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THE INFLUENCE OF SME FUNDING AND NON-PERFORMING FINANCING ON INDONESIA'S ECONOMIC GROWTH IN THE PERIOD 2015-2022

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ABSTRACT

This research aims to analyze the effect of MSME fund disbursement and non-performing financing (NPF) on Indonesia's economic growth in the 2015-2022 period. The research method used is quantitative with a descriptive approach. The data used comes from secondary data sources, such as the financial statements of the Financial Services Authority (OJK) and the Central Bureau of Statistics. The results showed that partially, the distribution of MSME funds had a positive and significant effect on Indonesia's economic growth. This shows that financial support provided to MSMEs through the distribution of funds makes an important contribution in encouraging better economic growth. However, partially, non-performing financing (NPF) has an insignificant negative effect on economic growth. Although the NPF problem may affect the financial sector, the results of this research show that its impact on overall economic growth is not significant. Simultaneously, MSME disbursement and NPF have a positive and significant influence on Indonesia's economic growth. This result confirms the importance of good management of MSME disbursement and NPF control in supporting sustainable economic growth. The implication of this research is that proper allocation of funds to MSMEs can improve business efficiency and development. In addition, effective handling of the NPF problem can minimize its negative impact on economic growth. Thus, policies that support good disbursement of MSME funds and effective NPF control can contribute to stronger and more sustainable economic growth in Indonesia.

Keywords : *Islamic Banking; MSME Funds; NPF; Economic Growth*

INTRODUCTION

Economic conditions change from an irrational state to a better state over a period of time during the process of economic growth. When economic activity is higher than before, an economy is said to be growing. (Amalia et al., 2021). Economic development is the work to work on a country's way of life many times estimated by the actual per capita salary. The goal of economic development is to increase productivity and national income (Hariyanto, 2019).

According to Sukirno (2012) stated in (Mashuri, 2018) the physical expansion of production, goods, and services of the country shows economic growth. Similarly, the increase in the production of goods and industries, the enhancement of infrastructure, the growth in the number of educational institutions, the expansion of production in the humanitarian sector, and the development of capital goods all contribute to the economic progress of a region. The pace of economic growth serves as an indicator of local advancement.

The interaction of various groups of variables, such as human resources, natural resources, capital, technology, and others which are essentially the drivers of economic development of a nation or region. Indonesia is a country whose main goal of national development is to improve general welfare (Halim, 2020). There is a positive impact of population growth on economic development where the conditions and progress of the population are closely related to the growth and development of economic businesses. Economic development is a way for a country to improve the standard of living and welfare of its people. Economic development is an ongoing and strategic process aimed at creating improved conditions compared to previous circumstances. Economic growth is also due to the increase in society in making goods and services and increasing the number and factors of production (Firmansyah, 2018).

One sector that can encourage and support the national economy as well as play a very important role in national development is the banking sector. Banking is one of the institutions that carry out the function of *financial intermediation*, namely an establishment that collects

support as a reserve fund from people in general and then adjusts it back to the local area as credit or funding (Simatupang, 2019).

According to Saputra (2020) there are several types of banking in Indonesia that are regulated in financial regulations. Different types of banking can be seen from various angles such as how banks operate and how they set selling and buying prices. When viewed in terms of function, commercial banks are banks that carry out conventional business activities and are based on sharia principles which in their activities provide payment traffic services, the nature of the services provided is general in the sense that it can provide all banking services and people's credit banks (BPR) are banks that carry out "Conventional" or "Sharia Principles" business activities whose implementation does not offer any type of assistance in installment traffic. When compared to general banking activities, BPR activities are more restricted.

The way of pricing deposit products (current accounts, savings, and deposits) and loan products (credit) can also be seen in terms of banking operations. Conventional banks use interest as the price of deposit products (current accounts, savings, and deposits) that are not fully regulated by certain loan fees in determining costs and making profits for customers. Some other bank services banks apply various fees with a percentage called *fee-based*. In contrast to banks that operate sharia, when determining prices and seeking profits to customers based on sharia principles, namely financing based on the principle of profit sharing (musyarakah), namely financing based on the principle of equity participation, murabahah, namely financing based on the principle of buying and selling goods with profit and ijarah, namely financing capital goods based on pure rent without options (Saputra, 2020).

Islamic banking products are more varied than products in conventional banks. According to Islamic banking law number 21 of 2008, one of the functions of Islamic banking is to channel financing to the wider community. The intermediary function is also a concern for Islamic banking in terms of its business or business activities (Kholidah, 2018). With this financing distribution, Islamic bank products can offer more opportunities to meet customer needs.

Theoretically, the main contracts in the *profit and loss sharing* system are still called mudharabah and musyarakah financing in Islamic banking financing products. Based on the possibility of profit and loss, the ratio or profit sharing is planned at the time of the contract (Agusriansyah, 2018). When running a project implemented by the customer, if there is a loss, it will be borne together. This can provide opportunities for MSME players to develop their businesses based on the principle of partnership supported by Islamic banking, it is proven that MSMEs are the engine of the economy so that their existence cannot be doubted.

MSMEs are able to manage all the factors that influence economic growth. MSMEs are considered an important sector in driving economic growth. MSMEs have activities that have the potential to expand employment opportunities, increase economic stability by equalizing and increasing community income, and contribute to economic growth (Hamza & Agustien, 2019). This involves MSMEs as the main actors in economic activities so that the growth of MSMEs can drive economic growth. The Indonesian economy has benefited greatly from MSMEs, as has been shown (Jannah, 2022).

Chart 1
Graph of MSME contribution to GDP in 2010-2020

(Source: BPS Indonesia 2023)

Based on Chart 1 above data from ministry of cooperatives and MSMEs (Peraturan Menteri Koperasi Dan Usaha Kecil Dan Menengah Nomor 5 Tahun 2020 Tentang Rencana Strategis Kementerian Koperasi Dan Usaha Kecil Dan Menengah Tahun 2020-2024, 2020). Since 2018 the MSME sector has contributed 61.07% to the Gross Domestic Product (GDP). Meanwhile, in 2020, MSMEs have a major contribution to GDP, namely 61.97% of the total national GDP or comparable to Rp. 8,573.89 trillion. In addition, in 2020 MSMEs also absorbed a workforce of 97% of the capacity of the business world. This shows that MSMEs play an important role in national economic growth. MSMEs also play a role in equitable distribution of development results, in addition to contributing to employment and economic growth. MSMEs have also demonstrated that they are significant contributors to GDP growth and job creation.

The progress of MSMEs in the midst of globalization and high competition requires MSMEs to be able to face global challenges. These improvements include product improvement, administrative progress, expanding marketing areas and creating human resources and innovation. The main problem faced by MSMEs is capital. The existence of easy access to capital can create the success of MSME development in a country. Supporting the financing aspect is one way to overcome these problems and increase the number of MSME actors (Sedyastuti, 2018). One area that is anticipated to make a significant contribution to the financing aspect is the existence of Islamic banking.

In connection with the function of Islamic banks as intermediary institutions in relation to the distribution of public funds or financing facilities based on sharia principles, credit risk or financing risk will be borne by Islamic banks. As stated in the Law Article 37 paragraph 1 "The distribution of funds by Islamic banks and Islamic business units based on sharia principles contains the risk of failure or congestion in its payment so that it can affect the health of the Islamic financial institution". Financing risk for Islamic banks arises when the quality of the financing is categorized as group III (substandard), group IV doubtful (doubtful) and group V (bad debt) or in practice it is called nonperforming financing *(*NPF) which means that there is a risk arising from customers who are unable or have not been able to pay the principal financing or pay the compensation agreed by the customer in the financing agreement (Ubaidillah, 2018).

RESEARCH METHOD

This research is a type of quantitative research that uses a positive philosophy approach. The purpose of this research is to investigate selected populations and samples using data collection tools in the form of numbers. The data is then analyzed using statistical formulas related to operational variables and certain scales, such as nominal, interval, ordinal, and ratio scales (Sugiyono, 2018, 2019). The data used in this research comes from the Financial Services Authority (OJK) which includes the distribution of MSME funds and non-performing financing (NPF), as well as economic growth obtained from the Central Statistics Agency (BPS). This research was conducted at Islamic Commercial Banks and Islamic Business Units registered with OJK, as well as gross domestic product (GDP) data recorded at BPS. Relevant secondary data were collected through the official websites of the relevant entities. The research implementation time lasted from June 25, 2023 to July 25, 2023. The method used in this research is a secondary data collection method from reports of Islamic Commercial Banks, Islamic Business Units registered with OJK, and gross domestic product (GDP) data registered with BPS. This research approach and method is used to describe or explain research findings, not to reach conclusions (Hanifah & Anwar, 2020).

This research focuses on the population of Islamic Commercial Banks and Islamic Business Units registered with the Financial Services Authority (OJK), as well as gross domestic product recorded at the Central Statistics Agency (BPS). Sampling was done using the saturated sampling method, where all members of the population were sampled. A total of 32 samples were

taken from quarterly time series data during the research period, including MSME fund disbursement and NPF from OJK, as well as economic growth from BPS. In collecting data, this research uses the observation method, documentation method, and descriptive method. The observation method is used to make direct observations of the research object in the field. The documentation method is used to obtain data and information through documents such as reports, archives, and information published on the official website of Islamic banks registered with OJK. The descriptive method is used in the research approach to explain and describe the research findings without the intention to conclude. For example, relevant data was obtained through statistical analysis reports published on the official websites of Islamic banks registered with OJK.

This research uses documentation instruments to collect data, namely by recording, collecting, and assessing secondary data from quarterly financial reports of Islamic Commercial Banks and Islamic Business Units registered with the Financial Services Authority (OJK), as well as Gross Domestic Product (GDP) data registered with the Central Statistics Agency (BPS) for the period 2015-2022. The data processing technique used in this research is multiple linear regression analysis using the Statistical Product and Service Solution (SPSS) application. The data analysis techniques carried out in this research are as follows:

1. Descriptive Statistics: Performed to collect, present, and organize data in order to provide a clear picture of the variations in the nature of the data.
2. Classical Assumption Test:
   a. Data Normality Test: Used to determine whether the data obtained has a normal distribution. In this research, the normality test was carried out using the Kolmogorov-Smirnov test, histogram test, and normal probability plot test. If the significance value is greater than 0.05, then the data is considered normally distributed.
   b. Multicollinearity Test: Conducted to check the existence of interrelationships between independent variables in the regression model. This test uses the tolerance method with VIF (variable inflation factor). If the VIF value < 10 and the tolerance value > 0.1, it can be concluded that there is no multicollinearity.
   c. Heteroscedasticity Test: Used to check for differences in residual variation between observations. The scatterplot test is used to see if there is a pattern or dispersion that indicates heteroscedasticity.
   d. Autocorrelation Test: Used to check for correlation between residual errors in the previous period in the regression model. The Durbin-Watson (D-W) test is used with D-W values below -2 indicating positive autocorrelation, D-W values between -2 and +2 indicating no autocorrelation, and D-W values above +2 indicating negative autocorrelation.
   e. Multiple Linear Regression Model: Used to measure the effect of independent variables (MSME fund disbursement and non-performing financing) on the dependent variable (economic growth). The multiple linear regression model used in this research is as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \varepsilon$$

Description:
Y = Economic Growth
α = Constant
X1 = MSME Fund Disbursement
X2 = Non-Performing Financing
β1 = Regression Coefficient of MSME Fund Distribution
β2 = Regression Coefficient of Non-Performing Financing
ε = Confounding Variable

4. Hypothesis Test:

a. T-Test (Partial): Used to determine the effect of independent variables partially on the dependent variable. The test decision is made by comparing the t value with the t table. If t count> t table, then the null hypothesis is rejected and the alternative hypothesis is accepted.
b. F-test (Simultaneous): Used to test the significance of the regression model simultaneously. The test decision is made by comparing the value of f count with f table. If f count> f table and significance value <0.05, then the null hypothesis is rejected and the alternative hypothesis is accepted.
c. Coefficient of Determination Analysis (R2): Used to measure how successful the regression model is in explaining variations in the dependent variable. The R^2 value ranges between 0 and 1, and the higher the value, the better the regression model is in explaining the variation in the data.

RESULT AND DISCUSSION

Descriptive Statistics

1. MSME Fund Disbursement

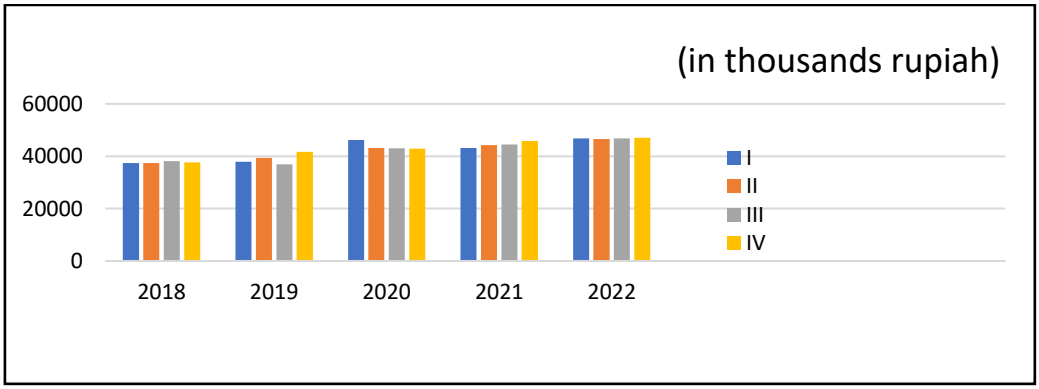

Chart 2
Quarterly financial statements of the Financial Services Authority (OJK) variable MSME fund distribution

Source: *Financial Services Authority* (2022)

Based on Figure 4.1 above, the financial condition of the Financial Services Authority (MSME Fund Disbursement) from 2015 to 2022 with the maximum value occurring in the fourth quarter of 2022 amounting to 47,036, while the lowest number occurred in the third quarter of 2015 amounting to 31,359.

2. Non Performing Financing (NPF)

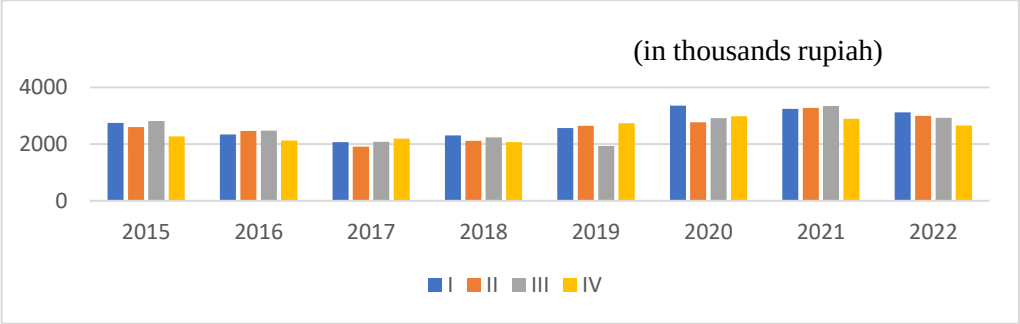

Chart 3
Quarterly financial statements of the Financial Services Authority (OJK) Non-Performing Financing (NPF) variable

Source: *Financial Services Authority* (2022)

Based on Chart 3 above, *nonperforming financing* (NPF) contained in the Financial Services Authority from 2015 to 2022 with a maximum value of 3,351, namely in the first quarter of 2020 while the minimum value occurred in the second quarter of 2017, namely 1905.

3. Economic Growth

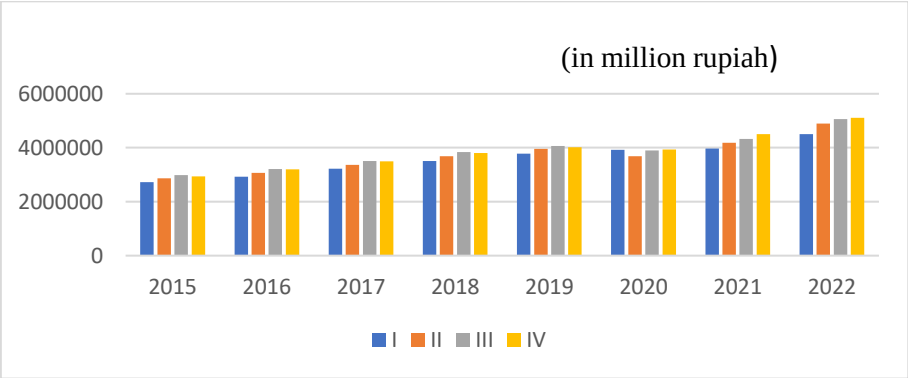

Chart 4
Quarterly financial reports of the Central Bureau of Statistics (BPS) Economic Growth variables

Source: Central Bureau of Statistics (2022)

Based on Chart 4 above, economic growth from 2015 to 2022 experienced fluctuations with the maximum value occurring in 2022 in the fourth quarter of 5114910.6, while the minimum value occurred in 2015 in the first quarter of 2728180.7. The distribution of descriptive statistics that have been processed using SPSS can be explained in the following table:

Table 1 Descriptive Analysis Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
MSME fund disbursement	32	31.359	47.036	39.56128	4.825446
Non-performing financing	32	1.905	3.351	2.59766	.431491
Economic Growth	32	2728180.70	5114910.60	3756180.9313	630828.62974
Valid N (listwise)	32				

Source: spss 20 output results (2023)

Based on the table above, it can be explained as follows:

a. MSME Fund Distribution shows a minimum value of 31,359, a maximum value of 47,036 and an average value of 39,56128, while the standard deviation of MSME fund distribution is 4,825446.
b. *Non-performing financing* shows a minimum value of 1,905, a maximum value of 3,351 and an average value of 2,59766, while the standard deviation of *non-performing financing* is .431491.
c. Economic growth can be seen that the minimum value is 2728180.70, the maximum value is 5114910.60 and the average value is 3756180.9313, while the standard deviation is 630828.62974.

Classical Assumption Test

1. Data Normalization Test

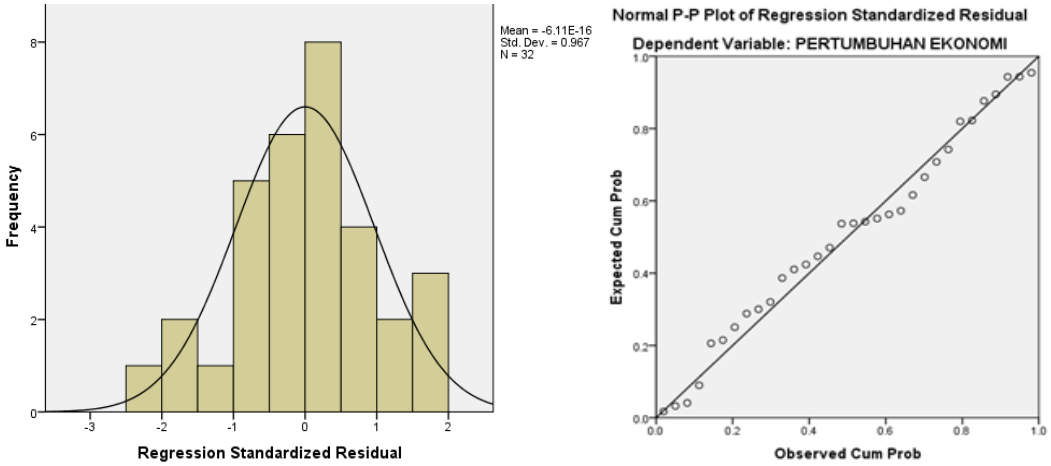

Chart 5
Histogram and Normal P-P Plot Test Results

The graph above shows that the histogram pattern follows a normal hill-shaped curve. It can be concluded that the regression model in this research is normally distributed. In addition, that the points spread parallel to following the diagonal line, it can be concluded that the regression model in this research is normally distributed. The results of the data normality test are intended if the significance value <0.05 then the data is not normally distributed and if the significance value> 0.05 then the data is normally distributed.

Table 2 Results of the Kolmogorov-Smirnov Normality Test

One-Sample Kolmogrov-Smirnov Test		
		Unstandardized Residual
N		32
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	262859.99642621
Most Extreme Differences	Absolute	0,081
	Positive	0,081
	Negative	-0,073
Kolmogrov-Smirnov Z		0,460
Asymp. Sig. (2-tailed)		0,984

a. Test distribution is normal.
b. Calculated from data.

Looking at table 2 above shows One Sample Kolmogorov Smirnov obtained from the Asym.Sig value. (2-tailed) of 0.984 which means greater than 0.05 (sig or α = 5%). The residual data can be concluded to be normally distributed because it meets the requirements for a sig value greater than 0.05.

2. Multicollinearity Test

If no relationship is found between the variables, then the regression mode is declared correct. VIF value < 10 and tolerance value > 0.1, then it can be determined that there is no multicollinearity (Marranitha & Suardana, 2020).

Table 3 Multicollinearity Test Results

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constans)		
	MSME Fund Disbursement	0,537	
	Non-performing financing (NPF)	0,537	1.863
			1.863

a. Dependent Variable: Economic Growth

Source: *spss 20 output results* (2023)

Based on table 3 above, it shows that the distribution of MSME funds obtained a VIF value of 1,863 < 10 and a tolerance value of 0.537 > 0.1 and for the *nonperforming financing* (NPF) variable with a VIF value of 1,863 < 10 and a *tolerance value of* 0.537 > 0.1. So, from these results it states that the independent variables do not have *multicollinearity* symptoms seen from the results of VIF < 10 and *tolerance* > 0.1 for each variable.

3. Heteroscedasticity Test

This test is carried out to determine the relationship between values, predicted values and residual studentized delete values (Ghozali, 2018).

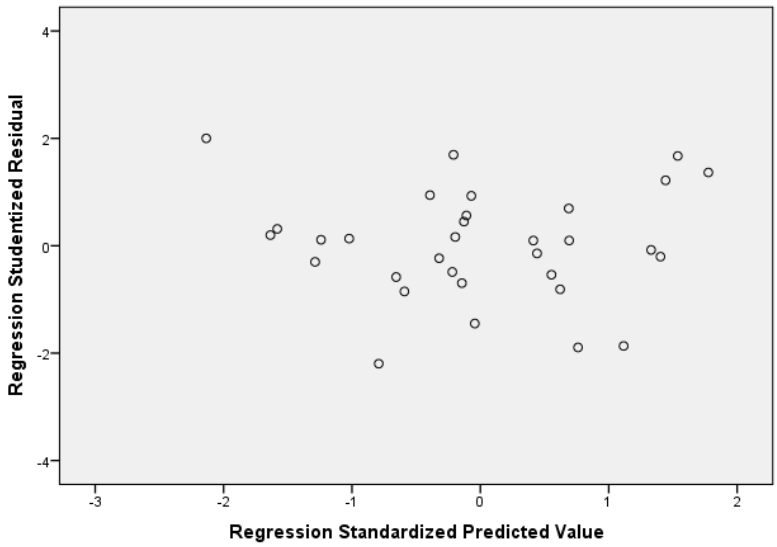

Figure 1 Heteroscedasticity test results

Source: spss 20 output results (2023)

Based on the *scatterplot* image above, it shows that the points spread randomly not at and below the number 0 on the Y axis and do not form a clear pattern. This shows that there is no heteroscedasticity, which means that the regression model can be used to predict the increase in economic growth on the independent variable.

4. Autocorrelation Test

A well-specified model means a regression without autocorrelation. This test is evaluated in terms of value:

Table 4 Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,983[a]	0,967	0,963	113400,50826	1,799

a. Predictors: (Constant), Non-Performing Financing (NPF), MSME Fund Disbursement
b. Dependent Variable: Economic Growth

Source: spss 20 output results (2023)

The results of table 4 above show that the calculated DW value is 1.799. if seen from the DW table with a significance of 0.05 obtained from n = 32, k = 2 with the DW equation < (4-DU) obtained DU = 1.5736 and 4-DU (4-1.5736) is worth . So, (4-DW) > DU < DW = 2.4264 > 1.5736 < 1.799 so it is said that the regression model does not experience autocorrelation symptoms.

Multiple Linear Regression Model

Table 5 Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-766909,212	404121,262		-1,898	0,068
	MSME Fund Disbursement	139448,962	13807,196	1,067	10,100	0,000
	Non-performing financing (NPF)	-382533,093	154408,410	-0,262	-2,477	0,019

a. Dependent Variable: Economic Growth

Source: spss 20 output results (2023)

Based on table 5 above, it can be seen that the constant value (α value/economic growth) is -766909.212 and for the distribution of MSME funds (β1 value) is 139448.962 while (β2 value) for *nonperforming financing is* -382533.093. so that the multiple linear regression equation model can be obtained as follows:

$$Y= -766909.212 + 139448.962\ X_{1} - 382533.093 + \varepsilon.$$

The results of multiple linear regression analysis show that the distribution of MSME funds and non-performing financing have a significant influence on economic growth. The constant value of -766909.212 indicates that if the two independent variables are at the value of 0, economic growth remains -766909.212. The coefficient of MSME fund disbursement 139448.962 shows that every 1% increase in MSME fund disbursement will increase economic growth by 139448.962, and vice versa. The coefficient of non-performing financing -382533.093 shows that every 1% increase in non-performing financing will decrease economic growth by -382533.093, and vice versa. Thus, higher disbursement of MSME funds and effective control of non-performing financing can contribute positively to economic growth.

Hypothesis Test

1. T Test (Partial)

Table 6 T test results (partial)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-766909,212	404121,262		-1,898	0,068
	MSME Fund Disbursement	139448,962	13807,196	1,067		0,000
	Non-performing financing (NPF)	-382533,093	154408,410	-0,262	5,875 -2,477	0,019

a. Dependent Variable: Economic Growth

Source: spss 20 output results (2023*)*

Based on table 6 above, to determine the value of t_{tabel} indicated by the formula df = n-k-1 (df = 32-2-1), the value of df = 29 with a value of t_{tabel} 1.699. The regression analysis shows that the distribution of MSME funds (X1) has a positive and significant influence on economic growth (Y), with a calculated t value greater than the t table and a significance smaller than the specified significance level. In contrast, non-performing financing (X2) has a negative but insignificant effect on economic growth, as indicated by a t value that is smaller than the t table and a significance that is greater than the specified significance level. Thus, it can be concluded that MSME disbursement has a positive and significant impact on economic growth, while non-performing financing has no significant impact.

2. F Test (Simultaneous)

Table 7 F Test Results (simultaneous)

ANNOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10083376911139,980	3	3361125637046,660	261,369	0,000[b]
	Residuals	347211232391,096	27	12859675273,744		
	Total	10430588143531,076	31			

a. Dependent Variable: Economic Growth

b. Predictors: (Constant), *Non-performing financing*, distribution of MSME funds

Source: *spss 20 output results* (2023)

Based on the value of $_{fcount}$ according to table 4.6 above is 261.369 and the significance value is 0.000 to find the value of f_{tabel} can be found through the statistical table with a significance level of 0.05 using the formula dfl = k-1 meaning dfl = (3-1) so 2 and df2 = n-k-1 meaning df2 = 32-2-1 so 29. This is the value of f_{tabel} 3.328 so it can be concluded based on the decision making $_{fhitung}$ 261.369 > f_{tabel} 3.328 with a significance level of 0.000 <0.05, then the

distribution of MSME funds and *non perfoming financing* has an effect and is significant on economic growth.

3. Coefficient of Determination

The coefficient of determination (R^2) is used in order to calculate and estimate how far the simultaneous influence of the independent variables on the dependent variable in this research, the coefficient of determination uses the *adjusted* R *square* value using the formula KD = R^2 x 100%.

Table 8 Test Results of the Coefficient of Determination R^2

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,983[a]	0,967	0,963	113400,50826

a. Predictors: (Constant), *Non-performing financing,* distribution of MSME funds
b. Dependent Variable: Economic Growth

Source: *spss 20 output results* (2023)

The table of R analysis test results[2] above, shows that the coefficient of determination is 0.963 so that the dependent variable of economic growth is 96.3% influenced by the independent variables while the remaining 3.7% is influenced by variables outside the variables used in this research.

Discussion

The distribution of MSME funds affects economic growth.

The channeling of funds to Micro, Small, and Medium Enterprises (MSMEs) has a positive and significant impact on economic growth. The MSME industry has long-term growth potential, and proper allocation of funds to MSMEs can accelerate the development of this industry. The disbursement of funds to MSMEs enables the adoption of new technologies, improved quality of products and services, increased production capacity, and improved infrastructure. Financial, technical, and training support to MSMEs can improve productivity, quality, and profits for MSME owners and employees. Public authorities and financial institutions need to provide adequate attention and support to increase commitment to financial development and improve overall community welfare.

According to Schumpeter's theory, financial institutions can support Micro, Small, and Medium Enterprises (MSMEs) by providing various financial instruments such as business loans, investment loans, or special financing plans that encourage MSME innovation and growth. Special funding programs and business incubators also provide financial support as well as guidance, training, and mentoring to promote MSME business growth and innovation. In the Solow-Swan theory, the direction of asset channeling to MSMEs can increase capital pooling in the economy. MSMEs have the potential to take investment and use it for business development, increasing production capacity, and improving operational efficiency. Higher capital channeling to the MSME sector can encourage long-term financial development. In addition, funding allocated to MSMEs can encourage technological innovation, productivity improvements, and efficiency, contributing to long-term economic growth. MSMEs also play an important role in employment growth, where funds obtained by MSMEs can be used to provide training and financial assistance, thereby increasing employment opportunities and overall national income.

Non-performing financing affects economic growth

The results show that although non-performing financing (NPF) has a negative influence on economic growth, the impact is not statistically significant. Internal factors such as insufficient supervision, inadequate financial evaluation, and inappropriate working capital can affect NPF,

while external factors such as business market saturation and natural disasters also contribute to the condition. A high NPF rate affects investors' and lenders' confidence in the financial sector and the economy as a whole, resulting in lenders being more cautious in granting new loans. In addition, a high NPF rate may also indicate sluggish economic growth or unstable economic conditions. Although the negative effect of NPF on economic growth has been proven, the lack of statistical significance in this research could be due to other factors such as global conditions, political stability, and government policies that also affect overall economic growth.

This research is also supported by previous researchers related to existing problems, namely research conducted by Nikmah Safriani in the year (2022) conducted by Helly Avoza Siregar and Febdwi Suryani in the year (2022) entitled "The effect of Islamic banking financial performance on MSME productivity and its impact on Indonesia's economic growth". The method used is purposive sampling. The data used is secondary data obtained from Islamic banking statistical data by OJK. The results showed that all Islamic banking financial performance, namely CAR, ROE, NPF, FDR and BOPO, had no effect on economic growth in Indonesia through the role of MSME productivity.

MSME fund disbursement and *nonperforming financing* on economic growth

In the simultaneous test results, it can be seen that the distribution of MSME funds and non-performing financing (NPF) simultaneously have a positive and significant effect on economic growth. The expansion of MSME disbursement has a positive impact on economic growth, as well as changes in NPF indicators that can affect economic growth. Signal theory supports this research, where MSMEs can use the right signals to increase their chances of getting financing, overcoming information and resource access difficulties. In addition, signal theory is also related to NPF, where financial institutions can receive signals of high credit risk through NPF, which indicates loans that cannot be repaid as agreed.

In economic growth, the role of Islamic banking is very important to fulfill several components supporting economic growth. Increasing the supply of goods continuously is a component needed for economic growth. In increasing the continuous supply of goods, Islamic banking can work with MSMEs to partner and increase the supply of goods on an ongoing basis. For example, Islamic banks can assist MSMEs in distinguishing providers who can provide substances or raw goods at a low price. MSMEs can also collaborate with Islamic banks to improve their competitiveness by pooling inventory or collaborating on procurement.

In supporting economic growth, it is important for MSMEs to utilize technology and innovation supported by Islamic banking. Islamic banks can advise MSMEs on the appropriate use of technology to improve business productivity and efficiency, and encourage innovation among MSMEs. By utilizing innovation and technology, MSMEs can expand their markets through online platforms, establish international business partnerships, and provide international payment options. In addition, to encourage economic expansion, factors such as human resources, natural resources, capital, and technology must also be considered. Islamic banking human resources need to continuously develop products and services that are relevant to MSMEs and have a deep understanding of the needs and challenges faced by MSMEs. They must also have strong risk management capabilities to reduce the risk of non-performing financing and ensure the sustainability of MSME growth, and take important steps to limit default gambling from MSMEs.

It is important to remember that human resource development (HRD) in Islamic banking must keep up with industry developments and improve skills through continuous training and development. By having qualified and skilled human resources, Islamic banking can effectively support the economic growth of MSMEs and manage the risk of non-performing financing wel (Irma, 2019). Economic growth is also influenced by the availability of natural resources. Sustainable utilization of natural resources and economic diversification are important keys in improving a country's economy.

Islamic banking can support this expansion by providing financing to non-traditional sectors that have development potential, such as the assembly industry, administration, tourism,

and creative sectors. Traditional asset-based financing, such as mining, agriculture, plantations, renewable energy, is also a focus for Islamic banking in supporting MSMEs and managing NPF risk. It is important to ensure that the management of natural resources is done responsibly and sustainably. Islamic banking can encourage MSMEs and NPFs to adopt environmentally friendly approaches and support ecosystem sustainability.

Islamic banking plays an important role in economic growth by providing financial access to MSMEs in accordance with sharia principles. Such support includes funding product development, business expansion, working capital, speculation, and trade. Islamic banking also helps reduce financial disparities and create employment opportunities. However, supervision is needed to reduce the risk of non-performing financing. Shariah principles are the cornerstone in resolving non-performing financing, with fair transactions and arrangements. Islamic banking must adhere to sharia principles and sound banking practices to maintain stability and sustainable economic growth.

Technological advances have had a positive impact on the management of Non-Performing Financing (NPF) and MSME access in Islamic banking. Islamic banking innovations through applications and digitalization solutions have strengthened banking processes. Computerized platforms and streamlined frameworks ease interaction with supporting applications. This helps MSMEs in getting support for business development. In addition, technological innovations have also improved NPF screening tools, enabling more accurate risk identification and appropriate preventive measures. Research shows that Islamic bank financing of MSMEs plays an important role in boosting the real sector and national economic growth. Overall, technological innovation contributes positively to NPF management and MSME access in Islamic banking.

CONCLUSION

The partial hypothesis test results show that the distribution of MSME funds has a positive and significant effect on Indonesia's economic growth. The higher the disbursement of MSME funds, the more economic growth tends to increase. This shows that financial support provided to MSMEs through disbursement of funds can be an important factor in encouraging better economic growth. On the other hand, the non-performing financing variable has a negative but insignificant effect on economic growth. This suggests that non-performing financing does not have a significant impact on overall economic growth. Simultaneously, both variables, namely disbursement of MSME funds and non-performing financing, have a significant effect on economic growth. This confirms the importance of good management of MSME disbursement and non-performing financing control in supporting sustainable economic growth. The rise and fall of MSME disbursement and control of non-performing financing will have implications for overall economic growth, so attention to these two factors is very important in an effort to strengthen Indonesia's economic growth.

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