

## Understanding Islamic Banking among Street Vendors (Study on The Street Vendors in Kajen Square, Pekalongan Regency)

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**Abstrak:** Penelitian ini bertujuan untuk mengetahui tingkat pemahaman pedagang kaki lima di Alun-alun Kajen Kabupaten Pekalongan terhadap bank syariah. Bank syariah beroperasi berdasarkan prinsip-prinsip Islam yang melarang riba dan menerapkan sistem bagi hasil, yang secara teoritis lebih sesuai dengan keyakinan mayoritas masyarakat Muslim. Namun, di tingkat pelaku usaha kecil seperti pedagang kaki lima, pemahaman mengenai konsep-konsep ini masih bervariasi. Penelitian ini menggunakan pendekatan kualitatif dengan metode wawancara untuk mengumpulkan data dari sejumlah pedagang kaki lima yang beroperasi di kawasan tersebut. Hasil penelitian menunjukkan bahwa mayoritas pedagang memiliki pemahaman yang terbatas mengenai bank syariah, meskipun sebagian menunjukkan minat untuk menggunakan layanan bank syariah apabila tersedia lebih banyak informasi dan dukungan. Studi ini menyimpulkan bahwa perlu adanya edukasi yang lebih intensif dan pendekatan sosialisasi yang lebih efektif dari pihak bank syariah untuk meningkatkan pemahaman dan partisipasi pedagang kaki lima dalam sistem perbankan syariah.

**Kata Kunci:** Pemahaman Bank Syariah, Pedagang Kaki Lima, Perbankan Syariah, Pekalongan, Edukasi Keuangan

**Abstract:** This study aims to determine the level of understanding of street vendors in Kajen Square, Pekalongan Regency towards Islamic banks. Islamic banks operate based on Islamic principles that prohibit usury and implement a profit-sharing system, which is theoretically more in line with the beliefs of the majority of Muslims. However, at the level of small business actors such as street vendors, understanding of these concepts still varies. This study used a qualitative approach with an interview method to collect data from a number of street vendors operating in the area. The results showed that the majority of vendors have a limited understanding of Islamic banking, although some showed interest in using Islamic banking services if more information and support were available. This study concludes that there is a need for more intensive education and a more effective socialization approach from Islamic banks to increase the understanding and participation of street vendors in the Islamic banking system.

**Keywords:** Understanding of Islamic Banking, Street Vendors, Islamic Banking, Pekalongan, Financial Education

### INTRODUCTION

The development of Islamic banking in Indonesia has served as a measure of the success of Islamic economics. In the midst of the proliferation of conventional banks, Bank Muamalat has implemented the sharia system first. They later became an example for other Islamic banks. Conventional banks were caught up in the 1998 monetary crisis, with many having to be liquidated due to the failure of their interest system. On the other hand, banks that implement the sharia system still exist and can survive. Even before Indonesia became an independent country, Islamic banks have become a necessity for the community because the majority of the population is Muslim. In history, K.H. Mas Mansyur, chairman of the Muhammadiyah board from 1937 to 1944, said that Muslims in Indonesia were forced to use conventional banks because there was no usury-free institution (Fitria, 2015).

The Islamic banking business in Indonesia is developing gradually, but rapidly. However, the progress is still far from expected. After some time "on its own", Islamic banking only received the government's attention when the Islamic Banking Law began to be drafted in the House of Representatives in 2008. After in-depth deliberations with practitioners, government, stakeholders, and lawmakers, the law was finally enacted in 2008. However, even though the

Islamic Banking law has been passed by the government and parliament, the industry is considered to have not made the expected progress.

It is likely that the current development of Islamic finance in Indonesia is market-motivated and aimed at meeting the needs of the people. Its greater focus on the real sector is also an advantage (Syukron, 2020).

Islamic banks were established to prevent confusion in social interactions that are in accordance with sharia (bermuamalah). It is also intended to safeguard Muslims from the prohibition of interest, including the act of usury, due to the absence of means to assist them in the field of Islamic muamalah. However, in reality, only 10% of the 80% of Indonesians who are Muslims transact in a shar'i manner, especially in terms of banking. Islamic banking in Indonesia is still underdeveloped, as many people do not believe on it. (Albar, 2018).

Sharia banks also play an important role in the development of MSMEs in Indonesia, one of which is Ritonga's research (2021) which states that Bank Syariah Indonesia KC Ahmad Yani Medan also distributes government programs, namely People's Business Credit (KUR) to encourage MSME players during the Covid-19 pandemic, by helping customers who have received disbursement of financing funds before the pandemic by providing relaxation or relief from paying installments (Ritonga, 2021).

The role of Islamic banks in helping SMEs is through financing. Islamic banks provide financing to MSME participants in the form of working capital, so that with these funds the sectors in the community can be improved to meet the needs of the community (Ramadan, 2021). With a profit sharing system with a partnership-based Musyarakah or Mudharabah contract so that it can bring benefits between the Islamic bank and the MSME players (Suretno & Bustam, 2020).

Aman Sentosa, Head of OJK's Financial Inclusion Literacy and Communication Department, stated that the Islamic financial asset literacy index is still low, despite the increasing trend towards Islamic finance. According to Aman at the Indonesia Sharia Financial Olympiad (ISFO) 2023, Monday, May 22, 2023, "Data from the national survey and financial inclusion in 2022 shows that Islamic financial literacy has only reached 9.1%. This is very far from literacy in the conventional financial sector, which is almost 50%." However, Bank Indonesia (BI) survey results show a difference, with the national Islamic financial and literacy index reaching 23.3%. However, he stated that a lack of financial knowledge can lead to public distrust of financial services, which has led to various crises before. He said, "Low financial literacy is also the base of high public dissatisfaction and complaints against financial services including guidance related to fraudulent investments, pinjol, and others, due to knowledge of products." (Ainolyaqin, 2024). Siregar stated in his research conducted at the Sangkumpul Bonang Market that the higher the education level of traders in the Sangkumpul Bonang market, the more traders understand Islamic finance. Likewise with income levels, the higher the average income per month, the more traders who understand Islamic financial literacy (Siregar, 2018).

Financial literacy can influence the way a person thinks about the company's financial condition and strategic financial decision making, so that business owners can do good financial management (Zahra & Nurhasanah, 2023). A good understanding of financial literacy can help SMEs to improve their business performance management and utilize their financial literacy skills for decision making (Bonita & Setiawina, 2017). In this regard, Islamic economics plays a significant role in stimulating financial inclusion by offering alternatives in accordance with Islamic principles. The principles of Islamic economics, such as the prohibition of usury and risk sharing, guide the development of more inclusive and sustainable financial products and services. Islamic financial institutions, including Islamic banks, Islamic microfinance institutions and Islamic capital markets, have a crucial role to play in addressing financial disparities and increasing people's access to financial services (Safii, M Arief, 2024).

Kajen Square showcases the distinctive charm of Pekalongan Regency. The square is located in the center of the city and offers many public facilities and a cozy atmosphere with a beautiful garden, children's play area, and many art and cultural events that are often held. Kajen Square is not only a place where local people and tourists gather, but it is also often the center of social activities such as night markets and festivals. Every night, the atmosphere becomes livelier with street stalls selling a variety of snacks, such as Megono rice, chicken noodles, satay, siomay, grilled chicken, roasted chicken, bakmie jowo, angkringan, gemblong bakar, and children's toy rentals. Alun-alun will be even more crowded on Sundays because of the car free day. At this event, people can get a wide range of goods, from food to clothes from the vendors selling there. Sunday is a very crowded day at Kajen Square, this is because there are many seasonal traders who come only on Sundays. Among them are traders of clothes, headscarves, from snacks to heavy meals.

Based on an interview with Mr. Pendi as a chicken porridge trader in the Kajen square area who is a conventional bank customer, he stated that he did not know about Islamic banking. Mr. Pendi does not know about Islamic banking at all, neither the system nor the products. Meanwhile, Ms. Novi as a clothes seller already knows about Islamic banking, but she does not understand it clearly and does not know what products are in it. (results of interviews with Mr. Pendi and Mrs. Novi as street vendors around kajen pekalongan square).

The results of interviews conducted by researchers at Kajen square still have people who really don't know about Islamic banks, so it is very clear that the socialization and promotion carried out by Islamic banks to the community is still very low so that there are people who do not know and do not understand about Islamic banks.

This makes the author interested in researching and knowing more about "Understanding Islamic Banking among street vendors". Are there many Muslim traders who understand Islamic banking or not. Or even already understand the principles and products of Islamic banks in depth. This is also related to the level of education of the traders themselves, some street vendors, especially those who trade on Sundays such as clothing traders, headscarves, and even snack traders are students or graduates. So it is not impossible that they already understand what Islamic banking is.

## **METHOD**

This study uses a qualitative approach with an in-depth interview method to explore the understanding of street vendors in Kajen Square, Pekalongan, regarding Islamic banking. Respondents were vendors above 18 years old, with various educational backgrounds. The selection of respondents was purposive, prioritizing those with banking experience. Data was collected through semi-structured interviews that focused on respondents' understanding of sharia principles and their experience with Islamic banks versus conventional banks. Data were analyzed using thematic techniques to identify patterns in their understanding and perceptions of Islamic banking.

## **RESULTS AND DISCUSSION**

### **a. Street Vendors' Level of Understanding of Islamic Banking**

Most street vendors in Kajen Square, Pekalongan Regency, have a low understanding of the concepts and principles of Islamic banking. Many of them think that Islamic banks differ only in name or the label "sharia" without understanding the fundamental differences in contracts, profit sharing, and the prohibition of usury.

Islamic banks use various strategies to promote their goods and services to attract consumers. Islamic banks are financial institutions that function as intermediaries in carrying out sharia operations, especially in terms of financing and loans. Since the public is the beneficiary of the services offered by Islamic banks, the public plays an important role in the success of Islamic banks. Thus, an increase in the community's knowledge of Islamic banks will determine the sustainability of their financial operations (Toyyibi, 2021). An Islamic bank is a financial institution whose primary purpose is to provide credit and services through payment traffic and circulation and which conducts its business in accordance with Islamic sharia (Sumar'in, 2012).

This study examines the level of understanding of Islamic banking among street vendors in Kajen Square, Pekalongan Regency. Interview results show that most vendors have a limited understanding of the concept of Islamic banking. The majority of vendors only know basic banking products such as savings and loans, but do not understand the concept of sharia in depth, including contracts such as Mudharabah, Musyarakah, and the prohibition of usury which are the main principles of Islamic banks. This is due to the lack of socialization and promotion from Islamic banks that can effectively target small traders.

Most traders are only familiar with general banking products such as savings and credit. Only a few are aware of Islamic financial products such as Mudharabah, Musyarakah, or Murabahah. This is due to the lack of promotion from Islamic banks themselves. People are more familiar with the terms KUR and Deposit. However, some KSPPS that adopt the principles of Islamic banking are better known by the community, especially traders, because many KSPPS employees travel to villages to offer their products. Based on the traders that the author met at Kajen Square, The author met 10 traders to conduct interviews related to street vendors' understanding of Islamic banks. Some traders admitted that they had joined BMT (Baitul Maal wa Tamwil), BMT is one of the Islamic cooperatives whose system is almost the same as Islamic banks. BMT is more well-known among the public than large Islamic banks.

NO	NAME	AGE	UNDERSTANDING OF ISLAMIC BANKING	
			Yes	No
1	Uun	35 years old		√
2	Tuti	29 years old	√	
3	Siska	25 years old	√	
4	Asep	33 years old		√
5	Novi	31 years old	√	
6	Pendi	44 years old	√	
7	Karno	55 years old		√
8	Manis	42 years old		√
9	Siti	52 years old	√	
10	Kustiyah	40 years old		√

Table 1. Interview results with street vendors in kajen square based on age

BMT employees went around every day to withdraw money from customers, or some even gave loans to traders in the same way. Some of the traders who chose to take loans at BMT were Pendi (44 years old), a chicken porridge trader, Tuti (29 years old), a megono rice trader and Siska (25 years old), a fried rice trader. While other traders such as Siti (52 years old) an *ayam geprek* trader, and Novi (31 years old), a clothing trader, choose to save at BMT. This is because every day there are Islamic banks or sharia cooperative that come to offer savings to them, then this Islamic bank information is more on social media so that they understand it better. however, they do not know the names of the products offered by these Islamic banks, only that they are interested because they have many benefits and are more shari'i than conventional banks that they often encounter.

Several other traders met by the author such as Uun (35 years old), a pecel trader, Karno (55 years old), a snack trader, and Manis (42 years old), a seblak trader, Asep (33 years old), a cilok trader and Kustiyah (40 years old) a coffee shop trader, admitted that they did not know about Islamic banks at all. They are accustomed to using conventional banks to conduct financial transactions, both saving and making loans. They also make savings deposits in conventional banks because of some of the benefits offered.

With the results of this interview, it proves that young traders understand Islamic banking better than older traders. However, in interviews of the research, some of them have actually come into contact with Islamic banks and Islamic cooperatives, but they do not understand that the institutions they meet are Islamic banks. such as when they met some people they knew as they called *bank tungul*, it turned out that it was an Islamic cooperative that did operate around kajen square and kajen market. it's just that they really don't know what Islamic banks are, the principles of Islamic banks, and the products offered or produced by Islamic banks.

Traders with higher levels of education or who have better access to information generally have a better understanding of Islamic banking. For example, traders who are university students or who have received further education are more familiar with sharia terms, although their understanding is not comprehensive. In contrast, traders with limited education, such as senior traders who did not complete primary education, tend to be unaware of Islamic banking or even completely ignorant of its concepts.

NO	NAME	EDUCATION
1	Uun	SMP
2	Tuti	SMA
3	Siska	SMA
4	Asep	SD
5	Novi	S1
6	Pendi	SMA
7	Karno	SD
8	Manis	SMP
9	Siti	SMA
10	Kustiyah	SMP

Table 2. Interview results with street vendors in kajen square based on education

Based on their educational background, it is known that traders with higher education than others have a better understanding of Islamic banking. This study shows that traders who have a higher level of education are more open to new information, including about Islamic banks. This is in line with research showing that education level plays an important role in influencing a person's understanding of financial literacy, especially sharia-based (Maufira et al., 2023). They tend to have better insight into various banking options and better understand the differences between conventional and Islamic banks. For example, traders who graduated from high school or who are currently studying in Pekalongan have better insights into sharia products, although they do not fully understand the technicalities. In contrast, traders with lower levels of education tend to have less understanding of sharia banking concepts. They often consider Islamic banks to be the same as existing conventional banks, without realising the fundamental differences regarding usury and profit sharing. Many of them prefer conventional banks because they are more familiar with them or because they perceive that Islamic bank procedures are more complicated.

The economic influence for umkm entrepreneurs is that Islamic banks as financial intermediaries can cause *maslahah* or welfare for the community if the products in it are known and enjoyed by financing customers. Islamic banks can work with the surrounding community to promote their activities. So that Islamic bank products can be well known by the public, especially ordinary people with low education and age who are no longer young.

b. Traders' Information Sources

The main sources of information about Islamic banks are from friends, relatives, and mass media (especially television and radio). However, not many get information directly from Islamic banks, because socialization from Islamic banks to street vendors is considered ineffective.

The education or socialization program carried out by Islamic banks does not touch small traders, especially street vendors who are busy with their daily activities. Usually these traders prefer the ball pick-up method, because it is more efficient for them. Islamic banks can provide information when traders are still working.

Several factors can cause people to not know about Islamic banks. One of them is the fact that people believe that Islamic banks are the same as the conventional banks they used before. As a result, they no longer seek information about Islamic banks. Some people choose not to save in Islamic banks because they believe that saving anywhere is the same.

c. Interest and Use of Islamic Bank Services

Some traders are interested in the concept of sharia, which is in line with Islamic values, they rarely use Islamic bank products. The main reasons are unfamiliarity with the procedures, lack of information, and the perception that Islamic banks are the same as conventional banks.

Some of the constraints that traders face in using Islamic bank services include low levels of financial literacy, difficulty accessing bank services, and the perception that Islamic products are more complicated and require stricter requirements.

d. Motivation of Traders to Use Islamic Banks

The main motivation for street vendors who choose to use Islamic banking services is religious. They feel more comfortable and at ease using products that are considered free from usury.

Some merchants also consider Islamic banks to be safer and more ethical in the management of funds, despite concerns about the fees and benefits offered.

e. Differences Based on Background

Younger or more educated traders tend to have a better understanding of the concept of Islamic banking compared to older or less educated traders.

Traders who have been trading longer have a tendency to be skeptical of new changes or innovations, including the concept of Islamic banking, and are more comfortable with traditional financial methods.

## CONCLUSION

Most street vendors at Kajen Square in Pekalongan Regency still have a limited understanding of the concepts and operations of Islamic banks. They do not fully understand basic principles such as the prohibition of usury, the concept of profit sharing, and the fundamental differences between Islamic and conventional banks.

Although many traders have expressed interest in Islamic banks, the limited information they have prevents them from fully understanding the benefits and advantages of Islamic banks, especially in relation to micro businesses like the ones they run.

Due to low understanding, most merchants still tend to use conventional bank services. They perceive Islamic banks as more complex, despite their awareness of the importance of financial services that are more in line with Islamic principles.

Education and socialization from Islamic banks and related institutions are considered necessary so that street vendors can better understand the benefits of using Islamic banks. Wider dissemination of information will encourage increased understanding and use of Islamic services among small traders.

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