

## COMPARISON ANALYSIS OF CONVENTIONAL BANK CREDIT WITH SHARIA BANK FINANCING TO MSMEs DURING THE COVID- 19 PANDEMIC

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**Abstract** – *The purpose of this study is to analyze the differences in the provision of working capital and investment loans to MSMEs in conventional banks with working capital and investment financing to MSMEs in Islamic banks. The sampling technique used in this study was purposive sampling taken from MSME Financing/MSME Credit Working capital and MSME Financing/MSME Investment Credit contained in the Financial Services Authority Statistics for the period March 2020- December 2022. The analytical method used in this study was test non-parametric statistical difference Mann Whitney. The results of the study show that there is a significant difference in the provision of working capital and investment loans to MSMEs in conventional banks with working capital and investment financing for MSMEs in Islamic banks and working capital and investment financing of Islamic banks to MSMEs is not greater than working capital and bank investment loans. conventional for SMEs*

**Keywords:** *Islamic Banks, Conventional Banks, MSME Financing, MSME Credit, and Differences in Financing*

### I. INTRODUCTION

It is stated in Law No.20/2008 article 2 concerning Micro, Small and Medium Enterprises (MSMEs), which is a business

category that is believed to be able to contribute to the Indonesian economy, especially during the current Covid-19 pandemic era because MSMEs are a means of employment because many workers were laid off. MSMEs aim to grow and develop their business in order to build a national economy based on a just economic democracy.

This is motivated by the large potential of MSMEs which play a role in developing the national economy because they create jobs and contribute large economic services to the community, contribute to the mechanism of equity and increase people's income, encourage economic progress, and play a role in carrying out national stability. MSME empowerment is a strategic choice to maximize the income of low-income groups, in order to minimize income disparities and poverty through increasing business capacity and business management skills.

MSMEs are a potential market for financial industry services, especially banks that provide financing. But unfortunately around 60-70% of MSME managers do not have access to bank financing. This reminds many parties to share more allocations for MSME-scale businesses. Banking also began to be enthusiastic in providing credit to MSMEs. This is true because the distribution of credit to MSMEs is slowly showing progress.

MSMEs show that there is great potential for domestic capabilities, if this can be developed and managed properly it will definitely create a strong business, but from another perspective MSMEs are also still facing the problem of difficulty in accessing MSMEs to the market

for the products they obtain. As well as weak business growth and strengthening, and limited access to sources of financing from a formal financial institution, especially banking (Wirosa, 2005).

The problems encountered by MSMEs affect the level of income earned by MSMEs, namely capital for business, is a problem that is often encountered by MSME managers, so this creates very limited space for MSMEs (limitations in developing their business). It is in this case that the banking sector is expected to be able to cooperate with the government, the private sector, and society at large in realizing economic banking through intensive generation of MSMEs.

The bank is an intermediary institution that stores funds for the community and protects funds that contain many uses. Kasmir (2012) explains that the main function of a bank is to provide services to the community, both in terms of depositing funds and channeling funds to the community. Many bank institutions provide lending services to MSMEs, both conventional bank institutions and Islamic banks.

Conventional banks and Islamic banks have their own rules for controlling and managing the provision of credit and financing or other banking services performed by these banks. However, the rules that are applied must be based on banking rules that apply in general.

According to Law no. 10 of 1998, Islamic banks are banks whose business operations comply with sharia law and offer payment processing services as part of such operations. In Indonesia, a group of Muslim economists and bankers established Islamic banks in response to those who wanted access to Islamic financial transaction services based on Islamic principles and morals of Islamic law, especially those involving usury offences, speculative activity, and monetary instability

Islamic banks are different from pre-existing conventional banks. Credit interest is profitable because conventional banks use an interest-based approach. Because of their domination in the monetary and economic crisis that took place since July 1997, conventional banks initially played an

important role in the Indonesian banking industry. The crisis has caused very serious problems for most of the conventional banks. Due to this situation, the Indonesian government was forced to act to reorganize and recapitalize a number of its banks. The enactment of Law Number 10 of 1998, which amended Law Number 7 of 1992 concerning Banking, in November 1998 provided a great opportunity for Islamic banking in Indonesia to develop.

Conventional banks and Islamic banks have different performance in credit and financing. In traditional banks, credit is often used, but in Islamic banks, financing is used. To determine whether or not a prospective debtor is eligible to receive financing, procedures for granting credit to conventional banks and financing to Islamic banks both require an analysis standard that assesses all factors that must be taken into account as feasibility considerations (Saputri, 2012).

Meanwhile, there are some differences between the credit granting mechanism used by conventional banks and the system used by Islamic banks. When a debtor borrows money from an Islamic bank, the bank and the debtor are involved in a contract at the start of the financing which is considered legally binding between the bank and the prospective client or prospective debtor. Calculation of profit sharing which will then be shared by both parties is one of the provisions in the agreement. Islamic banks are an alternative or substitute for the interest system which has been questioned due to the concept of profit sharing (Wahab, 2016). The agreement also states that the bank and the client will share responsibility for losses incurred.

Chikmah's previous research (2014) examined the comparative analysis of conventional bank lending systems with Islamic bank financing for micro, small and medium enterprises, stating that conventional bank lending systems and Islamic bank financing were almost the same. However, there are still some differences between conventional banks and Islamic banks, including; First, the profit earned by the bank. Second, the principles applied in granting credit or financing. Third, binding contracts and agreements between the

bank and the customer. Fourth, the types of credit and financing provided by banks.

According to Damayanti (2016) who examined the comparison of financing for micro, small and medium enterprises (MSMEs) of Islamic banks and conventional banks (case studies on Bank Syariah Mandiri and Bank Mandiri) showed the results that there were differences in the criteria for MSME financing/credit in the two banks because each bank has its own provisions.

Based on the various descriptions above, conventional bank lending practices and Islamic bank financing are two different things. These variations include contracts or agreements, profit-sharing arrangements, and the portion of money that must be returned by the debtor. However, because not everyone knows the difference between conventional and Islamic banks, many people mistakenly think that the two are the same. An analysis of the conventional bank credit system and Islamic bank financing, especially those related to lending and financing to MSMEs during this pandemic period, is needed to correct this view.

Based on the background and results of previous research, the question arises, Is there a difference between the provision of working capital loans and investments in conventional banks and working capital financing and investments in Islamic banks for MSMEs during the Covid-19 pandemic? And are Islamic banks or conventional banks more encouraging financing/credit granting in the form of working capital and investment to MSMEs during the Covid-19 pandemic?

Islamic Bank? In previous studies, there were inconsistent studies in determining the difference between conventional bank lending and Islamic bank financing in the MSME sector, so it is interesting to prove this again in this study. The purpose of this study is to analyze whether or not there is a difference between the provision of working capital and investment loans in conventional banks and Islamic bank working capital and investment financing for MSMEs during this pandemic and see which party dominates the provision of working capital and investment loans.

## II. METHODS

This study uses a quantitative research approach that is descriptive in nature. The sampling technique in this study used the non-probability sampling method and used purposive sampling using MSME Financing/MSME Credit Working capital and MSME Financing/MSME Investment Credit contained in the Financial Services Authority Statistics for the period March 2020-December 2022. Data collection was carried out using secondary data from Conventional Bank MSME Credit and Sharia Bank MSME Financing in the Financial Services Authority Statistics for the period March 2020- December 2022. To analyze or process research data using the mann withney method which is processed using application software, namely Software Statistical Package for The Social Science (SPSS) version 25.

## III. RESULTS AND DISCUSSION

The following results from the Mann Whitney test are used to find out whether or not there are differences in the provision of MSME loans by conventional banks and MSME financing by Islamic banks during the COVID-19 pandemic.

Table Mann Whitney

Ranks				
	Bank	N	Mean Rank	Sum of Ranks
Penyaluran Dana UMKM	Bank Konvensional	34	51.50	1751.00
	Bank Syariah	34	17.50	595.00
	Total	68		

Test Statistics<sup>a</sup>

	Penyaluran Dana UMKM
Mann-Whitney U	.000
Wilcoxon W	595.000
Z	-7.089
Asymp. Sig. (2-tailed)	.000

## IV. CONCLUSION

Based on table, it is known that the results of the Mann Whitney test show that MSME fund distribution has an Asymp Sig value. of 0.000 <0.05 then H<sub>0</sub> is rejected. Based on the average credit rating for working capital and investment for conventional banks, MSME is 51.50, while the average rating for working capital and investment financing for MSME in Islamic banks is 17.50, meaning that conventional banks have higher distribution of working capital and investment credit to MSMEs than Islamic banks.

Comparison of Working Capital Loans and Investments of Conventional Banks with Working Capital Financing and Investments of Islamic Banks in MSMEs During the Covid-19 Pandemic

From the results of the hypothesis test, it proves that there is a difference between working capital credit and MSME investment provided by conventional banks with working capital financing and MSME investment because the Asymp Sig value is 0.000 <0.05, then H<sub>0</sub> is rejected. The rejection of this hypothesis indicates that there is a difference between the provision of working capital loans and MSME investments in conventional banks and MSME working capital financing and investment in Islamic banks.

Average rating of MSME working capital and investment loans to conventional banks and MSME working capital and investment financing to Islamic banks during Covid-19

From the results of the average rating test, it proves that working capital financing and MSME investment in Islamic banks are not greater than MSME working capital and investment loans provided by conventional banks, because the average value of working capital credit ratings and MSME investment in conventional banks is 51, 50 > 17.50 from the average rating of working capital financing and MSME investment in Islamic banks.

There is a significant difference in the provision of working capital and investment loans for conventional banks and Islamic banks for working capital and investment financing for MSMEs during the Covid-19 Pandemic. And the provision of MSME working capital and investment loans to conventional banks is more dominating compared to the provision of MSME working capital and investment financing to Islamic banks during the Covid-19 Pandemic

This research has several suggestions, among others, the next researcher wants to be able to increase the amount of research time so that there are more observation points and can reflect the actual situation. For sharia banking and conventional banks, they should focus more on MSMEs and expand digitization and educate the importance of the role of MSME financing / MSME credit for MSMEs, considering that the number of MSMEs continues to increase every year.

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