

# Microfinance practices versus sustainable welfare

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## Microfinance practices versus sustainable welfare

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### ABSTRACT

This study primarily investigates microfinance practices for sustainable community welfare. Microcredit aims to provide credit to poor people to help empower communities and reduce poverty. Community empowerment strategies can be carried out by increasing the productivity of poor communities to increase their income. A basic approach that emphasizes that the poor move from their current situation to a better position by empowering MSMEs through the distribution of microcredit by micro-financial institutions. Changes that will result in sustainable prosperity, decreasing inequality between regions, and reducing community income gaps. This research will use a qualitative approach using the case study method, which does not use statistical generalizations but uses logical and replicative generalizations. This research uses multiple cases with varying characteristics as research informants. Two microfinance institutions and ten cases of MSMEs will be selected in this research. The study was conducted at Sharia Microfinance Institutions as providers of microcredit and MSMEs receiving microcredit in the Southern region of the Special Region of Yogyakarta, Bantul. This district was chosen because Bantul has the highest poverty rate. This condition is the focus of attention for maximum treatment. This research will use three data collection methods: interview, observation, and documentation, to maintain the data's validity and reliability. Data triangulation was used to test the validity of the data. The data analysis process in this research uses two stages: descriptive analysis and within-case analysis. The research results found that microfinance practices carried out through Sharia Microfinance Institutions (SMFI), apart from focusing on providing accessible financing facilities, have also provided direction in developing MSMEs and taking action towards community welfare. SMFI regularly provides business development training to MSMEs

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## Introduction

Poverty has become a big challenge for nations worldwide, especially for developing countries (Addae-Korankye, 2012; Kaka & Abidin, 2015; Miled & Rejeb, 2018; Mushtaq & Bruneau, 2019). There is a famous global criticism from Mahatma Gandhi: "Poverty is the worst form of violence," which is a creative new approach as an attempt to bargain for the fundamental problems of developing countries. The strategy for empowering people experiencing poverty can be carried out in 2 (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.

A fundamental approach that emphasizes that the poor move from their current situation to a better one by 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 micro-financial institutions (Belwal et al., 2012; Kato & Kratzer, 2013;

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). However, in reality, this does not happen. There is still a gap between expectations and reality. There is no easy access to capital, no guidance and supervision of loan utilization, and no guidance for business actors. So it is essential to

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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 (Gertler, 2009; Rao et al., 2009; Galema et al., 2012).

Changes that will produce sustainable prosperity characterized by increased community life expectancy, increased community income, decreased inequality between regions, and reduced community income gaps (Beisland & Merstrand, 2012; Awaworyi Churchill & Marr, 2016; Awaworyi Churchill, 2020; Bansah & Adjei, 2023). 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.

Poverty is a vital phenomenon in every country, and efforts are always made to minimize or even eliminate it if possible (Addae-Korankye, 2012; Kaka & Abidin, 2015; Miled & Rejeb, 2018; Mushtaq & Bruneau, 2019). However, in reality, poverty is still inherent in every aspect of human life, including in Indonesia (Robinson, 2001; Anwar et al., 2023), especially in the Special Region of Yogyakarta, so it requires a comprehensive, integral, and sustainable poverty reduction effort with a target of completing the treatment—extreme poverty in 2024 (Public Relations Special Region of Yogyakarta, 2023). However, before this can be achieved, it is necessary to know the condition of MSMEs receiving micro-credit and the mechanism for distributing micro-credit in the Special Region of Yogyakarta.

One of the well-known micro-credit distribution institutions in the Special Region of Yogyakarta is the Sharia microfinance institution. By empowering the role of Sharia microfinance institutions as microcredit distributors, they can provide access to capital, 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).

In recent years, the rate of economic growth in the Special Region of Yogyakarta has tended to be stable above the national average due to the dominance of the development of the creative industry and the growth of the MSME sector, which dominates the economy of the Special Region of Yogyakarta. However, on the other hand, the number of poor people is still increasing. Based on calculations, the Special Region of Yogyakarta's poverty rate was 11.49%. This percentage is above the national average, namely 9.57%. The areas with relatively high numbers of poor people are Bantul, Gunungkidul, and Kulon Progo. These three regions are the southern region of the Special Region of Yogyakarta as well as the rural base of the Special Region of Yogyakarta, which has development disparities compared to urban areas such as Yogyakarta City and Sleman Regency (BPS, 2023).

Considering these conditions, this research was conducted to obtain an overview of the practices of Sharia Microfinance Institutions providing microcredit to MSMEs receiving microcredit to achieve sustainable community welfare in the Southern Special Region of Yogyakarta, Bantul. This area was chosen because it is the center of poverty in the Special Region of Yogyakarta. The results of this research will provide an overview of the conditions of MSMEs receiving microcredit and mechanisms for distributing microcredit that is right on target and utilizing microcredit that results in changes to achieve sustainable prosperity. The role of small and medium enterprises (SMEs) as engines of economic growth has been widely recognized and has become a focus of academic research and policymaking.

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, future research directions, and limitations.

## Literature Review

### Microfinance Practices versus Sustainable Welfare

The sustainability of community welfare is primarily determined by the sustainability of the performance of microfinance institutions and the sustainability of microfinance distribution to the community, in this case, MSMEs. If the sustainable performance of microfinance institutions is to be maintained, they must carry out their role well. Microfinance institutions can play a role by distributing microfinance to MSMEs, which is carried out in stages according to the level of achievement that 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, characterized by increased education, health and longevity, empowerment and employment opportunities, living standards, and healthy food (Gertler et al., 2009; Isfianadewi, 2011; Obadeyi, 2015)

The results of this research can only be concluded based on secondary data published by the relevant institutions, so the results that directly touch changes in people's livelihoods have not been measured significantly. This research only looks at one side: microfinance institutions' perspective as microcredit distributors. Based on this, it is necessary to research two sides: the view of financial institutions distributing micro-credit and the perspective of micro businesses as recipients of micro-credit (MSMEs). The results of this research are expected to find a mechanism for distributing microcredit that is right on target and utilizing microcredit

that results in changes to achieve sustainable prosperity and the realization of a civil and sustainable society that is sustainably prosperous.

In the book *The Microfinance Revolution*, it is said that studies about people experiencing poverty that have been carried out by practitioners, government policymakers, academics from campus circles, community servants, and others have not been able to create changes in the livelihoods of people experiencing poverty. Robinson (2001) has researched microfinance (microcredit) for over 20 years, including in Indonesia for Bank Rakyat Indonesia, which is considered one of the best in implementing microfinance. Apart from Indonesia, Robinson has also conducted research and assistance on microfinance issues in Bolivia, China, India, Kenya, Tanzania, and Vietnam.

The microfinance revolution has invaded developing countries today. Microfinance has proven to be an effective tool for poverty reduction in developing countries. This research looks at whether microfinance is an effective strategy for poverty reduction in developing countries (Addae-Korankye, 2012); Christabell, 2012; Inoue & Hamori, 2013; Kaka & Abidin, 2013; Miled & Rejeb, 2018; Mushtaq & Bruneau, 2019). 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, 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; Kato & Kratzer, 2013; Kaka & Abidin, 2015; Obadeyi, 2015; Awawory & Marr, 2016; Akingunola, et al., 2018; Fiala, 2018; Khan et al., 2022; Amanor et al, 2023; Bansah & Adjei, 2023).

According to Robinson, 2001, poverty alleviation can be implemented through many means and programs, including food, health, housing, education, family planning programs, and, of course, through loans in the form of microcredit. Loans in microfinance are effective in dealing with poverty (Inoue & Hamori, 2013; Fiala, 2018). However, it should be noted that when loans are given to impoverished people, it is likely that they will never be repaid. Considering that people in poverty have no income or productive activities, it is natural. Food and job creation programs are more suitable for these impoverished communities. Meanwhile, some other people are categorized as poor but have economic activities (economically active working poor), or people with low income (lower income) still have income, although not much. For this reason, appropriate approaches, subsidy programs, or microloans are needed for each group of poor people (Robinson, 2001; Ledgerwood et al., 2013).

The recent financial crisis has made the availability of external financing for MSMEs more complicated, with higher interest rates, shortened terms, and increased demand for collateral. New funding elements were added to improve MSME finance, including direct loans, microloans, export guarantees, and support for risk capital (equity) either through co-financing or tax credits for investors. MSMEs, especially newly established ones, face many difficulties accessing alternative funding, which has increased over the last five years. Banks are less willing to lend to new companies as a result of the financial crisis (Rupeika-Apoga, 2014; Lahkar & Pingali, 2016; Thanh et al., 2019; Amanor, 2023).

The many types of microfinance institutions that are growing and developing in Indonesia show that microfinance institutions are needed by society, especially low-income groups, small and micro-entrepreneurs who have not been reached by banking financial services, especially commercial banks (Islam & Ahmad, 2020; Anwar et al., 2023). In providing loans to MSMEs, microfinance institutions must effectively educate and equip their clients with relevant entrepreneurial knowledge and skills. Previous research found that 45% of microfinance institutions provide business management and development training to their clients in addition to innovative loan packages. The results show that microfinancing distributed to MSMEs not only helps increase MSME income levels but also helps increase the managerial competence of MSME owners and develop innovative products and services. However, the majority (59%) of microfinance institutions only focus on providing loans and do not provide business development training to their clients (Lahkar & Pingali, 2016; Thanh et al., 2019; Li et al., 2022; Amanor, 2023).

## Research and Methodology

### Research Approach

This research uses a qualitative research approach. Qualitative research is conducted to build knowledge through understanding and discovery. Qualitative research is a method based on the positivist philosophy, 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 in 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.



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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 sites

Researchers conducted research at Sharia Financial Institutions in Bantul Regency, Special Region of Yogyakarta Province as research subjects. The research location was chosen because Bantul Regency is the highest poverty pocket in the Special Region of Yogyakarta province. There were two Sharia Financial Institutions studied that had Mudharabah and Musyarakah products:

1. BMT Bina Ihsanul Fikri (BIF), Bantul
2. Bank Madina Sharia, Bantul

#### Data collection technique

In this research, data was obtained from two informant sources, the Sharia Micro Financial Institution (SMFI) and MSMEs, using three 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).

List of Interview Guidelines:

##### i. MSME Business Development

- a. What is the capital for MSME businesses after getting a loan from SMFI?
- b. What are the production results of MSME businesses after receiving a loan from SMFI?
- c. What is the production target for MSME businesses after receiving a loan from SMFI?
- d. What are the benefits for MSMEs after getting a loan from SMFI?
- e. What is the sales turnover of MSME businesses after getting a loan from SMFI?
- f. How will the MSME business run smoothly after getting a loan from SMFI?
- g. What will the MSME business unit look like after getting a loan from SMFI?
- h. Is it developing well?
- i. 8. What is the sales target for MSME businesses after getting a loan from SMFI?
- j. 9. What is the perception of MSMEs regarding the loan capital provided by SMFI to MSMEs?
- k. 10. What are the targets for MSME products after getting a loan from SMFI? Is it improving well?

##### ii. Decent life (nutrition and health)

- a. The last 12 months, has there been a food shortage for more than one month?
- b. Can your family drink clean water (not necessarily a local water company)?
- c. Does your family always receive medical (doctor, mantra) or traditional (shaman) health services when a family member is sick?

##### iii. Knowledge or Education

- a. What is the highest educational level of adult family members (including the head of the family)?
- b. Are there children aged 7 to 16 years in the family attending school (children paid for by the family)?
- c. Do any family members have skills or knowledge outside of agriculture not obtained from school (for example, traditional healing skills, craftsmanship)?
- d. Do you feel that your family is poor?

##### iv. Economic participation and decision-making

- a. The last 12 months, what sources of income did your family rely on most?
- b. How many types of income are there in the respondents' families?
- c. Is this income fixed?

#### Research Informant

Informants are sources of information to obtain the required information in a study. Researchers interviewed several informants related to research at BMT Bina Ihsanul Fikri (BIF), Bantul, Bank Madina Sharia, Bantul, and ten MSMEs who are customers of SMFI.

**Table 1:** Informant Data Based on Name, Location, and Business

Name	Location	Business
Wagiem	BMT BIF Bantul	Shadow Puppets
Suratni	BMT BIF Bantul	Food ingredients spices
Subardi	BMT BIF Bantul	Vegetables
Sarmila	BMT BIF Bantul	Broilers
Jumilati	BMT BIF Bantul	Clothes
Raditya Dimas	Bank Madina Sharia Bantul	Shoe
Julio	Bank Madina Sharia Bantul	Reseller of Aice
Indra	Bank Madina Sharia Bantul	Accessories
Dhiah Ayu	Bank Madina Sharia Bantul	Accessories

Source: Data Processed, 2023

## Findings and Discussions

Sharia Financial Institutions (SMFI) already exist and are developing rapidly in Indonesia. Various SMFI variants operating throughout Indonesia include Sharia Bank and Baitul Maal Wat Tamwil (BMT). SMFI is a financial institution whose main principles are under Islamic sharia. The existence of SMFI is a solution for the Indonesian people, the majority of whom are Muslim. The thing that differentiates conventional banks from Sharia financial institutions is the interest. Sharia Financial Institutions come with a profit-sharing concept, where SMFI, as funders and members (customers), become recipients of funds by promising an agreed profit ratio or ratio of business results (Anwar et al., 2023).

Sharia Financial Institutions have Sharia banking products: Murabahah, Salam, Istisna, Mudharabah, Musyarakah, and Ijarah. From these products, researchers chose products that lend funds to business-to-business actors and use a profit-sharing system, namely Mudharabah and Musyarakah. Mudharabah products are financing distributed by Sharia Financial Institutions to other parties for productive businesses. Mudharabah financing is a cooperative agreement between two parties where the institution provides all the capital (shahibul maal), and the member (customer) acts as the fund manager (mudharib), with business profits using a profit-sharing system according to the agreement of both parties—the profit ratio in mudharabah financing rewards both parties, namely the capital provider and the business actor. Meanwhile, musyarakah products are financed in the form of cooperation agreements between Sharia Financial Institutions and members (customers) in the form of pooling capital by each party to carry out certain businesses so that they have an asset that aims to obtain a certain amount of profit with the stipulation that profits and losses will be borne jointly. The profits obtained will later be shared based on the agreement or capital portion, while losses will be handled according to the capital portion of each party (Islam & Ahmad, 2020).

This research focuses on Sharia Financial Institutions in Bantul Regency, Yogyakarta Special Region Province. This research was conducted at one Sharia Bank and one BMT in Bantul Regency, namely Bank Madina Sharia, Bantul, and BMT Bina Ihsanul Fikri Bantul. Both financial institutions have Mudharabah products, so they align with this research's focus.

The financial institution in Bantul studied is Bank Madina Sharia, located at Jl. South Ringroad No. 334, Dongkelan, Panggungharjo, Sewon, Bantul and BMT Bina Ihsanul Fikri (BIF) Bantul branch on Jl. Raya Pleret, Bantul. The respondents obtained at Bank Madina Sharia were five with Aice ice cream, shoes, catering, and accessories businesses. Meanwhile, BMT BIF provided five respondents with broiler chicken, primary vegetables, food spices, shadow puppets, and clothing businesses.

Each SMFI has worked to empower communities in these areas to improve their welfare. One of them is by promoting entrepreneurship with a profit-sharing system with SMFI. Mudharabah products are products offered to the community to start their MSMEs. Starting your own business for middle to economic communities is very important from SMFI's point of view because it is based on the background of people who do not have the proper education and skills to compete to find decent work. For this reason, researchers analyzed the SMFI mudharabah and musyarakah products to see their impact on the welfare level of MSME players.

Mudharabah or musyarakah products are used by Sharia Banks and BMTs that researchers studied. Based on this, researchers conducted direct observations in the field to see the implementation of these two products by interviewing financial institutions and MSMEs (customers). The hope is that, with observations, researchers will get an overview of the practices of Sharia Financial Institutions towards MSMEs in a sustainable manner. Strategy formulation is carried out for both parties with different standards and indicators. Strategy formulation for Sharia Financial Institutions includes effectiveness, supervision, and guidance. Meanwhile, MSMEs provide business development, a decent life (nutrition and health), knowledge/education, economic participation, and decision-making. The analysis results will provide an overview of the fulfillment of the rights and obligations of Sharia Financial Institutions and MSMEs (customers).

## Discussion

Sharia Financial Institutions implement a profit and loss sharing and risk sharing design 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 Bina Ihsanul Fikri (BIF) Bantul aims to empower lower-class economic communities through financing/credit to small and low-income entrepreneurs with a profit-sharing system. The funding offered by BMT BIF is mudharabah with 100% capital from BMT BIF and musyarakah with joint venture capital between business actors and BMT BIF. Business actors in the Pleret Market, Bantul, feel the most negligible impact of the existence of BMT BIF in Bantul so that they can continue to run their businesses and cover their daily needs.

The following are the results of joint interviews with 10 MSMEs:

*"First, not for capital; buy a laptop for 5 million."*

*"What do you mean by profit? I don't know because this one is still running out, this is still running out, the money is spinning."*

*"If you've finished borrowing again, it's finished... borrowing again."*

*"Do you think it's enough or not enough to borrow capital from BMT, ma'am? If you don't have enough money, take it slow..."*

*"And after you borrow from BMT, the profits are still the same, ma'am? The same."*

*"Ooh, the result isn't enough to pay in installments? Yes, it's not enough to pay in installments..."*

*"Not enough, it's not enough for snacks alone."*

*"Many, many obstacles"*

*"It's difficult financially. Usually, it's difficult financially, and lots of needs are difficult financially, and lots of needs are many expenses to contribute to that. Lots of it, difficulties are lots of donations, so it's difficult financially, so you don't get back to capital like that."*

*"It's hard to recover capital so that you can borrow it."*

*"Yes, in the end, if the neighbors don't find out about BMT. If that's the case straight away, it won't be good if the neighbors find out."*

*"That means since borrowing from BMT, it's been beneficial, right? Yes, the need is full."*

*"Do you think the borrowed business capital is sufficient for this business? No..."*

*"No... It's just that when you order, you don't have the money, you know?"*

*"If there is a need to pay something for the family's needs, there is no money and then borrow it, you know."*

Bank Madina Sharia Bantul has an orientation to help with working capital needs to support smooth operations and business development plans. The existing financing facilities at Bank Madina Sharia include mudharabah. BMT Madina Sharia helps its employees' businesses run so they have a second income besides the fixed income from the company.

The following are the results of joint interviews with 10 MSMEs:

*"In the past, we offered coaching assistance from BMT; we were taught to offer goods on social media. So there were blogs like Facebook, like that too. Because in the past, there was a community like a cooperative facilitated by bloggers and blogs, we advertised there. "So, the orders are not only in Jogja, sometimes we also send them outside the city of Palembang and Bogor, Jakarta, the furthest away yesterday we took them to Hong Kong, but that's far away."*

The sustainable welfare of MSME actors in this research was reviewed from several indicators: education/knowledge, a decent life (nutrition and health), and economic participation and decision-making. These indicators are used to see the level of welfare of the MSME players specifically.

These MSMEs are business actors who borrow capital from Sharia Financial Institutions to start from scratch or for previously running businesses. The results will be described according to the indicators used in this research.

#### **Education/Knowledge**

A person's level of education is sometimes an indicator of that person's success in the eyes of society, especially in building a business. These indicators form loci regarding a person, whether that person is a quality Human Resources (HR) generation or not. Based on observations, interviews, and researcher documentation, 0.4% of the ten respondents had a bachelor's degree, 0.2% were senior high school graduates, 0.1% were junior high school graduates, and the remainder were elementary school graduates.

Furthermore, MSME actors in Bantul are almost equal in undergraduate and high school education. It should also be noted that even though business actors with bachelor's degrees are employees, they are still relatively young, between 25 and 35 years old, which

also helps their family's economy. Business actors with education other than a bachelor's degree can send their children to undergraduate school, although it cannot be denied that some cannot afford to send their children to undergraduate school, so they also sell as MSME business actors.

The following are the results of an interview with the MSMEs:

*"What is your final education, ma'am? Didn't go to school," "Didn't graduate from elementary school," "Yes, the first child is already working, graduated from high school. The youngest is still in grade 1 of junior high school." (Mrs. Suratni, food seller, Bantul/BIF).*

*"What's your final education, ma'am? Elementary school All elementary school" "What's your final education for all of your children, ma'am? This is vocational school" (Mrs. Sarmila, Ayam Panggang, Bantul/BIF).*

*"What's your latest education, sir? Junior High school" "Yes, second grade Junior High school" "What's your brother's latest education? Bachelor's degree" "Yes. Nursing" "Nursing academy" (Mrs. Wagiem, Shadow Puppet Craftsman, Bantul/BIF).*

*"Yes, at the Islamic boarding school. I went to school, but I haven't graduated yet."*

*"My youngest child will study at the State Islamic University." "Then that means the last child, ma'am, is an undergraduate, right? Yes," "Haha, what was your final education, ma'am? I also studied at the State Islamic University but was told to work alone and then leave. I was told to pay for my work, you know. I wasn't strong enough." (Mrs. Jumilati, clothes seller, Bantul/BIF).*

*"Elementary school." (Mr. Subardi, Vegetables, Bantul/ BIF).*

*"Bachelor." (Mr. Julio, Reseller Aice, Bantul/ Bank Madina Sharia).*

*"Bachelor" (Mr. Dimas, Shoes, Bantul/ Bank Madina Sharia).*

*"Bachelor" (Mrs. Ayu, Accessories, Bantul/ Bank Madina Sharia).*

*"High School" (Mrs. Afifah, Catering, Bantul/ Bank Madina Sharia).*

*"Bachelor" (Mrs. Indra, Accessories, Bantul/ Bank Madina Sharia).*

#### **A decent life**

A decent life is not a desire but a need for all MSME players. It is one of the goals of MSME actors in setting up their businesses so they can live well. The eligibility categories in this research are 1) daily food adequacy, 2) water adequacy, and 3) adequate access to health.

Furthermore, business actors in Bantul prefer to fulfill their daily diet with vegetables as the primary food. Side dishes such as eggs, tempeh, and tofu are also cooked to accompany vegetables. Side dishes such as chicken and fish are rarely eaten because of the price and appetite of the families of MSMEs. Sufficiency for health still uses a government BPJS (health insurance) card because there is no need to pay if one of the family members is sick.

The following are the results of an interview with the MSMEs:

*"Chicken, many people like chicken. Sometimes, I cook my chicken. Today's vegetables are spinach, yesterday they were cold," "The need for clean water is met from groundwater" (Mrs. Suratni, food seller, Bantul/BIF).*

*"Yes, any vegetables." "Fish is rare," "The need for clean water is met from groundwater." "Oh, I also have self-pay BPJS (health insurance)" (Mrs Sarmila, Ayam Panggang, Bantul/BIF).*

*"My family often eats eggs and instant noodles," "Catfish every day," "The need for clean water is met from groundwater," and "Don't have BPJS (health insurance)" (Mrs. Wagiem, Shadow Puppet Craftsman, Bantul/BIF).*

*"My family often eats fried eggs, fried tempeh or tofu," "Vegetables sometimes," "If it's fish or chicken, yes, eat it, but not often," "Groundwater... in the village the water is still clear. But during the season, hot, often dry", "There is BPJS (health insurance, but I've never used it" (Mrs. Jumilati, clothes seller, Bantul/BIF).*

*"Cook vegetables, sometimes tempeh, sometimes meatballs." "Never have eggs" and "The need for clean water is met from groundwater" (Mr. Subardi, Vegetables, Bantul/BIF).*

*"Yes, BPJS, (health insurance)." (Mr. Julio, Reseller Aice, Bantul/ Bank Madina Sharia).*

*"Using BPJS health insurance," "Still covered by parents" (Mrs. Dimas, Shoes, Bantul/ Bank Madina Sharia).*

*"I don't use health insurance/BPJS" (Mrs. Ayu, Accessories, Bantul/Bank Madina Sharia).*

*"Vegetables... chickens also like it sometimes." "Water needs are met." "At the health center" (Mrs. Afifah, Catering, Bantul/ Bank Madina Sharia).*

*"Mostly vegetables." "No water problems." "At the Community Health Center" (Mrs. Indra, Accessories/Bank Madina Sharia*



### Economic Participation and decision making

Economic participation and decision-making can be seen from the supply of primary food sources in the family and sources of income for MSME business actors. Indicators of staple food sources are based on the fulfillment of rice for daily living and sources of income based on type of income.

Furthermore, business actors in Bantul also do not use rice field ownership as a benchmark for meeting rice for daily needs because all business actors feel that they have enough and never feel lacking, whether they own rice fields or don't buy them.

The following are the results of an interview with the MSMEs:

*"But usually on Eid al-Fitr, there is a gift, around 50 thousand, used for eating satay, and the rest is used to buy other necessities." "Does your husband work too, ma'am?" Yes, he's a temporary worker." "Does that mean that in your family, the only one who runs the business, ma'am? Yes", "I have a rice field, I'm the one who grows it, I share the profits" (Mrs. Suratni, food seller, Bantul/BIF).*

*"Heem, sometimes sweet potatoes, sometimes they run out." "Does your husband work too? Work" "Oh, work as a carpenter." "Do your children work?" Yes, bricklayer and contractor." "The family needs rice, usually buy or have a rice field? The family has a little rice field" (Mrs. Sarmila, Ayam Panggang, Bantul/ BIF).*

*"Offer? First, Mom offered, meaning people must order from Mom, right? Yes, all the time," "So your sales target was only ten every half month, right? Yes, yes." "Oh, that means you do crafts? Yes." "Do you usually buy rice or have your rice field? Buy it". So, buy it? Yes..." "But have you ever had trouble with rice? No" (Mrs. Wagiem, Shadow Puppet Craftsman, Bantul/BIF).*

*If those are Muslim clothes, I set is the cheapest, 80,000-85,000 IDR. If you don't wear a headscarf, that's 60,000-65,000 IDR. Later, when I sell it, I will give it if I profit. For example, from the boss for 50,000 IDR, I will sell it for 60,000-55,000 IDR. Yes, as long as there is a profit. Otherwise, if the person leaves, it's my loss. "Yes, on average, how much is it... 400,000-500,000 IDR?" "Does your husband work? No, he's delivering this merchandise." "But there's still enough rice in the rice fields?" Yes, Thank God I'm not selling the rice fields." "If I don't have money and want to donate to the family, I use rice to donate" (Mrs. Jumilati, clothing seller, Bantul/ BIF).*

*"Trade and get a private salary," "More than one," "Fixed income," "No supplies," and "Buy rice without difficulty" (Mr. Julio, Reseller Aice, Bantul/ Bank Madina Sharia).*

*"Trade and get a private salary," "More than one," "Fixed income," "No supplies," and "Buy rice without difficulty" (Mr. Dimas, Shoes, Bantul/ Bank Madina Sharia).*

*"Trade," "More than one," "Fixed income," "No inventory," and "Buy rice without difficulty" (Mrs. Afifah, Catering, Bantul/ Bank Madina Sharia).*

*"Trade," "More than one," "Fixed income," "No inventory," and "Buy rice without difficulty" (Mrs. Indra, Accessories, Bantul/ Bank Madina Sharia).*

### Microfinance Practices for Sustainable Welfare

Most MSMEs have unsupportive corporate governance, and the uncertainty of the business environment and the absence of regular records mean that micro-business actors are considered at very high risk of being given access to capital through formal financial institutions. Before the presence of LKM, access to capital provided by business actors came from business ownership (own money) and their closest relations. Continuously limited access to financial resources makes MFIs present to respond to the need for access to capital for micro business groups and lower levels of society who technically find it challenging to reach formal financial institutions (Lwesya & Mwakalobo, 2023).

Initially, the emergence of MFIs was seen as a response to the emergence of an economic system that was felt to be less favorable to small communities and micro businesses. The impact of this mechanism is the reason for the emergence of MFIs based on the initiative of the community itself, although, over time, there have been several cases initiated by the authorities or government. Even though MFI products have subsequently experienced developments such as investment, insurance, savings, financing, or credit products are the ones most dominantly needed by small communities and micro businesses (Lahkar & Pingali, 2016; Thanh et al., 2019; Li et al., 2019; Li et al., 2019; al., 2022; Amanor, 2023).

Indonesia, as a country with a majority Muslim population, has quite a significant influence on economic activities in influencing people's behavior. It ultimately provides an alternative view of Indonesia's business and microfinance sectors. There is a preference for micro-entrepreneurs who tend to be associated with micro-financial institutions that are under their Islamic beliefs, which has led to the emergence and growth of Sharia Financial Institutions (SMFI).

SMFI exists based on an attitude of caring, a sense of social sensitivity towards conditions of poverty, and a willingness to share and look for creative ideas in efforts to eradicate poverty.

SMFI combines two elements: firstly, SMFI still provides a profit motive. Secondly, the presence of SMFI also creates a social non-profit part in business activities carried out per Islamic law's provisions. It is a form of social concern and sensitivity as well as fostering shared responsibility in finding solutions to the poverty problems faced. The business-oriented nature of the SMFI business is intended so that SMFI management can be carried out professionally, provide competitive results, and improve the welfare of its managers. Meanwhile, the social aspect of SMFI is oriented towards the lives of members and local communities in need.

Sharia microfinance practices follow the business structure in developing country economies, where micro and small business groups dominate, and poverty is a significant economic problem. The business-oriented nature of the SMFI business is intended so that SMFI management can be carried out professionally, provide competitive results, and improve the welfare of its managers. Meanwhile, the social aspect of SMFI is oriented towards the lives of members and local communities in need.

Providing accessible financing facilities is one of SMFI's efforts to improve community welfare. Capital constraints initiate difficulties for micro businesses in increasing their productivity. The microbusiness financing program is seen as the government's effort to alleviate poverty. With access to capital, micro-business actors get out of the gates of difficulties to increase production activities, and by increasing production activities, people can increase their income to improve their welfare.

Microfinance practices carried out through Sharia Financial Institutions (SMFI) provide direction in developing MSMEs and taking action towards community welfare.

It can be seen from the fact that customers in Bantul have a reasonably good economy in terms of owning rice fields, independent health insurance, and simple television.

The following are the results of an interview with the MSMEs:

*"Does that mean there is a TV at home for watching? Yes, here." (Mrs. Suratni, food seller, Bantul/BIF).*

*"I don't have a big screen. I just bought the cheap ones." (Mrs. Sarmila, Ayam Panggang, Bantul/ BIF).*

*"Oh, that's my husband. That's the only motorbike, and my son vacated it; it wasn't extended." (Mrs. Wagiem, Shadow Puppet Craftsman, Bantul/BIF).*

*"That's what they say if you extend there, you won't have any friends. Everyone else's motorbikes are automatic, right?" (Mrs Jumilati, Clothes Seller, BMT BIF).*

*"House of the average standard".*

*"Having a motorbike".*

*"Having a Television" (Mr. Julio, Reseller, BMT Madina Sharia).*

*"House of the average standard".*

*"Having a motorbike".*

*"Having a Television" (Mr Dimas, Shoe Business, BMT Sharia).*

*"House of the average standard".*

*"Having a motorbike".*

*"Owning a Television" (Mrs. Afifah, Catering Business, BMT Sharia)*

*"House of the average standard".*

*"Having a motorbike."*

*"Owning a Television" (Mrs. Indra, Accessories Business, BMT Sharia).*

## Conclusions

BMT Bina Ihsanual Fikri (BIF) Bantul aims to empower lower and lower economic class communities through financing/credit to small and low-income entrepreneurs with a profit-sharing system. The funding offered by BMT BIF is mudharabah with 100% capital from BMT BIF and musyarakah with joint venture capital between business actors and BMT BIF.

MSMEs in Bantul prefer to fulfill their daily diet with vegetables and side dishes such as eggs, tempeh, and tofu. Sufficiency for health still uses a BPJS card from the government because there is no need to pay if one of the family members is sick.

Business actors in Bantul are scattered in terms of owning rice fields to meet their rice needs. However, rice field ownership cannot be used as a benchmark because even if business actors do not own it, they can buy rice, and their rice needs are always met. Apart from that, almost all business actors make their business the primary income for their families because this business is the leading job of business actors.

Microfinance practices carried out through Sharia Financial Institutions (SMFI), besides focusing on providing accessible financing facilities, have also provided direction in developing MSMEs and taking action towards community welfare. SMFI regularly provides business development training to MSMEs

This research focuses on the Bantul Regency, Special Region of Yogyakarta, so the conclusions cannot be generalized to SMFI and MSMEs in Yogyakarta. Further research is recommended to focus on SMFI and MSMEs in all districts/cities in the Special Region of Yogyakarta.

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