

The Impacts of Baitul Maal wa Tamwiil Empowerment Program to MSMEs Development

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Abstract

This study aims to determine the impact of the BMT (Baitul Maal wa Tamwiil) empowerment program on the development of MSMEs (Micro, Small, and Medium Enterprises) in Magelang. From this research, it is hoped that it can provide accurate data and maps about the extent to which programs and activities that have been carried out by BMT influence MSMEs in Magelang Regency, with indicators: BMT and UMKM profiles; access that MSMEs have to the BMT program, programs that have been implemented by BMT and the impact of the BMT program on the development of MSMEs. This research uses descriptive qualitative analysis. Respondents in this study consisted of several large BMTs in Magelang, namely BMT LE Syariah, BMT Bima, BMT Karisma, and BTM Amman. The results showed that the programs implemented by BMT in the development of MSMEs had an impact on increasing business productivity by increasing capital, increasing profits, and increasing managerial using musyarakah, murabahah, wakalah and qardhul hasan contracts. Also, BMT help to market their members' business products in cooperation with institutions and agencies (Cooperative agencies) in the form of collaboration activities of MSMEs empowerment.

Keywords: *BMT, Empowerment program, Impacts, MSMEs development.*

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Introduction

In 2018, the Indonesian Central Bureau of Statistics reported that Micro, Small, and Medium Enterprises (MSMEs) dominated businesses among Indonesians. This can be seen in the contribution of MSMEs in absorbing labor, which amounted to 97.16% of the total workers in Indonesia. There are 64,199,606 registered with the Ministry of Cooperatives, with a total workforce of 120,598,138. The rapid development of MSMEs is not only at the central level but also at the regional level (Badan Pusat Statistik, 2019). According to data released by the Magelang Central Bureau of Statistics, at least 39,772 MSMEs are registered in 2018 (Table 1).

Table 1. Number of MSMEs in Magelang

Type of Industries	2016	2017	2018
Chemical, Agricultural & forest product Industries	36,457	36,478	36,491
Metal, Mechanical, Electronic & various Industries	3,204	3,211	3,224
Total	39,712	39,745	39,772

Source: Magelang Central Bureau of Statistics, 2019

Based on Table 1 above, the majority of MSMEs operating in Magelang are small industries, around 98% of the total existing MSMEs. MSMEs are important engines in driving economic growth in society (Maulana & Akbar, 2019). Its role in the Indonesian economy, especially in Magelang, is seen from its position as a major sector in community economic development, poverty alleviation, job creation, and a major factor in the development of community empowerment activities (Hasanah & Yusuf, 2013). However, in achieving these community development goals, MSMEs cannot be separated from the inherent constraints. The capital aspect of development is the main obstacle for MSMEs in carrying out social empowerment maneuvers in the form of job creation. To realize the maximum function, the concept of promoting people's economic empowerment in the field of MSMEs can be applied. The growth of MSMEs sector implies that there are big potentials of domestic power. If it can be develop well it must be able to realize strong small enterprises. Therefore, it takes an effort of SMSEs empowerment both in quality and quantity (Kamaliyah, 2018).

On the other hand, the presence of BMT in society is very helpful for micro-business actors. With the existence of BMTs, micro-business actors who are said to be not bankable can easily access capital without any interest rates that are feared to increase the income burden of MSMEs. BMT is a financial institution for MSME players by conducting savings and loan activities on a sharia basis, namely a profit-sharing system. With this profit-sharing system, there is no interest rate like that given by conventional financial institutions. Thus, access to capital for MSMEs can be realized with the empowerment program carried out by BMT (Aziz, 2019).

The role of BMT in developing UMKM has been analyzed by previous researchers, which includes several aspects such as the role of BMT, MSME development programs through profit-sharing agreements, MSME financing risks, and the effectiveness of MSME development through BMT (Fahrial, Maryunani, Ashar, & Kaluge, 2015; Hasanah & Yusuf, 2013; Mohamed Asmy & Mohammed, 2013; Mubarrak, 2018; Nur Yahya, 2018; Yuniar, 2015). Although research on the role of BMTs for the development of MSMEs has been done a lot, there are not many studies that analyze the MSME empowerment through the BMT program in Magelang. This article fills in the gaps in past research by describing the empowerment program conducted by BMT for the development of MSMEs with two contributions. First, this study aims to explore the role of BMT in Magelang in empowering MSMEs through sharia-based financing programs. Second, the findings in this study are expected to contribute to the development of literature and BMT marketing strategies.

Literature Review

In the Indonesian economy, MSMEs are a business group that has the largest number of workers and has been proven to be resistant to the economic crisis (Mubarrak, 2018). Based on article 6 of Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, there are several criteria used to define Micro, Small, and Medium Enterprises. Small and medium enterprises with limited scale characteristics have several advantages and disadvantages. Its strength lies in the ability to exercise flexibility in facing various environmental challenges, in detail some of the strengths of small

and medium enterprises can be described as follows: 1) Developing new business creation, 2) Innovating 3) dependence of large businesses on small businesses 4) Resilience of small businesses to crises quite high On the contrary, from several strengths it has, small businesses are also not free from several weaknesses (Widiyanto & Ismail, 2009).

According to Fitriyah et al., (2015), Some of the weaknesses of MSMEs are limited business control competence, weak management skills, high failure rates, limited resources. Small entrepreneurs often run businesses with limited resource availability. This unpreparedness is not only in terms of capital funds and/or other equipment, but also unpreparedness in the mastery of business competencies or lack of management skills. The small business failure rate of 44% is caused by a lack of competence in the business world (Husaeni & Dewi, 2019). The lack of competence here includes the lack of mastery of the field of business being undertaken and the ability to manage business activities. The second cause of failure is the lack of management skills with a percentage of 17% (Nur Yahya, 2018).

Several previous studies have linked the weaknesses of MSMEs with the role of BMTs in increasing the potential of MSMEs. Aziz, (2019) said that BMTs can play a significant role in solving MSME problems in obtaining sources of capital. According to him, the financing offered in the form of *Mudharabah* and *Musyarakah* agreements greatly helps the small and micro business trade sector in the form of productive financing. According to Widiyanto & Ismail (2009), Islamic microfinance institutions such as BMT have a major contribution to creating sustainability for the development of MSMEs in Indonesia.

Firdaus et al., (2020) in his research on The Role of Microfinance Institutions in Supporting the Development of Micro, Small and Medium Enterprises, concluded that Islamic microfinance institutions such as BMT can become effective institutions for the development of MSMEs, due to their financial services that are easily accessible to MSMEs in Indonesia. This is also the same as the opinion of Kamaliyah, (2018), which states that the performance of BMTs has proven effective in changing the quality of MSMEs.

Development of regulations on Islamic Microfinance Institutions through Law No. 1 of 2013 and about MSMEs through Law No. 20 of 2008, has provided great opportunities in supporting the development of MSMEs in the form of equity participation (Fahrial et al., 2015). Until now, there have been many programs developed by BMT in empowering MSMEs in Indonesia. Effendi & Pratiwi (2017) argued that the *musyarakab* financing contract was widely used by BMTs as an SME development program based on the principle of profit-sharing. Followed by Shomad et al. (2017), who concluded that BMT as a sharia microfinance institution also uses the *mudharabah muqayyadab* contract in financing the operations of MSMEs. On the other hand, Sumardi & Zulpahmi, (2017) found the fact that some BMTs also used *murabahab* and *qardbul hasan* financing contracts as MSME development programs. According to him, *qardbul hasan* financing is very effective for MSMEs due to the convenience and minimal costs incurred by MSMEs.

However, there are not many studies that specifically analyze the programs used by BMT in Magelang in the context of developing the UMKM sector. Therefore, this study tries to fill in the gaps from previous studies.

Methods

By adopting qualitative analysis, this study aims to describe and analyze the programs used by BMT in Magelang in developing UMKM. The data in this study were obtained through structured interviews with BMT leaders in Magelang. These respondents were selected because they are among the largest BMTs operating in Magelang. Besides, respondents were selected because the BMT offered products that were suitable for increasing MSMEs. The results of the structured interview were then analyzed using a descriptive qualitative approach to find the financing model used by BMT for the development of MSMEs. The profiles of respondents in the study are described in Table 2.

Table 2. Respondent Profiles

Gender	Age	Profession	Institution
Female	38	Manager	BMT LE Syariah

Gender	Age	Profession	Institution
Male	49	Manager	BMT Bima
Male	43	Manager	BMT Karisma
Male	39	Manager	BTM Amman

Source: Authors documentation

Result and Discussion

Based on the interviews with BMT managers in Magelang, the MSME empowerment program has been carried out in the form of providing venture capital in the form of financing with various contracts (*murabahab*, *musyarakab*, *mudharabah*, and *qardhul hasan*) in accordance with BMT policies and regulations. BMT, in general, have certain qualifications in the distribution of business financing, so that not all MSMEs have the opportunity to obtain capital funds through BMT financing. In addition to the repayment ability factor analysis, BMT also pays attention to the personality aspects of its members, especially in the first proposed business financing.

In the *murabahab* contract, BMTs in Magelang prefer MSMEs that have been operating for more than a year than those that have just started. Before providing an empowerment program through a *murabahab* contract, BMT first makes a selection according to the applicable regulations. Through this *murabahab* contract, BMT acts as a supplier of raw materials for MSMEs by determining the profit on the cost of the goods. Payment for these raw materials is made in cash or installments. BMT in Magelang conducts an analysis first before determining the payment system by the capabilities of MSMEs.

In the *musyarakab* and *mudharabah* contract, MSMEs cooperate with BMT in developing their businesses. BMT includes capital assistance to MSME businesses that apply for empowerment programs through selection according to the rules set by BMT. Selection of MSME businesses is carried out to determine the prospects for business development through financial reports and business profits of MSMEs. Profit and loss sharing is based on the capital contribution of each party between MSMEs and BMT.

From the research data, it can be seen that most BMTs in Magelang do not have special mentoring programs related to MSME activities in managing the funds obtained from BMT, both from financial and managerial aspects. Empowerment, which includes business assistance, is an activity that is sometimes difficult for BMT to carry out, especially if based on the National BMT Regulation, BMT must be implemented with the target of increasing turnover and assets to obtain permits and certificates.

However, to accommodate activities that cannot be carried out by BMT, empowerment is carried out through collaboration with other institutions such as cooperatives in the form of socialization and training on problems faced by MSMEs, especially in terms of financial governance, marketing of business products, or other developments.

BMT in Magelang, has a *baitul maal* that collects *zakat infaq* and *sadaqah* funds. One of them is channeled through the *Qardhul Hasan* contract to MSMEs in the form of benevolence loans. According to several BMT managers, the application of the *Qardhul Hasan* contract is closest to the principle of empowerment in Islamic economics, where those who receive it only have the obligation to complete their financing responsibilities without any obligation to increase the profit in the proposed financing.

The results of this study were also supported by several previous researchers. Aziz (2019); Fitriyah et al, (2015); and Widiyanto & Ismail (2009) considers that the role of BMT in offering financing products using Islamic economic agreements is very influential for the development of MSMEs. According to him, this financing is able to increase MSME income and the ability to meet fixed and non-fixed costs that are borne by MSMEs. On the other hand, the financing provided by BMT has a fairly broad scope and can easily be reached by the small community. According to Effendi & Pratiwi, (2017), the *musyarakah* financing agreement can create productive cooperation between BMT and UMKM in the form of business cooperation in which profits are divided according to capital participation.

The Factors Influencing MSMEs Empowerment

In ideal conditions, BMT should play an important role in empowering MSMEs, because BMT is the easiest institution to conduct activities with MSMEs. However, reviewing the above research findings, that empowerment conducted by BMT is limited to the provision of business capital alone, it is considered necessary to know the factors that cause the less optimal role and function of BMT in empowering the MSMEs sector. The practice of BMT in Magelang has two functions. *Baitul Maal* functions in the form of ZISWAF management and *Baitul Tamwil* functions in the form of savings and financing management. BMT can manage zakat funds by collecting zakat, donations, and alms. The challenge faced by BMTs in Magelang is that the majority of BMTs do not use their *Baitul Maal* function. This fact occurs because only a small proportion of people have more income to channel their ZISWAF. This makes BMT in Magelang, dependent on donors to channel *qardul hasan* financing. The revitalization of the *Baitul Maal* concept is very important because there are unlimited donor funds. According to Mubarrak (2018), *Qardhul Hasan* financing that is distributed by BMT has the potential to be used as a solution to poverty alleviation. In addition, through *Qardhul Hasan* financing, it allows MSMEs to be sustainable because they do not only depend on donations.

BMT as a profit-oriented institution, where the asset is one aspect of success in running its operations. BMT has responsibility in the provision and distribution of results of operations to members who trust their funds to be deposited in that financial institution. Therefore, every BMT activity must be profitable. Inadequate manager's amount is also one of the factors causing the lack of ability of BMT to carry out the role of empowerment of MSMEs. Cooperation with other parties that are considered less optimal between BMT and other parties who have competence in assistance and empowerment. From the MSMEs side, according to Fitriyah et al., (2015), the assistance is not maximal because of the moral hazard and culture of SMEs businessman, which causes less transparency of SMEs in reporting business profit when they use *musyarakah* contract. Collateral is also a factor affecting empowerment. Most MSMEs apply for cooperation have no assurance that the cooperation

will run smoothly. It causes the occurrence of the default of MSMEs businessman against the agreement between both parties.

Apart from these achievements in the development of MSMEs, BMTs in Magelang face many challenges in their operations. Kamaliyah, (2018) argues that BMT not only has great potential in alleviating poverty and improving the socio-economic community, but also has many obstacles. Among these obstacles are the human resources who have not mastered in depth the concepts and products of Islamic finance which can make it easier for human resources at BMT to provide understanding to MSMEs about development programs through sharia financing contracts. Not only that, BMT is also required to provide education about the concept of Islamic economics to the community (F & Haryadi, 2018). Another obstacle is that BMT has the responsibility to increase the capacity to serve members in all aspects. The most obvious challenge and obstacle is that the presence of BMTs can be a competitor for conventional microfinance institutions which always have a comprehensive commitment to Islamic principles (Mubarrak, 2018).

In connection with the obstacles faced by BMTs role of BMT in the development of these MSMEs, BMTs in Magelang are required to continuously improve their capacity and capabilities in serving UMKM finances in various programs that are following Islamic values and teachings (Agus, 2019). According to Rusydiana & Devi (2013), BMT as a sharia microfinance institution that has social and business functions should get special attention from policy holders (government) through regulations that always support BMT development. On this basis, BMT will be able to become the main motor driving the community's economy, especially MSMEs in Magelang.

Conclusion

The economic empowerment program undertaken by BMTs on Micro Small and Medium Enterprises (MSMEs) is implemented through the provision of venture capital using *musyarakah*, *murabahah*, *wakalah* and *qardbul hasan* contracts. In addition, BMTs also help to market their members' business products in cooperation with institutions and agencies (Cooperative agencies) in the form of collaboration

activities of SMSEs empowerment. From the obstacles faced by BMT in Magelang, it is excepted that empowerment program should be done not only limited to the provision of capital alone, but it takes follow-ups of capital received by members in the form of business assistance in the aspects of business management, business financial management, and business marketing management. Maximizing the role of *baitul maal* of BMT in collecting philanthropy funds (*zakat, infak, sadaqah, and waqf*) so that it is not burdened with the obligation to return the results of business to members who have lend their social funds to BMT. Sustainable collaboration with professional institutions and agencies in the development of MSME sector. One of the impacts felt by the MSMEs businessman through empowerment conducted by BMT is the help in the development of business related to the needs of venture capital which is implied on increasing the profit of MSMEs business.

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