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Opportunities and Challenges of Conversion of Sharia Regional Development Banks in Economic Development Efforts and Income Distribution

Rizal^{1*}, Nil FIRDAUS², Ruslan Abdul GHOFUR³, Heni NOVIARITA⁴, Pertiwi UTAMI⁵

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Abstract

Purpose: This study examines the opportunities and challenges of sharia-based regional development bank spin-offs in supporting economic growth and income distribution through a board of commissioner's approach. **Research design, data, and methodology:** The research design is qualitative research with the main data collection technique through in-depth interviews. **Results:** The results of the study show that Bank Nagari can support the performance of the West Sumatra government, especially in regional finance. The positive influence is shown in the benefit aspect of 31% and the opportunity of 28% which is the priority value. The challenges that must be faced are technology services, improving the quality of human resources, socialization, and application of local wisdom which is by the philosophical values of the people of West Sumatra *Adat Basandi Syara 'Syara' Basandi Kitabullah*. **Conclusions:** It can be concluded that the local government of West Sumatra has an essential contribution to the conversion of Bank Nagari to RDB Syariah as a whole. The expected implication is that the local government and shareholders cooperate well in supporting the transformation to realize West Sumatra Mandani through the populist economy of the people of West Sumatra.

Keywords : Regional Development, Sharia Bank, Economic Development, Income Distribution

JEL Classification Code : G2, H1, L5

1. Introduction

Islamic banks have a strong contribution to economic development and income distribution in various countries, especially those with Muslim populations. Literature reveals that the high performance of Islamic banks can support the government in times of economic turmoil and unequal distribution of income. Sharia principles in financing

products will be given to business actors and this is what is added value for the community which can support an even distribution of people's income distribution (Said, 2015). For example, in Bangladesh, during the 38 years from 1983- to 2020, Islamic banking in practice has reflected the influence of the global and local economy in an era dominated by conventional banking (Tasnim, 2021; Chowdhury et al., 2020; Belal et al., 2015). In Malaysia, Islamic banks are seen to pay attention to their impact on

1 First Author or Corresponding. Faculty of Islamic Economics and Business, Universitas Islam Negeri Mahmud Yunus Batusangkar, West Sumatra, Indonesia. Email: ri_zal@iainbatusangkar.ac.id
 2 Second Author. Faculty of Islamic Economics and Business, Universitas Islam Negeri Mahmud Yunus Batusangkar, West Sumatra, Indonesia. Email: nilfirdaus@iainbatusangkar.ac.id
 3 Third Author. Director of Postgraduate Program Universitas Islam Negeri Raden Intan Lampung, Indonesia. Email: ruslan@radenintan.ac.id

4 Fourth Author. Deputy Director of Postgraduate Program Universitas Islam Negeri Raden Intan Lampung, Indonesia. Email: heninoviarita@radenintan.ac.id
 5 Fifth Author. Lecturer of STEBI Lampung University, Indonesia. Email: pertiwiutami@stebilampung.ac.id

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society and prioritize Islamic ethics over mere profit (Musa et al., 2020). In Indonesia, the existence of Islamic banks has reached twenty years. Although it has been growing and developing for a long time, previous studies have shown various subjective issues regarding Islamic banking fundamentals from time to time. One of them is related to the application of sharia principles and the performance of Islamic banks during the Covid 19 pandemic. The consistency of Islamic banks in internalizing sharia principles is an important part of sharia business resilience. Sharia business principles also cover income distribution which aims to ensure inclusivity for the entire community, control business actors to be productive, and optimize healthy buying and selling practices. This means that the practice of Islamic banking in Indonesia has contributed to an even distribution of income during the pandemic (Suwito & Siskawati, 2022). Recent research reveals that Islamic banks in Indonesia have not fully implemented sharia principles, especially the implementation of *maqashid al-Syariah* (Hudaefi & Badeges, 2021). On the other hand, the fundamental principle leads to a dual-banking system and is aligned with the interests of various parties (Trisnaningtyas, 2022).

Indonesia has the potential for Islamic financial assets and a large demand for Islamic banking. The role of Islamic banks has continued to grow during the turmoil of the economic crisis. Studies reveal that financial institutions contribute significantly to the banking system in Indonesia (Puteh et al., 2018). The potential for developing Islamic banks is supported by the issuance of Law Number 21 of 2008 concerning Islamic Banking in article 68 which discusses that conventional banks that have sharia businesses (UUS) must separate themselves no later than 2023 (Rusydia, 2021). To date, there are 15 types of Sharia Commercial Banks, 20 types of Sharia Business Units, and Sharia People's Financing Banks (Riani & Wulandari, 2022).

As a country that is predominantly Muslim, the existence of Islamic banks is very necessary. The Muslim community, of course, wants every activity to be included in finance to Islamic values. This is expressed in the findings of Puteri et al. (2022), where the level of potential demand is influenced by sharia consumer behavior including the dimensions of sociocultural considerations and personal psychology. In 2016, the central government issued a policy regarding the Change of Business Activities from Conventional Banks to Islamic Banks through Sharia Financial Services Authority Regulation No. 64 of 2016 (Budiman, 2021). The first bank to change its business activities from conventional to Islamic bank (conversion) was Bank Aceh in 2016 (Pambuko & Pramesti, 2020). Then in 2018 Bank NTB has also been converted into a Sharia NTB Bank with the issuance of an operational permit by the

Financial Services Authority (OJK) 2018 (Haddad et al., 2021; Munthe & Winarto, 2021).

Based on the results of initial observations on the publication media of the Financial Services Authority (OJK) and the opinion of the Supreme Audit Agency (BPK) of the Republic of Indonesia, regarding Regional Development Banks (BPD) in Indonesia. BPD has advantages in access, market information services in its area, and pricing credit interest rates. OJK supports efforts to increase the effectiveness of the BPD Transformation Program (Syaputra & Abidin, 2022). However, the central issue shows that the opportunities and challenges of BPD are increasingly massive and not optimal in contributing to local government financial management. BPK RI in the 2020 Semester II Examination Results Summary (IHPS II-2020) on its official website bpk.go.id assesses that BPD is still not optimal in encouraging the regional economy. This is indicated by the low implementation of the precautionary principle, weak supervision of the implementation of credit distribution, weak risk management, and bank efficiency.

The impact is that the portion of productive lending is lower than consumer credit. This happened to Bank Nagari, Bank Bengkulu, Bank Jambi, Bank Riau Kepri, Bank South Sumatra Bangka Belitung (Sumsel-Babel), and Bank for the Special Capital Region (DKI) Jakarta. Contributions to local governments that have not been optimal are shown by the absence of technical policies/SOPs that specifically regulate regional financial management services, which results in local governments' needs for banking services not being optimally met. The results of a performance examination on the effectiveness of the management of the eight BPDs show that there is one problem with state losses of IDR 102.35 million, one problem of potential state losses of IDR 1.91 billion, and 122 ineffectiveness. What is clear, this examination is in line with the regulation of law Number 15 of 2006 article 11 letter a, that BPK can provide opinions to the DPR, DPD, DPR, central/regional government, and other institutions (Khatirina et al., 2021).

It has been mentioned by BPK, that the Bank of West Sumatra, namely Bank Nagari, is included in the BPD category which is not yet optimal for encouraging the regional economy. Therefore, it is very important to investigate local government policies as well as the potential and challenges of conversion carried out to realize BPD transformation. Bank Nagari has strong capital so it has great potential in advancing the Islamic economy and finance. Bank Nagari has a Sharia Business Unit which is the pride of the people of West Sumatra. Based on data from the Department of Population and Civil Registration (Disdukcapil) of West Sumatra, the number of people in West Sumatra is 5.519.245 people with 97.6% being Muslim. Of course, with the majority of the people of West Sumatra being Muslim, there is a great opportunity to realize

the conversion of Bank Nagari to Bank Nagari Syariah as Bank Aceh and Bank NTB. However, until now the conversion of Bank Nagari to Bank Nagari Syariah has not materialized. In fact, according to the results of the Extraordinary General Meeting of Shareholders (EGMS) held on November 30, 2019, it was agreed to convert to Bank Nagari Syariah and the change process will be completed by 2021. Even the Regional Government (Pemda) of West Sumatra is also very supportive of the realization of this conversion (Rahmayati et al., 2022).

In the conversion process, there were various controversies from various parties and even the results of the agreement to convert Nagari bank to Nagari Syariah Bank were considered legal defects and provided a safer spin-off solution. Besides that, one of the polemics with the conversion of the Nagari bank to Nagari Syariah is whether the sharia economic system will be implemented in the future. Seeing the development of the conversion process of Bank Nagari to Bank Nagari Syariah on the one hand, many things become positive values for the realization of this conversion. But on the other hand, there are still many negative aspects that can be a challenge and hinder the conversion process of Nagari Bank into Sharia Nagari Bank. Even though this bank has great potential to support equal distribution of income distribution in the area of the West Sumatra regional government. In practice, the distribution of income has the main objective in its application both in improving people's living standards in a better direction and in providing rights and justice for every community (Brata et al., 2022). It is hoped that by identifying the opportunities and challenges of Bank Nagari Syariah, the goal of building public welfare through income distribution can be realized. Previous studies found that the practice of income smoothing in 11 Islamic banks listed on the Islamic Stock Exchange complies with sharia provisions and Islamic ethics (Iskandar et al., 2022). However, these findings have not yet identified in detail how Islamic banks contribute to the distribution of people's income. The Covid-10 pandemic has hurt global inequality. In this case, supporting Islamic banks is very important because the financing programs offered can support business actors to improve their economies. Besides that, through Islamic banks, the distribution of zakat can be increasingly driven to foster a high sense of solidarity and social relations between communities. So far, the distribution of zakat is known through Islamic social financing practices as carried out by zakat institutions (Sadallah et al., 2022). The practice of Islamic banks in the distribution of zakat is also competent to support poverty alleviation efforts as in Malaysia (Farhan & Hasan, 2023).

Therefore, this study seeks to explain what are the priority aspects of the positive or negative aspects of the realization of the conversion of Nagari banks into Sharia

Nagari. Besides that, it also provides how-to prioritize strategies in realizing the conversion of Nagari Bank to Sharia Nagari. Research over the past two decades has shown an increasing focus on the financial performance of Islamic banks, especially during the Covid 19 pandemic. Rosmanidar et al. (2021) explained that research on measuring the performance of Islamic banking over the last 20 years has experienced a significant increase, especially for these two years related to financial performance ratios and aspects of Islamic *maqasid*. There are not many studies investigating the role of local government policies in the conversion of Islamic banks. However, its contribution to the welfare of society in general, previous research has highlighted it. Research conducted by Alam et al. (2022), found the effect of sharia governance mechanisms on the performance of Islamic banks. More deeply, banking pressures, political situation, interests of the Board of Directors and management as well as social limitations negatively affect the performance of Islamic banks. This research shows novelty in presenting empirical evidence of the role of government policies and local wisdom values without theoretical analysis that can be a direction for future Islamic banking research.

1.1. Research Questions

Based on the background of the problems that have been raised regarding the conversion phenomenon of Bank Nagari and the role of local government policies on the opportunities and challenges. So the focus of this research is on the implementation of West Sumatra regional government policies and the development of the conversion of Bank Nagari from the aspects of Benefit, Opportunity, Cost, and Risk. So the formulation of the problem in this research is: (1) What is the effect of the opportunities and challenges (BOCR) aspects of the conversion of Nagari bank into Sharia Nagari Bank in West Sumatra?, (2) How are the role of Regional Government Policies in supporting the conversion of West Sumatran Nagari Bank for Economic Development?.

2. Literature Review

2.1. The Relationship of Islamic Bank Conversion to Economic Development and Income Distribution

Islamic banking is understood as a bank system that in its operations is based on the principles of Islamic law (Muhammed, 2013). Islamic banks as financial institutions are different from conventional banks, especially in terms of profit-sharing from profit sharing, and do not apply bank interest (Akbar et al., 2012). Conversion of Islamic Banks is

an effort to change the business activities of conventional banks into Islamic banks. From the sharia aspect, conversions are made to funding and financing products that reflect Islamic banks (Bashir, 1999). Conversion of conventional banks to Islamic banks is understood as a mechanism marked by a change in the legal system from a conventional bank to a bank with a sharia system (Idul Adha et al., 2020). The practice of Islamic banking in Indonesia has contributed to an even distribution of income during the pandemic (Suwito & Siskawati, 2022). The literature mentions two main factors causing the conversion of conventional banks to Islamic banks (Ahmed, 2015). First, jurisprudential reasons refer to religious objections that motivate conventional banks to become Islamic banks, especially when it comes to the issue of Riba. Second, economic reasons why the existence of Islamic banks is more profitable than conventional banks and the financing risk faced by Islamic banks is lower than that of Islamic banks. conventional banks. The results of previous studies show the opportunities and challenges of Islamic finance from the perspective of Muslim and non-Muslim countries that there is a significant contribution of Islamic banks to economic development which is manifested in the form of job creation, strengthening the rural economy, promoting ecology and green economy, and encouraging SMEs and halal industry (Ledhem & Mekidiche, 2020; Sarker et al., 2019; Sarker & Rashid, 2015; Abduh & Azmi Omar, 2012; Furqani & Mulyany, 2009).

2.2. Relationship between Government Policy and Regional Development Banks

Government policies are policies aimed at the wider community covering the public interest both directly and indirectly which are reflected in various dimensions of public life. Meanwhile, Regional Development Banks (BPD) are banks owned by regional governments in the territory of Indonesia, most of which funds come from third parties (DPK). Its management is dominated by low-cost deposits, so it has an advantage in determining the pricing of loan interest rates. The previous findings reveal that the bank's specific characteristics are important in determining Islamic financing behavior. The behavior of financing affected by monetary policy depends on the level of bank size, liquidity, and capital (Zulkhibri, 2018). The study reveals that macroeconomic policies affect the profitability of BPD. Regional banks are said to be the backbone in realizing the economic development of a prosperous society because of their direct relationship with financial performance. Theoretically, the government's power structure can influence BPD institutions (Krasner, 1981). Government policies are the main support in directing regional banks to financial stability and achieving good profitability.

Government policies have a positive effect on profitability. In a negative internal situation when large banks provide minimal profits, government intervention can reduce the value of profitability (Putra et al., 2021). Previous research found that even though there was government intervention, in the implementation of BPD it was included in the category of Government Linked Companies (GLC) because they remained independent and professional in maintaining their independence and performance (Amdanata & Mansor, 2018).

3. Research Methods and Materials

3.1. Research Design

The research design in this study is qualitative with a B-O-C-R (Benefit, Opportunity, Cost, and Risk) approach. The BOCR approach is a form of the Analytical Network Process (ANP) approach, which is a type of qualitative research. The use of BOCR by explaining the decision-making process is based on aspects that have a positive influence (Benefit and Opportunity) and aspects that have a negative influence (Cost and Risk) (Saaty & Vargas, 2006). The selection of respondents in this study was carried out by purposive sampling through consideration of the respondents' understanding and expertise in the studies discussed. While the number of respondents in the ANP approach is not a benchmark for validity, what is a requirement for respondents in ANP research is the expertise of the respondent in the study discussed (Rusyiana & Hasib, 2019). So the number of respondents in this study is 7 people which includes experts and practitioners of Islamic Financial Institutions (LKS) in West Sumatra. The stages in this study are.

3.2. Based on the above scheme, there are three stages in the ANP which are described as follows:

The first phase is the construction of the model. The construction of the ANP model is based on a theoretical and empirical literature review and provides questions to experts and practitioners of Islamic financial institutions in West Sumatra as well as through in-depth interviews to examine information more deeply to obtain indicators of benefit, opportunity, cost, and risk of the convention. bank Nagari to become Bank Nagari Syariah.

The second phase of model quantification uses a questionnaire in the form of pairwise comparison between elements in the cluster to find out which of the two has a greater influence (more dominant) and how big the difference is through a numerical scale of 1-9. The data from the assessment results are then collected and inputted

through super decision software to be processed to produce outputs in the form of priorities and supermatrixes. The third phase of the analysis results is processed in Microsoft Excel to produce the expected output. In general, ANP will produce:

a. Determining the Geometric Mean

To find out the results of individual assessments of the respondents and determine the results of opinions in one group, an assessment is carried out by calculating the geometric mean (Saaty & Vargas, 2006). The geometric mean is a type of average calculation that shows a certain tendency or value with the formula:

$$(\prod_i^n = 1 a_i)^{1/n} = \sqrt[n]{a_1 a_2 \dots a_n} \tag{3.1}$$

b. Determining the Rater Aggregation

Rater agreement is a measure that shows the level of conformity (approval) of the respondents (R1-Rn) to a problem in one cluster. Meanwhile, the tool used to measure the rater agreement is Kendall's Coefficient of Concordance (W; 0 < W ≤ 1). W=1 indicates a perfect match (Jharkharria & Shankar, 2007). The steps in calculating Kendall's (W) are:

- 1) Give a ranking for each answer then add it up

$$R_i = \sum_j^m = 1 r_{1,j} \tag{3.2}$$

- 2) Determine the average value of the total ranking with the formula

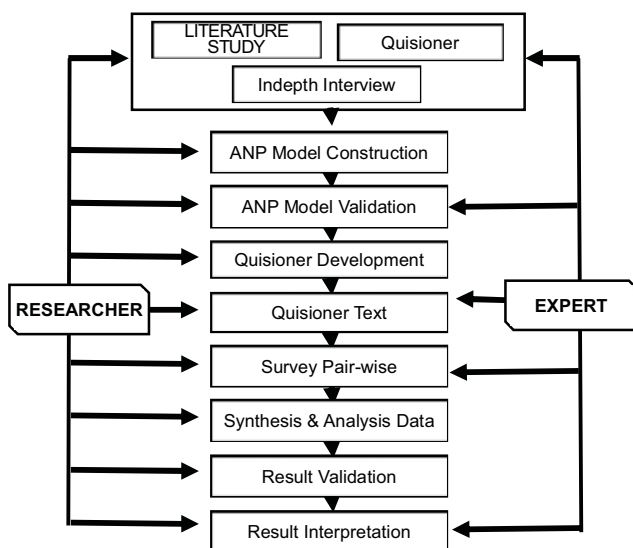
$$R = \frac{1}{2} m(n + 1) \tag{3.3}$$

- 3) Determine the number of squared deviations (S) calculated by the formula

$$S = \sum_i^n = 1 (R_i - \bar{R})^2 \tag{3.4}$$

- 4) Kendall's W:

$$W = \frac{12s}{m^2(n^3 - n)} \tag{3.5}$$



Source: Rusydiana and Hasib (2019).

Figure 1: The Stages in this Study

4. Results and Discussion

4.1. The Influence of Opportunities and Challenges Aspects (Bocr) of Conversion of Nagari Bank to Sharia Nagari Bank in West Sumatra

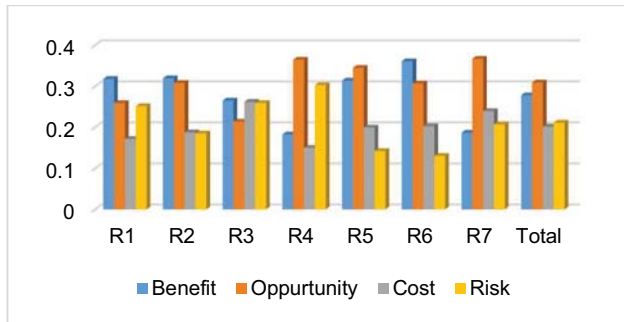
The first findings reveal four dimensions of the influence of the opportunities and challenges (BOCR) aspects of the conversion of Nagari banks into Nagari Syariah banks in West Sumatra. Based on in-depth interviews with several experts and practitioners, the aspects of the opportunities and challenges of the conversion of Nagari bank to Sharia Nagari Bank consist of four dimensions, namely; benefits, opportunities, costs, and risks.

- a. Benefits are all factors that can provide advantages or benefits with the conversion of Nagari bank into Sharia Nagari Bank. This aspect includes sharia compliance, strengthening the sharia economic ecosystem, minimal risks faced by Islamic banks, and influencing external auditor reports.
- b. Opportunities, are all factors that become opportunities for the implementation of the conversion of Nagari bank into Sharia Nagari Bank. This aspect includes aspects of the support of shareholders and the government, the market share of Islamic Banks in West Sumatra, In line with the philosophy of the Minangkabau community, namely the *adat basandi syara'*, *syara' basandi kitabullah* and by the strategic plan as a global Islamic economic center.
- c. Cost, are all factors that can provide a burden or loss for a Nagari Syariah bank when it is converted into a Nagari Syariah Bank. This aspect includes the high cost of increasing the capacity of human resources to become a Sharia Nagari Bank, the high cost of socializing the Nagari Sharia Bank to the public, the high cost of conversion, and the high cost of facilities (infrastructure).
- d. Risk is all aspects that are intended as risks faced when converting Nagari bank into Sharia Nagari Bank. This aspect includes the aspect that there is still controversy in the community about conversion efforts, it can result in reduced customers, inadequate human resources, and public perception of Islamic Financial Institutions (LKS) as the same as conventional banks.

4.1.1. Priority Criteria for Conversion of Nagari Bank to Sharia Nagari

The results of the analysis of respondents' answers when Bank Nagari is converted to Nagari Syariah Bank will have a positive impact on the development of Bank Nagari. This can be seen from the value of Opportunity and Benefit being a priority compared to the value of Cost and Risk. The opportunity value is 0.309 and the benefit value is 0.278.

Meanwhile, the Risk value is 0.211 and the Cost value is 0.208. The level of agreement of the respondents in determining the priority of this conversion is 0.338. This means that there is a 34% agreement level of respondents who show a positive response to the conversion of Nagari Syariah banks.

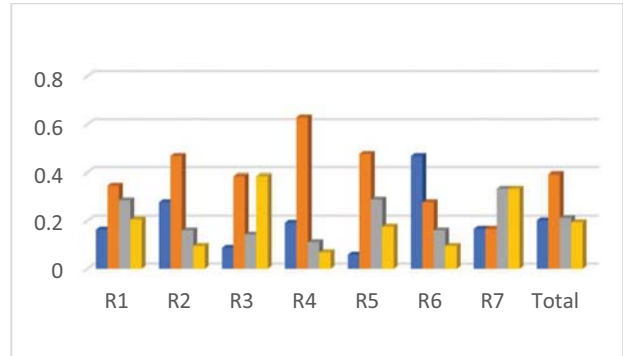


Source: Data processed, 2022.

Figure 2: The Output of Respondents' Answers Concerning Priority Criteria for Conversion

4.1.2. Priority of Benefit Aspect Conversion of Nagari Bank to Sharia Nagari

Benefit criteria cover several aspects, namely Sharia compliance (free from usury), strengthening the Sharia economic ecosystem, minimal risk, and influencing external auditor reports. The results of the analysis of respondents' answers found that strengthening the Islamic economic ecosystem became a top priority when converting Nagari bank to Sharia Nagari Bank with a value of 0.392. Then the aspect of minimal risk with a value of 0.211 followed by the aspect of Sharia compliance with a value of 0.201 and the lowest priority influencing the external auditor's report with a value of 0.194. The agreement of respondents on determining this priority is 0.363.

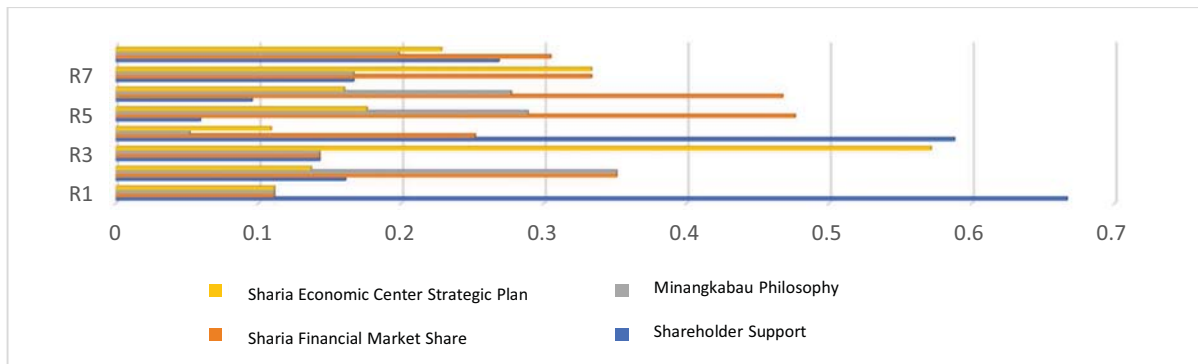


Source: Data processed, 2022.

Figure 3: The Output of Respondent's Answers Concerning Priority Aspects for Benefits

4.1.3. Priority Aspects of Opportunity Conversion of Nagari Bank to Sharia Nagari

Opportunity criteria when the conversion of Nagari Bank to Sharia Nagari Bank becomes the main priority. There are several aspects to the Opportunity criteria which include the support of shareholders/government and the West Sumatra DPRD, the market share of LKS development in West Sumatra, in line with the philosophical values of the Minangkabau community, and the strategic plan of the Islamic economic center. The main priority from this opportunity aspect is the aspect of market share for the development of Islamic financial institutions in West Sumatra with a value of 0.304. Next is the aspect of shareholder/government/DPRD support, followed by aspects in line with the strategic plan of the Islamic economic center and the lowest priority is the philosophy of the Minangkabau community. with a value of 0.198. The level of agreement of the respondents in determining this priority is (w: 0.102).

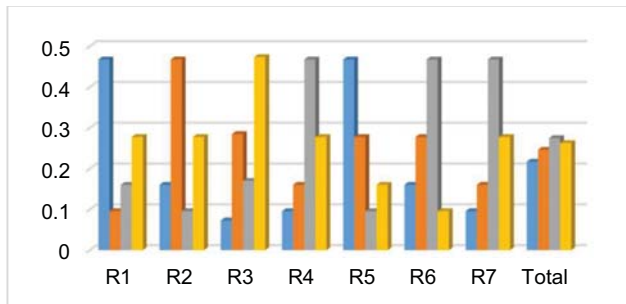


Source: Data processed, 2022

Figure 4: The Output of Respondent's Answers Concerning Priority Aspects for Opportunity

4.1.4. Priority Aspect Cost of Conversion of Nagari Bank to Sharia Nagari Bank

The cost criteria that became one of the challenges when converting Nagari bank to Nagari Syariah included several aspects, namely the cost of increasing human resource capabilities, socialization costs to the community, high conversion costs, and facility or infrastructure costs. Based on the analysis of the respondents, the priority is on the aspect of conversion costs with a value of 0.274 followed by the aspect of facility costs with a value of 0.262 then the aspect of socialization costs to the community with a value of 0.245, and the lowest priority is the cost of increasing human resources at Nagari bank with a value of 0.216. The slight difference in each of these aspects shows the opportunity for the same challenges when the Nagari bank merges into Nagari Syariah. Meanwhile, the level of agreement of the respondents in determining this priority is equal to (w: 0.036) which indicates a low level of agreement due to the variety of respondents' answers.

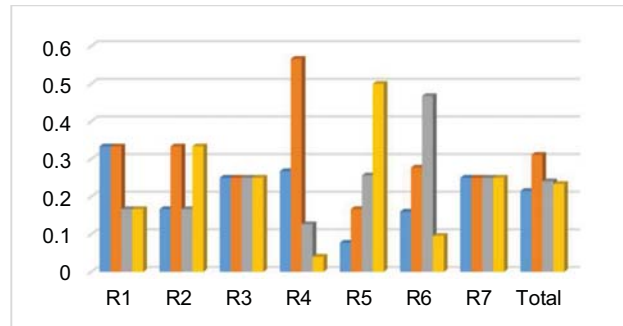


Source: Data processed, 2022

Figure 5: The Output of Respondents' Answers Concerning Priority Aspect for Cost

4.1.5. Priority of Conversion Risk Aspects of Nagari Bank to Sharia Nagari Bank

The risk criteria when converting Nagari bank to Nagari Sharia Bank in several aspects, namely, there is still controversy for this conversion, the impact of reducing customers, Nagari bank's human resources are not the ready and public perception of Islamic Financial Institutions (between LKS and conventional is the same). The results of the analysis of respondents show that the risk of reducing customers becomes a priority risk with a value of 0.310 then the risk of Nagari bank human resources who are not ready with a value of 0.240 next is the risk of public perception of Islamic Financial Institutions (LKS) with a value of 0.233 and the lowest priority risk is public controversy about conversion of Nagari bank to Nagari Syariah with a value of 0.214. The value of the agreement level of the respondents in determining this priority is equal to (w: 0.035) which indicates the low level of agreement of the respondents due to the variety of respondents' answers.

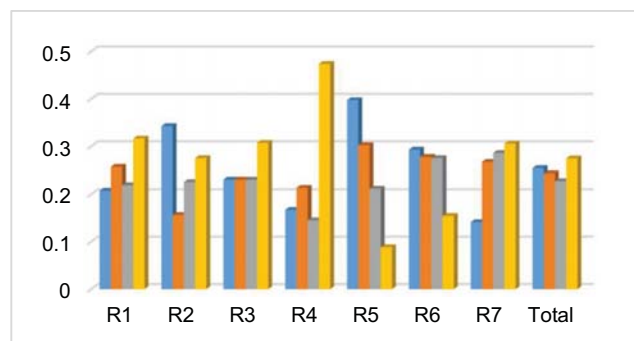


Source: Data processed, 2022

Figure 6: The Output of Respondents' Answers Concerning Priority Aspect for Risk

4.1.6. The Priority of the Conversion Strategy of Bank Nagari To Bank Nagari Syariah

The conversion strategy of Nagari bank to Sharia Nagari Bank covers aspects of the synergy of *Tungku Tigo Sajarangan*, product digitization, guidance and supervision, and commitment of shareholders and stakeholders. The results of the analysis of respondents' answers show that the priority strategy is shareholder commitment with a value of 0.274 followed by the synergy aspect of the *Tigo Jarangan* stove with a value of 0.254, then increasing product digitization with a value of 0.243 and the lowest priority is the coaching and supervision strategy with a value of 0.227. The level of agreement of the respondents in determining this priority is equal to (w: 0.083) which shows a low level of the agreement due to the variety of respondents' answers.



Source: Data processed, 2022

Figure 7: The Output of Respondents' Answers Concerning Priority Criteria for Strategy

4.2. Regional Government Policies in Supporting the Conversion of Bank Nagari West Sumatra for Economic Development

The second finding shows that local government policies have supported the conversion of Nagari Bank to a Sharia

Bank because Bank Nagari's large contribution is shown in community economic development through cooperatives and SMEs. Considering data 1.

“Based on the explanation of Regional Government Regulation Number 12 of 2019 concerning Regional Financial Management ch. In general, Bank Nagari has had a significant impact on the development of the West Sumatra region, this can be seen among others; a. Increased assets owned; b. Increased credit extended to the public; c. Increasing dividends for shareholders; d. Low bad credit.”

As explained in the Regional Government Regulation, in facing the opportunities and challenges of Bank Nagari conversion, provincial, regional and city government policies have a strong position, especially as the main source of capital for the BPD transformation program. Changes in Business Activities of Conventional Banks to Sharia Banks through Sharia Financial Services Authority Regulation No. 64 of 2016 opens up opportunities for the conversion of conventional banks to Islamic Banks. As a majority Muslim, of course, the presence of a bank that is by sharia principles is something that the people of West Sumatra want. Various aspects can have a positive influence as an opportunity for the realization of the conversion of Bank Nagari to Bank Nagari Syariah. Previous studies have revealed the opportunities and challenges of Islamic finance in realizing economic development. The positive impact is manifested in the form of job creation, strengthening the rural economy, promoting ecology and green economy, as well as encouraging SMEs and the halal industry (Ledhem & Mekidiche, 2020; Sarker et al., 2019; Sarker & Rashid, 2015; Abduh & Azmi Omar, 2012; Furqani & Mulyany, 2009). The dual banking system concept implemented in Indonesia is embodied in Law Number 21 of 2008, namely:

“(1) Conventional Commercial Banks (BUS) which already have a Sharia Business Unit (UUS) acquire a relatively small bank then convert it into a Sharia Bank and release and merge with the newly converted bank; (2) Conventional Commercial Banks (BUK) that do not have a Sharia Business Unit (UUS) then acquire a relatively small bank and convert it into a sharia bank. (3) Conventional Commercial Banks spin-off Sharia Business Units and become separate Sharia Commercial Banks.”

The government regulation explains government policies related to the conversion of conventional banks to Islamic banks. However, despite the intervention of government policies related to the conversion of Islamic banks, in the implementation of BPD, it is included in the category of Government Linked Companies (GLC) because they remain independent and professional in maintaining their independence and performance (Amdanata & Mansor, 2018).

Good relations between local governments and BKD can revive the community's economy through the sharia

economic movement. Therefore, the role of policy is very important to support the conversion of Nagari Bank into a Sharia Bank. The results of the interview stated that Bank Nagari and the Padang Pariaman Regional Government Establish Cooperation to develop digitalization of the regional economy, banking services and implementation, non-cash administration of regional financial management, online SP2D, online monitoring of local tax financing receipts, E-Kirdan E-Parking, as well as Marandang credit facility. This collaboration is a clear example of the role of government and the Nagari Sharia Bank in creating the welfare of the people of West Sumatra.

“The local government and Bank Nagari fully support the economic development of the community. Through the development of digitalization, the regional economy can assist and carry out financial transactions safely and practically. Only by using a barcode, the public can carry out non-cash financial transactions. Likewise with e-parking and online taxes.”

It is understood that Bank Nagari has facilitated and spawned new technology-based innovations in improving banking services. Thus, government policies not only have a positive influence on profitability but are also able to facilitate and generate new technology-based innovations. This is different from previous research which mentions the negative impact of government intervention which can reduce the value of profitability (Putra et al., 2021). A two-way significant relationship is shown between Islamic banks and economic growth in both the short and long term even though their market share is still less than that of conventional banks (Anwar et al., 2020).

Bank Nagari carries out the SIMAMAK program for a revolving soft loan scheme planned by the local government. The plan to provide loans to cooperatives and SMEs is carried out to highlight the economic impact of the Covid 19 pandemic on the people of West Sumatra.

“Bank Nagari calculates that if the Provincial Government (Pemprov) of West Sumatra includes a loan capital of IDR 19 billion and the district and city governments of IDR 2 billion each, then IDR 57 billion of funds will be available to be channeled to the community, especially SMEs with the assumption that the loan amount is IDR. IDR 3 million for 19 thousand SMEs. Or if the provincial government is IDR 19 billion and the districts/cities are IDR 1 billion each, then the total funds of IDR 38 billion can be channeled to 12,666 SMEs.”

The SIMAMAK program plan is carried out by involving district and city governments to create an effective and targeted synergy program. The study states that strengthening Islamic finance in West Sumatra is in line with the government's efforts to focus on the development of the halal industry and Islamic social funds (Pasarela et al., 2022; Mujahidin, 2020; Ameraldo et al., 2019). Thus, BPK

conveys several recommendations to support the development of Regional Development Banks in overcoming various problems that occur in BPD to support the development of the halal industry in West Sumatra.

“First, formulate an effective strategy to increase productive credit distribution for the community. Credit distribution is located at each branch office. Optimizing the realization of productive loan disbursement targets must comply with POJK guidelines. Second, to improve the behavior of the principle of prudence to analysts/credit/financing managers through training, education, and coaching. Third, follow up on the results of internal monitoring and external inspections quickly and accurately.”

This finding reveals that local wisdom has a central role in the success of the vision, mission, and objectives of the Nagari bank conversion. In a Webinar organized by the National Committee on Islamic Finance and Economics (KNEKS) with the Alumni Corps of the Islamic Economic Study Forum (Ka-FoSSEI) and Young Islamic Bankers, Regional Banks explained the keys to the success of strengthening the sharia business of Regional Development Banks.

“The important key to strengthening the sharia business in Regional Development Banks will be to create the active participation of stakeholders. The implementation of the commitment to optimizing the leveraging model is also very important to be stated in the corporate policy manual so that commissioners and banking directors will continue to implement company policies that are in line with local government policies and set out in company guidelines. The concept of leveraging can be carried out by BPD to maximize resources and infrastructure. This is in line with the Letter of the Setwapres No. B-547/KSN/SWP/Kl.00.01/08/2021 which provides direction for the conversion of UUS BPD.”

Based on the results of the interview, it can be understood that local wisdom can also be an important key to strengthening sharia business and supporting income distribution in Regional Development Banks. This is because the characteristics of local wisdom that exist in the philosophical values of the Indigenous West Sumatran people of *Basandi Syara' Syara' Basandi Kitabullah* can create active participation and outreach to the people of West Sumatra to support Islamic banking transactions. Previous research explained that the quality of human resources and technology services is an important factor in supporting the conversion of Islamic banks. The novelty of research has shown that another important factor is the commitment to support the implementation of the values of local wisdom contained in the philosophical values of local communities. The people of West Sumatra highly uphold the principles of *Adat Basandi Syarak, Syarak Basandi Kitabullah*, so the

conversion policy of Bank Nagari to Bank Syariah Nagari is considered very appropriate. Later, as explained by research conducted by Alam et al. (2022), it is very important to apply sharia governance mechanisms to the performance of Islamic banks. This needs to be done as a concrete step to prove the contribution of UUS Bank Nagari which may have been lagging behind the bank. The study states that the efficient use of capital is contrary to Islamic ontology and epistemology in the formation of intellectual capital (Akkas & Asutay, 2022). This means it is necessary to improve the strategy of using capital that does not conflict with Islamic ontology and epistemology.

In the end, the synergy between the policies of the central government and local governments can help realize the conversion opportunities of Islamic banks. Previous findings indicate that government policies play an important role in the performance of Islamic banking. Unfortunately, the contribution received by the community is still very far from the realization of welfare (Afandi & Amin, 2019). The contribution of Islamic banking in Indonesia is still very limited compared to other Muslim countries such as the United Arab Emirates, Qatar, Malaysia, and Iran (Nugrohowati et al., 2020). However, this study found different results even in the context of one area where the UUS Bank Nagari opportunity is quite large for the economic development of the community. Without the support of the central government, local government policies are considered not strong enough to continue the conversion process so that Bank Nagari can focus on supporting the acceleration of regional financial access in realizing people's welfare.

5. Conclusions

Based on the findings, it has been revealed that Bank Nagari can support the performance of the West Sumatra government, especially in regional finance. Bank Nagari can support economic recovery efforts and equal distribution of public income. The findings also indicate that there is a positive opportunity for conversion by Nagari bank. The positive influence is shown in the benefit aspect of 31% and the opportunity of 28% which is the priority value. More deeply, the findings explain the challenges that must be faced are technology services, improving the quality of human resources, socialization, and application of local wisdom of Bank Nagari Syariah which is by the philosophical values of the Indigenous West Sumatran people of *Adat Basandi Syara' Basandi Kitabullah*. Thus, the policies of the West Sumatra regional government have an important contribution to realizing the conversion of Nagari Bank into a Sharia Bank as a whole. With the support of local government policies, the distribution of income

through Islamic banks can support the creation of community welfare to obtain a more decent and equal livelihood between one another. Bank Nagari needs to create innovative financing products specifically to support the distribution of people's income in their region. As for business capital, which is a source of income received by the community, it must be managed wisely to achieve good financial conditions.

Aspects of Benefit, the priority is to strengthen the sharia economic ecosystem in West Sumatra in particular. The opportunity aspect that becomes the priority is the support (agreement) from the shareholders and the Regional Government. The cost aspect that becomes a priority is the high cost of conversion from Nagari bank to Nagari Sharia Bank. The risk aspect that becomes a priority is the reduction in Bank Nagari customers if it is converted to a Sharia Nagari Bank. However, in general, from all these aspects, the opportunity aspect becomes the main priority for the establishment of a bank with sharia principles in West Sumatra. The limitation of referrals, especially banks that have made this conversion, is certainly a weakness in this study. In addition, the selection of variables by local wisdom in West Sumatra. Of course, there will be many other aspects that can be studied in determining the opportunities and challenges of converting Bank Nagari to Bank Nagari Syariah.

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