

## CHAPTER I

### INTRODUCTION

#### 1.1 Background of Study

Micro, small and medium enterprises (MSMEs) have long been recognised as the backbone of the Indonesian economy. Not only does the sector contribute significantly to the country's Gross Domestic Product (GDP), it is also the largest employer and provides livelihoods for millions of families. MSMEs play an important role in ensuring economic equality for all Indonesians. This is evidenced through the absorption of labour on MSMEs, which has reached 116 million people out of 97% of businesses in general that take place in Indonesia.<sup>1</sup> MSMEs in Indonesia cover a wide range of businesses, from street vendors and endorsement to small-scale cosmetics and fashion manufacturers.<sup>2</sup>

Due to their significant role in the Indonesian economy, MSMEs have also become a concern for the government.<sup>3</sup> This is outlined in the Law Number 20 of 2008 concerning MSMEs in Indonesia, which states that the government will help improve their businesses so that they can take part in building the national economy.<sup>4</sup> This should be implemented by the government when considering the number of MSMEs in Indonesia, which is more than 8 million business units.<sup>5</sup>

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<sup>1</sup> Lukmanul Hakim et al., "UMKM Halal Dan Ketahanan Ekonomi Indonesia" (Jakarta, December 2021), 1, [www.kneks.go.id](http://www.kneks.go.id).

<sup>2</sup> Mutiara Sari, "Potensi Pasar UMKM Halal Dalam Perekonomian Indonesia," *Journal El-Kahfi: Journal of Islamic Economics* 04, no. 1 (2023): 3.

<sup>3</sup> Abdul Wahab and Ilma Mahdiya, "Peran Lembaga Keuangan Syariah Terhadap Pertumbuhan UMKM Dalam Revitalisasi Ekonomi Pembangunan Di Indonesia," *Islamadina: Jurnal Pemikiran Islam* 24, no. 1 (March 1, 2023): 110.

<sup>4</sup> Ibid., 115.

<sup>5</sup> Annisa Anastasya, "Data UMKM, Jumlah Dan Pertumbuhan Usaha Mikro, Kecil, Dan Menengah Di Indonesia," UKMINDONESIA.ID, July 8, 2023, <https://ukmindonesia.id/baca-deskripsi-posts/data-umkm-jumlah-dan-pertumbuhan-usaha-mikro-kecil-dan-menengah-di-indonesia>.

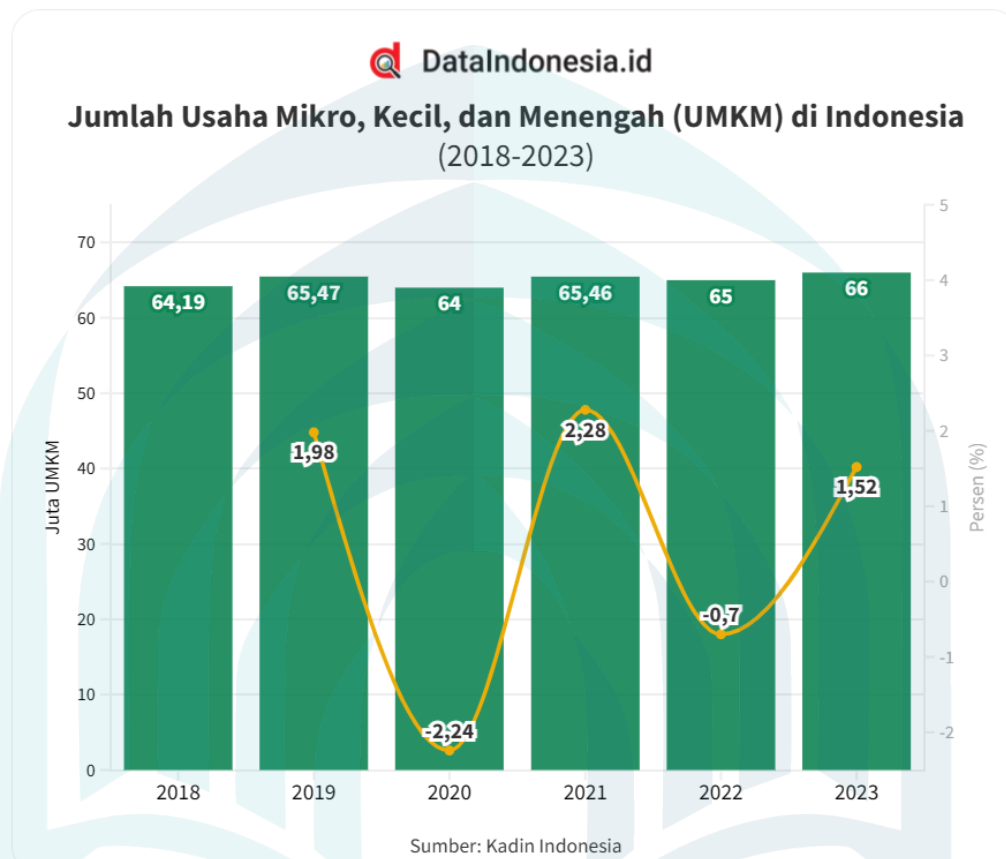


Figure 1 Amount of micro, small and medium enterprises in Indonesia

Currently, the contribution of MSMEs can be felt by the national economy. Evidently, with only halal-based businesses in Indonesia, MSMEs have contributed US\$3.8 billion to the National Gross Domestic Product (GDP).<sup>6</sup> The large role of halal MSMEs in Indonesia cannot be separated from the fact that Indonesia is the second country with the largest Muslim population in the world. Of the 280 million Indonesians,<sup>7</sup> around 236 million are Muslims.<sup>8</sup>

<sup>6</sup> Sari, “Potensi Pasar UMKM Halal Dalam Perekonomian Indonesia,” 2.

<sup>7</sup> Badan Pusat Statistik, “Jumlah Penduduk Pertengahan Tahun (Ribu Jiwa), 2022-2024,” April 28, 2024, <https://www.bps.go.id/id/statistics-table/2/MTk3NSMy/jumlah-penduduk-pertengahan-tahun--ribu-jiwa-.html>.

<sup>8</sup> Laila Afifa, “10 Countries With Largest Muslim Population; Indonesia Ranks Second,” January 6, 2024, <https://en.tempo.co/read/1817707/10-countries-with-largest-muslim-population-indonesia-ranks-second>.

The Indonesian government has consistently identified MSME development as a priority for national development. In practice, however, the expected role of MSMEs has not yet had the maximum impact for national economic growth. This is because MSMEs still face a number of obstacles, such as the limited access to the market, the slow application of technology, the quality of human resources, etc. Among these challenges, the main obstacle growth and sustainability of their businesses is often access to sufficient and appropriate capital.<sup>9</sup> This obstacle is caused by the general lack of public knowledge about funding sources. Funding by conventional financial institutions is still dominated by large businesses, while funding from Islamic Financial Institutions (IFI) is still little known by the public.<sup>10</sup>

Many of MSMEs are forced to rely on loans from conventional financial institutions such as commercial banks or other conventional financial institutions. While these conventional loans are relatively easy to access, they are generally known to carry interest.<sup>11</sup> From the perspective of Islamic law, the interest on these loans is classified as *riba*, specifically *riba qardh* (additional amounts demanded in advance on the principal of the debt) and *riba nasi'ah* (additional amounts resulting from delays in the repayment of the debt).<sup>12</sup> The practice of *riba* is expressly forbidden in the Qur'an and Sunnah because it is considered to contain elements of exploitation and injustice and can hinder the productive flow of wealth in society. The existence of interest, including the often-applied penalties if late payment, places Muslim MSME actors in a theologically and ethically difficult position.<sup>13</sup>

The prohibition of *riba* in Islam is not without reason. The wisdom behind it includes encouraging the creation of a fair economic system, where profits are

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<sup>9</sup> Hakim et al., "UMKM Halal Dan Ketahanan Ekonomi Indonesia," 17.

<sup>10</sup> Wahab and Mahdiya, "Peran Lembaga Keuangan Syariah Terhadap Pertumbuhan UMKM Dalam Revitalisasi Ekonomi Pembangunan Di Indonesia," 113.

<sup>11</sup> Dina T. Wijaya, "Pelaku UMKM DIY Minta Perlindungan Pemerintah Hapus Kredit Macet," *tirto.id*, November 2024, <https://tirto.id/pelaku-umkm-diy-minta-perlindungan-pemerintah-hapus-kredit-macet-g5Eu>.

<sup>12</sup> Andi Askar and Ipendang, "Konsep Riba Dalam Fiqih Dan Al-Qur'an : Studi Komparasi," *EKSPOSE: Jurnal Penelitian Hukum Dan Pendidikan* 19, no. 2 (2020): 1085.

<sup>13</sup> Askar and Ipendang, "Konsep Riba Dalam Fiqih Dan Al-Qur'an : Studi Komparasi."

made through real business and risk sharing. Riba is seen as creating economic disparities, placing a disproportionate burden on the loan and diverting capital to unproductive activities.<sup>14</sup> For MSME actors with a strong commitment to their religious teachings, avoiding riba is a necessity. They believe that running a business in accordance with Sharia guidelines, including in terms of capital, brings blessings that impact not only on material benefits, but also on peace of mind and long-term business sustainability.<sup>15</sup>

Awareness of the prohibition and wisdom behind the prohibition of riba has created an intrinsic motivation for many Muslim MSME actors to find a way out of interest-based debt. This motivation is their main driving force in seeking alternative financing schemes that are halal and in line with Shariah principles. They strive to reconcile economic activities with spiritual beliefs, seeing business not only as a means of earning a living but also as a form of worship. Therefore, the effort to be free of riba in business loan becomes an integral part of their efforts to build a business that is not only financially successful, but also pleasing to Allah SWT.

To response these needs and motivations, Islamic Financial Institutions (IFIs), including Islamic banks, BMT (Baitul Maal wat Tamwil) and other Islamic financial institutions, are here as a solution. Islamic Financial Institutions (IFI) offer a range of financing products based on Shariah contracts such as *mudharabah*, *musyarakah*, *murabahah*, *ijarah*, etc.<sup>16</sup> These schemes replace the interest system with profit-sharing mechanisms, profit margins or agreed rental costs, and encourage risk-sharing between IFI and MSMEs. The presence of IFI provides a

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<sup>14</sup> Sharia Knowledge Center, “Apa Itu Riba? Dasar Hukum, Jenis Dan Cara Menghindarinya,” accessed January 13, 2025, <https://www.shariaknowledgecentre.id/id/news/apa-itu-riba/>.

<sup>15</sup> Abd Mubaraq, Rusandry Rusandry, and Nur Atiqah, “Analisis Pemahaman Mahasiswa Muslim Tentang Riba,” *Jurnal Ilmiah Ekonomi Islam* 10, no. 1 (March 9, 2024): 443, <https://doi.org/10.29040/jiei.v10i1.11389>.

<sup>16</sup> Muna Dahlia, “Pengaruh Tingkat Literasi Keuangan Syariah Terhadap Keputusan Menggunakan Lembaga Keuangan Syariah (Studi Pada Dosen Universitas Islam Negeri Ar-Raniry)” (UIN Ar-Raniry, 2020), 5.

real alternative for MSMEs seeking access to capital without violating Sharia principles.

The current role of IFI in capitalisation can be evidenced through 16% of the total number of MSMEs in Indonesia being their customers. On the other hand, this is still insufficient, as 71% of MSMEs still operate their businesses using privately-owned capital/loans to conventional financial institutions.<sup>17</sup> Even some MSMEs are still found using high-risk loan funds. Many MSMEs take online loans because of the ease of transactions, where there are difficulties in fulfilling loan requirements from banks, etc.<sup>18</sup> The data illustrates that many MSME players do not fully understand the products offered by IFI, except for saving to avoid transactions that contain elements of *riba*.<sup>19</sup>

However, the role of IFI should not be limited to the distribution of finance. Many IFI are now developing assistance programmes as part of their services to MSME clients. This support is crucial because many MSMEs need not only capital but also capacity building in various aspects of business. The forms of assistance can be very diverse, including training in simple financial record, guidance in preparing business plans, digital marketing strategies, improving the quality of products and services, access to business networks, and strengthening managerial aspects and business leadership. The aim is to increase the competitiveness and sustainability of MSMEs.<sup>20</sup>

In addition, the intensive and structured support provided by IFI is expected to have a positive impact for the overall attitude and business behaviour of the MSME actors. When IFI acts not only as a creditor, but also as a partner concerned about

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<sup>17</sup> Hakim et al., “UMKM Halal Dan Ketahanan Ekonomi Indonesia.”

<sup>18</sup> Aman Santosa, “Siaran Pers: Pembiayaan UMKM Lewat Pinjaman Online Terus Berkembang, Pinjaman Masyarakat Masih Terkendali,” Otoritas Jasa Keuangan, July 8, 2023, <https://ojk.go.id/id/berita-dan-kegiatan/siaran-pers/Pages/Pembiayaan-UMKM-Lewat-Pinjaman-Online-terus-Berkembang,-Pinjaman-Masyarakat-masih-Terkendali.aspx>.

<sup>19</sup> Ririn Dian Safitri, “Pengaruh Pengetahuan Tentang Produk Dan Motivasi Menghindari Riba Terhadap Keputusan Menjadi Nasabah Di Bank Syariah Indonesia (BSI) Kantor Cabang Pembantu Ponorogo” (IAIN Ponorogo, 2022), 3.

<sup>20</sup> Wahab and Mahdiya, “Peran Lembaga Keuangan Syariah Terhadap Pertumbuhan UMKM Dalam Revitalisasi Ekonomi Pembangunan Di Indonesia,” 113.

business progress and the application of Shariah values, the relationship that is built becomes stronger.<sup>21</sup> Through ongoing interaction and guidance, MSMEs can better understand and be motivated to implement Islamic business principles in their daily operations. This, in turn, can reinforce their commitment to consistently avoid non-Shariah practices, including riba, and strengthen their business identity as an Islamic business.<sup>22</sup>

This then motivated Bank Syariah Indonesia (BSI) as one of the IFI in Indonesia, to establish the BSI UMKM Centre which has a role as a business incubator, in order to foster, assist and support MSMEs that become its partners.<sup>23</sup> BSI has established four BSI UMKM Centres in strategic locations, namely Aceh, Yogyakarta, Surabaya and Makassar. Each UMKM Centre has a programme tailored to local needs, and has the same function as the Ministry of SOEs' "Rumah BUMN", which is a place for collaboration, and non-formal education for MSMEs.<sup>24</sup>

The centre not only provides socialization services for business capital, but also a comprehensive range of other services for MSME players. With the competitiveness enhancement programme, it has attracted the attention of many MSME partners, and provides a wider range of services than the typical IFI that focuses on financing of capital.<sup>25</sup> Although BSI UMKM Center comes with various initiatives aimed at empowering MSMEs, including sharia assistance and financing, many MSME players are still unaware of the existence and benefits of

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<sup>21</sup> Wahab and Mahdiya, 114.

<sup>22</sup> Muhdhori Ahmad, "Peran Strategis Lembaga Keuangan Syariah Bagi UMKM Dalam Mewujudkan Pembangunan Ekonomi," *Inisiatif: Jurnal Ekonomi, Akuntansi Dan Manajemen* 1, no. 4 (October 2022): 126.

<sup>23</sup> BSI, "BSI UMKM Center, Inisiatif Strategis Dukung Wirausaha Jadi Berdaya & Naik Kelas," August 26, 2024, <https://www.bankbsi.co.id/news-update/berita/bsi-umkm-center-inisiatif-strategis-dukung-wirausaha-jadi-berdaya-naik-kelas>.

<sup>24</sup> Mustangin Mustangin et al., "Analysis of Factors Influencing the Success in Implementing Non-Formal Education Programs for MSMEs Actors in Rumah BUMN Samarinda," *JPPM (Jurnal Pendidikan Dan Pemberdayaan Masyarakat)* 9, no. 1 (March 28, 2022): 14–25, <https://doi.org/10.21831/jppm.v9i1.47115>.

<sup>25</sup> Maizal Walfajri, "Dukung Usaha Rakyat, BSI Resmikan UMKM Center Kedua Di Yogyakarta," *Kontan.co.id*, June 9, 2022, <https://keuangan.kontan.co.id/news/dukung-usaha-rakyat-bsi-resmikan-umkm-center-kedua-di-yogyakarta>.



these programmes. On the other hand, this lack of funding often pushes MSME players to seek financing solutions through conventional bank loans and even online lending platforms that have the potential to ensnare them in *riba* practices.<sup>26</sup>

In this case, the BSI UMKM Center Yogyakarta has found that many members are still entangled in loans taken from conventional high-risk financial institutions. Some MSMEs take out these loans because of the difficulties they face in obtaining loans from cooperatives, so they immediately take out high-interest loans when it is considered easy.<sup>27</sup> This is in line with the statement made by the head of the BSI UMKM Yogyakarta Centre: *"Not all partner of the BSI UMKM Center Yogyakarta are guaranteed to be safe and free from *riba*."*<sup>28</sup>

The efforts of Islamic financial institutions to provide support and availability of Shariah-compliance products need to be supported by a good level of understanding on the part of MSMEs. This is where the critical role of Islamic financial literacy comes in.<sup>29</sup> This literacy is not only about knowing the products of the Islamic financial institutions, but also includes a deeper understanding of the philosophy of Islamic economics, the fundamental differences between Islamic and conventional financial systems (especially in terms of *riba*, uncertainty and risk), the benefits and risks of different Islamic financial contracts, and the basic ability to manage business finances according to Islamic principles.<sup>30</sup>

The need for Islamic financial literacy is in line with the objectives of Islamic economics according to Umer Chapra. All forms of economic problems and their solutions can be studied in accordance with Islamic teachings. Halal in MSMEs is

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<sup>26</sup> Arif Miftakhul Huda, Kepala BSI UMKM Center Yogyakarta, Wawancara Pribadi, Yogyakarta: 3 Februari 2025.

<sup>27</sup> Dani Julius; Khairina Zebua, "Pedagang Curhat ke Kapolda DIY, Sulit Bayar Utang karena Bunganya Tinggi," February 2023, <https://yogyakarta.kompas.com/read/2023/02/24/221528378/pedagang-curhat-ke-kapolda-diy-sulit-bayar-utang-karena-bunganya-tinggi>.

<sup>28</sup> Arif Miftakhul Huda, Kepala BSI UMKM Center Yogyakarta, Wawancara Pribadi, Yogyakarta: 3 Februari 2025.

<sup>29</sup> Hakim et al., "UMKM Halal Dan Ketahanan Ekonomi Indonesia," 33.

<sup>30</sup> Ade Julia Sari and Riyan Pradesyah, "Pengaruh Literasi Keuangan Syariah Dan Kepercayaan Terhadap Minat Masyarakat Bandar Parkland, Klang Selangor, Malaysia, Melakukan Transaksi Di Bank Islam," *Maneggio: Jurnal Ilmiah Magister Manajemen* 6, no. 1 (March 30, 2023): 44–53, <https://doi.org/10.30596/maneggio.v6i1.14783>.

not only just about the final product, but also an integrated system. This starts from halal capital, continues to the production and distribution process in accordance with sharia, to transparent financial management that is free from riba.<sup>31</sup> Without a sufficient level of literacy, MSME actors may feel doubtful, confused or even mistaken in their understanding and use of IFI products, which may hinder their motivation to make a full transition away from the conventional system.

Looking at the complicated relationship between the capital needs of MSMEs, the challenge of riba, the role of microfinance institutions in providing financing and assistance, and the urgency of Islamic financial literacy, a relevant research question arises: Does the assistance provided by Islamic Financial Institutions to MSMEs and the level of Islamic financial literacy of MSME actors have a significant effect on their motivation to avoid riba practices in financing their businesses? With the existing background, we title this research **“The Influence of the Assistance and Islamic Financial Literacy on Motivation to Avoid Riba by Understanding Riba as an Intervening Variable (Study on MSMEs Assisted by BSI UMKM Center Yogyakarta)”**.

## **1.2 Problem Formulation**

Based on the above background, several issues can be drawn around the motivation of assisted MSMEs in avoiding riba practices, namely as follows:

1. How does assistance influence the motivation of MSMEs in avoiding riba?
2. How does Islamic financial literacy influence the motivation of MSMEs in avoiding riba?
3. How does assistance influence MSME's understanding of riba?
4. How does Islamic financial literacy influence MSME's understanding of riba?
5. How does the MSME's understanding of riba influence the motivation of MSMEs in avoiding riba?

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<sup>31</sup> Sari, “Potensi Pasar UMKM Halal Dalam Perekonomian Indonesia,” 6.



6. What role does the MSME's understanding of riba play in mediating the relationship between assistance and the motivation of MSMEs in avoiding riba?
7. What role does the MSME's understanding of riba play in mediating the relationship between Islamic financial literacy and the motivation of MSMEs in avoiding riba?

### **1.3 Research Objectives**

The objectives of this research are as follows:

1. To determine the influence of assistance on the motivation of MSMEs in avoiding riba.
2. To determine the influence of Islamic financial literacy on the motivation of MSMEs in avoiding riba.
3. To determine the influence of assistance on MSME's understanding of riba.
4. To determine the influence of Islamic financial literacy on MSME's understanding of riba.
5. To determine the influence of MSME's understanding of riba on the motivation of MSMEs in avoiding riba.
6. To determine the role of MSME's understanding of riba in mediating the relationship between assistance and the motivation of MSMEs in avoiding riba.
7. To determine the role of MSME's understanding of riba in mediating the relationship between Islamic financial literacy and the motivation of MSMEs in avoiding riba.

### **1.4 Research Benefits**

The uses of this research are as follows:

1. Theoretical Benefits

This research is intended as a development of knowledge for researchers, students, academics, and the general public about the influence of Islamic financial Assistance and literacy on the motivation of

MSMEs in avoiding riba practices. In addition, this research is also intended to be a material/reference for further research.

## 2. Practical Benefits

This research is expected to be an encouragement for academics, and the BSI UMKM Center to be able to carry out assistance programmes on sharia-based businesses properly for MSME players and the community in general. That way, the community will have a deep understanding of the Islamic economy, and see opportunities to partner more broadly, especially with partners engaged in sharia.

### 1.5 Systematics of Writing

To make it easier for readers to understand the results of the research, the author outlines the systematic writing of this thesis which is divided into five chapters, namely:

**Chapter I:** This chapter contains the background of the research, problem formulation, objectives, and uses of the research. This section aims to understand the academic problem of the topic to be studied, as well as the steps to answer the problem. It is also an explanation for the reader regarding the content of the research later.

**Chapter II:** This chapter contains basic concepts related to the Islamic financial literacy of several MSMEs in Yogyakarta, as well as the assistance programme conducted by the BSI MSME Center in motivating MSMEs to avoid riba practices.

**Chapter III:** This chapter contains an explanation of the methods and other information about the research conducted in collecting data and writing the results.

**Chapter IV:** In this chapter the researcher presents and discusses in more depth the description of the data on the research conducted on several MSMEs regarding their motivation to avoid riba practices in running their businesses after the assistance programme held by the BSI UMKM Center, Yogyakarta.

**Chapter V:** This chapter is the closing part of this research. The scope of this chapter is conclusions and suggestions for further research, especially regarding new problems that arise from this research topic. This allows readers to continue the research better in the future.

