Research article

The Effectiveness of Islamic Capital Market Securities in Supporting MSMEs Working Capital Financing

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Abstract: This study was undertaken to determine how effective Islamic Capital Market Securities, namely the issuance of subordinated sukuk and others sukuk in Islamic banking, are on the quantity of working capital financing distribution to MSMEs in Indonesia. By using monthly time series secondary data and multiple linear regression analysis techniques, it was found that the issuance of subordinated sukuk and others sukuk had a significant positive effect on increasing the quantity of working capital financing distribution to MSMEs. It can be concluded that the policy of Islamic banking to issue Islamic Capital Market Securities effectively supports the increase in the working capital of MSMEs.

Keywords: sukuk; MSMEs; financing; banking

JEL Classification: G21, G24, G32

Abstrak: Penelitian ini bertujuan untuk mengkaji seberapa efektif surat berharga pada pasar modal syariah, dalam hal ini adalah sukuk subordinasi dan sukuk lainnya yang diterbitkan oleh perbankan syariah untuk mendukung kuantitas penyaluran pembiayaan modal kerja kepada UMKM di Indonesia. Dengan menggunakan data sekunder deret waktu bulanan, dan teknik analisis regresi linier berganda, ditemukan bahwa penerbitan sukuk subordinasi dan sukuk lainnya berpengaruh positif signifikan terhadap peningkatan kuantitas penyaluran pembiayaan modal kerja kepada UMKM. Dapat disimpulkan bahwa kebijakan perbankan syariah menerbitkan surat berharga pada pasar modal syariah efektif mendukung peningkatan modal kerja UMKM.

Keywords: sukuk; UMKM; pembiayaan; perbankan

1. INTRODUCTION

In Indonesia, MSMEs are a crucial economic sector because they contribute to economic growth, provide employment and workforce, form gross domestic product (GDP), and are sources of non-oil and gas exports. The number of MSMEs reaches 99% of all business units, and by the end of 2022, it was recorded that MSMEs contributed 60% of Indonesia's total GDP and absorbed 97% of the national workforce (Limanseto, 2022). MSMEs also have a social function as an economic safeguard, especially for low-income people, so they can carry out productive economic activities in the real sector. There have been many studies that describe the same, some of which are Abasimel (2022), Trie et al. (2022), Hendri et al. (2022), Tjahjadi et al. (2022), Wibowo & Khoirudin (2022), and Suci (2017). The MSME loan portfolio as of August 2022 had only reached Rp 1,214 trillion, or around 19.7% of the total bank credit, which reached Rp 6,155 trillion. Furthermore, a recent study showed that MSMEs have been experiencing a trend of decreasing

demand (Utomo et al., 2022). It is indicated by the fact that there has been declining in the income of MSMEs entering a new normal era (Andhyka et al., 2022).

In the Islamic Economics Masterplan 2019-2024, it is stated that the main strategy to strengthen MSMEs is carried out through four main programs, namely the establishment of educational programs for micro-enterprises; integrated financing facilities for MSMEs; development of MSME database and establishment of MSME literacy program (Financial Services Authority, 2021). In 2021, the government launched the National Economic Recovery (PEN) program, in which there is a special segment for MSMEs. PEN incentives given to MSMEs include accessible business permits, capital assistance, access to financing, taxation, training, and marketing (Ministry of Cooperatives and SMEs, 2021). At the beginning of 2022, the Bank Indonesia Policy Mix was also released as part of the direction of national economic policy to accelerate recovery while maintaining economic stability. The policy mix includes 5 policy instruments, 2 of which relate to improving MSMEs, namely macroprudential policies and, MSME policies & Islamic financial economics. Macroprudential policy on easing will continue and be expanded to encourage credit and banking financing in priority sectors and MSMEs to accelerate national economic recovery while maintaining financial system stability and developing a green economy and finance (Azaria, 2022). Meanwhile, the MSME policy and the Islamic financial economy regarding programs for developing an inclusive financial economy for MSMEs and the Islamic financial economy will continue to be expanded, including by digitizing and broadening access to domestic and export markets (Central Bank of Indonesia, 2021).

Islamic banking support for the various government policies above, among others, is to play a role in the financing aspect. One of them is through working capital financing for MSMEs because this financing implements Islamic Economic principles that prioritize the real sector. Islamic banks have the principle of real sector-based banking, which means that Islamic banks prioritize the concept of assets and production-based systems in the real sector (Karim, 2021). Working capital assistance to MSMEs is important to support the operations and sustainability of MSMEs. In October 2021, MSME financing increased by 8.98% (YoY) to Rp75.07 trillion, but the share of financing to MSMEs was still below the 20% level compared to financing to non-MSMEs (Central Bank of Indonesia, 2021). Research states that investment and capital financing in Islamic banks for MSMEs is proven to increase the real sector to boost the national economy. However, the portion is still small compared to consumptive financing, which is only about 20% (Suretno & Bustam, 2020). Research on Shariah BRI found that the financing provided significantly affected the development of MSMEs (Prayogi & Siregar, 2017). In addition, there was a significant impact of the financing gap on MSMEs related to their financial structure practices (Mittal & Raman, 2022).

The primary source of financing for Islamic banks is the depositor funds composition, namely savings and mudharabah deposits. In other words, the third-party funds must be able to support not only the distribution of financing but also the efficient performance of Islamic bank itself, including financing to MSMEs. Recently there was research found that financing with mudharabah and musharakah contracts did not make a significant contribution to MSMEs financing, this was alleged because Islamic banking experienced a decrease in performance efficiency which also affected financing distribution (Widyanata et al., 2022). Other studies also found that some Islamic banks experienced inefficiency and needed additional financing in order to increase income, profit and pay various costs (Setyono et al., 2021). Sukuk can be used as an alternative to Islamic financing when third-party funds for self-savings and deposits are inadequate (Iqbal, 2015). So, if the sources of depositor funds composition are still lacking to distribute financing, Islamic banks need to look for other additional sources of funds, for example by issuing Islamic Capital Market Securities. Islamic banks can use Sukuk to invest money that complies with Islamic values, besides that investing in sukuk must involve tangible assets as the underlying asset, which is the most different from bonds, hence sukuk can directly drive the real sector economy (Abdullahi, 2022).

Mudharabah subordinated sukuk and other sukuk are Islamic Capital Market Securities products aimed primarily at encouraging economic growth in the real sector and assisting government programs through MSME financing. As one of the countries with the largest Muslim population in the world, Indonesia has very promising sukuk potential (Rinaldhy, 2016). In recent

years, sukuk has received considerable attention from various investors, such as the government, companies, institutional investors, banks and financial institutions as an alternative investment and funding (Uluyol, 2021). Obtaining funds through the issuance of shariah bonds means that large funds will be available so that they can increase financing to Islamic financial institutions (Haerisma, 2017). Research at BNI Syariah Depok found that in general, the average financing after the issuance of the mudharabah sukuk was greater than the average financing before the issuance of the sukuk (Syafrida et al., 2017). Similarly, the main problem in SMEs financing in France could be solved with an alternative to sukuk mudharabah financing where investors have profit-sharing rights on SMEs assets (Anass, 2015). Sukuk are defined as sharia securities in the form of certificates or proof of ownership that have the same value and represent an inseparable or undivided share (*syuyu'*/undivided share) of the underlying asset, meaning that the basis of the sukuk is not a bond, but is a form of investment in the form of ownership of assets, which is the basis for its publication (Financial Services Authority, 2020). Islamic Capital Market Securities is a type of sukuk issued by the state based on sharia principles. Islamic Capital Market Securities can be issued in 2 ways, anonymous continuous auction and private placement. Anonymous continuous auction is an Islamic Capital Market Securities offering activity carried out by issuers to sell securities to the public based on the procedures stipulated in the capital market law regulations. A private placement is an Islamic Capital Market Securities offering that is only limited to certain professional investors based on the procedures regulated in the capital market law (Mawardi et al., 2019).

MSMEs which are widespread throughout Indonesia are the largest economic sector in Indonesia, although, in terms of economies of scale, the scale is still small, they are the largest contributor to GDP. In addition, MSMEs also absorb more than 80% of the national workforce, so this sector has a great impact on strengthening equity, the welfare effect and also the nation's economic independence. Therefore, initiating other financing sources that can increase MSMEs working capital and operations is necessary. Islamic Capital Market Securities is a good initiative as a source of financing distribution. However, it still needs to be studied further on its effectiveness in increasing MSMEs working capital and operations. So far, studies on the role of Islamic Capital Market investment by Islamic banking to raise financing for MSMEs have rarely been carried out. Therefore, research was carried out to analyze how effective Islamic Capital Market Securities issuance is in increasing the distribution of working capital financing to MSMEs.

2. RESEARCH METHODS

This research is quantitative research using multiple linear regression to analyze how effective the issuance of Islamic Capital Market Securities is in increasing the distribution of working capital financing to MSMEs. The technique of multiple linear regression analysis is a statistical analysis that connects two independent variables (X) or more with a variable (Y) (Widarjono, 2020).

The data used in this research is secondary data in the form of monthly time series data obtained from the Financial Services Authority. The data to be processed and analyzed are monthly data on the issuance of subordinated sukuk; other sukuk; and distribution of MSMEs working capital financing in Islamic banking in Indonesia in billions of rupiah with an observation period from March 2020 to June 2022. This observation period was chosen because, based on several previous studies, it was found that a significant decline in Islamic banking financing and performance occurred during the COVID-19 period from early 2020 to 2022. The model of the analysis is as follows:

$$CMSME = \alpha + \beta_1 SS + \beta_2 OS + e \qquad (1)$$

Capital Working Financing for MSMEs (CMSME) is financing specifically channelled to increase working capital for MSMEs in units of billions of rupiah. Subordinated Sukuk (SS) and Others Sukuk (OS) are categorizations of Sukuk in terms of priority upon liquidation, where Subordinated Sukuk holders have a lower-ranking claim over the underlying assets in the event of default or redemption compared to Other Sukuk holders.

Before conducting the regression test, it is necessary to carry out the Classical Assumption Test to ensure that the regression equation obtained has accuracy in estimation, and is unbiased as well as consistent. This test includes the normality test, multicollinearity test, heteroscedasticity test, autocorrelation test and linearity test.
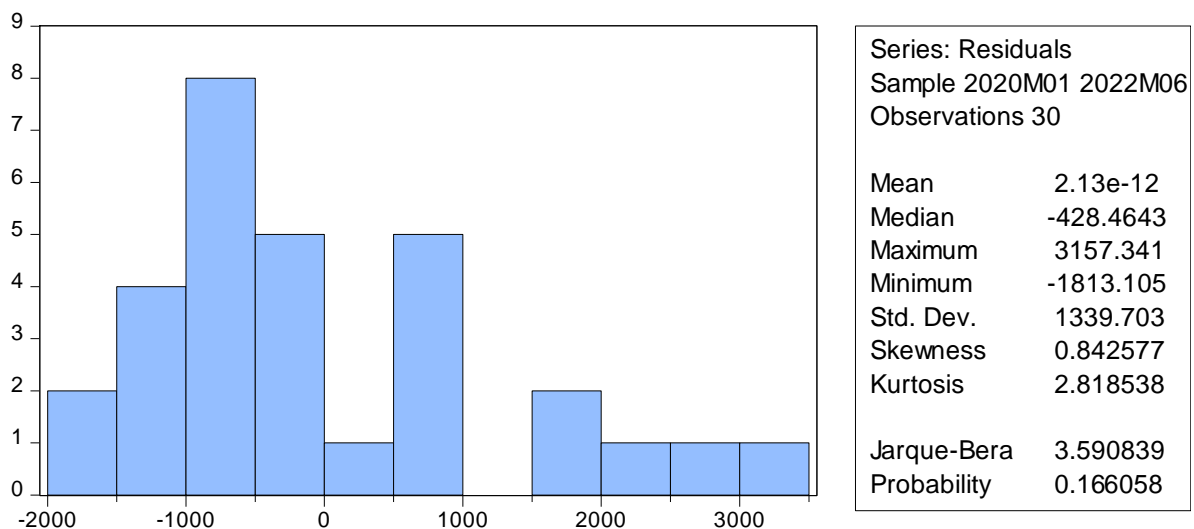
3. RESULTS AND DISCUSSION

3.1. Result

The first step before analyzing the multiple regression results is to perform a series of classical assumption tests. This test consists of five steps: multicollinearity test, heteroscedasticity test, autocorrelation test, linearity test and normality test. Multicollinearity test was conducted to determine whether one independent variable with other independent variables had a linear correlation or not, which resulted in each independent variable being difficult to distinguish so the model became biased. To find out whether the regression model has multicollinearity or not by looking at the VIF (Variance Inflation Factor) value. A good regression model if it produces a VIF value < 10. If it produces a VIF value > 10 means that there has been multicollinearity in the regression model. Based on table 1, the results of VIF calculation shows that all independent variables have a VIF value of 1.223 less than 10. So, there is no multicollinearity between independent variables in the regression model.

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another observation. If the variance of the residual value between observations remains, then this condition is called homoscedastic. However, if they are different, it is called heteroscedasticity (Gujarati, 2014). A good regression model is a homoscedastic model. If the probability of each independent variable is more than 0.05, then there is no heteroscedasticity in the model. In other words, the data is in a homoscedastic condition. This research uses Harvey Test. Based on table 1, the results of the Harvey Test show that the Prob. Chi-Square value is 0.0097 which is below 0.05, meaning that the model is homoscedastic and has no heteroscedasticity.

Autocorrelation is to find out whether variables are correlated in the prediction model with changes in time. The autocorrelation test means to find out whether there is a relationship between errors. Autocorrelation happens because time series data observations over time are related to each other. This research uses the Breusch-Godfrey Serial Correlation LM Test, if the value of Prob. Chi-Square > 0.05 means there is no autocorrelation. Based on table 1, the LM Test value of Chi-Square is 0.2040 above 0.05 means that there is no autocorrelation problem.

Series: Residuals	
Sample 2020M01 2022M06	
Observations 30	
Mean	2.13e-12
Median	-428.4643
Maximum	3157.341
Minimum	-1813.105
Std. Dev.	1339.703
Skewness	0.842577
Kurtosis	2.818538
Jarque-Bera	3.590839
Probability	0.166058

Figure 1. The results of Jerque-Bera test
Source: Data processed

The linearity test aims to determine whether two or more variables tested have a linear relationship. This research uses the Ramsey Test by looking at the value of the F-statistic > 0.05. From the result of table 1. Linearity Test-Ramsey Test, the F-statistic value of 0.2534 above 0.05 means that there is no linearity problem in the research variables.

The normality test was carried out to see whether the residual value was normally distributed or not. Normality can be detected by looking at the residuals, if the probability value is > 0.05, it indicates that the normal regression distribution pattern meets the normality assumption. This research was conducted using the Jerque-Bera test. Based on Figure 1, the result of the Jerque Bera Probability value is 0.166058, this value is above 0.05. Then the residuals are normally distributed, meaning the normality assumption has been fulfilled. This analysis is performed by statistically reading the significance values of the data processing output, which consists of coefficient determination, simultaneous, and partial test.

Table 1. The Result of the Model Estimation

Dependent variable: CMSME (Capital Working MSMEs)		
Variables	**Coefficient**	**Prob.**
Intercept (C)	26072.45	0.0000
Subordinated Sukuk (SS)	7.554490	0.0128
Others Sukuk (OS)	1.357760	0.0011
R^2	0.566577	
R^2 adjusted	0.534471	
Prob(F-statistic)	0.000013	
Multicollinearity test (Centered VIP)		
SS	1.223973	
OS	1.223973	
Diagnostic test	F-statistic	
Heteroscedasticity (Harvey Test)	0.0097	
Autocorrelation (LM test)	0.2040	
Linearity (Ramsey-Test)	0.2534	

Note: significance at 0.05 levels
Source: Data Processed, 2022

The determination coefficient measures how much the contribution of the independent variable in the regression model can explain the variation of the dependent variable. It can be seen through the value of R-squared (R^2). The r-Squared value is categorized as strong if it is more than 0.67, moderate if it is more than 0.33 but lower than 0.67, and weak if it is more than 0.19 but lower than 0.33 (Chin, 2018). Based on Table 1, the R-Squared value is 0.566577. This value is categorized as moderate, meaning that the dependent variable's variation can explain the independent variable's relationship by 56%, and other factors outside the model explain the remaining 44%. In other words, the Subordinated Sukuk and Others Sukuk variables can adequately explain the relationship with the MSMEs working capital financing variable.

Simultaneous test to evaluate the effect of all independent variables on the dependent variable. It can be done with the F test by checking the value of Prob. F-Statistic < 0.05 (Oskar, 2019). Table 1 also reports the value of Prob. F-Statistic is 0.000013, which is smaller than 0.05, it can be said that together, the Subordinated Sukuk and Others Sukuk variables have a significant and simultaneous effect on the MSMEs working capital financing variable.

Partial test aims to see whether in the regression model the independent variable partially has a significant effect on the dependent variable. This can be done with the t test by checking the probability value of each independent variable < 0.05 (Oskar, 2019). In table 1 it can be seen that the probability value of the SS variable is 0.0128 and the OS variable is 0.0011, both of which are smaller than 0.05. This means that each variable, Subordinated Sukuk and Others Sukuk has a significant effect on the MSMEs working capital financing variable.

3.2. Discussion

Based on the multiple linear regression output presented in table 1, it can be interpreted if the Subordinated Sukuk and Others Sukuk value is constant or equal to zero, then Working Capital Financing for MSMEs can increase by 26072.45 in percent. If there is an increase to the issuance of Subordinated Sukuk by 1 percent, the Working Capital Financing for MSMEs will experience a significant increase of 7.554490 in percent, assuming cateris paribus. If there is an increase in the issuance of Others Sukuk by 1 percent, the Working Capital Financing for MSMEs will experience a significant increase of 1.357760 in percent, assuming cateris paribus. This means that if the issuance of the two Sukuk is increased, the quantity of distribution of working capital financing for MSMEs will also increase. This indicates that Islamic Capital Market Securities are helpful as an additional source of funds when sources of third-party funds are insufficient to distribute Capital Working Financing for MSMEs. During the COVID-19 era, this additional source is certainly very much needed to improve the performance of Islamic banking and support MSMEs. In addition, these days, Islamic Capital Market Securities, particularly Sukuk, are getting more developed in muslim countries and some muslim minority countries such as the UK. Hence, it will be better if these funding sources are still used in the future.

The findings in this research are in line with some studies which have been mentioned previously which agreed that sukuk can be used by Islamic banking as an alternative source of financing or funding namely Uluyol (2021), Haerisma (2017), Syafrida et al. (2017), Iqbal (2015), and Anass (2015). This finding also supports the statement that Indonesia has very promising potential for sukuk (Rinaldhy, 2016). Likewise, during the socio-economic crisis due to COVID-19, the results of the latest research indicated that various variations of Islamic Capital Market Securities in Indonesia thrived and increased during COVID-19 pandemic, particularly green sukuk (Narayan et al., 2022).

Studies related to this theme are also conducted in different countries with conformable results. In Malaysia, it was found that Sukuk issuance has helped micro-entrepreneurs and micro-businesses (SMEs) during the COVID-19 pandemic (Mat Ali et al., 2021). Furthermore, research undertaken in the Middle East and North Africa found that the Islamic finance Industry, namely Sukuk; Qard al-Hasan; Zakat; and Waqf are considered anti-financial crises and anti-socio-economic (COVID-19) crises (Babenkova, 2021). In line with the results of research in Qatar which stated that Islamic banks and Islamic social finance tools, namely Zakat; Infaq; Qard Hassan; and Waqf have proven to be resistant to the COVID-19 pandemic situation and maintain economic stability in Qatar (Mohammed et al., 2020). In addition, Islamic Banking and Islamic Bonds thrive in Saudi Arabia, they can synergize with each other and operate simultaneously, so they can complement each other both for the development of Islamic banks themselves and support other sectors (Abdulrahim, 2018).

However, the findings in this study are in contrast to several studies both in Indonesia and in several other countries. Other research indicates that to strengthen MSMEs in Indonesia, especially during the COVID-19 pandemic, is to empower Islamic Social Finance instruments rather than Islamic Banking, such as zakat, infaq, waqf projects and productive waqf (Iskandar et al., 2021). Moreover, it was found that sukuk has not been able to extend the risk appetite of Islamic banks in the United Arab Emirates (UAE), therefore, the issuance of sukuk has not been able to increase the profitability of Islamic banking (Salhani & Mouselli, 2022). Furthermore, it is stated that wavelet coherence illustrates lower co-movement between returns on developed market bonds in the US; UK; Australia; Canada; Germany; and Japan, with returns on the Malaysian sukuk. Hence, sukuk only has attractive opportunities in terms of diversification benefits (Bhuiyan et al., 2019).

4. CONCLUSIONS

From research analysis, it is concluded that the issuance of Islamic Capital Market Securities by Islamic banks in Indonesia can increase the quantity of distribution of working capital financing for MSMEs. This indicates that Islamic Capital Market Securities is an effective alternative source

of financing for Islamic banking to support the development of MSMEs in Indonesia. In this case, Subordinated Sukuk and Others Sukuk significantly and positively affect the distribution of working capital financing for MSMEs, especially for Subordinated Sukuk. This means that if the issuance of the two Sukuk is increased, the quantity of distribution of working capital financing for MSMEs will also increase. The increased performance of MSMEs can have implications for increasing demand for factors of production, which eventually will increase aggregate demand. Thus, the economy thrives well and increases economic growth. So, the advice that can be given is that the issuance of Islamic Capital Market Securities must continue to be improved and increase its types by constantly adapting to the latest digital financial inclusion.

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