

The Outreach of Islamic Rural Banks In Supporting Financial Inclusion In Indonesia: Emperical Evidence and Strengthening Strategies

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Abstract

The development of Islamic Rural Banks in Indonesia claimed has made a major contribution in improving the development of micro real sector in rural area. In line with Islamic banking tagline "beyond banking", the outreach of Islamic rural banks to micro real sector by channeling productive, is more than just profit orientation but also social benefit oriented. This paper shows the empirical evidence about the outreach - the social benefit- of Islamic Rural banks in the term of six aspects: depth, breadth, scope, worth, cost and length. This paper gives an overview about of the outreachof Islamic Rural Banks and the contribution of Islamic Rural Bank in creating financial inclusion. The analysis based on the secondary data in period 2006-2015. This study reveals that the outreach of Islamic rural banks have already increased and more better for aspects: depth, breadth, scope and length. Furthermore, this study recommends some policies in terms of strengthening the regulatory, socialization, competitiveness and the human resources aspect.

Keywords : Outreach, Social Benefits, Islamic Rural Banks, Real Sectors

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step we need political intervention from government to make Islamic Bank in Indonesia became the biggest Bank in the Asia as well as to be International Islamic hub. The alternative is convert one of State Owned Conventional Bank such as Bank Rakyat Indonesia (BRI) which has the similar platform with Islamic Bank because of the business focuses of BRI are the micro and small society.

6. CONCLUSION

According the outreach and coverage of Islamic Bank in Indonesia as the biggest moslem population in the world still need improvement. Islamic Bank in Indonesia must be has important role to create wellbeing society. The active participatory should come not only from the society but also from all the stakeholders to create State Own Islamic Bank in Indonesia. In demand side the biggest moslem society give more advantage for the existence of Islamic Bank, but in reality the potency of the biggest moslem population can't used optimally to create the biggest Islamic Bank in the world and give positive contribution all people in line with the Islam came down to give Rahmatanlillalamin to the Ummah. The important points for the existence of the Islamic Bank for the masalah ummah as follows:

- The development of Islamic Bank in Indonesia from 2009-2014 has growth rapidly in term of asset, but from the sustainable point of view the growth of Islamic Bank not fulfill of the required. Furthermore the Conventional Banking growth is more sustain than Islamic Bank, this condition because of the development of Islamic Bank already began at 1992 and for the Conventional Bank has already developed far away from 1992, its has developed from 1896, BRI for the instance. Regarding of it the employee and board management need flying hours more in Islamic Banking to become Sustainable Islamic Banking.
- In other side the coverage and outreach of Islamic Bank is still lower than Conventional Bank, it's also because of the Islamic Bank as the new comer of financial institution in Indonesia.
- The existence of Islamic Bank to implementation of masalah in the moslem society is very important in term of the moslem people to implement their religion in kaffah or totality way. Therefore the Islamic Bank as the purification of the Islamic values (forbidden the haram, immoral and unethical in the transactions) must be spread out in all region in Indonesia.
- To boost the coverage and outreach of Islamic Bank, in Indonesia evidence needs the intervention of government or political side to convert state owned conventional bank and acquisition all of Islamic Bank which subsidiary of state own conventional bank became directly under government control. Currently there isn't the stated own Islamic Bank in Indonesia despite the Islamic Bank under the State own Conventional Bank, but this condition not very helpfully for Islamic Bank development in the future.

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dynamics process due to achieve better life. Nevertheless the new knowledge must be underlying on the Qur'an, hadith.

The Islamic Bank as the part of financial system for the Islamic purification has important role for the moslem society because of the goals of Islamic Bank is not only for the financial performance, social performance but also for spiritual purposes (Dhumale and Sapcanin, 1998). In other word the purposes of Islamic Bank is the create the masalah for the ummah. According Nugroho (2014) the Islamic Bank is expected to play a role in creating prosperity evenly throughout society. Therefore Islamic Banks has important role to create wellbeing for the whole society. Based on the Maqhasid Sharia, the Islamic Bank operations should be outreach and coverage more people or clients and more location all around Indonesia and the world as generally.

d. Is there opportunity to align the Islamic Bank in Indonesia?

The establishment of Islamic Banks can be done through the mechanism of acquisition and conversion (Anshori and Abdul Ghofur, 2010). Acquisition or that the Act No. 40 of 2007 on Limited Liability Company is known by the term 'takeover' is a legal act performed by a legal entity or individual to take over the shares of the Company which resulted in the shift of control of the Company. While the conversion here means changing the operational activities from the previous conventional to sharia. Implementation can be done through three approaches, among others:

1. Conventional commercial banks already have Sharia (UUS) to acquire a relatively small bank then converts it into Sharia and let go and merge its UUS with the newly converted bank;
2. Conventional commercial banks do not yet have UUS, can acquire a relatively small bank and convert it into a sharia;
3. Conventional commercial banks to separate (spin-off) with UUS and used Islamic Banks (BUS) separately.

The current condition of Islamic Banking is difficult to achieve targeted market share of 5%. Based on that required the intervention of the government to increase its market share by establishing a state-owned Islamic Banks.

Based on the roadmap development of Islamic Banking which has been issued by the Financial Services Authority, 2015-2019, one of which is to encourage the incorporation of state-owned Islamic Bank through the merger of four state-owned Islamic Bank. With the merger is expected to encourage Islamic Banking are bigger and will fit with the regulation that namely Bank Umum Kegiatan Usaha (BUKU) III.

One serious concern in pushing the development of Islamic Banking, because of the belief that Islamic Banking will bring the 'beneficiaries' for the improvement of the economic and equitable welfare. (1) Islamic Banks provide a more tangible impact in encouraging economic growth because it is closer to the real sector. (2) there are no products that are speculative (gharar) so as to have a strong durability and proven robustness of the global financial crisis. (3) a system for the results (profit-loss sharing) which becomes the spirit of Islamic Banking which will bring benefits more equitable for all parties.

The ultimate goals of align of Islamic Bank in Indonesia to contribute more Masalah to Ummah from the process of Interaction, Integration and Evolution among stakeholders to implementation of State Owned Islamic Bank in Indonesia. Furthermore, the Moslem society in Indonesia has a positive contribution to the existence of Islamic Bank currently, for the next

process of Tawhid is create wellbeing in the world. Furthermore. The process of Tawhid regarding Choudhury (2014) as follows:

Figure 1.1 Tawhid Process in The Maslahah Implementation

$$\{\Omega,s\} \rightarrow * \Theta \rightarrow \Theta \rightarrow x \Theta \rightarrow W \{\Theta,x \Theta\} \rightarrow N \Theta \rightarrow \{\Omega,s\}$$

Ω : Qur'an

s: Hadith

* Θ : Ijtihad

Θ : Knowledge

x Θ : Implementation of knowledge (active participatory)

W{ Θ ,x Θ }: Wellbeing in term of Maslahah



N Θ : New knowledge

Source: Choudhury (2014)

Based on the figure 1.1 above, the main of law of Islam or super cardinal is Qur'an (Ω). Furthermore, Qur'an must be down to earth from Allah to the world. Sources of Islamic law is the Qur'an, Qur'an is the source of knowledge and a way of life for all human beings on earth. Therefore, in order to be able to use the Qur'an, God sent Messengers to present it to the ummah in the earth so that sayings and behavior of Messengers is a real implementation of the contents of the Qur'an. The existence of the prophet is very important to be a tangible example of the application of the Qur'an. Furthermore, the words and deeds of the prophet be a hadith (s) by the companions Messengers. At the time of the prophet was alive, Hadith has not been written and are in the minds or memorizing the companions. The companions do not feel any urgency to do the writing is easy to remember the prophet reached for explanations about everything. However, the problem is after the death of the prophet, who will be a role model for the ummah? While the definition of companions is the person who met the Prophet and died as Muslims in other words companions also means people who met the Prophet, faith in him, touch and get along with him for a long time. Therefore the role of companions of the Prophet is very important in the preparation of hadith, because the hadith is because the hadith is the the word, deed, attitude and approval of the Prophet obtained from a companions or more who happened to attend or witnessed the time, the news was subsequently submitted to another friend who happened was not present or not present. Then the news was conveyed to his students called tabi'in (one generation under companions). The news was then submitted again to the students of the next generation again that the Tabi 'al-Tabi'in and so on up to the compilers of hadith (mudawwin).

In the next stage in the current context in which the Prophet, companions, and Tabi 'al-Tabi'in gone, then there ijtihad (* Θ). Ijtihad is the a work done by a religious (Muslim scholars) who has been trying to find a science to decide a case that is not discussed in the Qur'an and Hadith on condition using common sense and mature judgment that are not contradictory with the Qur'an and hadith. Nevertheless the Qur'an, hadith and Ijtihad should be as moslem knowledge (Θ) as the principle to take decision in every step on their life. The Qur'an, hadist and Ijtihad must be active as activity not only knowledge but need active participatory (x Θ) from all the people and stakeholders to create wellbeing or maslahah (W { Θ ,x Θ }). In addition from the wellbeing the human get new knowledge (N Θ) how to living better because of maslahah is the

and Medium Enterprise) have a strategic role in the Indonesian economy. This sector has a relatively high growth and absorb the huge workforce. Regarding on that, Islamic Bank should has focus to served MSME clients. More MSME clients has served to Islamic Bank more benefit that has generate from the Islamic Bank operation. Islamic perspective related to the poor people, very concern in poverty alleviation. Islam encourages equity and income distribution policies that favor the poor (pro-poor income distribution). There are three main instrument in Islam related to the distribution of income is land ownership rules, the application of zakat, as well as advocating qardul hasan, donations, and endowments. Accoding to the At Taubah verse 60, we must help the poor to become self-sufficient not only in terms of finance, but can survive with decent conditions.


 إِنَّمَا الصَّدَقَتُ لِلْفُقَرَاءِ وَالْمَسْكِينِ وَالْعَمِلِينَ عَلَيْهَا
 وَالْمُؤَلَّفَةِ قُلُوبِهِمْ وَفِي الرِّقَابِ وَالْغَرَامِينَ وَفِي سَبِيلِ اللَّهِ

 وَأَبْنِ السَّبِيلِ فَرِيضَةً مِّنَ اللَّهِ وَاللَّهُ عَلِيمٌ حَكِيمٌ

Meaning: “Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah . And Allah is Knowing and Wise.”

Nevertheless the portion of disburshment financing for MSME segment between Islamic Bank and Conventional Bank as Follow:

Table 2.2 The Comparision MSME Clients between Islamic Bank with Conventional Bank (outstanding)

| No | MSME Clients | 2011 | 2012 | 2013 | 2014 |
|----|-------------------|---------|---------|---------|---------|
| 1 | Islamic Bank | 105,331 | 151,059 | 188,553 | 204,335 |
| 2 | Conventional Bank | 355,509 | 378,892 | 424,703 | 472,391 |

Source: Syariah Bank Statistical (Financial Service Authorities/OJK) that have been processed

Based on the table 2.2 above, the disbursement financing to the MSME segments, Conventional Bank still bigger than Islamic Bank. This condition caused by the amounts of outlet Conventional Bank is bigger than Islamic Bank and for sure the establishment of Conventional Bank still longer than Islamic Bank that just began at 1992.

c. What is the link between maslahah and the Islamic Bank development?

The ultimate goals of activities in Islamic perspective is Maslahah. Maslahah is is all activities should bring benefits and refusing all activities that harm nature, or bring damage. Furthermore, maslahah should be based on the principles of maqhasid sharia consisting of maintaining Religion, preserving life, maintain mind, maintaining descendants, maintain the property, maintain the environment (Bahsoan, 2011). According Choudhury (2009) the basic process of Islamic perspective to all aspects in the human life must be on Tawhid based. The ultimate