, such as cooperatives and pawnshops, as well as their short-term projects of infrastructure and public facilities.

RESEARCH METHOD

This type of research is secondary data analysis during the period 2007 to 2014. The goal of this research is the entire Shariah bank in Indonesia, both in the Shariah Commercial Banks (BUS) and Shariah Business Unit (UUS). The data used consist of data *Musharakah* and *Mudharabah* financing in Indonesia shariah bank at every quarter period from 2007 through 2014. Independent variable consists of the deposits in Indonesia Shariah Bank, Non-Performing Financing in Shariah bank, inflation data, interest rates on working capital loans, investment credit interest rate. Dependent variable is real gross domestic product in Indonesia every quarter period of 2007 to 2014. Data were analyzed using multiple regression analysis.

Shariah financing contributions for SMEs analyzed by the magnitude of shariah financing channeled to sectors of the economy and SMEs by Shariah banking every quarter period from 2007 through 2014.

RESULT AND DISCUSSION

Based on F test showed that GDP, interest rates on working capital loans, investment credit interest rates, inflation, DPK, and NPF as a whole have a significant impact on volume of the profit-loss share financing. It can be seen from F test in 682.008 with significant value $0.0000 < 0.05$. The partial analysis showed that GDP positive and significant impact on volume of the profit-loss share financing with a significance value ($0.0000 < 0.05$). Similarly, DPK and investment credit interest rate with a positive and significant effect on profit-loss share financing ($\beta=0.196$ and 2395.074). Other variables, namely the working capital loan interest rate, inflation, and NPF not significant on profit-loss share financing.

Based on the Table 4 it appears that the bank's attention in particular the Shariah banking financing on develop SMEs more and higher. Thus the seriousness of shariah bank financing to help support enhancing the SMEs performance and have shown significant results. Alignments Shariah bank in the SMEs sector is also shown by the various financing strategies by each bank individually Shariah, such as the opening of service centers microfinance, SMEs outlets, or SMEs centers. Based on data from sectoral financing, SMEs financing is now concentrated on the financing of Shariah banking in the retail sector (31,1%), business services (29,3%), and trade (13,2%). Financing exposure shariah banking sector SMEs identical to the total exposure of industrial financing.

Table 4
Distribution of Funds for Economic Sector and SMEs
by Financing Shariah Banking in Indonesia
2007 - 2014 (in billion rupiah)

Year	Shariah Bank		Contribution (%)
	SMEs	Economic Sector	
2007	19.570	27.950	70,01
2008	27.063	38.195	70,85
2009	35.799	46.886	76,35
2010	52.570	68.181	77,10
2011	71.810	102.655	69,95
2012	90.860	147.505	61,59
2013	110.086	184.120	59,79
2014	53.606	196.563	27,27

Source: Shariah Banking Statistic 2007-2014, Secondary data processed

Although the contribution of development is quite large, but the growth of the SME sector in Indonesia has a problem. Problems in the national SME sector are complex, ranging from Human Resources (HR), and access to capital, business culture, level of mastery of technology and management capabilities. It is common

knowledge that the level of education the majority of SMEs business operators is low enough, the business culture that has not woken up because a lot of effort made by businesses hereditary, business fund management mixed with household finances, and so forth. Some of this is being addressed by the parties on an ongoing basis. Specifically to address the issue of access of capital in the SME sector, the current Shariah banks have been doing the same work in the distribution of funding to the sector. Cooperation in the form of joint financing that uses the linkage concept, whereby the larger Shariah bank financing channeled through Smaller Shariah financial institutions, such as the BPRS, BMT, BTM, and KJKS. This is done because the reach of a large Islamic bank which has not reached the outposts of the small business community centers or small Shariah financial institutions and more direct touch with the entrepreneurs of SMEs.

Financing schemes conducted linkage Islamic bank with PBRs, BMT, BTM, and KJKS may be channeling, executing, or joint financing. Channeling scheme put PBRs or BMT as intermediary Shariah Commercial Bank (BUS) / Shariah Business Unit (UUS) to SMEs. While executing schemes do when BUS / UUS provide funding that can be utilized by the BPRS, BMT, BTM, and KJKS in their financing to its SME customers. As for the joint financing scheme is a scheme where BUS / UUS and BPRS / BMT, BTM, and KJKS cooperate in providing financing to the SMEs. Besides that, this time also established cooperation with some Shariah bank institutions involved in solving the other problems that are hampering the development of the SMEs sector, such as the business culture issues, the level of mastery of technology, and management capabilities. Shariah bank in cooperation with educational institutions or social fund managers in an effort to improve the work culture, management capabilities of SMEs, and mastery of technology. This is done in the form of programs fostering customer. Coaching clients, particularly for SMEs customers, a factor that is crucial in creating and maintaining a good quality SMEs financing.

Based on the results of interviews with one of the small businesses that the information obtained in the framework of the distribution of funding to SMEs, Shariah bank in cooperation with other management units such as the BPRS or cooperatives. This is done by the bank because it still has weaknesses that must be taken into account so as not to negatively affect bank profits. It is reasonable taken into account by the Shariah bank because Shariah bank financing principle must satisfy two aspects, namely the Shariah and economic aspects. Apart from having the appropriate shariah, Shariah bank must also keep into account the profitability of the business to be financed so profitable for banks and customers. But this does not mean that the Shariah bank is not in favor of SMEs, as banks have had certain policy which is also the strategy of the bank in carrying out its functions optimally.

Shariah bank does not want to be stuck in the conventional patterns which only focused on increasing profit without looking at other aspects such as the aspect

of fairness and balance. There have been many efforts which are carried by the Shariah bank in the business development of SMEs through financing. This is one of the good bank policies in order to optimize the function of the bank. Shariah bank has endeavored to develop the SMEs sector through financing. It is also reflected in policies that continue to accommodate the difficulties and weaknesses of SMEs by making policies in favor of SMEs. The number of Shariah bank financing channeled to the SMEs sector to be one indicator.

Based on the explanation above, it can be done analysis of the strategic role of Shariah bank in financing of SMEs is that in accordance with shariah banking national development focus in the second phase of improving the skill competency, professional institutions and Shariah banking actors, as well as improving the function of intermediation, efficiency, and competitiveness of the banking industry shariah, it is necessary to welcome the readiness of the retail market that is still open chances. Then the question is, should the Shariah bank directly involved in financing the project to accommodate the sector? While Bank Indonesia (BI) status as a monetary authority sets the procedure of collateral, which is still difficult for SMEs to enter the formal Micro Finance Institutions. By looking at a promising market trends as well as the BI policy in early 2006, Shariah banks can actually enter the market SMEs directly, in addition to also keep the lower classes to accommodate linkage program. Problems collateral difficulties could be overcome by developing social capital in the form of empowerment of business groups and non-governmental groups that apply jointly and severally liable with the double pressure that is on the bank and the group. Hence the need for an intermediary institution Shariah with the same force that goes in the SME sector to protect the interests of small businesses from banking practices were unfair and did not meet the principles of Shariah. Credit program or project financing for productive activities should achieve the target to increase the production volume will increase productivity in the real sector so as to produce a multiplier effect (labor demand and downstream business) to the surrounding environment and is able to drive economic growth. Thus it is necessary for the integration of the credit program that does not rely on one institution.

Although the Shariah bank has various advantages and benefits in moving the economy, especially the SME sector, but keep in mind that the influence of Shariah bank on the growth of the national economy is only 0.23%, or less than 1%. According to the analysis of Bank Indonesia that Shariah banks would be able to influence the national economy could even affect inflation if the Shariah bank's role in the national economic growth ranging between 10% - 20%. In the SMEs sector, which is one of the stimulators of the economy, the role of shariah financing is currently not maximized. Currently the finance portfolio in the SMEs sector in Indonesia is still dominated by conventional banks.

The reasons that hinder the Shariah bank in optimizing its role in the SMEs sector in Indonesia are: *First*, the availability of human resources who understand the aspects of jurisprudence (*Fiqih*) once the financial aspects are still very limited (less quality HR). *Second*, the lack of socialization of the Shariah bank primarily to the lower layers of society as a holder of an important role the SMEs sector. *Third*, less active Shariah bank in the financing. *Fourth*, the sophistication of information technology is still behind when compared to conventional banks. *Fifth*, the government's policy on the development of Shariah bank is still considered slow because the government itself is in favor of conventional banking by reason of the existence of conventional banks during this effect on the national economy and the government's lack of knowledge about Shariah bank. *Sixth*, the existence of asymmetric information or information in one direction between the shariah bank with the customer so that no synchronization in carrying out its activities. *Seventh*, it sometimes happens fraud task by the Shariah bank since human resources are empowered derived from conventional banks or limited knowledge of shariah. *Eighth*, the role of Shariah bank as a partner with the SMEs sector is considered unfinished, namely the Shariah bank only assist in financing the fund alone but not participate in helping to promote SMEs in increasing revenue. *Ninth*, the number of Shariah banks is still limited is a significant obstacle because most sectors of SMEs located in rural areas.

Barriers such as that above led to the development of Shariah bank is inhibited although theoretically Shariah bank has a competitive advantage in the national economy. Therefore, it is necessary the collaboration between governments as policy makers, Shariah bank, as well as the community. With so shariah financing is expected to be able to compete with conventional banks and affect the growth of the national economy through the growth of the real sector. A small and medium business in today's economy occupies a very strategic position because of its contribution to employment and Gross Domestic Product (GDP), as well as flexibility and toughness in the face of a prolonged economic crisis. This makes SMEs as the main hope or backbone of regional and national economic development in the future. However, many SMEs are in development still has limitations in the capital so that the necessary financing to support such developments. Many credit facilities offered, both from conventional banks, microfinance and Shariah banks. However, of all these credit schemes offer only approximately 60% that can meet the needs of SMEs because they have not been able to use it well. This is caused by the presence of some limitations of SMEs to obtain Shariah bank financing, one of which is collateral owned.

Another obstacle for SMEs in obtaining financing from Shariah banks is still a lack of legality and administration. Most SMEs do not have a regular administration and many were experiencing problems in its cash flow. They assume that the profit-

loss share system offered by the Shariah bank is too complicated because every month they have to calculate what percentage of profits to be paid to the bank. Though there are many things that must be done by the owners of SMEs given that most of the SMEs only be handled by one person. This is different from conventional banks to apply the system of interest. They are not difficult to calculate the huge back for the results to be paid every month, because they pay big installments already set at the beginning of the loan agreement with a fixed amount every month.

In addition, equity financing Shariah banks to all the regions in Indonesia is still lacking and community knowledge about the Shariah bank system is still minimal. In the small towns, the local community only a few really know about the system and the advantages of Shariah bank financing. Most of them just knowing that it's only Shariah bank bank save it in the post office and did not think to apply for financing. It was not separated from the limitations of Shariah bank in the area, so that most SMEs are still focused on conventional financing that use interest systems.

Shariah bank product pricing that is sometimes higher than conventional banks also have an influence on the lack of public interest in accessing Shariah bank products, because the price is relatively burdensome SMEs, let alone that have relatively small incomes. Today many conventional banks that offer loans with small interest to SMEs. It was not separated from the dominance of conventional banks because conventional banks in terms of age, better known by the people than of the Shariah bank.

Hence the need for a solution to facilitate the access of SMEs to Shariah bank financing. All parties must play a role in this regard, including government, Shariah bank, and the SMEs themselves. Shariah banks are expected to further expand access and disseminate advantages so well that Shariah bank could be a companion amplifier and development of SMEs. While the government can provide management training facilities for SMEs in order to competence concerning the management of business administration can be increased.

CONCLUSIONS

From the above analysis, it can be concluded that that the Gross Domestic Product, interest rates on working capital loans, investment credit interest rates, inflation, Third Party Funds, and Non-Performance Finance as a whole have a significant impact on the volume of financing for the results. Gross Domestic Product, Third Party Funds, and investment credit interest rates positive and significant impact on the volume of profit-loss share financing for the results.

The development of Shariah banking financing in the development of SMEs in Indonesia during 2007-2014 has increased fluctuates. This reflects that participation

of Shariah banking financing in improvement of SMEs is not optimal. Although the amount of Shariah bank financing disbursed by Shariah banks fluctuate but in general still has significant prospects. Shariah banking financing contribution in the development of SMEs is needed because there are still many SMEs which have not obtained financing facility. While the obstacles and challenges that have been faced by many Shariah banks in the development of SMEs is the limited market share of Shariah banking and human resources capable, the paradigm of conventional banks are still strong, still chased the BEP target, lack of socialization, and still limited network.

As for some advice and strategic steps include:

1. Shariah bank should be more focus on optimizing SMEs, which provide facilities for the SMEs in obtaining financing. This can be done by channeling or joint financing with BMT / BTM through the Linkage program
2. Shariah bank also provide mentoring and coaching intensive and sustained effort, especially in financial management, production engineering, and information technology to get into global markets
3. Shariah bank should be conduct socialization and education community more broadly and efficiently through a variety of means of direct communication (in cooperation with the universities), or indirectly (print, electronic, online / web-site), which aims to provide an understanding on the advantages of Shariah banking products and services that can be utilized by the community.

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