

# Linkage Program of Islamic Institutions and Government Institution for Empowering MSMEs: Evidence from Indonesia

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## Abstract

The purpose of this study is to analyze how the linkage program of Islamic institutions and government institution in empowering MSMEs and analyze the increase in the range of empowerment. By using a qualitative research approach and descriptive analysis method, the results of this study indicate that there are four parties involved in the empowerment linkage program and each party has their respective roles in the aim of empowering MSMEs. Furthermore, there is also increasing in the range of empowerment in terms of the amount of empowerment program funding and improving the quality of MSME after participating in the empowerment program.

**Keywords:** Linkage program, Empowerment, Zakat Institution, Islamic Rural Bank, MSME.



## INTRODUCTION

As general empowerment programs carried out in developing countries, including Indonesia. The empowerment programs are carried out by various institutions, both profit-based and non-profit institutions, both partially

carried out by each institution and the collaborative programs of several institutions. One very interesting empowerment program is linkage based empowerment program, because the empowerment program involves various institutions with their respective roles.

Micro, Small and Medium Enterprises in Indonesia have an important role in empowerment. Based on the latest data released by the Ministry of Cooperatives and SMES of the Republic of Indonesia, the number of MSME business units in Indonesia is more than 64 million units and holds a 99.99% business unit share when compared to large businesses in 2018. Besides that, MSMEs also absorb more than 116 million labor and constitute 97% of employment compared to large businesses that only absorb 3% of the labor. (Ministry of Cooperatives and SMES of Republic of Indonesia, 2020). Indonesia as a country with a Muslim majority population must be able to accommodate various alternative economic activities that are in accordance with the principles of sharia, including linkage program based empowerment activities.

One program that is a linkage program that refers to sharia principles in Indonesia is Sharia Business Financing Program (PUSYAR). This program involves four empowerment stakeholders in one district in Indonesia, Mojokerto. The four parties include (1) National Zakat Institution of the District, (2) Islamic Rural Bank of the District, (3) Islamic Economic Community of the District, (4) Department of Cooperatives, Micro Enterprises and Labor.

Some previous studies have conducted studies related to empowering MSMEs, but most have not tried to analyze linkage programs based on sharia (Wellalage & Locke, 2017) (Bastida, Marimon, & Tanganelli, 2017) (Mckague et al., 2011)(Weber & Ahmad, 2014)(Thakur, Bansal, & Maini, 2018)(Ashraf, Razzaque, Liaw, Ray, & Hasan, 2019). Most of the empowerment research on MSMEs based on sharia principles still does not present a linkage program (Sivachithappa, 2013) (Hassan, 2015) (Rahman, Muhammad, Ahmed, & Amin, 2016) (Abdullah & Ismail, 2017) (Aliyu, Yusof, & Naiimi, 2017).

Therefore, the purpose of this study is to analyze how the linkage program of Islamic institutions and government institutions in empowering MSMEs and analyze the increase in the scope of empowerment.

## LITERATURE REVIEW

### **Linkage Program**

Linkage program is a form of synergy that is defined in the American Websters Dictionary as a cooperative interaction among group especially among the acquired subsidiary or merged parts of a corporation that creates an enhanced combined effect". Optimization of linkage programs can be achieved if the synergy between the parties involved has a good level of trust, effective communication, fast feedback, and high creativity (Doctoroff, 1997).

### **Empowerment**

Empowerment is condition to improve the capacity of people in a society to better solve problems and fulfill their basic needs. Thus, empowerment is important to achieve welfare in a society (Adi, 2008). Some research has been done by previous researchers, but most have done research related to the evaluation of the program (Indrasari, 2016; Pusparani & Prabawati, 2016; Wahyudi, Khusaini, & Pratomo, 2016). Based on the achievement of the program, this research is the first research that try to make model of synergy between stakeholder of Sharia Business Financing Program.

### **Sharia Business Financing Program**

Sharia Business Financing Program (PUSYAR) is a sharia-based empowerment program that is the result of collaboration with the Islamic Rural Bank of Mojokerto District and the Department of Cooperatives, Micro Enterprises and Labor. This program provides capital loans to MSMEs operating in the district area using *murabahah*/sale and purchase agreements. As for the cost of *Ujroh*/Margin, administrative and insurance costs are borne by the National Zakat Institution Mojokerto District which is taken from the Infaq and Shodaqoh Funding posts. In this case the National Zakat Institution provides a 15% trial/margin fee, administration fee and insurance to the participants of the Sharia Business Financing Program.

### **Islamic Rural Bank (BPRS)**

Islamic Financial Institutions (IFIs) are unique and different from conventional financial institutions. or Islamic Rural Bank as a type of IFIs, avoid using interest and follow Islamic principles in their products and services (Azmat, Skully, & Brown, 2015; Fianto, Gan, Hu, & Roudaki, 2017; Iqbal & Llewellyn, 2002).

Islamic Rural Bank are institutions that focus their business in rural areas; their products and services follow Islamic law. This type of bank was first introduced to Indonesia in the early 1990s. In 2014, there were 163 Islamic rural banks operating in Indonesia with around 439 offices (Indonesia Financial Services Authority, 2014).

## METHODS

This study uses a qualitative approach with descriptive qualitative to explain the synergy model of the PUSYAR Empowerment program for SMEs and increase the reach of their empowerment. An advantage of qualitative research is that theory is generated which is contextually sensitive, persuasive, and relevant (Henwood & Pidgeon, 1992). To produce robust research results, the data collection was carried out in two stages. Namely in-depth interviews with the parties in empowerment and MSME empowerment participants, and Focus Group Discussion attended by all expert stakeholders.

The parties used as informants are also key informants so that the information obtained is more accurate. The National Zakat Institution presented as the informant was the head of National Zakat Institutions in the Mojokerto district and expert staff who handled the empowerment program. Islamic Rural Bank parties who were used as informants were the director of the Islamic Rural Bank in the Mojokerto district and the director of the Islamic Rural Bank Mojokerto District that handled the empowerment program. The Islamic Economic Community made as informants are the director of the Islamic Rural Bank in the Mojokerto district and expert staff in charge of the empowerment program. The Department of Cooperatives, Micro Enterprises and Labor (Dinas Koperasi, Usaha Mikro Kecil dan Menengah dan Ketenagakerjaan – DISKOUMINAKER) who were used as informants were an expert staff who handles the empowerment program in Mojokerto district. And MSMEs that are used as informants are randomly selected without any subjectivity from the parties involved in the empowerment program.

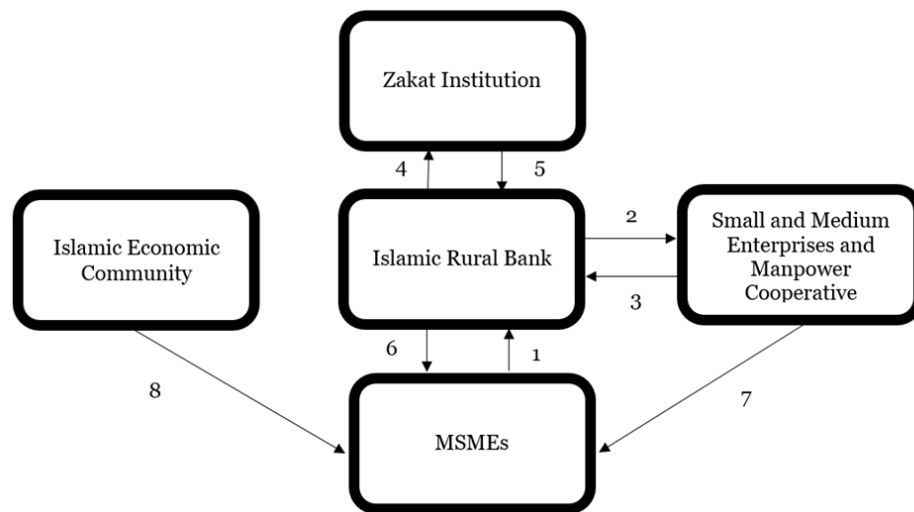
## RESULTS

### *Linkage program of Islamic institutions in empowering MSMEs*

The main party in empowering MSMEs is certainly MSMEs itself. Micro, Small, and Medium Enterprise that can access the Sharia Business Financing Program must at least have the following established criteria.

First, the SMEs are Mojokerto District residents. Second, MSMEs have business assets of less than IDR 500 million. Third, MSME Enterprises have obtained written recommendations from Department of Cooperatives, Micro Enterprises and Labor and National Zakat Institution. Forth, not having loan arrears or not being included in the black list at Department of Cooperatives, Micro Enterprises and Labor or other banks. Fifth, willing to open a savings account at Islamic Rural Bank of District as a business activist.

Here is the model of the linkage program of the Sharia Business Financing Program:



**Insert Figure 1** The synergy model in the Sharia Business Financing Program

Source: Author's Modification

Figure 1 illustrates synergy each party of Sharia Business Financing Program. Number 1 means MSME requests finance from BPRS and BPRS does an assessment of MSME's business. Number 2 means after an MSME is eligible for the Sharia Business Financing Program, Islamic Rural Bank will ask approval from Department of Cooperatives, Micro Enterprises and Labor. Number 3 means approval from Department of Cooperatives, Micro Enterprises and Labor is sent back to Islamic Rural Bank. Number 4 means Islamic Rural Bank then proposes that National Zakat Institution bears the margin cost of the Sharia Business Financing Program clients. Number 5 means National Zakat Institution pays the margin cost. Number 6 means Islamic Rural Bank disburses the Sharia Business Financing Program funds to the MSME. Number 7 means training about marketing, product development and accounting are given by Department of Cooperatives, Micro Enterprises and Labor to the MSME. Number 8 means Islamic Economic Community

provides training related to Islamic principles in business to the MSME. That's a synergy model portrait between each part of the Sharia Business Financing Program.

The four stakeholders of this empowerment program have their respective roles. The role of Zakat Institution in this program is to provide technical assistance in the form of marginal, administrative and insurance costs to MSMEs. The role of Islamic Rural Bank in this program is to disburse loan funds submitted by MSMEs based on sharia principles. The role of the Islamic Economic Community in this program is to provide sharia guidance to MSMEs. The role of the Department of Cooperatives, Micro Enterprises and Labor is to provide recommendations for prospective program participants and managerial coaching to MSMEs.

## **DISCUSSION**

### **Increased range of empowerment based on Linkage program from Islamic institutions**

Initially the funds processed by the National Zakat Institution for the Sharia Business Financing Program were funds that were purely from the National Zakat Institution totaling 100 million rupiah. These funds can only be donated because the National Zakat Institution is not authorized to provide loans because the National Zakat Institution is not a financial institution. The fund is considered small because if divided per person gets 5 million rupiah, there will only be 20 people who get the funds. Therefore, with the development of empowerment products in the form of linkage programs from Islamic institutions and government agencies, this Sharia Business Financing Program can help the community with a wider range, because the National Zakat Institution only helps margins, insurance, and administrative costs imposed by the Islamic Rural Bank. The total realization of the first year increased tenfold (990,000,000), and each year has relatively increased.

As explained earlier, each party in this empowerment program has their respective roles. Based on Islamic Rural Bank reports, the status of this empowerment can be said to be effective because because Non-Performing Loans (NPL) are 0%, which shows that clients who receive finance always pay their installments on time, and the demand for this financing program is high. In terms of risk mitigation, this program provides collateral requirements, and the MSMEs still undergo the BI checking process. Because in one year, this empowerment program is carried out several times, so if there are MSMEs

that do not fulfill their responsibilities, the verifier - in this case the National Zakat Institution and Department of Cooperatives, Micro Enterprises and Labor - will not provide recommendations for the next round.

Clients of the Sharia Business Financing Program need to provide guarantees before joining this program. Islamic Rural Bank surveys and assesses the collateral provided by the client and decides the right financial amount for each client. Most clients use their vehicle as collateral. To develop and improve the Sharia Business Financing Program, clients will be divided into three groups. The first group is for clients who receive full support from their company from the Sharia Business Financing Program. The second group is for clients who receive 50% support from the Sharia Business Financing Program. The third group is for clients who are ready to be fully independent and do not need support from the Sharia Business Financing Program. This group can still access programs from the local government in Mojokerto but this is a non-Sharia Business Financing Program. The second and third groups will be encouraged to pay Islamic social funds to help the Sharia Business Financing Program.

There are several economic benefits from this empowerment program. The first is the addition of assets owned by MSME entrepreneurs. Second, there is the transformation of mustahiq into muzakki. The Sharia Business Financing Program is a good idea formed by the Mayor, where Mojokerto was considered a loan shark town. Before the Islamic Rural Bank was established the Government of Mojokerto District had a grant assistance program but the amount was still very small. The legal of the Sharia Business Financing Program is the Regional Regulation on the collection of infaq and shadaqah among the Mojokerto District of Civil Servants and the Zakat Law No.21.

The obstacles faced by the Islamic Rural Bank related to financing capacity, because based on the results of the field indicated that the funds provided by the National Zakat Institution have not been fully absorbed by MSME customers in Mojokerto, it is hoped that the funds from the National Zakat Institution increase each year so that the distribution of funds also well absorbed. The second obstacle for the majority of National Zakat Institution revenues is only from infaq funds from civil servants.

Then the parties such as the Private Zakat Institution should also have a role in this Sharia Business Financing Program to develop a synergy model together with academics, so that the Sharia Business Financing Program is not only developing in the Mojokerto District, but also in the other regions



because the multiplier effect of this program is very extraordinary, the Sharia Business Financing Program is expected to be applied in all regions in Indonesia and an important concept in this program is the concept of equity, not only about increased economic growth but economic equality.

Other benefits of the Sharia Business Financing Program. First, the Zakat Institution can expand its scope because of the Sharia Business Financing Program. This is because he can utilize his Islamic social funds more effectively than before. Through their collaboration in covering margin, administrative and insurance costs for program clients (MSMEs). Secondly, Islamic People's Credit Banks can increase their customer base because of this program.

The Zakat Institute has proposed that companies in Mojokerto help the program through corporate social responsibility funds. The suggestion to increase Islamic social funds is that local governments should encourage tax subsidies if companies in Mojokerto want to provide their Islamic social funds through zakat. Another suggestion is to apply productive endowments in Mojokerto.

Then, according to clients from the Sharia Business Financing Program, they found that they received many benefits through the program. Sharia Business Financing Program helps them have access to finance for their business and they also get guidance and training provided by competent institutions related to their business. There are 5,376 local MSMEs in Mojokerto, however, 97% of these MSMEs cannot be collected by banks or do not have access to financial institutions such as banks. Because of limited access to formal financial institutions. It is difficult for local MSMEs to develop their business.

Furthermore, to increase infaq funds so that empowerment programs can be more sustainable, information disclosure can be made in the management and distribution of funds, so that penginfaq (donors) will be calm and trust the manager. Another idea is to manage cash waqf, this is offered to companies on condition that the company pays waqf up to a certain value then the company leader or representative is given a discussion room with the local government. This is an attractive incentive for companies offered. Tax reduction to zakat payers can also be a way to attract the sympathy of citizens or companies.

The Sharia Business Financing Program is considered to be very good because the rate of return is almost perfect, ie almost no default. There are



several models of Sharia Business Financing Program to move and have high economic value or development in the future, one of which is to reduce the rations if there are recipients of Sharia Business Financing Program in the second, third, and so on until they can be independent. The model is carried out to reduce the concern of the Islamic Rural Bank that the Sharia Business Financing Program will only be enjoyed by the same MSME. The Sharia Business Financing Program model will be made in stages: 1. Level one, assisted with full financing 2. Level two, assisted by half financing and accustomed to giving infaq as sincerely as possible 3. Level three, recipients will be separated from the Sharia Business Financing Program and can access non-Sharia Business Financing Programs while still giving infaq In addition, the National Zakat Institution has a program for the next Sharia Business Financing Program recipient to issue infaq, the funds will be played back to fund the next period Sharia Business Financing Program applicant.

The next effort that can be done is to run productive waqf in collaboration with the Indonesian Waqf Board (Badan Waqf Indonesia – BWI). Management of productive waqf is managed in the business field, it can be either micro or small business. However, according to the National Zakat Institution, the Indonesian Waqf Board is still not active in carrying out its daily tasks, so that further efforts and studies are needed in this productive endowment. Concerns from the ISLAMIC RURAL BANK in the sustainability of the Sharia Business Financing Program due to the change of mayor changes, it is feared that the Sharia Business Financing Program will receive less attention from the District government. The Islamic Rural Bank will strive to not always depend on funding from Mojokerto District government officials, namely by targeting non-Sharia Business Financing Program recipients to ask for donations. The infaq results will be managed in the Sharia Business Financing Program to help other applicants. The problem in the Islamic Economic Community is funding, therefore the Islamic Economic Community feels it is natural that the National Zakat Institution and the Department of Cooperatives, Micro Enterprises and Labor consider the Islamic Economic Community to be still not optimal in carrying out their duties. It would be very good if the Department of Cooperatives, Micro Enterprises and Labor re-record all MSMEs, not only data but also assess business feasibility, MSME capital needs, and others. The data collection will further complement the data and serve as a basis for the Islamic Rural Bank, so that the Sharia Business Financing Program target will be more specific and not only enjoyed by a small number of MSMEs.

## CONCLUSION

There are four parties involved in the empowerment program linkage and each party has their respective roles. The role of Zakat Institution in this program is to provide technical assistance in the form of marginal, administrative and insurance costs to MSMEs. The role of Islamic Rural Bank in this program is to disburse loan funds submitted by MSMEs based on sharia principles. The role of the Islamic Economic Community in this program is to provide sharia guidance to MSMEs. The role of the Department of Cooperatives, Micro Enterprises and Labor is to provide recommendations for prospective program participants and managerial coaching to MSMEs.

The increase in the range of empowerment can be seen from the amount before the linkage program was carried out in the empowerment program. There is an increase in the amount of funds realized in the empowerment program. In addition, in terms of MSMEs there are several economic benefits from this empowerment program. The first is the addition of assets owned by MSME entrepreneurs. Second, there is the transformation of mustahiq into muzakki.

## LIMITATION

The limitation of this research is the research methodology used. The descriptive qualitative method allows the calculation of the relationship between the empowerment program and the objectives of the empowerment program not yet discovered. however this research has tried to strengthen the results of the study by only making key informants directly related to the empowerment of the various parties involved.

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