



The effect of sharia bank financing on micro, small, and medium enterprises and poverty in Polewali Mandar Regency, West Sulawesi province

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ABSTRACT

This research aims to examine and analyze 1) The effect of Sharia bank financing on the number of Micro, small, and medium enterprises (MSMEs) in Polewali Mandar Regency, West Sulawesi Province. 2). The effect of Sharia bank financing on Micro, small, and medium enterprises (MSMEs) production in Polewali Mandar Regency, West Sulawesi Province. 3). The effect of Sharia bank financing on *MSMES* workers in Polewali Mandar Regency, West Sulawesi Province. The data analysis technique used is linear regression analysis with 12 eviws using time series data for 2018-2022. The research results show that: 1). Sharia bank financing has a positive and significant effect on the number of *MSMEs* in Polewali Mandar Regency. 2). Sharia bank financing has a positive but not significant effect on the production value of *MSMEs* in Polewali Mandar Regency. 3). Sharia bank financing positively and significantly affects the number of *MSMES* workers in Polewali Mandar Regency. The implication of this research is that Sharia bank financing is a solution to the capital problem for *MSMEs* actors. *MSMES* needs sufficient business capital for business development, indicated by the increase in the number of *MSMEs*, *MSMEs* production, and *MSMEs* workforce.

Keywords: Financing; banking sharia; SMEs

1. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) significantly impact the economy, particularly in generating employment opportunities and driving economic growth. The

importance of MSMEs stems from several key features that define this business group. First, MSMEs are characterized by their large numbers, as they are abundant throughout urban and rural areas, including remote and isolated regions. Moreover, these enterprises heavily rely on labor, particularly from individuals with limited education and women. Additionally, MSMEs are involved in household-based industries, specifically in the production of food, beverages, and various types of handicraft products rooted in the agricultural sector. Moreover, MSMEs typically engage in the production of consumer goods, including affordable food and beverages, clothing, footwear, and household furniture. These products cater to low-income groups, making them highly advantageous for impoverished households—the verse in QS. An-Naba' (11), which states, "*And We have made the daytime for (earning) a livelihood*," emphasizes the significance of engaging in work and making efforts to earn a livelihood for the essential needs of life. Establishing entrepreneurship and similar endeavors is highly valuable as it helps individuals avoid begging for sustenance. Engaging in work and fostering self-employment is considered commendable and beneficial.

Based on data provided by the Central Bureau of Statistics of West Sulawesi Province, it is evident that the quantity of micro, small, and medium enterprises in the province reached 25,856 establishments in the year 2020. Notably, Polewali Mandar Regency stood out as the region with the highest number of these enterprises, totaling 10,423 establishments.¹ However, the progress of empowering MSMEs rapidly and sustainably is hindered by the limited accessibility to productive sources of funding. Islamic banks, as financial institutions, are entrusted with the responsibility of collecting funds from the public through savings and channeling them back to the public in the form of financing. The primary role of Islamic banks, as outlined in Law Number 21 of 2008, is to facilitate the distribution of financing. This distribution of funds through financing serves as Islamic banks' primary business and income stream. Regarding business activities, Islamic banks offer a broader range of services than conventional banks. They have the flexibility to tailor their financing options to meet the specific needs of their customers when it comes to channeling funds to the public.

The current development of Sharia banks continues to experience excellent growth. This is indicated by the increasing number of people using Islamic bank products. Currently, the market share of Sharia has reached 6 percent. Various financing products of Sharia banking can meet the needs of the community.² Several studies show the importance of religiosity in economic practice. Economic activities involving many professionals and ignoring religious values are often seen as triggers for destroying various life structures in society.³ The results of Travis' research, which conducted research

¹ Regional Statistics of Polewali Mandar Regency for the year 2020. (Central Bureau of Statistics in Polewali Mandar Regency.2020), p.19

² Amiruddin K., kelayakan nasabah dalam pemberian pembiayaan pada PT. Bank pembiayaan rakyat syariah imb kota Makassar. *Al-Mashrafiyah: Jurnal Ekonomi, Keuangan dan Perbankan Syariah* (2020) Volume 4 , Nomor 2 h. 31.

³ Fauzan. "Pengaruh Religiusitas Terhadap Etika Berbisnis (Studi pada RM. Padang di Kota Malang)" *Jurnal Manajemen Dan Kewirausahaan*, Vol.15, No. 1, Maret, (2013), h. 53-64

on the relationship between religion and entrepreneurship in America, found how religiosity can increase the productivity of entrepreneurs.⁴ Rendra's research results explain that the Mudharabah Akad Financing Variable positively and significantly influences micro-enterprise development.⁵ Then, Khusnul Hidayah's research results show that musyarakah financing plays an important role in developing Micro and Small Enterprises, especially in increasing business capital, ease of access to financing, and small installment amounts. In addition, musyarakah financing is effective in encouraging the empowerment of MSEs, increasing the amount of merchandise inventory, adding new types of products, expanding businesses, and adding new equipment for business facilities.⁶ Isara Abda Noka's research shows that the financing channeled by the Syari'ah People's Financing Bank (BPRS) for community economic empowerment is effective.⁷ The results of Muslimim Kara's research explained that the role and financing of Islamic banking in increasing MSMEs in Makassar City was not optimal. Islamic banking financing to develop MSMEs in Makassar City is urgently needed because many MSMEs still have not obtained financing facilities.⁸ Trimulato et al.'s research results show that the optimization of productive Islamic banking financing for MSMEs is still not maximized because Islamic bank financing for MSMEs has not become a priority, and Islamic bank financing in the consumptive sector is still dominant.⁹ This study aims to determine the effect of Islamic financing on Micro, Small, and Medium Enterprises (MSMEs) in Polewali Mandar Regency, West Sulawesi Province.

2. METHODS

This research uses quantitative methods. Documentation techniques are used to collect written data containing information, explanations, and thoughts about phenomena that are still actual and by the research problem.¹⁰ The type of data is time series data for 2018 -2022. The data analysis technique used in this study is the classical

⁴ Travis Wiseman and Andrew Young Religion and Entrepreneurial Activity in the U.S." The Annual Proceedings of the Wealth and Well-Being of Nations, dapat diunduh di <https://www.beloit.edu/upton/.../Wiseman.Young.chapter.final>

⁵ Muh Rendra Adhi S, "Pengaruh Pembiayaan Akad *Mudharabah* Terhadap Kinerja Usaha Mikro (Studi Pada Anggota BMT UGT Sidogiri Cabang Malang Kota) Prof . Dr . Munawar Ismail , SE ., DEA . Fakultas Ekonomi Dan Bisnis Universitas Brawijaya Email : Diwan_dana@yahoo.Com," (2014), h. 1–10.

⁶ Khusnul Hidayah et al., "Effectiveness of Musharakah Financing in Empowering Small Micro Enterprises," *Estudios de Economia Aplicada* 39, no. 10 (2021),

⁷ Isara Abda Noka, "Efektivitas Pembiayaan Usaha Mikro Kecil Menengah (UMKM) Bank Pembiayaan Rakyat Syari'ah (BPRS) Gayo Terhadap Pemberdayaan Ekonomi Masyarakat Aceh Tengah," *Tadabbur: Jurnal Peradaban Islam* 1, no. 2 (2019): 321–36,

⁸ Kara, Muslimin. "Kontribusi Pembiayaan Perbankan Syariah terhadap Pengembangan UMKM" *Jurnal Ahkam: Vol. XIII, No. 2, Juli 2013*

⁹ Trimulato, dkk. "Analisis Optimalisasi Kinerja Pembiayaan Produktif Bank Syariah di Indonesia terhadap Usaha Mikro Kecil dan Menengah (UMKM)" *Iqtishodia: Jurnal Ekonomi Syariah* (2020) Vol. 5, No.1. h.4

¹⁰ Muhammad, Metodologi Penelitian Ekonomi Islam: Pendekatan Kuantitatif (Dilengkapi dengan Contoh-contoh aplikasi; Proposal Penelitian dan Laporrannya), (Jakarta: PT Rajagrafindo Persada, 2013), h. 161

assumption test. To get the estimation results of the Best Linear Unreal Estimator (BLUE), one must pass the classic assumption test; in this study, the classic assumption tests used are the normality test, multicollinearity test, and heteroscedasticity test, which all are highly recommended in regression using ordinary least squares (OLS) technique.¹¹ Then, a linear regression test using Eviews 12.

3. RESULTS AND DISCUSSION

a. Financing in Sharia Banking Institutions

Islamic banking financing refers to providing funds or equivalent assets based on Sharia principles. This involves an agreement between a bank and another party, where the recipient of the financing is obligated to repay the funds or assets, along with a share of the profits, within a specified period. According to Bank Syariah Indonesia (BSI) data in the Polewali Mandar Regency, Sharia financing has experienced significant growth from 2018 to 2022. In 2018, the total Islamic banking financing in the Polewali Mandar Regency amounted to 7,189 billion units, which increased to 22,122 billion units by 2022. According to the data presented in Table 1, there has been a significant increase in Sharia Banking Financing in Polewali Mandar Regency between 2020 and 2022. This notable growth can be attributed to the provision of People's Business Credit (hereinafter referred to as KUR) financing by Bank Syariah Indonesia (BSI), located in Polewali Mandar Regency. BSI offers three types of KUR financing programs into different segments such as "Super Micro," "Micro," and "Small.". The BSI Super Micro-scale KUR is a financing option designed to meet the working capital and investment requirements of Micro, Small, and Medium Enterprises (MSMEs), with a maximum limit of Rp 10 million. On the other hand, the BSI Micro-scale KUR aims to provide financing for Micro, Small, and Medium Enterprises (MSMEs) with a maximum limit ranging from above Rp 10 million to Rp 50 million, catering to their working capital and investment needs. Lastly, the BSI Small-scale KUR is a financing facility for Micro, Small, and Medium Enterprises (MSMEs) with a maximum limit ranging from Rp 50 million to Rp 500 million. It is designed to support their working capital and investment needs.

b. Micro, Small and Medium Enterprises (MSMEs)

1) Number of MSMEs

Small and medium enterprises (MSMEs) play a crucial role in the economic development of Polewali Mandar (Polman) Regency. The past has demonstrated that MSMEs can endure economic crises in Indonesia. Furthermore, considering that a significant portion of the population in Polewali Mandar Regency has limited education, engaging in the MSME sector becomes a favorable option. This is because the MSME sector does not necessarily require formal education to conduct business, and individuals

¹¹ Muhammad Basir Paly, Calving Interval Of Productive Pcto Increase Cattle Population Growth: A Case Study At South Sulawesi, Indonesia: *Acta Universitatis Agriculturae Et Silviculturae Mendelianae Brunensis* (2019), vol. 67 no. 5 h. 1327

can sustain themselves by participating in micro and small business activities, both in traditional and modern sectors. Additionally, MSMEs in this region can employ a substantial number of workers.

The solid foundation of the economy in Polewali Mandar (Polman) Regency depends on the dominant presence of micro, small, and medium enterprises (MSMEs) as the primary productive and competitive entities. Therefore, prioritizing long-term economic development should involve empowering MSMEs and fostering the growth of the people's economy. In the future, the main challenge lies in accelerating efforts to reinforce the economic structure, with MSMEs at its core, to drive economic growth, alleviate poverty, and boost employment. The number of MSMEs in Polewali Mandar Regency experienced fluctuating developments between 2018 and 2022. In 2018 there were 10,763 MSMEs in the region, whereas in 2022, the number was projected to reach 59,400 units. In Polewali Mandar Regency, there is a diverse range of MSME business fields, with several sectors standing out as dominant. These include grocery/mixture businesses, processed food and beverage products, agriculture, plantations and livestock, seafood sales, and fashion. According to data provided by the Cooperatives and MSME Office in 2022, there were 16,274 business units in the grocery/mixture sector, 8,092 business units in the processed food and beverage products sector, 6,355 business units in the agriculture, plantation, and livestock sector, and 3,655 business units in the fashion sector.

Between 2018 and 2022, there was notable rapid growth in Micro, Small, and Medium Enterprises (MSMEs) within Polewali Mandar Regency. This growth is evident through the substantial number of MSMEs, highlighting their significant contribution to the region's economic performance. Due to the abundant presence of MSMEs, they serve as both a safety net and a driving force for the economy in Polewali Mandar Regency. This is attributed to the quick transaction cycle and the direct relevance of their products to the essential needs of the local community. Notably, MSMEs have proven their resilience in normal conditions and during times of crisis, such as the economic downturns in 1998 and 2008. During these crises, MSMEs could capitalize on domestic resources to generate profits. According to data from the Central Bureau of Statistics, the number of MSMEs in Indonesia has not only remained stable but has increased and continues to grow despite the economic crisis. This resilience can be attributed to the fact that most small-scale businesses are not heavily reliant on large amounts of capital or external loans in foreign currency. As a result, when there are fluctuations in the exchange rate, the larger companies that typically deal with foreign currencies are more susceptible to the crisis. This phenomenon highlights the productivity of MSMEs in supporting both the macro and micro-economies in Indonesia, ultimately contributing to the development of other sectors. However, it is important to note that MSMEs have also been significantly affected by the ongoing COVID-19 pandemic. They face various challenges, including labor issues due to the implementation of Large-Scale Social Restrictions (LSSR), difficulties obtaining raw materials, barriers in product distribution, and a shift in consumer behavior from offline to online consumption. Despite these obstacles, MSMEs remain crucial players in the economy. Their ability to adapt and overcome these challenges will significantly impact their survival and the overall recovery of the business landscape.

The abundance and distribution of MSMEs across various regions, including urban and rural areas, highlight the strong development of these enterprises in Indonesia. Furthermore, MSMEs have demonstrated their ability to effectively employ a significant portion of the national workforce, accounting for 97% and providing 99% of employment opportunities. Being labor-intensive, MSMEs possess considerable potential for employment growth and income augmentation. Moreover, MSMEs play a crucial role in accommodating individuals with limited education, thus enabling local communities to enhance productivity and alleviate unemployment and poverty rates.

The significant presence of numerous MSMEs in Polewali Mandar Regency is anticipated to positively impact job creation, making these enterprises highly crucial in poverty alleviation efforts. This contribution can be attributed to MSMEs' heavy reliance on labor, particularly from individuals with limited education and women.

2) MSMEs Production Value

From 2018 to 2022, there was a substantial rise in the production value of Micro, Small, and Medium Enterprises (MSMEs) in Polewali Mandar Regency. In 2018, the production value amounted to Rp 593,769.53 million, which increased to Rp 672,959.39 million in 2022—however, the growth in production value for MSMEs experienced fluctuations over the years. The highest growth rate was recorded in 2018, reaching 9.16 percent, whereas the lowest growth rate occurred in 2022, projected to be only -5.64 percent for the production value of MSMEs.

The decrease in MSME production in 2020 can be attributed to the adverse effects of the COVID-19 pandemic, which has resulted in a decline in their output. To mitigate the spread of the pandemic, Polewali Mandar Regency has implemented measures that restrict both social and economic activities. These restrictions require individuals to stay at home, and gatherings in public spaces such as entertainment venues, restaurants, cafes, offices, and industries have been limited to a maximum number of people.

The ongoing Covid-19 pandemic persisted in 2021. However, social and economic restrictions are being adjusted based on the Implementation of Restrictions on Community Activities (PPKM) in each region to facilitate increased economic activity. This adjustment has encouraged Micro, Small, and Medium Enterprises (MSMEs) to ramp up production. In 2021, there was a notable growth of 5.54 percent in the production value of MSMEs. This positive production growth can be attributed to the government's active involvement in implementing various programs to support MSMEs and ensure their survival amid the challenges posed by the COVID-19 pandemic. The government has devised several initiatives to bolster MSMEs, including allocating government funds in collaboration with commercial banks to facilitate the provision of working capital loans and restructuring existing MSME loans. Furthermore, the government has taken measures to guarantee MSME working capital loans, extend Productive Assistance for Micro Enterprises (BPUM), provide Cash Assistance for Street Vendors and Stalls (BT-PKLW), and

offer MSME Final Income Tax incentives. These programs have been implemented to offer comprehensive support to MSMEs and foster their growth in these difficult times.

3) Workforce in Micro, Small, and Medium Enterprises (MSMEs)

In the economy of Polewali Mandar Regency, MSMEs hold significant importance as one of the vital sectors. Among the valuable contributions MSMEs make is their ability to provide employment opportunities for many individuals. The growth in the workforce engaged in the MSME sector, as documented by the Ministry of Cooperatives and MSME is presented in the table below.

The workforce within the MSME sector has witnessed consistent growth over the years. In 2018, there were only 21,254 individuals employed in MSMEs, but by 2022, this number had risen to 27,509. However, there was a significant drop in 2020 compared to the previous year. In 2019, 25,815 individuals were working in MSMEs, but in 2020, this number plummeted to 19,625, representing a decrease of 23.98 percent. This decline can be attributed to the impact of the COVID-19 pandemic.

The COVID-19 pandemic has resulted in a multitude of interconnected issues. One of the most severe consequences is felt across various regions in Indonesia, including the Polewali Mandar (Polman) Regency. The primary challenge experienced is the significant reduction or contraction of economic activities, leading to numerous losses for MSMEs and a sharp decline in employment rates.

The imposition of restrictions and limitations on movements and activities undoubtedly has a negative impact on the level of economic transactions. The decline in transactions leads to a reduction in income, resulting in inevitable losses for business operators. The Micro, Small, and Medium Enterprises (MSMEs) sector is significantly affected by this situation. According to data from the Cooperative Office of Polewali Mandar Regency, 13,277 MSMEs have been adversely affected and are currently facing challenging conditions due to the ongoing COVID-19 pandemic. These businesses have encountered various difficulties, including capital availability, decreased sales, disrupted distribution channels, and difficulties obtaining raw materials. Consequently, a subsidiary has been forced to shut down or declare bankruptcy, reducing the MSME workforce.

However, there are still businesses that manage to thrive despite the challenges. These are MSMEs that have successfully grown and evolved by implementing digital business systems. They owe their survival to changes in consumer behavior, as people have become accustomed to digital transactions. This highlights the crucial importance of MSMEs swiftly adapting to digital business systems. These resilient MSMEs, which have weathered the impact of the COVID-19 pandemic, serve as a beacon of hope for employment opportunities. However, it is worth noting that adopting digital-based technology has also reduced positions requiring human labor. Computers or even robots have replaced many job roles due to their efficiency and effectiveness compared to human workers.

c. **The Effect of Islamic Banking Financing on the Number of MSMEs in Polewali Mandar Regency, West Sulawesi Province**

The initial model examined in this study aims to assess the effect of Islamic banking financing on the number of micro, small, and medium enterprises (MSMEs) in Polewali Mandar Regency, West Sulawesi Province, Indonesia. The equation model employed for this analysis is presented below:

$$\text{Number of MSMEs} = \alpha + \beta \text{ Shariah Payment} + e$$

The initial test conducted in this study was the classic assumption test, which aims to assess whether the gathered data follows a normal distribution, enabling its utilization in parametric statistics (inferential statistics). Using the Kolmogorov-Smirnov Test, the results of the Normality Test yielded a jarque bera value of 0.561833, accompanied by a p-value or probability value of 0.755091. This p-value was greater than the significance level of 0.05 ($0.05 < 0.755091$), leading to the conclusion that the data conformed to a normal distribution. As a result, it was deemed suitable to proceed with the subsequent stages of analysis. Moreover, the Heteroscedasticity Test was conducted using EViews 12, yielding the following outcomes: The probability value (Prob value) for the chi-square(3) on Obs*R-Squared was 0.0806. Since this p-value exceeded 0.05, precisely $0.0806 > 0.05$, it indicated that the regression model exhibited homoscedasticity. In simpler terms, there was no issue of heteroscedasticity present. In addition, the autocorrelation test was performed to assess any potential correlation among consecutive members or observation data. The Breusch-Godfrey Serial Correlation LM Test was employed for this purpose. After analyzing the data, the Prob Chi-Square (2) value obtained, representing the p-value of the Breusch-Godfrey Serial Correlation LM test, was 0.0829. This value was more significant than 0.05 ($0.05 < 0.0829$), concluding that no autocorrelation problem was detected.

To assess the effect of Islamic banking financing on the number of micro, small, and medium enterprises (MSMEs) in Polewali Mandar Regency, West Sulawesi Province, a straightforward regression analysis was conducted using EViews 12 software. The data analysis produced the following outcomes:

According to this model, the constant coefficient of 16590.02 indicates that if the variable for Islamic banking financing remains unchanged or constant, the estimated number of MSMEs would be 16590.02. Additionally, the regression coefficient for Islamic banking financing was 4.085965, which suggested that for every unit increase in Islamic banking financing, the estimated number of MSMEs would increase by 4.085965.

Based on the study results and data analysis, it is evident that Islamic banking financing has a noteworthy and favorable impact on the number of micro, small, and medium enterprises (MSMEs) in Polewali Mandar Regency. However, MSME entrepreneurs in the region encounter many intricate challenges in enhancing their business capabilities. One of the significant hurdles they face is the inadequacy of business capital regarding quantity and its sources. Islamic banking financing emerges as a viable solution to address

the capital-related issues faced by MSMEs in Polewali Mandar Regency. Bank Syariah Indonesia (BSI) is an Islamic financial institution that adheres to Sharia principles and offers funding solutions for business working capital requirements within a single business cycle. According to data obtained from BSI in the Polewali Mandar Regency, Sharia-compliant financing has grown substantially between 2018 and 2022. In 2018, the total Islamic banking financing in the Polewali Mandar Regency stood at 7,189.00 billion, which increased significantly to 22,122.00 billion in 2022. Notably, the Sharia Banking Financing in the Polewali Mandar Regency witnessed a remarkable surge from 2020 to 2022. This surge can be attributed to Bank Syariah Indonesia's provision of financing options for People's Business Credit (KUR), specifically BSI Super Micro-scale KUR, BSI Micro-scale KUR, and BSI Small-scale KUR.

Between 2018 and 2022, we have witnessed significant growth in the number of micro, small, and medium enterprises (MSMEs) in Polewali Mandar (Polman) Regency. In 2018, there were 10,763 MSMEs in the region; by 2022, the number had risen substantially to 59,400 units.

The findings of this study align with the study conducted by Chilmi Muzahida and Ali Hamdan (2022), Desy Wulan Rachmawati (2022), Juni Iswanto et al. (2022), and Supraini (2016) in terms of the effect of MSME financing on the growth of micro, small, and medium enterprises (MSMEs). The provision of business capital assistance for MSME development has resulted in observable advancements, as evidenced by the establishment of new branches following the receipt of this microfinance support.

d. The effect of Islamic banking financing on the production value of MSMEs in Polewali Mandar Regency, West Sulawesi Province.

After conducting the Normality Test using the Kolmogorov-Smirnov Test, it was found that the Jarque-Bera value amounted to 0.456754, with a p-value of 0.795824. Since this p-value was greater than the significance level of 0.05 ($0.05 < 0.795824$), it can be concluded that the data followed a normal distribution. Therefore, the analysis could proceed to the next stage. Additionally, the Heteroscedasticity Test was performed using Eviews 12. The test yielded a p-value, indicated by the Prob value, of 0.0873 for chi-square (3) on Obs*R-Squared. The p-value of 0.0873 was greater than 0.05, indicating that the regression model exhibited homoscedasticity, meaning there was no issue with heteroscedasticity. Furthermore, an autocorrelation test was conducted, and the results showed a Prob Chi-Square (2) value, representing the p-value of the Breusch-Godfrey Serial Correlation LM test, to be 0.0974. Since this p-value was more significant than 0.05 ($0.05 < 0.0974$), it can be concluded that there was no problem with autocorrelation in the data. Moreover, a t-test, a simple linear regression analysis, was employed to examine the impact of Islamic banking financing on the production value of micro, small, and medium enterprises (MSMEs) in Polewali Mandar Regency, West Sulawesi Province. Eviews 12 software was utilized to conduct this regression analysis.

According to this model, a fixed coefficient of 537632.7 indicates that if the variable of Islamic banking financing remains unchanged or constant, the production value of SMEs will amount to 537632.7. On the other hand, the regression coefficient for Islamic banking financing was 13.21155, suggesting that for every 1 unit increase in Islamic banking financing, the production value of MSMEs was expected to rise by 13.21155.

Based on the study findings and data analysis, it has been determined that Islamic banking financing positively affected the production value of MSMEs in Polewali Mandar Regency. However, this effect was not considered statistically significant. MSMEs rely on a sufficient capital supply to sustain their productivity and fulfill market demands. By increasing capital for MSMEs, their chances of expanding their market presence are enhanced, as they can increase the quantity of output they produce. Working capital financing is crucial in supporting micro, small, and medium enterprises (MSMEs) by providing funds for procuring essential goods for their production activities. Therefore, the financing of working capital, which results in the acquisition of inventory items, holds greater significance as these items are directly utilized as production materials. Islamic banks can be considered a viable option for MSMEs to access capital. These banks offer financing products that cater to the needs of MSMEs, be it in the form of working capital or investment. The distribution of financing by Islamic banks is governed by Article 19 of the Islamic Banking Law, specifically Law Number 21 of 2008, which outlines the activities and types of businesses that Islamic banks can engage in.

From 2018 to 2022, the production value of micro, small, and medium enterprises (MSMEs) in Polewali Mandar Regency exhibited significant fluctuations. The highest growth rate was achieved in 2018 at 9.16 percent, while the lowest growth occurred in 2020 with a mere 0.03 percent increase. The decline in MSME production during 2020 can be attributed to the adverse effects of the COVID-19 pandemic, which resulted in a decrease in MSME output. In response to controlling the spread of the pandemic, Polewali Mandar Regency implemented various measures, including restrictions on social and economic activities. These restrictions compelled individuals to stay home, and public gatherings in places such as entertainment venues, restaurants, cafes, offices, and industries were limited to a maximum capacity.

The ongoing COVID-19 pandemic persisted in 2021, although social and economic restrictions were being tailored to each region's Implementation of Restrictions on Community Activities (PPKM) to boost economic activity. This adjustment has encouraged Micro, Small, and Medium Enterprises (MSMEs) to ramp up production. As a result, there has been a growth in the production value of MSMEs by 5.54 percent in 2021. This increase in production is attributed to the government's efforts to implement various programs to support MSMEs in coping with the challenges posed by the COVID-19 pandemic. The government has designed several initiatives to aid MSMEs, such as depositing government funds in commercial banks to facilitate the expansion of working capital loans and the restructuring of existing MSME loans. Additionally, the government provides guarantees for MSME working capital loans. It offers assistance programs like Productive Assistance for Micro Enterprises (BPUM), Cash Assistance for Street Vendors

and Stalls (BT-PKLW), and incentives for MSMEs regarding final income tax. These measures aim to ensure the survival and resilience of MSMEs during these difficult times.

In the midst of the COVID-19 pandemic, the provision of BSI KUR (People's Business Credit) in Polewali Mandar (Polman) Regency has emerged as a solution to the capital problem faced by businesses, thereby stimulating economic activity. As a result, MSMEs in the region have experienced a resurgence in production. This positive trend is evident in the distribution of venture capital assistance by BSI Wonomulyo sub-branch, Polewali Mandar Regency, which has witnessed a notable increase from Rp 17,499.00 billion in 2021 to Rp 22,122.00 billion in 2022.

The provision of Islamic banking financing as an efficient working capital is aimed at enhancing the productivity of MSMEs. The findings of this study align with previous studies conducted by Supraini (2016), Litriani and Leviana (2017), Desy Wulan Rachmawati (2022), Juni Iswanto et al. (2022), and Muhammad Syauqy Alghifary et al. (2021).

e. The effect of Islamic banking financing on micro, small, and medium enterprises (MSMEs) workforce in Polewali Mandar Regency, West Sulawesi Province.

According to study findings and data analysis, it is evident that Islamic banking financing has a notable and favorable effect on the employees of micro, small, and medium enterprises (MSMEs) in the Polewali Mandar Regency. MSMEs have undergone significant advancements following the provision of business capital support for their development. One such improvement is the transition from self-managed to assisted labor, indicating an increase in the workforce. Additionally, some MSMEs have been able to open new branches after receiving this microfinance, thereby expanding their customer base.

The number of employees in the MSME sector has steadily increased over the years. In 2018, there were only 21,254 individuals employed in MSMEs. However, by 2022, this number had risen to 27,509. It is worth noting that there was a significant decline in 2020 compared to the previous year, with the workforce decreasing from 25,815 in 2019 to 19,625 individuals in 2020, representing a decline of 23.98 percent. This decline can be attributed to the impact of the COVID-19 pandemic, which has caused numerous interconnected issues throughout various sectors of the economy. In various regions of Indonesia, including the Polewali Mandar (Polman) Regency, the most significant impact experienced is a slowdown or decline in economic activity. Consequently, this has led to many MSMEs suffering losses and significantly decreasing employment opportunities. However, despite these challenges, certain enterprises have managed to withstand these difficulties. These MSMEs have demonstrated growth and development by adopting digital business systems, which have proven their lifeline. These businesses have benefited from changes in consumer behavior as more people have become accustomed to digital transactions. This highlights the critical importance of encouraging MSMEs to swiftly adapt to utilizing digital business systems. The MSMEs that have successfully

weathered the challenges posed by the COVID-19 pandemic represent a beacon of hope for employment opportunities.

CONCLUSION

The conclusion of this research is

- 1) Sharia bank financing positively and significantly affects the number of *MSMEs* in Polewali Mandar Regency.
- 2) Sharia bank financing has a positive but not significant effect on the production value of *MSMEs* in Polewali Mandar Regency.
- 3) Sharia bank financing has a positive and significant effect on the number of *MSMEs* workers in Polewali Mandar Regency

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