

Conference Paper

Integration of Social and Economic Functions of Sharia Microfinance Institutions in Empowerment of Micro-enterprises

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Abstract

Micro-enterprises that are easy to grow but also easily falling need to be empowered to maintain the continuity of their business. This is partly demonstrated by the empowerment of micro-enterprises by sharia microfinance institutions (IMI) conducted by meeting the needs of micro-enterprises' funds, providing supervision and assistance of micro-enterprises. What is interesting is the social function, which is also owned by sharia microfinance institutions is able to move and motivate micro-enterprises to develop. This study aims to examine the role of sharia microfinance institutions on micro-enterprises and to develop a model of integration of social and economic function of sharia microfinance institutions in empowering micro business. The data analysis is done by qualitative descriptive approach which is used to explain how the integration model is formed. The results show that not all IMIs integrate social and economic functions, whereas, if IMI is willing to do so, micro-enterprise empowerment will be more easily achieved, and micro-enterprises will be easier to maintain sustainability.

Keywords: model, empowerment, micro business, IMI, Sharia microfinance institution

1. Introduction

In Indonesia, micro-enterprises comprise the majority of the economic activity of the population. Data Dinkop (2013) showed that, in 2011, the number of micro-enterprises reached 54,559,969 units, or 98.82% of the total number of businesses in Indonesia. Later, in the year 2012, micro-enterprises totaled 55,856,176 units or 98.79% of the total business units in Indonesia. Although serving as a sustainer of the economy and the majority of the inhabitants of Indonesia, micro-enterprises find it hard to achieve sustainability. The various problems experienced, among others, include the matter of capital, marketing, raw materials, energy and transportation, as well as a variety of other problems. However, the biggest problem experienced is micro capital limitations if this support is done by banks against very small micro-enterprises. Different

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Received: 29 August 2018

Accepted: 18 September 2018

Published: 11 November 2018

Publishing services provided by
Knowledge E

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Selection and Peer-review under the responsibility of the ICOI-2018 Conference Committee.

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rules which are obstacles for small businesses to obtain financing from banks, include, among others, the fulfillment of collateral, minimal assets and business turnover, as well as the provision of the interest to be paid by micro-enterprises, regardless of whether such business is in profit or loss. One of the solutions of the issue is to provide financing for micro-enterprises. Expected financing conducted by the IMI can be an alternative for the owners of the micro-enterprises to obtain capital by avoiding interest instruments of conventional financial institutions that are regarded as *riba* in Islamic jurisprudence.

Therefore, the presence of Islamic microfinance institutions (IMI), based on the results, is expected to be the answer to the problem of the shortage of capital at micro-enterprises. With a system for large results, the installments paid by micro-entrepreneurs to IMI are not always fixed, but can drive down appropriate micro-enterprises profit gains. In addition, the economic role that can be performed by IMI. Ideally IMI can also gather together the Social Fund which is later transmitted to the micro-enterprises, so that they can fund injections of capital. The Social Fund, among others, is in the form of *zakat*, *infaq*, *sadaqah* and *waqaf*. Among these, *infaq* and *sadaqah*, as well as social instruments like *waqaf*, are more flexible in distributing. But in its implementation, the aspect of IMI does social and economic function together. Therefore, the formulation of the problem of this article is how to create a model for the integration of the social functions and economic functions of Islamic microfinance institutions in empowering micro-enterprises.

2. Literature Review

There are several approaches that need to be used to emphasize the empowerment process, as stated by Kindervatter (as cited in Kusnadi, 2005) consisting of:

1. Community organization, which is a characteristic that leads to the goal of activating the community in an effort to improve and change their socioeconomic situation. Things to note include: (a). Participant roles are involved in group stewardship or tasks; (b) the role of tutor only as an intermediary, mentor and motivator and facilitator; (c) methods and processes prioritizing problem-solving methods, organizing society as a basic force
2. Participatory approaches, namely an approach that emphasizes the involvement of each member in all activities, the need to involve leaders, community leaders and local experts

3. Education for justice, an approach that emphasizes the creation of situations that allow citizens to grow and develop their analysis and have the motivation to participate.

According to Sudjana (2000), for empowerment to empower the community it must be based on five basic strategies, namely:

1. The humanistic approach (humanistic approach), in which the community is viewed as the development field and the community is recognized as having the potential to develop in such a way as to be able to develop itself
2. Participatory approach (participatory approach), meaning that community, related institutions and or community are involved in management and implementation of community empowerment
3. Collaborative approach (collaborative approach), in implementing community empowerment it requires cooperation with other parties (integrated) and to be coordinated and have synergy
4. Continuing approach (continuing approach), in other words, community empowerment must be done continuously which is why cadre development from society becomes the most important thing, and
5. Cultural approach (cultural approach), cultural awards and customs that grow in the midst of society in community empowerment are a matter to note.

Based on the aforementioned five approaches, if properly understood by the reform agents (social change), including non-formal education personnel, will facilitate in analyzing, developing and implementing non-formal education programs or appropriate off-shore education as well as required by the community. This means that the educational program that is applied lifts the learners/community to improve their life which is marked by the increase of income (economy), the awareness of their social environment and learners/people who understand how to build themselves (empower themselves).

3. Methods

3.1. Research approach

The approach used in this research is descriptive qualitative approach. The qualitative approach is the approach using data in the form of written or oral expressions, events,

knowledge, or of descriptive nature (Nazarite, 2005:54). A qualitative approach is used in this study, since it requires a method to describe the reality that is happening in the field at this time. The reality in question is related to how to model the integration of the social functions and economic functions of Islamic microfinance institutions in empowering micro-enterprises in East Java.

The strategy used in this research is a case study, as according to Yin (2012:4-8), this exact strategy is used in the study with the question 'how'. Based on the outline of the research issues, the purpose of this descriptive study was made systematically, describing the picture as actual and accurate regarding the facts that really happened so that subsequent researchers are expected to understand the phenomenon that created the problems in the research. (Yin as cited in Baxter, 2008:547-548).

3.2. The scope of research

The scope in this study, such as t described in the formulation of a problem, is a model of integration of the social functions and economic functions) of Islamic microfinance institutions in empowering micro businesses in East Java, which is the social function of the criteria. Social funds are successfully compiled and distributed by the IMI to micro-enterprises. The criterion of economic function is that the financing-financing is channeled by IMI to micro-enterprises.

3.3. Informant selection technique

Researchers obtained the informants by way of use of indicators, namely, the technique of selection of informants as a data source with the considerations and criteria, or terms, that have been determined, such as the informant is a person who is considered the most knowledgeable about what to expect, or the most authoritative in knowing the conditions, so that will make it easier for researchers exploring the object or situation that is examined (Moleong, 2014:199).

In this study, researchers used two types of informants. The first is the managerial parties of IMI. From these informants, information was obtained about the social fund data collected and transmitted by the IMI as well as savings or investment fund collected and channeled by IMI. Information from managerial parties is also important for later use as a reference for determining the validity of the data. The second Informant is a key informant, being the owners of the micro businesses that received financing from both the Social Fund or IMI investment fund.

3.4. Analysis techniques

Analytical techniques in the study will be conducted with a descriptive qualitative approach and use strategy case studies. The analysis is used to compare the findings in the field with propositions that have been made previously (Yin, 2012:136). Proposition is one example of a theoretical orientation that leads from the analysis of the case studies. So, a proposition that is created can help research be more focused, helping in focus considerable attention on certain data, and having the urgency to be confirmed.

Yin (2012:140) reveals there are two types of analysis that can be used in the case study, namely, dominant and not dominant. This research uses the dominant form of analysis. The dominant form of analysis consists of pattern matching, explanations and time series analysis (Yin, 2012:140). The methods used in this research is explanation, because the goal in this study was a model of integration of the social functions and economic functions of Islamic microfinance institutions in empowering micro businesses in East Java. The design of empirical research in this study was conducted in the form of a descriptive narrative.

4. Results

4.1. Empowerment of economics functions

The results of the interviews with the informants, that is, micro-entrepreneurs and managers of IMI, can be explained as the following table. Micro-enterprises badly need funds to maintain sustainability. Therefore, it appears from the results of the interview that they have the ability to get net profit of only under 40% during the period of the grant of financing. The informants say that they are less able to develop their business in getting one type of financing from IMI. Therefore, among them, they sometimes still use conventional financing as well, their usual call is with Bank Thithil.

TABLE 1: Micro-enterprise financing fulfillment indicators before and after receiving the BMT financing.

Informant	Net Profit		Percentage Increase (%)
	Before	After	
Micro-enterprises 1	Rp 1,000,000,-	Rp 1,200,000,-	20
Micro-enterprises 2	Rp 1,000,000,-	Rp 1,300,000,-	30
Micro-enterprises 3	Rp 500,000,-	Rp 700,000,-	40
Micro-enterprises 4	Rp 5,000,000,-	Rp 7,000,000,-	40

Source: Data processed.

4.2. Empowerment of social functions

From the results of interviews with informants, both micro entrepreneurs and managers provided an explanation as in following table. Micro-enterprises are in dire need of funds to maintain sustainability. By obtaining a social financing fund (ZISWAQ) alone, which is generally smaller than economic financing (murabaha, mudaraba), micro-enterprises are less able to grow their business. It appears from the interview that they have the ability to obtain a net profit that below 20%.

TABLE 2: Micro-enterprise financing fulfillment indicators before and after receiving BMT ZISWAQ.

Informant	Net Profit		Percentage Increase (%)
	Before	After	
Micro-enterprises 5	Rp 500,000,-	Rp 550,000,-	10
Micro-enterprises 6	Rp 800,000,-	Rp 880,000,-	10
Micro-enterprises 7	Rp 500,000,-	Rp 550,000,-	10
Micro-enterprises 8	Rp 3,000,000,-	Rp 600,000,-	20

Source: Data processed.

4.3. Empowerment of the integration of social and economic functions

From the results of the interviews with the informants, both micro-entrepreneurs as well as managers provided an explanation as in the following table. Micro-enterprises badly need funds to remain sustainable. By obtaining financing social funds (ZISWAQ) as well as financing from a variety of contracts, such as murabaha, mudharabah, then micro-enterprises will find it easier to maintain the sustainability of the financing, they will be detached from the trapping rentener are generally smaller than the economic financing (murabaha, mudharabah). It appears from the results of the interview that they have the ability to earn net profit of an average of 40% and above.

5. Discussion

Based on the results of research, it is found that the majority of micro-enterprises are affected by the availability of funds. The existence of funds from social and economic IMI enable micro businesses to more easily survive and increase turnover and business assets. As stated by Prijadi (2017), bank loans drive SMEs profitability and sales higher,

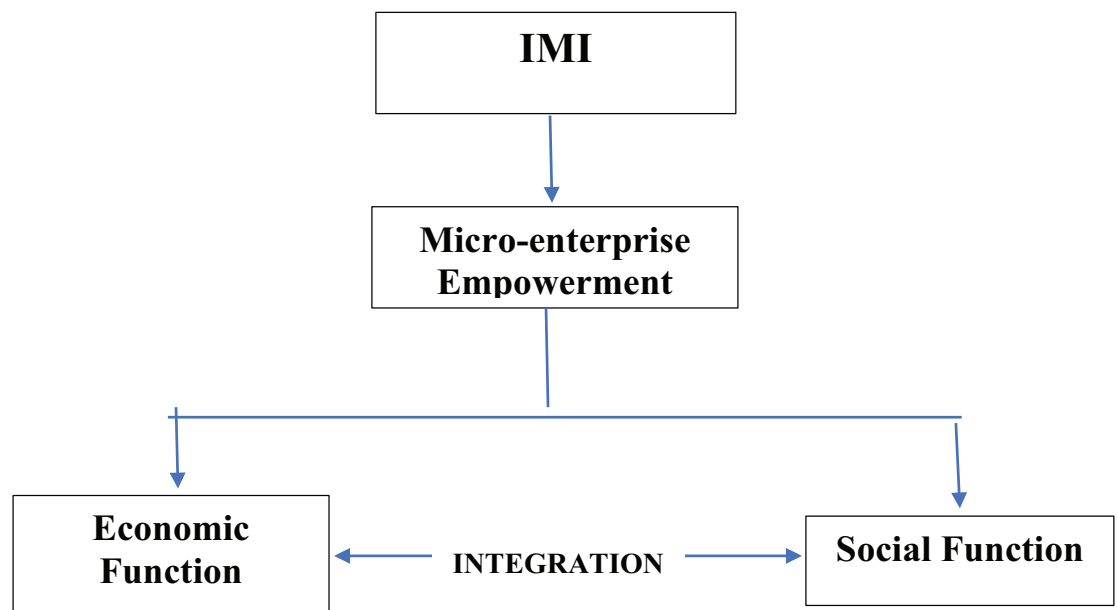
TABLE 3: Micro-enterprise financing fulfillment indicators before and after receiving financing and BMT ZISWAQ.

Informant	Net Profit		Percentage Increase (%)
	Before	After	
Micro-enterprises 1	Rp 1,000,000,-	Rp 1,500,000,-	50
Micro-enterprises 2	Rp 1,000,000,-	Rp 1,400,000,-	40
Micro-enterprises 3	Rp 500,000,-	Rp 700,000,-	40
Micro-enterprises 4	Rp 5,000,000,-	Rp 7,000,000,-	40

Source: Data processed.

although collateral limits the growth. IMI has a social program, among others, in which 1% of the disbursement goes to ZISWAF (if in banking it is called a provision); it is optional if the customer wants to give, otherwise there is no coercion. In addition, there are also other programs called social charter zakat, infaq, shadaqah and waqaf (ZISWAF). The funds are included in the economic program, namely, debt relief from moneylenders

After the Waqf funds are collected, customers who are caught by loan sharks with a 15-20% interest rate are given a debt transfer, so that the borrower no longer owes the moneylender but moves to IMI with no interest. Through this policy, then the interest on the debt of micro entrepreneurs who bloom will stop. The IMI does not take any profit from this activity. Another scheme of economic and social integration to empower micro-enterprises is IMI by holding a social agency (LAZ) for its collection and distribution. Most of these social funds are channeled by IMI to free the micro business from the financing of interest or from the NPF (non-performance financing). Intensive synergies between economic and social functions will maintain the sustainability of micro-enterprises.



6. Conclusion

Micro-enterprises are easy-to-grow but easy to fail. It is very difficult to make this effort sustainable. From micro business development, it appears that micro businesses which face a main problem of financing will find it easier to survive if they receive funding in the form of financing like mudarabah, murababah or musyarakah, more so if they get social fund aid such as zakat, infaq and shadaqah. The synergy of these two functions is necessary to maintain the sustainability of micro-enterprises.

Acknowledgment

This work was supported by the Ministry of Research, Technology, and Higher Education, Indonesia.

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