AL-MUSYARAKAH :
Journal of Business, Finance, Ahwal Syaksiyah
P-ISSN: xxxx-xxxx | E-ISSN: xxxx-xxxx | DOI: Volume 3 No 1 Tahun 2023 Hlm. 21-29

Islamic Microfinance:
Empowerment of Small Micro Enterprises during The Covid-19

Rusdi Hamka Lubis
Faculty of Islamic Religion, Ibnu Chaldun University, Jakarta, Indonesia
rusdihamka@ptiq.ac.id

ABSTRACT
Micro, Small, And Medium Enterprises (MSMEs) play a significant role in enhancing the national economy from various aspects such as gross domestic product (GDP), employment absorption, and investment. The aim of this research is to analyze The Sharia Microfinance Institution's (SMFI) practice model in empowering msmes in indonesia. A descriptive analytical approach is used to illustrate the existing model. The research findings indicate that microfinance performance to strengthen msmes is already good. In terms of capital, smfi has been able to increase capital for msmes, thereby increasing their production quantity. There are several microfinance models that can be implemented by islamic financial institutions to strengthen msmes, such as solidarity group model, village banking model, grameen model, and individual model.
Keywords: *Model; Practice; Empowerment;* SMFI*; MSMEs;*

ABSTRAK
Usaha Mikro, Kecil, dan Menengah (UMKM) berperan penting dalam meningkatkan perekonomian nasional dari berbagai aspek, seperti produk domestik bruto, penyerapan tenaga kerja, dan investasi. Tujuan penelitian ini adalah untuk menganalisis model praktik Lembaga Keuangan Mikro Syariah dalam memberdayakan UMKM di Indonesia. Dalam penelitian ini, digunakan pendekatan deskriptif analitis untuk memaparkan model yang ada. Hasil penelitian menunjukkan bahwa kinerja pembiayaan mikro untuk memperkuat UMKM sudah cukup baik. Dalam hal permodalan, Lembaga Keuangan Mikro Syariah telah berhasil meningkatkan modal bagi UMKM, sehingga meningkatkan kuantitas produksi mereka. Ada beberapa model pembiayaan mikro yang bisa diterapkan oleh Lembaga Keuangan Islam untuk memperkuat UMKM, seperti model kelompok solidaritas, model perbankan desa, model grameen, dan model individu.
Keywords: *Model; Praktik; Pemberdayaan; LKMS; UMKM*

PENDAHULUAN

From 2019 to 2021, the entire world has been struggling against the COVID-19 pandemic, which has had a significant impact on the global economy (Sparrow, Dartanto, and Hartwig 2020). According to the OECD, the pandemic is the greatest threat ever faced by the international economic sector since the major recession of 2008-2009 (Madeleen Wegelin-Schuringa 1992). UNCTAD, a United Nations trade and development agency, has warned that global growth rates fell below 2% in 2020, which could result in a loss of over USD 1 trillion in global economic value. Richard Kozul-Wright, Director of the Globalization and Development Strategy Division at UNCTAD, revealed that they estimate a global economic slowdown to below two percent this year, which is likely to cost around USD 1 trillion, far worse than estimates in September 2019 (Mishra 2020).

After the spread of the COVID-19 pandemic, many social problems need to be faced globally, including in Indonesia. One of the concerning social issues is the increasing poverty rate, especially in developing countries such as Indonesia. Various efforts have been made by the government and relevant institutions to address this issue, such as cash assistance, basic needs packages, education, health, and housing subsidies (Mahmud and German 2021). However, the poverty problem in Indonesia is still quite large, even before the pandemic, the poverty rate in Indonesia had reached 13%, and the COVID-19 pandemic has worsened the situation (Maital and Barzani 2020).

In an article published by The Jakarta Post, it is stated that Indonesia's economy is predicted to rebound in 2021 after experiencing a recession in 2020. However, the issues of unemployment and poverty remain important concerns because the COVID-19 pandemic is still ongoing, and the economy is still slowing down. Indonesia's economic growth projection in 2021 is estimated to reach 3%, driven by household spending and credit growth, as well as the start of the vaccination program.

However, the Covid-19 pandemic has caused around 1.63 million Indonesians to fall into poverty in March 2020 and the poverty rate continued to increase to reach 9.78 percent or 26.4 million people in September 2020. Therefore, it is estimated that more people will fall into poverty. The Indonesian government projects that the economy will grow by 0.6 percent this year and increase to 1.7 percent before finally recovering and growing by 5 percent next year. However, poverty is predicted to increase to 10.5 percent or around 28 million people in 2021, and unemployment may continue to rise to reach 3.6 million people, especially among migrants, due to the lack of job opportunities (Hadiwardoyo 2020).

Indonesia's Goverments efforts to increase spending on social and infrastructure sectors are aimed at boosting household demand, creating jobs, and addressing poverty. In November 2020, the government had utilized around 58.7 percent of the total stimulus of IDR 695.2 trillion (US $49 billion) allocated to revive the economy. The government hopes that this stimulus program can stimulate economic activity, and with the vaccine's availability in 2021, it is expected that the momentum of economic recovery and reform can be maintained. However, economic recovery after the recession caused by the Covid-19 pandemic must be followed immediately by an empowerment program for Micro, Small, and Medium Enterprises (MSMEs) through the Microfinance Institution (MFI) and Sharia Microfinance Institution (SMFI) networks. The current recessionary economic conditions also affect the performance of MFIs, leading to an increase in non-performing loans. Additionally, many MFIs are not prepared to face such conditions and face difficulties in managing their businesses, particularly in terms of capital, human resource capacity, stagnation in management, and liquidity problems (Sparrow, Dartanto, and Hartwig 2020).

Micro, Small, and Medium Enterprises (MSMEs)

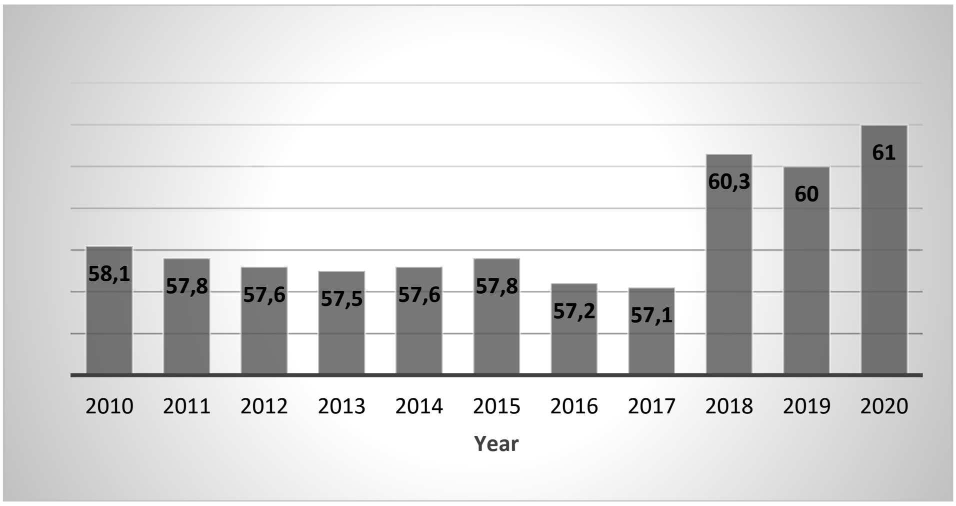
Micro, Small, and Medium Enterprises (MSMEs) play an important role in the development of the Indonesian economy, particularly in terms of Gross Domestic Product (GDP), employment absorption, and poverty alleviation. In 2013, MSMEs

AL-MUSYARAKAH :
Journal of Business, Finance, Ahwal Syaksiyah
P-ISSN: xxxx-xxxx | E-ISSN: xxxx-xxxx | DOI: Volume 3 No 1 Tahun 2023 Hlm. 21-29

contributed IDR 5.44 trillion to the national GDP and employed 114.144 million people, or around 96.99 percent of the workforce. During the period of 2012-2013, the number of MSMEs increased by 2.41 percent to 57.89 million business units, of which 99.99 percent were micro-enterprises. Therefore, MSMEs are very important for the community, especially for those who have economic and skill limitations (T. Tambunan 2019).

According to data from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop RI) cited by Lokadata Berita Tagar, the contribution of MSMEs to GDP from 2010 to 2020 is as follows:

Figure 1: The contribution of MSMEs to GDP, 2010-2020



Sectors of Micro, Small, and Medium Enterprises (MSMEs) also provide a very important contribution to the Indonesian economy during times of crisis such as the current Covid-19 pandemic. This is because MSMEs have a high resilience to economic crises, as they do not rely too much on external factors such as foreign debt and imported raw materials in conducting business operations. The success of MSMEs in facing the crisis provides an illustration that this sector has advantages and great potential to be further developed through appropriate policies and support from the right institutions. The Indonesian government has issued Law No. 20 of 2008 on Micro, Small, and Medium Enterprises with the aim of encouraging growth and development of businesses to build a national economy based on the principles of fair and equal economic democracy.

Research Methods

Gunawan (2013) defined qualitative research as an activity that aims to study social phenomena in the surrounding environment by directly interacting, attempting to understand language and interpretations about the world and all things related to it . The data source used in this study is primary data obtained from key informants and informants of UMKM and LKM/LKMS groups, notes from observations regarding the conditions and events found in the field, and notes from interviews. The interactive model is used as a data analysis technique, which consists of four stages of activities, namely: data collection, data reduction, data display, and conclusion and recommendation drawing (Sugiyono 2018).

RESEARCH RESULTS AND DISCUSSION

Financing is a form of providing funds by the government, local governments, business world, and society through banks, cooperatives, and non-bank financial institutions, which aim to develop and strengthen the capital of micro, small, and medium-sized enterprises. The term "micro" in microfinance describes the inferiority of poor communities that have limited access to financial/banking services. Microfinance programs or microcredit in conventional financial institutions provide small loans to poor people to finance their own productive activities, so that they can generate income to improve family welfare. Microfinance provides a contribution in reducing the factors that cause poverty, so that poor communities can start to generate income. Microfinance has helped reduce poverty, increase education levels, and expand millions of small businesses. Even the idea of microfinance has spread globally and has been adopted in Africa, Latin America, Eastern Europe, as well as developed countries such as Norway, the United States, and Britain (Rahman 2010).

Microfinance has three main elements that differentiate it from other financial intermediation systems such as banking, namely: (1) transaction limits, where microfinance transactions have no universal value and there is no international convention that sets a value that falls under the category of small or micro, such as in Indonesia where microfinance transactions are limited to a maximum microcredit of IDR 50 million. For other financial transactions such as savings, insurance, remittance, and payment systems, there are no clear regulations (Worokinasih 2011).

Microfinance Market Segments

Microfinance services aim to serve the poor population with a focus on four different groups. The first group is the poor population who do not have a source of income due to factors such as age, illness, or physical disabilities, and therefore have no income. The second group is the poor population who work as laborers with very limited and unstable or seasonal income, mostly in the agricultural or other labor-intensive sectors. The third group is the poor population who work in the informal sector with relatively sufficient income to meet basic living needs. The fourth group is the population who have economic strength with adequate sources of income to meet basic living needs and have surplus income.

Microfinance has a history related to addressing poverty issues, and its development has become one of the agendas to achieve The Millennium Development Goals in reducing the world's population by half by 2015. UN Resolution No.A/58/488 on the International Year of Microcredit 2005 encouraged microfinance as an inclusive financial sector. Microfinance services can be provided by governments, individuals, private sectors, NGOs, formal or informal financial institutions.

In Indonesia, microfinance institutions (MFIs) consist of two categories: bank-based and non-bank-based. Bank-based MFIs include BRI Unit Desa, BPR, and BKD (Village Credit Institutions). Non-bank-based MFIs include savings and credit cooperatives (KSP), savings and credit units (USP), rural credit funds (LDKP), baitul mal wattanwil (BMT), NGOs, arisan, Grameen-style financing, ASA-style financing,

P-ISSN: xxxx-xxxx | E-ISSN: xxxx-xxxx | DOI: Volume 3 No 1 Tahun 2023 Hlm. 21-29

community-based organizations (KSM), and credit unions. In addition, there is also the concept of microbanking, which is how formal financial institutions, such as banks, can serve the informal micro sector, or how the informal micro sector can enter the formal banking sector.

Micro, Small and Medium Enterprises (MSMEs)

Micro, Small, and Medium Enterprises (MSMEs) play an important role in creating job opportunities and providing wide economic impact for the society, as well as contributing to the process of income distribution and economic growth. However, small and medium businesses are not exclusively prioritized compared to larger businesses, especially State-Owned Enterprises (SOEs) (Rosmiati, 2012). Small businesses refer to independent productive businesses, run by individuals or entities that are not subsidiaries or branches of Medium or Large Enterprises that meet the criteria of Small Enterprises as regulated by the Law. Meanwhile, medium businesses refer to independent productive businesses, run by individuals or entities that are not subsidiaries or branches, both directly or indirectly, of Small or Large Enterprises, with net worth or annual sales in accordance with the provisions stipulated in the Law. Micro businesses have assets not exceeding Rp 50,000,000.00 and turnover not exceeding Rp 300,000,000.00 per year. According to the Minister of Finance Decree No. 40 / KMK.06 / 2003 dated January 29, 2013, micro enterprises are productive businesses owned by families or individual Indonesian citizens and have sales of up to Rp 100,000,000.00 per year.

Micro enterprises can apply for credit to the bank for up to Rp 50,000,000.00. The criteria for MSMEs according to Law No. 20 of 2008 consist of:

Tabel 1 Criteria for Micro, Small and Medium Enterprises

No.	Description	Criteria	
		Asset Rp.	Omzet Rp.
1.	Micro Business	Max. 50 juta	Max. 300 juta
2.	Small Business	50 juta – 500 juta	300 juta – 2,5 Miliar
3.	Medium Business	500 juta – 10 Miliar	2,5 Miliar – 10 Miliar

Micro businesses have special characteristics that make formal financial institutions reluctant to provide funding to them. According to Tambunan, these characteristics include formality, organization and management, nature and job opportunities, and other factors. Most micro businesses operate in the informal and unregistered sector, so formal financial institutions are reluctant to provide funding due to lack of trust. Another striking characteristic is the low education of micro business actors and a tendency to produce products for low-income markets. (T. T. Tambunan 2009).

Tabel 2 Criteria Micro Business

No.	Aspect	Micro Business
1.	Formality	Operate in the informal sector; businesses are unregistered; rarely pay taxes.

No.	Aspect	Micro Business
2.	Organization and management	Run by the owner; do not apply internal workforce
3.	Nature and job opportunities	Mostly employ unpaid family members
4.	Production process pattern/nature	Very low degree of mechanization/generally manual; very low level of technology.
5.	Market orientation	Mostly sell to the local market for low-income groups
6.	Economic and social profile of business owners	Low education and from poor households; the main motivation is survival.
7.	Sources of raw materials and capital	Mostly use local raw materials and own funds
8.	External relationships	Mostly do not have access to government programs and do not have business relationships with large companies
9.	Women entrepreneurs	The ratio of women to men as entrepreneurs is very high.

Performance of Microfinance Institutions (LKM/LKMS) in Strengthening SMEs

Microfinance institutions play an important role in providing financing to micro, small, and medium enterprises (MSMEs). Despite limitations in terms of assets and capital, LKM/LKMS are committed to empowering MSMEs through financing. At the end of 2020, there was growth in credit and financing disbursement for MSMEs. According to the Financial Services Authority, the disbursement of LKM/LKMS credit/financing has the potential to continue to grow in 2021 given the high demand for new capital.

Currently, the number of MSMEs spread across Indonesia has reached over 65 million. This number continues to increase from year to year, although the COVID-19 pandemic resulted in a contraction in credit/financing disbursement in the MSME sector of -1.54% (YoY) in the third quarter of 2020. Credit disbursement for MSMEs is still focused on the wholesale and retail trade sector (49.65%), which experienced a contraction of -3.75% (YoY) compared to the previous year. Conversely, credit disbursement in the agriculture, hunting, and forestry sector (11.36%) as well as the processing industry (10.55%) continue to grow, albeit at a slower pace. Although there was a slight decline in the quality of MSME credit, the Non-Performing Loan (NPL) ratio remains maintained and even increased from 3.76% to 4.04%. However, the NPL ratio in the wholesale and retail trade sector has slightly improved from 3.79% to 3.71%.

AL-MUSYARAKAH :
Journal of Business, Finance, Ahwal Syaksiyah
P-ISSN: xxxx-xxxx | E-ISSN: xxxx-xxxx | DOI: Volume 3 No 1 Tahun 2023 Hlm. 21-29

Tabel Konsentrasi Penyaluran Kredit UMKM

Sektor Ekonomi	Nominal (Rp M)			Porsi	qtq		yoy	
	Sep '19	Jun '20	Sep '20	Sep '20	Jun '20	Sep '20	Sep '19	Sep '20
Perdagangan besar dan eceran								
Baki Debet	528.042	505.656	508.227	49,65%	-3,51%	0,51%	8,41%	-3,75%
NPL	20.024	20.059	18.835	3,71%	-0,06%	-6,10%	5,61%	-5,94%
Industri pengolahan								
Baki Debet	104.160	107.341	108.040	10,55%	-2,99%	0,65%	10,05%	3,73%
NPL	3.916	5.211	5.337	4,94%	11,06%	2,42%	7,58%	36,29%
Pertanian, Perburuan dan Kehutanan								
Baki Debet	103.315	110.977	116.335	11,36%	0,02%	4,83%	23,17%	12,60%
NPL	2.632	2.358	2.602	2,24%	-9,06%	10,35%	18,08%	-1,14%
Listrik, Gas, dan Air								
Baki Debet	6.230	5.308	3.676	0,36%	-5,21%	-30,75%	115,50%	-41,00%
NPL	149	91	77	2,09%	-23,53%	-15,38%	21,14%	-48,32%
Lainnya								
Baki Debet	297.873	286.156	287.357	28,07%	-3,13%	0,42%	15,93%	-3,53%
NPL	12.396	13.656	14.537	5,06%	1,80%	6,45%	15,61%	17,27%
Baki Debet UMKM	**1.039.620**	**1.015.438**	**1.023.635**		-2,99%	0,81%	12,34%	-1,54%
NPL UMKM	**39.117**	**41.375**	**41.388**	4,04%	1,19%	0,03%	9,65%	5,81%

Source: OJK RI (2020)

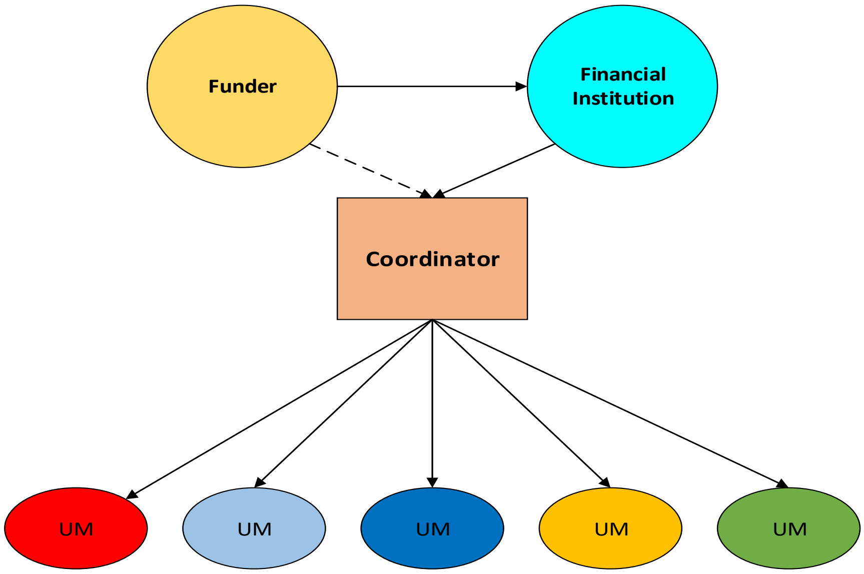
Financing Models in Strengthening UMKM

There are various financing models for UMKM provided by LKM/LKMS in Indonesia, both through banking and non-banking institutions. There are at least four financing patterns available for UMKM:

1. Government and private banking financing: This financing is channeled by government and private banks to UMKM players using applicable banking regulations, with the condition that the business must meet feasible business criteria set by each bank.
2. Rolling fund management institution program (LPDB) of the Ministry of Cooperatives and SMEs: LPDB-KUMKM provides sliding-rate credit interest to real sector cooperatives or maximum investment of 6% per year for a period of 5-10 years, and a maximum of 9% per year for savings and loan cooperatives for three years.
3. Venture Capital Financing: Venture capital is a type of financing in the form of equity participation in a partnership business entity (PSU), with a temporary period of 5-10 years, until the business partner can stand on its own.
4. Partnership and community development program (PKBL) of state-owned enterprises: This program aims to improve the ability of small businesses to become resilient and independent through the utilization of funds from the profit-sharing of state-owned enterprises.

In addition, researchers have developed UMKM financing models based on inhibiting and driving factors and the perception of UMKM players. One of these models was developed by Ramdhansyah and Sondang Aida Silalahi from the State University of Medan.

Figure 2: of MSME Financing Model



Source: (Ramadhasyah 2013)

In the model proposed by Euis Amalia, there are four types of microfinance models that can be implemented by Islamic financial institutions. First, there is the solidarity group model, which is based on small groups that know each other and are responsible for ensuring timely repayment according to a predetermined schedule. The advantage of this model is that it reduces transaction costs in credit distribution and disbursement by shifting to groups. Second, there is the village banking model, which is a community-based financing and savings association run by the village itself. Third, there is the Grameen model, which is the most famous business model for microfinance discovered by Muhammad Yunus in 1983 and awarded the Nobel Peace Prize in 2006. This model is allocated to poor, uneducated women in small rural areas aimed at business and transforming the social status of the poor. Fourth, there is the individual model, which is used by banks and other formal financing institutions where financing facilities are provided directly to customers and it is their obligation to repay the entire amount of financing, requiring some valuable assets as collateral for the financing.

CONCLUSION

The performance of Sharia microfinance institutions in financing SMEs has shown positive results despite the challenges caused by the Covid-19 pandemic on the economic conditions. In terms of capital, microfinance institutions that receive support from the government have successfully increased capital for SMEs, allowing their production to increase. Several microfinance models have been explained to strengthen SMEs, one of which is the model proposed by Ramdhansyah. In addition, there are several other microfinance models that can be applied by Islamic financial institutions, such as the solidarity group model, village banking model, GrameenBank model, and individual model.

DAFTAR PUSTAKA

Gunawan, Imam. 2013. *Metode Penelitian Kualitatif*. 1st ed. Jakarta: Bumi Aksara. https://www.academia.edu/download/62137147/3_Metpen-Kualitatif20200218-117182-1a60wxc.pdf.

Hadiwardoyo, Wibowo. 2020. “Kerugian Ekonomi Nasional Akibat Pandemi Covid-19.” *Baskara: Journal of Business and Entrepreneurship* 2 (2): 83–92. https://doi.org/10.24853/baskara.2.2.83-92.

Madeleen Wegelin-Schuringa. 1992. “Participatory Approaches to Urban Water Supply and Sanitation by Madeleen Wegelin-Schuringa.” 205 40 92PA. *Ircwash.Org: Paper Prepared for OECD/DAC Meeting on Participatory Approaches to Urban Development*. Vol. 83. 1. The Netherlands.

Mahmud, Yogi Saputra, and Emilius German. 2021. “Online Self-Regulated Learning Strategies Amid a Global Pandemic: Insights From Indonesian University Students.” *Malaysian Journal of Learning and Instruction* 18 (2): 45–68. https://doi.org/10.32890/mjli2021.18.2.2.

Maital, Shlomo, and Ella Barzani. 2020. “The Global Economic Impact of COVID-19: A Summary of Research.” *Samuel Neaman Institute for National Policy Research*, no. March 2020: 1–12. www.neaman.org.il.

Mishra, Mukesh Kumar. 2020. “The World after COVID-19 and Its Impact on Global Economy.” *Dentons*, no. December 2019: 1–12.

Otoritas Jasa Keuangan. 2020. “Laporan Profil Industri Perbankan Triwulan III 2020.” *Otoritas Jasa Keuangan*.

Rahman, Abdul Rahim Abdul. 2010. “Islamic Microfinance: An Ethical Alternative to Poverty Alleviation.” *Humanomics* 26 (4): 284–95.

Ramadhasyah. 2013. “Pengembangan Model Pendanaan UMKM Berdasarkan Persepsi UMKM” 5 (1): 30–41. https://docplayer.info/41952218-Pengembangan-model-pendanaan-umkm-berdasarkan-persepsi-umkm-ramdhansyah-dosen-universitas-negeri-medan.html.

Sparrow, Robert, Teguh Dartanto, and Renate Hartwig. 2020. “Indonesia Under the New Normal: Challenges and the Way Ahead.” *Bulletin of Indonesian Economic Studies* 56 (3): 269–99. https://doi.org/10.1080/00074918.2020.1854079.

Sugiyono. 2018. *Metode Penelitian Kuantitatif, Kualitatif, Dan R&D*. Bandung: Alfabeta.

Tambunan, Tulus. 2019. “Recent Evidence of the Development of Micro, Small and Medium Enterprises in Indonesia.” *Journal of Global Entrepreneurship Research* 9 (1). https://doi.org/10.1186/s40497-018-0140-4.

Tambunan, Tulus TH. 2009. *UMKM Di Indonesia*. Bogor: PT Ghalia Indonesia.