

# Bogor City Government Policy Model on Sharia Financing for Micro Enterprises Through Islamic Microfinance Institution

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## Abstract

Micro enterprises are one component of business actors that have many limitations, especially on financing access. In fulfilling this capital, local government can issue policies on financing for micro enterprises, one of which is sharia financing through Islamic Microfinance Institutions (IMFIs). This study aims to determine Bogor city government policy model on sharia financing for micro enterprises and propose a policy model that can be applied on sharia financing for micro enterprises through IMFIs. This research method uses a descriptive method through a qualitative approach with data collection in the form of Focus Group Discussion (FGD) and interviews with the Cooperative Office and Micro, Small and Medium Enterprises in Bogor City. The results showed that the Bogor city government had issued a policy in the form of facilitating micro enterprises to get financing access through BRI Sharia. The proposed policy model is in the form of the mayor's instructions on providing capital for micro enterprises sourced from the Corporate Social Responsibility (CSR) funds of Bogor City-Owned Enterprises (BUMD) and distributed through Islamic microfinance institutions (IMFIs).

Keywords: Local Policy, Micro Enterprises, CSR Regional Owned Enterprises, IMFIs

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## Introduction

Micro, Small and Medium Enterprises (MSMEs) are one component of business actors that have a significant role in the development of the economy in Indonesia, particularly Gross Domestic Product (GDP), employment and poverty alleviation. The contribution of MSMEs to national GDP in 2018 will reach 60.34%. Even in 2019 is projected to grow to 65% or around Rp2,394.5 trillion. The number of MSMEs increased by 17.5 percent in the 2016-2018 period (UMKM 2013). The magnitude of the increase shows that the existence of MSMEs is needed by the community, especially those with limited economic capacity and skills.

The MSME sector has made a very important contribution to the Indonesian economy during the crisis, where MSMEs have the resilience to the economic crisis that occurs because MSMEs do not have much dependence on external factors such as debt in foreign exchange and imported raw materials in conducting their operations (Malik 2008). The survival of MSMEs in the face of crisis provides an illustration that this sector has advantages and has the potential to be further developed through an appropriate policy and support from the right institution (Kara 2013). The Government of Indonesia has issued Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises with the aim of growing and developing businesses in the context of building a national economy based on a just economic democracy. The existence of the Act provides a bright spot for SMEs to develop their business. However, the problem is that many MSMEs have limited access to capital.

L. Anggraeni, Herdiana P, Salahuddin EA, dan Ranti Wiliasih (2013) revealed that MSMEs are still constrained by capital access to banks. This is because loans to banks generally require collateral or collateral in the form of ownership of assets. Meanwhile, according to Aslichan et al. (2009) the development of MSMEs faces fundamental problems which broadly include: (1) the difficulty of access of MSMEs to the market for the products they produce, (2)

weak business development and strengthening and (3) limited access to sources of financing from formal financial institutions, especially banking. The findings of Masato Abe, Michael Troilo dan Orgin Batsaikhan (2015) also revealed that financing is an important obstacle for small and medium businesses. There are several reasons for SMEs to accept constraints in financing, including many SME owners not managing working capital effectively, asymmetry of information between financial institutions and SMEs thereby hampering lending and approval processes, and underdeveloped capital markets hampering SME growth opportunities in the future.

Bogor City Government as a state institution under the supervision of the central government, has made a program in order to improve micro small and medium enterprises in the form of training, capital mediators between business people and companies, marketing facilities especially for businesses that do not yet have a market share that does not clear, and partnerships between business people and supermarkets in the City of Bogor (Paramita, et al. 2019). The programs for increasing MSMEs become a reference for financial institutions, especially Islamic microfinance institutions to contribute in providing sharia-based financing. One step that can be done is cooperation between Islamic microfinance institutions and companies with the status of Bogor City-owned enterprises (BUMD). This cooperation is possible to implement because BUMD have Corporate Social Responsibility (CSR) funds, one of which is to improve the community's economy in a sustainably. Therefore, this research formulates several problems as outlined in the following research questions:

1. How sharia financing policies are implemented by Bogor city government?
2. How is the proposed policy model that can be applied by Bogor city government in Islamic financing for micro enterprises through Islamic microfinance institutions (IMFIs)?

## Literature Review

### Micro Small and Medium Enterprises

According to Rosmiati (2012), micro and small businesses are business activities that are able to expand employment opportunities and provide broad economic services to the community, and can play a role in the process of equity and increase community income and encourage economic growth. In addition, micro, small and medium enterprises are one of the main pillars, support, protection and the broadest development as a form of firm alignment to the people's economic business groups, without ignoring the role of large-scale SOEs.

According to Law Number 20 of 2008 concerning MSMEs, what is meant by micro-businesses are productive businesses owned by individuals and/or individual business entities that meet the criteria for micro-businesses as regulated in the law. Small businesses are productive economic businesses that stand alone, which are carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly from Medium Enterprises or Large Enterprises that meet the criteria Small Business as referred to in the Act. Whereas a medium business is a productive economic business that stands alone, which is carried out by an individual or business entity that is not a subsidiary or branch of a company that is owned, controlled, or becomes a part either directly or indirectly with a Small Business or Large Business with a net worth or annual sales results as provided for in the Act.

Assets owned by micro businesses are not more than IDR 50,000,000.00 with a turnover of no more than IDR 300,000,000.00 per year. According to the Decree of the Minister of Finance No.40/KMK.06/2003 dated January 29, 2013, micro-businesses are productive businesses owned by Indonesian citizens or individuals and have a maximum of IDR 100,000,000 per year in sales. Micro businesses can apply for credit to the bank at most i IDR 50,000,000.00. The MSME criteria as stated in Law No. 20 of 2008 are as following :

**Table 1.** Criteria for Micro, Small and Medium Enterprises

No.	Description	Criteria	
		Asset	Turnover
1.	Micro Enterprises	Max. 50 million	Max. 300 million
2.	Small Enterprises	50 million– 500 million	300 million – 2,5 billion
3.	Medium Enterprises	500 Million – 10 Billion	2,5 billion – 10 billion

Source: Law No. 20 of 2008 concerning SMEs

According to Tambunan (2009), there are several characteristics of micro-businesses that cause a lack of trust in formal financial institutions to provide capital to MSMEs. Characteristics of MSMEs according to Tambunan are micro business financial institutions covering aspects of formality, organization and management, nature and job opportunities, and others in detail are explained in Table 2. The majority of micro businesses are in the informal sector and are not registered. This causes a lack of trust in formal financial institutions in providing capital. Other salient characteristics include low education by micro-entrepreneurs and production output is usually aimed at low-income groups.

**Table 2.** Characteristic of Micro Enterprises

No.	Aspects	Micro Enterprises
1.	Formalities	Operating in the informal sector; unregistered business; no/rarely pay taxes.
2.	Organization and management	Run by the owner; does not apply the division of internal labor, management and formal organizational structure, formal bookkeeping system.
3.	Nature and job opportunities	Most use unpaid family members.
4.	pattern/nature of the production process	Very low degree of mechanization/generally manual; technological level is very low.
5.	Market Orientation	Generally sell to local markets for low income groups.
6.	Economic and social profile from business owners.	Low education and from poor households; the main motivation is survival.
7.	Sources of raw materials and capital	Most use local raw materials and their own money
8.	External Relationships	Most have no access to government programs and have no business relationship with large businesses.
9.	Woman Entrepreneurs	The ratio of women to men as businessman is very high.

Source: Tambunan, 2009

### Sharia Financing

Funding is the provision of funds by the government, regional governments, the business world, and the community through banks, cooperatives, and non-bank financial institutions, to develop and tighten capital for micro, small and medium enterprises (Gina dan Effendi 2015). While microfinance in microfinance terms explains more about 'inferiority' or limitations, namely the inferiority of the poor (the poors) which is difficult or limited access to financial/banking services (Worokinasih 2012). Micro-financing or in terms of conventional institutions called micro-credit is a program of giving small amounts of credit to poor people to finance productive activities which he does himself in order to generate income, which allows them to care for themselves and their families (Darwanto 2014). Whereas Islamic microfinance is financing provided to micro entrepreneurs or micro sector financing using Islamic principles. Islamic microfinance is designed to serve low income earners (Purnamasari dan Salam 2019).

According to Zaman in Widya Gina and Jaenal Effendi (2015), microfinance contributes to reducing a number of factors that cause poverty, where poor people can start to generate

income. Microfinance has helped reduce poverty, increase education levels, and generate or expand millions of small businesses. Even the idea of microfinance has spread globally with replication in Africa, Latin America, Asia, and Eastern Europe, as well as countries with more developed economies such as Norway, the United States, and the United Kingdom (Rahman 2010).

Microfinance services can be done by government, individuals, private sector, NGOs, formal or informal financial institutions. Microfinance services performed by banks are called micro banking. Micro banking is how banks which are formal financial institutions must be able to serve the micro sector, which is generally informal, or how informal micro sectors can enter the formal banking sector (Worokinasih 2012). While sharia-based microfinance services can take the form of Baitul Maal wat Tamwil (BMT), Sharia Financial Services Cooperatives (KJKS), Savings and Loans Cooperatives and Sharia Financing (KSPPS), and others.

BMT is a non-governmental organization that was established and developed by the community, especially in the beginning, usually done using resources including funds or capital from the local community itself (Rizky 2007). BMT has several advantages. First, BMT contains two mutually supporting interests namely social interests and business interests. Social interests are represented by Baitul Maal and business interests are represented by Baitul Tamwil. Second, the BMT operating system refers to Islamic provisions, not using the interest system as in conventional financial institutions. Third, BMT leaders and administrators act actively, proactively, dynamically, not waiting but picking up potential depositors or borrowers (Alhifni 2019).

## **Research Method**

This research uses descriptive method with a qualitative approach. This type of research data is primary and secondary data. Primary data were obtained from the results of Focus Group Discussions (FGD) and interviews with the Cooperative Office and Micro, Small and Medium Enterprises in Bogor City. The data is used to determine the policies that have been running in sharia financing. While secondary data is used to supplement the primary data in this study obtained through literature from books, journals, and other scientific works relating to Islamic microfinance for the development of micro and small businesses. The location of the study was conducted on micro and small businesses in the city of Bogor and Cooperative Office and Micro, Small and Medium Enterprises in Bogor City. The selection of research locations is based on the area of possible application of sharia financing policies for micro and small businesses in the city of Bogor. While the time of this research was conducted in April-May 2019. Data collection techniques used Focus Group Discussion (FGD) and interviews with Cooperative Office and Micro, Small and Medium Enterprises in Bogor City. Sampling is done by purposive sampling technique, which is the procedure of selecting samples based on suitable characteristics needed to answer the research. Data analysis in this study uses the Miles and Huberman method by checking the validity of the data using data source triangulation technique which is done by comparing the results of observational data with interview data and interview results with related documents, and data analysis through data reduction, data presentation and conclusion drawing (Miles dan Huberman 2007).

## **Result and Discussion**

### **Sharia Financing Policy of Bogor City Government**

The Government of the City of Bogor, through its cooperative and Micro Small and Medium Enterprises (MSME) offices, issued a policy to improve micro, small and medium enterprises based on Law No. 20 of 2008 concerning MSMEs. This foundation contains regulations relating to business actors, especially MSMEs. Based on this law, Bogor City Government and Cooperative Office and Micro, Small and Medium Enterprises can work together to formulate local regulations on Islamic micro financing as a means of facilitating access to capital for micro

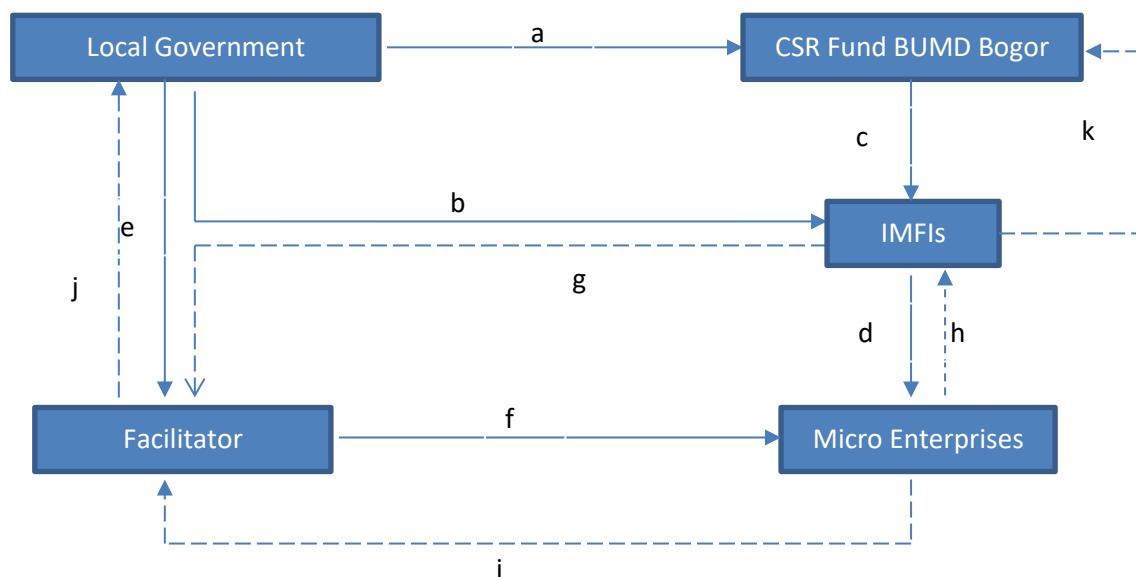
and small businesses. One design of policy is in the form of partnerships with Islamic Microfinance Institutions (IMFIs), both Baitul Maal wat Tamwil (BMT), Islamic cooperatives, and other Islamic microfinance units. In addition, the Bogor city government can lead small and micro businesses that require additional capital to submit to IMFIs with terms and conditions that facilitate business operators, especially the ease of guarantees provided. The policy that has been implemented by Bogor City Government in Sharia financing is the socialization of financing facilities involving BRI Sharia as partner banks of Bogor City Government.

The socialization of financing facilities is one of the steps taken by the Bogor city government in the context of educating micro and small businesses to use financing facilities issued by Islamic microfinance institutions (IMFIs). In general, the forms of financing disbursed are consumptive and productive financing. For micro and small businesses, productive financing is carried out through mudharabah and musyarakah financing schemes. Mudarabah has the potential to be adapted as Islamic microfinance scheme. Mudarabah is where the capital provider or microfinance institution (rabbul Mal) and the small entrepreneur (mudarib) become a partner. The profits from the project are shared between capital provider and entrepreneur, but the financial loss will be borne entirely by the capital provider. This is due to the premise that a mudarib invests the mudarabah capital on a trust basis; hence it is not liable for losses except in cases of misconduct. Negligence and breach of the terms of mudarabah contract, the mudarib becomes liable for the amount of capital. The profit-sharing ratio on mudarabah is pre-determined only as a percentage of the business profit and not a lump sum payment. The profit allocation ratio must be clearly stated and must be on the basis of an agreed percentage. Profit can only be claimed when the mudarabah operations make a profit. Any losses must be compensated by profits of future operations. After full settlement has been made, the business entity will be owned by the entrepreneur. The entrepreneur will exercise full control over the business without interference from the Islamic bank but of course with monitoring (Rahman 2010). Meanwhile, Musharakah can also be developed as a microfinance scheme where microfinance institution will enter into a partnership with micro-entrepreneurs. If there is profit, it will be shared based on pre-agreed ratio, and if there is loss, it will then be shared according to capital contribution ratio. The most suitable technique of musharakah for microfinance could be the concept diminishing partnership or musharakah mutanaqisah.

The consumptive financing can be in the form of purchasing goods used for production activities. Consumer financing schemes can take the form of murabaha, ijarah and ijarah muntahiya bittamlik. Using murabahah as a mode of microfinance requires microfinance institution to acquire and purchase asset or business equipment then sells the asset to entrepreneur at mark-up. Repayments of the selling price will be paid on installment basis. The microfinance institution will become the owner of the asset until the full settlement. As for Ijarah by definition is a long-term contract of rental subject to specified conditions as prescribed by the shari'ah. Unlike conventional finance lease, the lessor (microfinance institution) not only owned the asset but takes the responsibility of monitoring the used of asset and discharges its responsibility to maintain and repair the asset in case of mechanical default that are not due to wear and tear. Meanwhile, Ijarah Muntahia Bitamleek is an elaborate concept of ijarah where the transfer of ownership will take place at the end of the contract and pre-agreed between the lessor and the lessee. The title of the asset will be transferred to the lessee either by way of gift, token price, pre-determined price at the beginning of the contract or through gradual transfer of ownership. Ijarah Muntahia Bitamleek is more suitable for microfinance scheme especially for microentrepreneurs who are in need of assets or equipments. Microfinance institution will purchase the assets required by the entrepreneurs and rent the assets to qualified entrepreneurs. In this case, the entrepreneurs can just rent the asset over a period of time and pay the rentals at regular intervals. The entrepreneur as a lessee will be responsible to safeguard the asset whereas the lessor will monitor their usage (Rahman 2010).

### Bogor City Government Policy Model On Sharia Financing For Micro Enterprises Through Islamic Microfinance Institution

Micro and small businesses have played an important role in improving the economy in Indonesia. Especially able to absorb labor and increase gross domestic product. The success of the Small and Medium Enterprises in improving the economy must be followed by policies of the local government as implementing the law so that its business continues to grow, resilient and independent. Because one of the keys to the success of micro and small businesses is the availability of capital and a clear market for micro and small business products to develop businesses. In this research, it is proposed that Bogor City Government's policy model can be applied in Islamic financing for micro enterprises through Islamic microfinance institutions. This model was arranged based on Miles and Huberman's analysis by considering the state of micro enterprises for financing and the policies of the Bogor City Government. The model proposed is the Bogor city government policy model using BUMD CSR funds as a source of funding distributed through IMFIs. IMFIs functions as an intermediary and manager of CSR funds distributed by BUMD. To supervise the sustainability of the business, the Bogor city government through the Cooperative Office and MSMEs can appoint a Facilitator who supervise five micro enterprises. Outline, the model can be seen in the following figure.



**Figure 1.** Bogor City Government Policy Model On Sharia Financing For Micro Enterprises Through IMFIs

Information of figure:

- a. Local Government issued a policy in the form allocation of CSR BUMD fund Bogor City to financing for micro enterprises
- b. Local government also appointed several IMFIs as executors in distributing BUMD CSR funds
- c. After appointing several IMFIs, BUMD CSR funds was given to IMFIs.
- d. IMFIs distributing CSR BUMD fund to micro enterprises.
- e. Local government appoints the Facilitator as the supervisor of the micro enterprises so as easy to supervise and provide assistance on the sustainability of the micro enterprises
- f. The Facilitator provides guidance and assistance for the businesses obtain by micro enterprises
- g. IMFIs coordinates with the facilitator of the business obtain by micro enterprises
- h. Micro enterprises pay financing fund s to IMFIs

- i. Micro enterprises always coordinate with facilitator for the constraints that occur during the business in progress.
- j. The facilitator reports the results of the assistance to local government, namely the cooperative and MSME department
- k. IMFIs reports the progress of the distribution to BUMD for distribution in the following year.

## Conclusion

Bogor city government through The Cooperative and Small and Medium Enterprises Office issued a policy to improve micro small and medium enterprises based on Law No. 20 of 2008 concerning MSMEs is partnerships with Islamic Microfinance Institutions (IMFIs), both Baitul Maal wat Tamwil (BMT), Islamic cooperatives, and other Islamic microfinance units and socialization of facilities by involving BRI Sharia as partner banks of Bogor City Government. Policy model that can be applied by Bogor city government to sharia financing for micro enterprises through Islamic microfinance institutions is using BUMD CSR funds as a source of funding for financing MSMEs distributed through IMFIs. IMFIs functions as an intermediary and manager of CSR funds distributed by BUMD. After that, MSMEs are given assistance by facilitators appointed by the Bogor city government.

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