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The role of sharia microfinance institutions in developing MSMEs

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ABSTRACT

This study aims to investigate and identify the current conditions regarding the role of Sharia microfinance institutions in developing MSME businesses. The community needs Microfinance institutions, especially low-income groups and small and micro-entrepreneurs who have yet to be reached by banking financial services, especially public banks. In providing loans to MSMEs, microfinance institutions must effectively educate and equip their clients with relevant entrepreneurial knowledge and skills. This research will use a qualitative approach with a case study method, which does not use statistical generalizations but uses logical generalizations and replication. Three Sharia microfinance institutions and sixteen MSME cases will be selected in this research. The research was conducted at Sharia Microfinance Institutions as providers of microcredit and MSMEs receiving microcredit in the Southern region of the Special Region of Yogyakarta, Gunungkidul, and Kulonprogo. This research will use three data collection methods, namely interviews, observation, and documentation, to maintain the validity and reliability of the data. Data triangulation is used to test the validity of the data. The data analysis process in this research uses two stages: descriptive analysis and case analysis. The findings of this research show hope regarding the promise of easy access to capital or funding sources as an effective tool for improving MSME business development through effectiveness, supervision, and guidance carried out by Sharia microfinance institutions. This change can be realized if the community has economic stability obtained through easy access to capital, increasing business income, and empowering the community to be ready to become entrepreneurs. It supports the development of a creative economy industry based on entrepreneurship and globally competitive ethics.

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Introduction

The strategy for empowering people experiencing poverty can be carried out in two ways, namely, reducing the burden of consumption expenditure on people experiencing poverty and increasing the productivity of the low-income to increase their income (Belwal et al., 2012; Christabell & Vimal Raj, 2012; Inoue & Hamori, 2013). A way to realize the second method can be done through the help of microfinance institutions. The community needs Microfinance institutions, especially for low-income groups and small and micro-entrepreneurs who have not been reached by banking financial services, especially public banks. In providing loans to MSMEs, microfinance institutions must effectively educate and equip their clients with relevant entrepreneurial knowledge and skills (Shahinpoor, 2009; Rahim Abdul Rahman, 2010; Awaworyi Churchill, 2020; Amanor et al., 2023).

A basic approach that emphasizes that the poor move from their current situation to a better situation through (a) Obtaining training to be successful in managing microenterprises owned in the informal economic sector in third world countries, (b) Development of small businesses and micro-entrepreneurial skills through consultation and technical assistance provided by NGOs and other institutions; and (c) Obtaining capital through microfinance strategies (Robinson, 2001; Ledgerwood et al., 2013). This approach can be implemented by empowering MSMEs through the distribution of microcredit by microfinance institutions (Belwal et al., 2012; Anwar et al., 2023).

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Considering these conditions, hope arises regarding the promise of easy access to capital or funding sources as an effective tool to improve the conditions of MSMEs (Rao et al., 2009; Isfianadewi, 2011; Isfianadewi, 2023; Lwesya & Mwakalobo, 2023). However, unfortunately, there has not been a uniform improvement for MSMEs (Gertler et al., 2009; Isfianadewi, 2023). Apart from the availability of access to funding, another factor determining the success of business actors who receive microcredit is social capital, which is a social relationship that facilitates individual activities with the business environment (Rupeika-Apoga, 2014; Akingunola et al., 2018).

One of the Sharia microfinance institutions is Baitul Maal wat Tamwil (BMT). BMT stands for baitul maal and baitul tamwil and refers to Islamic financial institutions formed to play Islamic social roles and seek profit in a way that aligns with Islamic laws (Lone, 2016). BMT was established as an Islamic financial intermediary for micro, small, and medium enterprises (MSMEs). Hence, BMT is also known as an Islamic microfinancing practice in Indonesia. The existence of BMT in Indonesia has been becoming an alternative financial services provider.

Apart from that, BMT in Indonesia is also a critical intermediary (mediator) between Sharia banks and customers, especially to channel equity financing for micro, small, and medium enterprises (Seibel, 2008). The reasons are as follows: Micro and small businesses in Indonesia usually do not carry out accounting records properly; therefore, it is difficult for Islamic banks to monitor and control the financing provided to these companies. Worst of all, equity financing is a trust-based relationship, which is highly risky (Seibel, 2008). To minimize these weaknesses, Islamic banks in Indonesia channel equity financing to micro and small businesses through BMT as one of their corporate social responsibility activities. BMT can carry out direct monitoring of customers because BMT was founded in a small community and has good relationships with its customers/members.

BMT in the Special Region of Yogyakarta has shown significant development as an intermediary institution for MSMEs in providing access to capital, supervision, and guidance so their businesses can develop. It is supported by the number of BMT in DIY, which can be seen in the following table:

Table 1: Number of BMT in the Special Region of Yogyakarta by Region

Regions	Number of BMT	
	2020-2021	2022-2023
Bantul Regency	26	5
Gunungkidul Regency	11	4
Kulonprogo Regency	7	2
Sleman Regency	29	7
Yogyakarta City	25	9
Amount	98	27

Source: Sharia Cooperative Center BMT Special Region of Yogyakarta, 2023

Based on the table above, it can be seen that BMT growth in the Kulonprogo and Gunungkidul areas is slower than the other three areas in the Special Region of Yogyakarta. It is closely related to the region's need for financing services for MSMEs. By empowering the role of Sharia microfinance institutions as microcredit distributors, they can provide access to capital, supervision, supervision, and guidance to MSMEs so that business development and MSME business actors can be realized to achieve sustainable prosperity (Islam & Ahmad, 2020; Anwar et al., 2023; Isfianadewi, 2023).

So it is essential to identify current conditions to prepare mechanisms that are right on target, and it is hoped that there will be changes in the livelihood conditions of the poor to become prosperous in a sustainable manner (Isfianadewi, 2011; Galema et al., 2012; Isfianadewi, 2023).

This paper is organized as follows: following the introduction, a second part is a literature review with theoretical and empirical studies that shed light on the linkage between theory and practice. The third part introduces the background information on research and methodology. After analysis and findings of the study, the authors provide discussions and implications. Finally, this paper concludes with key points, recommendations, limitations, and future research directions.

Literature Review

Sharia Microfinance Institutions in Developing MSMEs

The microfinance revolution has invaded developing countries today. Microfinance has proven to be an effective tool for poverty reduction in developing countries. If microfinance is implemented and managed carefully, and when services are designed to meet the needs of business actors, microfinance has a positive impact not only on business actors but also on families and the wider community (Shahinpoor, 2009; Addae-Korankye, 2012; Bel hadj Miled & Ben Rejeb, 2018; Amanor et al., 2023).

Microfinance has experienced very rapid development in the last two decades. Since the success of the Grameen Bank program introduced by Muhammad Yunus (Nobel Peace Prize winner in 2006) in Bangladesh in the early 1980s, world financial institutions

have begun to pay great attention to microfinance to alleviate poverty and also make a profit (Rahim Abdul Rahman, 2010; Awaworyi Churchill & Marr, 2016; Mushtaq & Bruneau, 2019; Awaworyi Churchill, 2020; Bansah & Adjei, 2023; Amanor et al, 2023).

It is found from related literature that microfinance positively impacts poverty alleviation and is an effective tool for poverty reduction in many countries, including India, Nigeria, Ghana, South Asia, Vietnam, Latin America, the Caribbean, Uganda, Ethiopia, and Tanzania. When implemented and managed carefully, and when services are designed to meet the needs of business actors, microfinance has a positive impact not only on business actors but also on families and the wider community (Belwal et al., 2012; Beisland & Mersland, 2012; Cristabell & Vimal Raj, 2012; Obadeyi, 2015; Awaworyi & Marr, 2016; Akingunola et al., 2018; Fiala, 2018; Thanh et al., 2019; Khan et al., 2022; Amanor et al., 2023; Bansah & Adjei, 2023).

Microfinance has emerged as a new promise for alleviating poverty and improving the limited access to financial services by offering small loans to people experiencing poverty, with no pledged collateral requirement. Due to the unique features of microfinance, the credit relationship between the lender and the borrower is considered to be the foundation of the business (Abbas & Shirazi, 2015; Awaworyi Churchill & Marr, 2016; Lahkar & Pingali, 2016; Sim & Prabhu, 2017; Thanh et al., 2019; Mushtaq & Bruneau, 2019; Awaworyi Churchill, 2020; Li et al., 2022; Bansah & Adjei, 2023; Amanor et al, 2023)

Microfinance Institutions (MFI) are financial institutions specifically established to provide business development and community empowerment services, either through loans or financing in micro-scale businesses to members and the community, managing savings, as well as providing business development consulting services that are not solely seeking profit (RI Law, 2013)

MFI aims to (a) increase access to microscale funding for society, (b) help increase economic empowerment and community productivity, and (c) help increase the income and welfare of the community, especially the poor and low-income communities (Bhuiyan et al., 2011; Bhuiyan et al., 2012).

Microfinance institutions based on Sharia principles and Islamic teachings are called Baitul Maal wat Tamwil (BMT). Etymologically, Baitul Maal wat Tamwil has two meanings: Baitul Maal, which means "house of money," and Baitul Tamwil, which means "house of financing." In this sense, a money house is a collection of funds originating from infaq, zakat, or sadaqah and the. The financing carried out is based on the principle of profit sharing, which is different from the conventional banking system, which is based on the interest system (Bhuiyan et al., 2011; Bhuiyan et al. ., 2012; Hassan, 2014; Masyita, 2017).

In December 1995, BMT was declared a national movement to empower small businesses and. That year, Bank Indonesia also allowed BMT to be an institution that could be given funding assistance and enter into a linkage program with commercial banks.

Three principles can be implemented by BMT (in its function as Baitut Tamwil), namely (1) the principle of profit sharing, (2) the principle of buying and selling with a profit, (3) the principle of non-profit (Wardiwiryono, 2012). Currently, BMT covers all regions of Indonesia, with the largest population on the island of Java. Since the enactment of Law No. 1 of 2013, BMT has been classified as an MFI, which must follow the rules in this law. It gives legal status to BMT.

Microfinance institutions can play a role by distributing microfinance to MSMEs, which is carried out in stages according to the level of achievement that the MSMEs can achieve. In addition, microfinance institutions need to supervise MSMEs regarding the use of microfinance through training, counseling, and guidance so that MSMEs can use microfinance for sustainable business improvement needs, which will have an impact on increasing income on a sustainable basis. In this way, it is hoped that a sustainable increase in the standard of living and welfare of the community will be achieved (Isfianadewi, 2011; Rupeika-Apoga, 2014; Gherhes et al., 2016; Lwesya & Mwakalobo, 2023)

The growth of MSMEs based on scale in the Special Region of Yogyakarta over the last four years can be seen in the following table:

Table 2: Number of MSMEs Based on Scale (Units)

MSMEs Based on Scale	2020	2021	2022	2023
Micro business	188.033	318.892	324.745	324.408
Small business	58.980	16.061	16.069	16.069
Medium Business	30.664	2.107	2.110	2.109
Amount	287.682	337.060	342.924	342.586

Source: BAPPEDA Special Region of Yogyakarta, 2023

The table above shows the number of MSMEs based on a scale ready to receive services from BMT in the Special Region of Yogyakarta at the micro-scale. It reflects the significant role of microfinance institutions in supporting business development through the distribution of business capital followed by supervision and guidance.

The growth of MSMEs by region in the Special Region of Yogyakarta over the last three years can be seen in the following table:

Table 3: Number of MSMEs by Region (Unit)

MSMEs Based on Regions	2021	2022	2023
Bantul Regency	90.611	86.986	91.775
Gunungkidul Regency	55.429	53.960	57.761
Kulonprogo Regency	36.954	36.141	37.398
Sleman Regency	84.756	113.962	86.129
Yogyakarta City	39.021	32.793	39.807
Others (Resident Identity Card outside Special Region of Yogyakarta, business activities in Special Region of Yogyakarta)	30.289	19.083	29.716
Amount	337.060	342.924	342.586

Source: BAPPEDA Special Region of Yogyakarta, 2023

The table above shows the number of MSMEs by region. This data shows that the smallest number of MSMEs is in the Kulonprogo and Gunungkidul areas, except for Yogyakarta City. So, MSMEs in these two regions were chosen as research informants.

The many types of microfinance institutions growing and developing in Indonesia show that microfinance institutions are needed by society, especially low-income groups and small and micro-entrepreneurs who have not been reached by banking financial services, primarily commercial banks.

In providing loans to MSMEs, microfinance institutions must effectively educate and equip their clients with relevant entrepreneurial knowledge and skills. Learning from microfinance institutions in Ghana, 45% of MFIs provide business management and development training to their clients in addition to innovative loan packages. The results show that microfinancing of MSMEs in Ghana helps increase their income level, improve the managerial competence of MSME owners, and develop innovative products and services. However, the remaining 55% of microfinance institutions only focus on providing loans and do not provide business development training to their clients (Bansah & Adjei, 2023; Amanor et al., 2023).

Research and Methodology

Research Method

The research method in this research is a qualitative research approach. Qualitative research is conducted to build knowledge by understanding and discovery. The qualitative research method is based on positivist philosophy. It is used to examine the conditions of natural subjects, where the researcher is the key instrument, data analysis is inductive or qualitative, and the results of qualitative research emphasize meaning rather than generalizations. In this research, researchers examined the words of the sources, detailed reports of the respondents' views, and conducted studies in different situations (Yin, 2018).

Qualitative research is carried out in natural conditions and is discovered nature. In qualitative research, the researcher is the key instrument. Therefore, researchers must have adequate insight and theory to ask questions, analyze, and construct the subject under study clearly and well-structured.

Qualitative research involves observing people in their living environment by interacting with them and understanding their language and behavior in their daily lives. The interactions carried out are, of course, related to the focus of the research to understand, explore views and experiences, and obtain the required information.

Qualitative research is where the researcher is the crucial instrument in collecting and analyzing data using data collection techniques in the form of observation, interviews, and documentation. Qualitative research is used if the problem is unclear to find implied meanings, understand social interactions, develop theories, and ensure the correctness of data and historical research developments.

Research Sample

This research was conducted at Sharia Financial Institutions and MSMEs in Kulonprogo and Gunungkidul Regency, Special Region of Yogyakarta Province as research subjects. The research location was chosen because both areas have relatively high numbers of poor people. These two regions are the southern region of the Special Region of Yogyakarta and the rural base of the Special Region of Yogyakarta, which has development disparities compared to urban areas such as Yogyakarta City and Sleman Regency. There were three Sharia Financial Institutions studied that had Mudharabah and Musyarakah products:

- i. BMT Arafah, Kulon Progo and 8 MSMEs
- ii. BMT Ummat, Gunung Kidul and 1 MSMEs
- iii. BMT Dana Insani, Gunung Kidul and 7 MSMEs

Data Collection

This research data was obtained from two informant types, the Sharia Micro Financial Institution (SMFI) and MSMEs, using data collection techniques and carried out continuously. Following the characteristics of the data required in this research, the data collection techniques were observation, interviews, and documentation (Creswell & Creswell, 2022). Data collection was carried out during the January-December 2023 period

Variable and Measurement

List of Observation Guidelines for Sharia Microfinance Institutions (SMFI)

Observation for Effectiveness

- i. MSMEs have a high awareness of their credit loan repayment obligations.
- ii. MSMEs are fluent in fulfilling their credit loan obligations at other Sharia Microfinance Institutions (SMFI) or have no black records at other financial institutions.
- iii. MSMEs have sufficient capital to pay Sharia Microfinance Institutions (SMFI) credit installments.
- iv. The guarantees related to micro-credit that MSMEs provide can cover the micro-credit ceiling at Sharia Microfinance Institutions (SMFI).

Observation for Supervision

- i. Credit loans are used for the development of MSME businesses.
- ii. Financial conditions are unstable, so borrow credit from Sharia Microfinance Institutions (SMFI).
- iii. Customers' businesses have experienced more significant development after receiving loans from Sharia Microfinance Institutions (SMFI).
- iv. Sharia Microfinance Institutions (SMFI) collect obligations (interest) on time.
- v. Sharia Microfinance Institutions (SMFI) provide low interest so customers can fulfill their obligations.
- vi. MSMEs have fulfilled the administration and collateral documentation related to the credit required by Sharia Microfinance Institutions (SMFI).

Observation for Coaching

- i. Sharia Microfinance Institutions (SMFI) provide active guidance by analyzing debtor business developments according to field visits.
- ii. Sharia Microfinance Institutions (SMFI) review business developments by monitoring debtors' financial conditions more than four times.
- iii. MSMEs have regularly fulfilled the terms and conditions of credit and have orderly administration.
- iv. Sharia Microfinance Institutions (SMFI) help find solutions for customers who face problems developing their business, such as irregularities and misusing microcredit funds.
- v. Sharia Microfinance Institutions (SMFI) directly monitor the location of customer assets or goods financed by microcredit loan funds.

List of Interview Guidelines for MSME Business Development

- i. How will MSME business capital be after getting a loan from SMFI?
- ii. How are the production results of MSME businesses after receiving a loan from SMFI?
- iii. What is the production target for MSME businesses after receiving a loan from SMFI?
- iv. What are the benefits for MSMEs after getting a loan from SMFI?
- v. What is the sales turnover of MSME businesses after getting a loan from SMFI?
- vi. How will the MSME business run smoothly after getting a loan from SMFI?
- vii. What will the MSME business unit look like after getting a loan from SMFI? Is it developing well?
- viii. What is the sales target for MSME businesses after getting a loan from SMFI?
- ix. What is MSMEs' perception regarding the loan capital provided by SMFI to MSMEs?
- x. What are the targets for MSME products after getting a loan from SMFI? Is it improving well?

Findings and Discussions

Findings

This research was conducted at Sharia Financial Institutions and MSMEs in Kulonprogo and Gunungkidul Regency, Special Region of Yogyakarta Province. These two regions are the southern region of the Special Region of Yogyakarta and the rural base of the Special Region of Yogyakarta, which has development disparities compared to urban areas such as Yogyakarta City and Sleman Regency. Three Sharia Financial Institutions studied had Mudharabah and Musyarakah products. The research was conducted during the period January to December 2023 (12 months) in the Kulonprogo and Gunungkidul areas with the following profile:

Table 4: Profile of Informant SMFI and MSMEs

Regions	SMFI	MSMEs		
Kulonprogo	BMT Arafah	Buying and Selling Cars (Kamijan)		
		Basic Food (Murtinah)		
		Reseller (Rahmanto)		
		Wood (Sugito)		
		Seamstress (Sukirman)		
		Wooden logs (Sunardi)		
		Ceragem (Sunaryah)		
		Geblek (Surati)		
		Gunungkidul	BMT Ummat	Pastry (Lasmaida)
				Bakpia (Supriyono)
Padang Cuisine (Wastini)				
BMT Dana Insani	Bakery (Bandi)			
	Chicken noodle (Wastilah)			
	Padang Cuisine (Mulyadi)			
		Wood (Bayu)		

Source: Data Processed, 2023

SMFI has attempted to empower MSMEs to develop their business. SMFI promotes entrepreneurship with a profit-sharing system under Islamic law. Mudharabah products are products offered to advanced MSMEs. Besides providing capital assistance, SMFI also monitors the effectiveness of funds use, guidance, and supervision. For this reason, researchers analyzed SMFI mudharabah and musyarakah products to see their impact on MSME business development.

This research examines mudharabah or musyarakah products offered by BMT or SMFI. Based on this, researchers collected data directly in the field to see the implementation of these two products by conducting interviews with MSMEs (customers) and observing SMFI. The hope is that, through interviews and observations, researchers will get an overview of the role of Sharia Financial Institutions towards MSMEs in a sustainable manner. Strategy formulation is carried out for both parties with different standards and indicators. The formulation of Sharia Financial Institution strategies includes effectiveness, supervision, and training. Meanwhile, MSMEs include business development. The analysis results will provide an overview of the rights and obligations of Sharia Financial Institutions and MSMEs (customers).

Sharia Financial Institutions implement a profit and loss sharing and risk sharing system with their members in carrying out their operational systems. It explains every financial calculation for transactions to minimize speculative and unproductive activities. In Islamic teachings, a transaction involving two parties, a seller and a buyer, cannot cause losses. Both must work together to carry out transactions transparently and agree to agreements that have been mutually agreed upon.

BMT Arafah Kulonprogo has an orientation to collect funds and distribute them back to members to develop their business by giving a small profit/sharing of their business results to BMT. There are two types of financing available at BMT Arafah Kulon Progo, namely mudharabah and musyarakah. BMT Arafah's small business partner partners are helped by the financing facilities offered, even though they are sufficient to cover personal needs.

BMT Dana Insani Gunungkidul is oriented toward empowering the community's economy, especially the lower and middle economic groups. The role played in community economic empowerment is the implementation of mudharabah and musyarakah financing so that the community can build their businesses with BMT Dana Insani as their business partner. Businesses that partner with BMT Dana Insani are businesses that can improve the welfare and help the economy of the business actors.

BMT Ummat Gunungkidul has an orientation towards creating benefits and blessings with Sharia economics to build civil society together. For this reason, BMT Ummat offers financing products in musyarakah to increase working capital for both small and medium-scale businesses. The community can use the BMT Ummat financing facility to increase the quantity of products sold and improve the quality of business premises.

Discussions

SMFI: BMT Arafah, Kulon Progo

Table 5: Results of MSME Business Development

Informant	Answer	Analysis
Buying and Selling Cars (Kamijan)	<p>"Buying and selling cars means that the price of the car goes up and down, sis, so for second-hand cars, there are high prices, there are low ones, you know, at that time, we were chasing prices that were a bit expensive, so there were buyers, yes, relations who made requests like that, and I consulted them with Mr. Arif, thank God it was granted, until now I'm still... That's how it is."</p> <p>"Yes, at least it's in the 90s, so if it's an old car, it's possible, but why would it be difficult to sell it, sis? However, if it's at least in the 90s, it's still easy."</p> <p>"Hey, we're often in Jakarta, sis, so we pick it up there, then we bring it back here, and then..... we sell it, for example, the one from there is IDR 35 million, then the price here will be above IDR 40 million, but if we sell it, right? "It's already in that name. So what are we going to do with this profit? We deduct operational costs, repairs, oil changes, and other costs. Moreover, we also refer to the market here."</p> <p>"We took it there (Jakarta) ourselves, then there was family too, then if there were family they would say there was a car like this, then I asked to send a photo, then if it came here there was a relative who wanted to take it here then I went straight there to take it like that."</p> <p>"But if the price is low, I'll still accommodate it first."</p> <p>"The profit is at least IDR 1-2 million; that's the minimum. If it's busy, maybe you'll get IDR 5 million."</p> <p>"Yes, thank God it has improved, sis. We can use the money from BMT for the following month until there is income from the repair shop and profit from spare parts, which helps, right? In other words, the side is buying and selling cars."</p> <p>"I've been running a business for 20 years. The company has only developed in the last 5-7 years."</p>	<p>Most loan funds from BMT have not been able to enable the business to develop but to fulfill needs. The financial system is not yet neatly organized. There is no separation between money for personal needs and funds for business.</p>
Basic Food (Murtinah)	<p>"4 million for two years, so the installments are light, only IDR 200,000 including services. I pay in installments every month. But this last loan was because I experienced depreciation due to a decrease in turnover, so I didn't dare to do much; then the monthly installments were reduced to IDR 169,000 principal plus IDR 50,000,</p> <p>"If the target happens to be what I want, it should be more or less like it was before, haha. Is it okay if a ladder crushes my fate haha? I've fallen, I've fallen, and even the shop has been smashed, haha for my capital, I'll replace it, you know, IDR 5 million."</p>	

"It could be more, sis, if you have reached the target, if it's just turnover, then it can be IDR 500 thousand now, and it's different from that, you know, it's not income, now turnover can be around IDR 500 thousand. Yesterday's data was from trade, too, haha. Because of the price of the goods Expensive, sis, 10 kilos is worth IDR 200 thousand; hehe."

"- now income from selling necessities has decreased due to moving locations.-"

Reseller (Rahmanto) "What, sis, it's not clear I'm doing it all over the place. The business that's being financed is crafts, eh? What patchwork is clothing, so it's like shirts and trousers, but from patchwork, you know. That's what's being funded. I'm a seller who doesn't produce but sells and resells. I take it from several craftsmen, I collect it, and then sell it there."

"This craft business started nine years ago before I knew BMT. Then, I got to know BMT. I borrowed starting installments of IDR 150 thousand per month; BMT now trusts it."

"Meanwhile, my target is this envelope. In the past, the history of this envelope was that about five years ago, I only sold around 100 packs, and then I wholesaled around 300 packs in Jogja. Then I produced it myself, so I sold 100 packs, then 300 packs. , I will continue to produce it myself. It is the 3rd year of production, and for now, the target is 100,000 packs."

"This is a new division; what's the purpose of the new division, envelopes for giving donations, you know. I was looking for a friend to run a business together. I told them the tricks, but they didn't want to do it. Yes, I've been running my own business. It turns out it's fast, you know."

Wood (Sugito) "This is a small business. That's right, it's wood. I got the capital from BMT Arafah, then I started the business, and it turned out that it was successful, but it was successful, so that's how it works. I'm moving fast, but my speed is falling."

Seamstress (Sukirman) "Sometimes, when I have many orders, the profits are used to pay the craftsman's fees and to buy tools. If the money isn't enough, I take out a loan from SMFI."

"That's one month, if there are many buyers, around two sets, sometimes 2-6 sets."

"Well, if there's an advantage, I'll use it to buy materials, not for the seamstress. Yes, sometimes I run out a few meters. That's when I get a profit. So I'm free from sewing costs."

Wooden logs (Sunardi) "Yes, thank God there has been an increase. Since I joined Arafah for two years ago, there has been development in my business."

"I collected the goods, and my friend made the sale."

"There are many obstacles, sometimes from suppliers and cutters, sometimes the price tends to go down."

Ceramgem (Sunaryah) "-The business has been in business for five years, since September 2013.-"

"That's the term for ordering first, sometimes adding one, adding two. Sometimes you don't buy it. The money is still tight. Meanwhile, there are operational costs for the ceragem therapy business. The equipment needs to be serviced regularly."

"There are patients who have cholesterol and then ask about bitter honey. There are producers of bitter honey, and I usually buy four kinds. Here the famous one is Azikro, because of Ustadz Arifin, I don't know, maybe because the Ustadz has prayed for it, it sells more. "But yes, the profit is only 10 thousand."

"If I have the money, I will stock up on many wholesalers."

Geblek (Surati) "-The one who runs the business (from manufacturing to sales) is Mrs. Suratih's mother.-"

"They sell at the Clereng market. To get to the market, you must walk more than 1km. If you run out of merchandise during the journey, go straight home. There are no stalls at the market. If you sell, the place is near the parking lot."

Source: Data Proccesed, 2023

SMFI: BMT Ummat, Gunung Kidul

Table 6: Results of MSME Business Development

Informant	Answer	Analysis
Pastry (Lasmaida)	<p>"First borrow a small amount, then it increases to IDR 10 million and even IDR 20 million."</p> <p>"Loan repayment does not wait until it is due. For example, if I take out a loan, the money will be returned immediately after a few months. Later, if needed, I will borrow again, so the time never runs out."</p> <p>"The loan from BMT was done because it was urgent. For example, before Eid and Christmas, if you have cash, it will be returned immediately, automatically."</p> <p>"MBT also sees us growing, so he continues to give them."</p> <p>"My business started with a kilo of flour, and until now, I can reach 2500 jars during the Eid season."</p> <p>"So BMT saw me; from a kilo of flour until now, it has developed."</p> <p>Starting from having a small box oven to now having four ovens. BMT already knows the ups and downs of building this business."</p>	<p>The development of MSMEs can be said to be very good. Loans are taken if there is a need for additional funds, and we always try to repay them before the maturity date.</p> <p>A relationship of mutual trust and support is established between MSMEs and SMFI.</p>

Source: Data Proccesed, 2023

SMFI: BMT Dana Insani, Gunung Kidul

Table 7: Results of MSME Business Development

Informant	Answer	Analysis
Bakpia (Supriyono)	<p>"If I were with BMT, I would be considered like family; I've been around for over 15 years. Since the beginning, since zero, I've been working with BMT... Humans. So it's been from zero to nothing at all. I don't have any employees from the start yet, and I'm already working with BMT Bakpia."</p> <p>"Started from a loan of around IDR 3 million." "Yes, starting." "Haven't got anything, started from zero." "Developed gradually, through a process, a year of development, then now I have 12 employees." "In the past, I didn't have a model like this box. At first, I used plastic." "Yes, we used plastic; we offered it from online shops; as it has grown, we are trying to open a souvenir shop."</p> <p>"So we replaced the packaging with boxes. So the first time we started, the plastic packaging was the traditional model, so we left it in pieces, which was too risky. So, for example, we sent 10... 5 were damaged, I lost money there, so we thought about it for a long time. We couldn't develop a model like that, so in the end, we changed to cardboard containers, left them in souvenir shops, Wonosari... snacks... then the customers even looked for them at home. Finally, we opened an outlet at home." "This business has been running for less." "For more than two years, we continued to develop using this cardboard; then we stopped using the plastic model because that model has too many risks."</p> <p>"At first, we left 20-25 boxes of 25 at the gift shop."</p> <p>"The variants are chocolate, cheese, durian, green tea, green beans, and purple sweet potato. Because now we have to follow the consumers, so if we produce it as usual, some want green tea, for example, we prefer it... so give it to us. That's it... milk bakpia, well, the plan is that we can innovate to meet customers; if it's not like that, we'll be left behind, even though most consumers like green beans, but there are also some who..., now the trendy ones are for example green tea, but most of them are original, green beans."</p> <p>"I'm now trying to fatten cattle." "Yes, because we think that the thing called bakpia can't always exist, sometimes it's also quiet, we have to have something else so that later if we have more than one we can cover it, besides that "The waste from green beans is used for the benefits of the cows. So the green beans are just taken out of the contents, the skin is thrown away, then we use that for fattening, mix it the same as katul, polar, and then make animal feed."</p>	<p>The development of MSMEs can be said to be very good. Loans are taken if there is a need for additional funds, and we always try to repay them before the maturity date.</p> <p>A relationship of mutual trust and support is established between MSMEs and SMFI.</p>
Padang Cuisine (Wastini)	<p>"Yo, it's been seven years." "Before borrowing" "Before borrowing BMT." "Yoo, it's been a long time, right? I'm new to BMT. Employees previously owned this business." "Then I was at the vegetable business, you know, selling vegetables."</p> <p>"Starting to get to know BMT at the place selling vegetables."</p> <p>"Oh no, no, it's just that if you borrow money from there, your</p>	

business was still small in the past." "For your business to increase, sometimes you borrow. However, if you look at it from another perspective, sometimes you borrow money from BMT, which is, at most, enough for shopping. The rest is for what else you can buy, right? If the loan is paid off, it means my business can make a profit." "Yes... there is." "Heeh, that's all."

Bakery (Bandi) "There is.." "40% is there." "Equipment... or from the person, including additional subscriptions." "Year... this bakery business is around 2010." "Yes. This bakery business started in 2008."

"At first, it was just a peek and various snacks." "Hooh. After that, it was 2008... In 2007, the business started with 2-5 orders. The way to do it is to have an open market there... so it's more practical."

"Use a stove oven" "In 2007 we still used a stove oven... So we replaced the big oven in 2008." "The business started to progress... yes, around 2010 and above, 2010." "The target for 2010 is to start using management, but there is still a mix-up between personal and business finances. Department of Industry and Trade directs MSMEs to separate personal and business finances."

Chicken noodle (Wastilah) "That has an influence. In the past, there was no tourism, but now there is; every Saturday and Sunday, culinary delights are open, and there will be activities like that from "June Lake." Most of these businesses have increased their turnover slightly. Visitors, yes, visitors come and eat here."

"5 kilos, 7 kilos, now it can be 8 or 9 kilos like that" "Oo... If you shop from the beginning, then this is it: making meatballs, grinding them, and making chicken noodles, my capital is IDR 800,000, so later, if I can finish it all, the income can be IDR 13,000-12,000, sometimes IDR 15,000, depending. Sometimes, if you take away a lot, the revenue decreases, but if you dine in, you mostly add a drink. If you take it away in a box, it reduces income. If you eat here, you mostly drink it."

"If you add crackers or something like that, that's more."

Snack Zaenal) "How much was it? It used to be small... starting from the beginning... IDR 2.5 million, IDR 5 million, gradually, adding more and more... Until now, IDR 50 million, eh, how much is that, yes 50."

"Oo, if the first capital is more than IDR 20 million."

"This is a minimum for every IDR 11-12 million purchase."
"Yes, one ball is around IDR 25 million to IDR 35-45 million."

"So actually, for example, if you want to do packing, almost 0.5 or half is a profit. But in the past, when I went with someone, I would have already packed it; it was packed, and then it was almost 0.5, but if I weren't able to pack it, if there were a rejected item, I would throw it away wherever someone would accept it, like that, if it were here, I would have to look for it. So when it comes to packing, we change

shops or customers almost every two weeks. So I'm free. I sell to these shops in balls."

"Hey, but now just send it. In the past, I used to go around regularly, looking for customers, but now all I have to do is make a phone call, and then I'll deliver it. Before, I went around every day, but at least once a week, I went around every other shop. Now it's good... you don't need to go around, but the customer orders it. sent"

"Wow, I'm counting. I do at least 4-5 every day, that's every day if it's once a week, once every two weeks, I'll come again, so every day I have to open a shop like that, right? "My route is from the west to the Panggang area, then from the east to the Tepus Jepitu area, the coastal area."

"If the target is certain.. certain.. yes if we add shops, that's certain.. keep going..."

Padang Cuisine (Mulyadi) "We used to borrow it in... 2001... around IDR 2 million."

"Yes, to increase capital."

"Nowadays... how do you call it... the minimum for chicken is 10 kg because Padang cuisine differs from Catfish Pecel stalls? Because there are lots of terms. Here, it's 10 kg."

"Yes, IDR 7 million more or less, maybe more or less, depending on your accuracy."

"Cooking doesn't always run out. In the past, there was a lot of it. Why? In the past, it was rare. The contract competition is chicken; for catfish pecel, it doesn't matter if the chicken is cheap. You are a lecturer, and you must be looking for cheap chicken, hahaha; that's why in Jakarta, meatballs are compared to Padang restaurants, expensive Padang restaurants. Now, no, meatballs are expensive. The current price position, identical to Padang cooking houses, is quite expensive now it's the opposite of expensive for meatballs. You know Padang food in Yogyakarta is IDR 10 thousand."

"If the maximum is 500, it's usually for a study tour. We usually serve fried chicken or whatever you like."

"maybe word of mouth, maybe."

Wood (Bayu) "Purworejo and Lampung"

"Just the number and then deposit it straight away. If you have many friends from Purworejo, I'm originally from Purworejo."

"pawen, waler, playen. "

"Just lower the price."

"Yeah, what's the term? If the other one is IDR 40,000, I'll lower the price by IDR 30,000."

"There are no production targets."

"Yes, only if something runs out, then send it; if it's finished, then send it; if it's finished, then send it. This month, I've sent it seven times."

"The profits are pretty good."

"Thank God, the profit is good. Yesterday, it was one month to IDR 40,000 net."

"Turnover decreased starting December. The rain came, and it dropped a bit—all the effort. The fields are like that, too; it's starting to get hot here. Usually, in March, it starts to rise. Every year, that's right."

Source: Data Processed, 2023

Based on the observations and in-depth interviews with informants who are SMFI customers in Gunungkidul and Kulonprogo districts in this research, information can be obtained about the role of SMFI as an institution that provides loans in developing SME businesses. The role of SMFI is seen from three dimensions, namely, effectiveness, coaching, and supervision, as shown in the following table:

Table 8: Reduction Based on Observations and Interview Results with MSMEs

Areas	Effectiveness	Supervision	Coaching
Gunung Kidul	BMT Dana Insani has found a practical formula regarding the rules for lending funds to MSMEs.	BMT Dana Insani has practiced supervision at the beginning of the lending process. However, it is not done periodically.	BMT Dana Insani agrees that coaching is needed to accompany the lending process to achieve BMT's goals.
	BMT Ummat has found a practical formula regarding the rules for lending funds to MSMEs.	BMT Ummat has practiced supervision at the beginning of the lending process. It is, moreover, lending to MSMEs whose economy is stable.	BMT Ummat Agrees that coaching is needed to accompany the lending process so that BMT goals are achieved
Kulon Progo	BBMT Arafah still has not found a more effective formula regarding the rules for lending funds to MSMEs.	BMT Arafah has practiced supervision at the beginning of the lending process. However, it is not done periodically.	BMT Arafah agrees that coaching is needed to accompany the lending process to achieve BMT's goals.

Source: Data Processed, 2023

Conclusions

It is hoped that SMFIs in Indonesia can become one of the pillars of the financial intermediation process, especially for micro, small, and medium enterprises. It is also hoped that MFIs can increase financial inclusion so that all levels of society can access financial services. The characteristics of Indonesian culture, which are communal or mutually cooperative, are very much in line with the characteristics of an SMFI, which is a community bank.

The very heterogeneous structure of Indonesian society requires financial institutions that suit the characteristics of each group. The communal character of Indonesians is very much in line with the type of financial institution community banking. Strong microfinance institutions will positively impact the development of micro, small, and medium enterprises in all corners.

Based on the findings of this research, there is hope regarding the promise of easy access to capital or funding sources as an effective tool for improving MSME business development through effectiveness, supervision, and guidance carried out by Sharia microfinance institutions. This change can be realized if the community has economic stability obtained through easy access to capital, increasing business income, and empowering the community to be ready to become entrepreneurs. It supports the development of a creative economy industry based on entrepreneurship and globally competitive ethics.

This study has few informants, but these findings are valid and reliable. So, there is an optimistic belief that BMT in Indonesia will be able to become an alternative Sharia financial intermediary, especially for micro, small, and medium enterprises, considering that BMT in Indonesia applies ICS in its activities, especially its financing activities.

Finally, the author suggests that future researchers consider conducting observations and in-depth interviews with SMFIs and MSMEs in all districts/cities in the Special Region of Yogyakarta.

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