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CEK_Musharakah_scopus

by Universitas Ahmad Dahlan Yogyakarta 41

Submission date: 30-Oct-2023 11:34AM (UTC+0700)

Submission ID: 2209774422

File name: Musharakah_scopus.pdf (456.56K)

Word count: 7354

Character count: 39433

Effectiveness of *Musharakah* Financing in Empowering Small Micro Enterprises

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ABSTRACT

The present study aims to analyze the effectiveness of *musharakah* financing for empowering micro-businesses from the perspective of entrepreneurs. This research is qualitative research using a critical analysis method. This study uses interviews as a research instrument to find out what factors affect the effectiveness of *musharakah* financing in empowering micro-small businesses of BMT entrepreneurs in the Special Region of Yogyakarta. Entrepreneurs from two BMT in Yogyakarta had been interviewed. The results showed that BMT *musharakah* financing played an important role in the business development of Micro and Small businesses, especially in terms of increasing business capital, easy access to take financing, and a small number of installments. In addition, *musharakah* financing is effective in encouraging MSE empowerment, to increase the amount of merchandise inventory, add new types of products, expand businesses and add new equipment for business facilities. This study limits the ability to generate findings to a larger population of small-micro enterprises which obtain shariah financing from Islamic microfinance institutions (Baithul Maal Wat Tamwil) in Indonesia. The research findings can be used on how to empower small-micro enterprises with Islamic financing and the development of Islamic microfinance institutions. This paper has contributed to the approach of empowering small micro-businesses with *musharakah* financing, which is considered to have a less contribution to BMT income. In addition, this study uses a critical analysis method to get a new perspective on the use of *musharakah* financing from the view of small entrepreneurs.

Keywords: Baithul Maal wat Tamwil (BMT), *Musharakah*-Financing; Small Micro-Enterprises (SMEs); Entrepreneurs

JEL Classification: C1, L2

Received: July 13, 2021

Accepted: August 29, 2021

Eficacia de la Financiación con *Musharakah* para Potenciar las Pequeñas Microempresas

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RESUMEN

El presente estudio tiene como objetivo analizar la eficacia de la financiación con *musharakah* para potenciar las microempresas desde la perspectiva de los empresarios. Se trata de una investigación cualitativa que utiliza un método de análisis crítico. Este estudio utiliza las entrevistas como instrumento de investigación para averiguar qué factores afectan a la eficacia de la financiación con *musharakah* para potenciar las microempresas de los empresarios de BMT en la Región Especial de Yogyakarta. Se entrevistó a empresarios de dos BMT de Yogyakarta. Los resultados mostraron que la financiación con *musharakah* de BMT desempeñó un papel importante en el desarrollo empresarial de las micropequeñas empresas, especialmente en lo que se refiere al aumento del capital empresarial, el fácil acceso a la toma de financiación y el reducido número de cuotas. Además, la financiación de la *musharakah* es eficaz para fomentar la potenciación de las microempresas y las pequeñas empresas, para aumentar la cantidad de inventario de mercancías, añadir nuevos tipos de productos, ampliar los negocios y añadir nuevos equipos para las instalaciones de la empresa. Este estudio limita la capacidad de generar conclusiones a una población más amplia de pequeñas microempresas que obtienen financiación de la sharia de instituciones de microfinanciación islámicas (Baitul Maal Wat Tamwil) en Indonesia. Los resultados de la investigación pueden utilizarse para potenciar las pequeñas microempresas con la financiación islámica y el desarrollo de las instituciones de microfinanciación islámicas. Este trabajo ha contribuido al enfoque de la potenciación de las pequeñas microempresas con la financiación de la *musharakah*, que se considera que tiene una meritoria contribución a los ingresos del BMT. Además, este estudio utiliza un método de análisis crítico para obtener una nueva perspectiva sobre el uso de la financiación de la *musharakah* desde el punto de vista de los pequeños empresarios.

Palabras clave: Baitul Maal wat Tamwil (BMT); financiación con *musharakah*; pequeñas microempresas (PYME); empresarios

Clasificación JEL: C1, U2

Recibido: 13 de Julio de 2021

Aceptado: 29 de Agosto de 2021

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are the most important pillars in the Indonesian economy. The empowerment of MSEs can effectively tackle the country's main problems namely poverty, unemployment, and job creation. In practice, micro and small businesses (MSEs) that are part of MSMEs are a strategic force and are important for accelerating the growth of regional development. Policy and support for MSMEs are important because MSMEs are a strategic element for the Indonesian economy. Based on data from the Ministry of Cooperatives and SMEs (2020), the number of MSMEs currently reaches 64.2 million with a contribution to GDP of 61.07% or worth 8,573.89 trillion rupiahs. The contribution of MSMEs to the Indonesian economy includes the ability to absorb 97% of the total workforce and can collect up to 60.4% of the total investment.

The report from the Central Bureau of Statistics, the large micro and small business income are in the Java region, amounting to 69.16 % of the total national micro and small business income, while micro and small business income are outside of the Java region is only 30.84 %. Yogyakarta Province is one of the provinces in Indonesia with large micro and small business potential. The number of micro and small businesses in Yogyakarta was able to absorb 2.12 % of the total workforce in Indonesia and the contribution reached 79.64% of the GDP of Yogyakarta province. (BPS,2016)

Behind the success of micro-small businesses in supporting the country's economy, there are still many obstacles that lead to micro-businesses under development. There are three main difficulties faced by most MSEs in the manufacturing industry in having access to capital, marketing, and getting raw materials. (Tambunan, 2019). In addition, Micro, Small, and Medium Enterprises (MSMEs) in Indonesia face problems in increasing business intensity, such as the fulfillment of human resources with high technical expertise, difficulties in obtaining raw materials, high transportation costs, expansion of business and promotion networks and the use of business data. optimal. (Adhikary et al., 2021).

The ministry of cooperatives, micro, small and medium shows that 79.29% of micro and small businesses experience have various business difficulties. As many as 33.13% have difficulty in obtaining capital. In general, 93.86% of micro and small businesses have never received assistance from non-cooperative financial institutions. Most of the main reasons micro and small businesses do not receive capital assistance from financial institutions are because they do not know where to find the support (55.95%), do not understand procedures (13.99%), and rejected proposals (1.45 %). From the available data, it was also found that the role of financial institutions in providing funds in the context of developing micro and small businesses is indispensable. (Kementerian Koperasi dan Usaha kecil dan Menengah, 2020)

One of the micro Islamic financial service institutions engaged in empowering micro and small businesses is Baitul Maal Wat Tamwil (BMT) which is a sharia cooperative and is more oriented towards economic empowerment. BMT combines the concepts of Maal and Tamwil in one business and social activity. Baitul Maal is a social sector that is engaged in raising funds for social purposes in a patterned and continuous manner. While Baitul Tamwil is public fundraising in the form of savings and micro-business financing with a system of buying and selling, profit sharing, and services following Islamic law. BMT focuses on micro and small financing businesses and functions as an intermediary unit between the overfunded and the underfunded parties. (Ascarya et al., 2018). In addition, the existence of this BMT can reduce the role of moneylenders who are troubling small communities by providing loans with very high interest rates. (Misdan, et al., 2016)

The growth of BMT in Indonesia is quite significant. Based on data from the Ministry of Cooperatives and SMEs, in 2019 the number of Baitul Maal Wat Tamwil in Indonesia reached more than 4,500 and served more than 4 million people. (<https://knks.go.id>, 2020). Baitul Maal wat Tamwil in Yogyakarta continued to grow significantly to reach assets of Rp.900 billion in 2019. According to data from the Syariah Cooperative Center (Puskopsyah) there are around 40 BMTs in Yogyakarta province that actively serve several service products. Meanwhile, BMT asset growth averaged 40% per year, and its

potential in Yogyakarta is still quite high. As for the financing, each BMT can serve financing with a value of under Rp.50 million to Rp.100 million rupiahs.

BMT's priority is to channel capital to micro and small entrepreneurs both consumptive and productive. One form of financing that is productive and aimed micro, small and medium entrepreneurs is *musharakah* financing. Article 1 until number 10 of Ministerial Decree Number 91 / Kep / M.KUKM / IX / 2004 states that "musharakah financing" is a venture capital cooperation agreement between cooperatives with one party or several parties as owners of capital in certain businesses to combine capital and conduct joint ventures in a partnership, with the sharing ratio according to the agreement of the parties, and if the loss is borne proportionally by the contribution (Keputusan Menteri Negara Koperasi dan Usaha Kecil dan Menengah Republik Indonesia, 2004).

Financing with the *musharakah* scheme which is applied based on a system of cooperation and assistance is proposed as a solution that can be done by Islamic financial institutions in the context of empowering micro and small businesses through strengthening capital. In the business world, the principle of mutual help in kindness can be applied to improve the business carried out, one of which is cooperation in the field of capital and management. *Musharakah* financing schemes have been widely applied in Indonesia. Even so, of the total funding available, the distribution of funds to finance *musharakah* in Islamic financial institutions is still relatively small. Data on channeling funds through financing in BMT can be seen in Table 1:

Table 1. Distribution of Funds through BMT Financing in 2015.

Contract Type	Amount (Billion)	%
Murabahah	80,59	59,71
Musharakah	25,21	18,59
Mudharabah	11,44	8,44
Qardh Debt	11,19	8,25

(Source: Puskopsyah, 2015)

Based on the data above, the performance side of BMT Islamic financing is still focused on financing the sale and purchase agreement (*Murabahah*). Whereas one of the main pillars of the implementation of Islamic economics is to encourage micro and small businesses where *murabahah* and *musharakah* with the principle of profit sharing. Furthermore, Us (2016) showed that Financing is one of the main activities and the main source of income for BMT. The results of the analysis show that the capital structure, third parties, non-performing funds, and financing have a significant effect on funding distribution. Capital structure, third-party funds, and distribution of funds have a significant effect on the profitability of BMT in Indonesia. Meanwhile, non-performing financing does not affect the profitability of Baitul Maal Tamwil in Indonesia.

Baitul Maal wat Tamwil (BMT) in Yogyakarta continued to grow significantly until it reached assets of Rp. 900 billion in 2015. According to Sharia Cooperative Center data (Puskopsyah), there are around 40 BMTs in Yogya that actively serve several service products. BMT asset growth averaged 40% per year and its potential in Yogyakarta is still quite high. As for the financing, each BMT can serve financing with a value under Rp.50 million to Rp.100 million rupiahs. One of the Sharia Cooperatives in Yogyakarta that is active in the productive sector is BMT Bina Ihsanul Fikri (BIF) and BMT Tamzis. More than 50% of the total financing of the two BMTs is productive financing using the *musharakah* scheme (BMT data, March 2015). The capital assistance provided by BMT through *musharakah* financing is expected to have a positive impact on the income of entrepreneurs who are primarily engaged in micro and small businesses.

2. Literature Review

2.1. Overview of Baitul Maal Wat Tamwil

Baitul Maal wat Tamwil (BMT), is a combination or an integration of Islamic social finance and Islamic commercial finance at the micro-level. Islamic social finance uses Islamic social instruments, such as zakat-infaq-sadaqa and waqf (Waf), managed by the Baitul Maal division, while Islamic commercial finance uses Islamic commercial instruments, such as micro deposits, micro-financing, micro takaful, and other micro-financial services, managed by the Baitul Tamwil division. (Ascarya et al., 2018)

Specifically, BMT divided activities into three areas, namely, the real sector, financial intermediation, and social intermediation. In terms of the real sector, BMT basically can invest its funds in long-term business activities such as building a new factory or buying stocks from an established firm. As a financial intermediary, BMT is designed to conduct financial intermediations through mobilizing deposits from member clients and financing commercial ventures. In addition, as a social intermediary, BMT is dedicated to performing socio-religious roles by collecting charity donations from Muslims and helping the needy along with their spiritual lives. (Adnan & Aji, 2015; Putra & Isfandayani, 2020)

BMT collects funds from its members. Initial capital comes from its members, just like cooperatives, although it can also accept cash waqf from wakif to be placed as part of the capital. Many types of financing are offered by BMTs. Generally, they are promoting some financing products such as profit-loss sharing (*mudharabah* and *musharakah*), *murabahah*, *bai'itsamanil A/R*, and *ijarah*. As a social intermediary, BMT would collect zakat, infaq, shadaqah, and waqf from their respective donor, i.e., muzakki (zakat), munfiq (infaq/shadaqah), and wakif (waqf), to be distributed to their respective recipients in *qardh al hasan* scheme. (Ascarya et al., 2018; Rokhman, 2013; Wulandari et al., 2016)

BMT regulations in Indonesia are divided into two (2) formal institutional forms. The first institutional form of BMT is the Sharia Savings and Loans Cooperative (KSPPS) which is under the supervision of the Ministry of Cooperatives and SMEs based on Law no. 25 of 1992 concerning Cooperatives. The second institutional form of BMT is as a Microfinance Institution (LKM) which is under the supervision of the Financial Services Authority (OJK) based on Law no. 1 of 2013 concerning Microfinance Institutions.

2.2. Review of the Musharakah Financing Agreement

Musharakah financing is a contract of business capital cooperation between cooperatives and one party or several parties as owners of capital in certain businesses, to combine capital and conduct joint business in a partnership, with a profit-sharing ratio according to the agreement of the parties, and if the loss is borne proportionally following capital contribution. (Ministerial Decree and Small and Medium Enterprises Number 91 / Kep / M.KUKM / IX / 2004 Number 10 concerning Guidelines for Sharia Financial Services Cooperative Business Activities).

These funds include cash or non-cash assets permitted by *sharia*. *Musharakah* investments can be provided in the form of cash, cash equivalents, or non-cash assets (Ascarya and Yumanita, 2014). According to Karim (2015), an agreement with a *musharakah* contract must meet the following pillars: a party to the agreement (bank and entrepreneur where capital is also the executor), capital (each party includes capital to buy an asset or carry out a particular business/project), contract object (contract object can be in the form of assets, projects or businesses that will produce profits for the parties), *job qabul* (statement of offer and acceptance stated by related parties to show their respective wishes in agreeing), profit sharing ratio (share the portion of profits to be obtained by the parties in the form of a percentage not a fixed amount of money).

The following is a picture of the *musharakah* scheme consisting of several stages as follows: entrepreneurs apply for credit to the bank through the *musharakah* contract, the credit is intended for business activities which include business capital and skills. These business activities generate profits

that will be shared between Shariah financial Institutions and entrepreneurs according to the contract (Karim, 2005).



2.3. Small Medium Enterprises (SMEs)

According to the Ministry of Cooperatives and UMKM Law No.20 of 2008 concerning Micro, Small, and Medium Enterprises, it is stated that micro businesses are productive businesses owned by individuals and/or individual business entities that meet the criteria for micro-businesses as regulated in this law. The criteria for micro business in Article 6 paragraph (1), states that: a) Micro businesses have a net worth of at most Rp 50.000.000 (fifty million rupiahs) per month equivalent to \$3,571, excluding land and buildings where the business operates. b) Have annual sales results of at most Rp. 300.000.000 (three hundred million rupiahs).

While for small businesses is a productive business that is managed by individuals or business entities if they have or have net assets under Rp 500.000.000 per year and a maximum turnover of 2.5 billion per year. Meanwhile, according to the Central Statistics Agency, small businesses are those who use workers between 5 and 19 people, while medium-sized businesses are those who use workers between 20 and 99 people.

3. Previous Research Review

Previous research showed that BMT financing to micro-business operators, namely traders in traditional markets in the Bantul district, has had a positive role in business development and improving the welfare of this entrepreneur, but it is still too small or not significant. This is a challenge for BMTs who work in Bantul Regency to be better. (Prastiwati & Satya Darma, 2016)

According to Wulandari et al. (2016) in the research, there is a uniqueness in financing Islamic microfinance institutions in financing the poor who are their customers by considering financing products in 3 phases: pre-financing, financing, and post-financing phases based on BMT's experience as a sharia microfinance institution in Indonesia.

Effendi and Pratiwi (2017) in the study conducted an analysis of the characteristics of micro-enterprises based on the rate of return on musharakah and analyzes the factors that influence the rate of return on musharakah financing, which is given to micro-enterprises at BMT Al-Munawwarah, South Tangerang. The results of this study indicate significant variables that affect the rate of return on musharakah financing, namely: gender, amount of financing, collateral, other loans, and BMT visits.

The difference between this study and previous research is that this study discusses the impact of musharakah financing on income in micro and small businesses in Islamic microfinance institutions, precisely at BMT in Yogyakarta, focusing on the entrepreneur perspective with a critical approach.

4. Methodology

²³ The type of data used in this study is primary data which is obtained directly from the source i.e. interviews with *musharakah* financing entrepreneurs to provide information on the problems raised at the time of the study. Primary data were also obtained from internal BMT documents, such ⁶⁴ as financing procedures, financing systems, policies, and portions regarding *musharakah* financing. The data collection technique used in this study is to conduct interviews with *musharakah* financing entrepreneurs regarding policies, mechanisms, and factors that cause the success or failure of *musharakah* financing directly. In addition to conducting interviews, the data obtained used sources are available at BMT, such as financing procedures, financing systems, policies, and portions regarding *musharakah* financing.

⁵⁷ The data analysis ¹² method in this study uses critical analysis. Adnan and Purwoko (2014) mentioned that critical analysis is a way to try to understand the reality, events (events), situations, objects, people, and statements that are behind clear or ¹² direct meanings. Critical analysis is a capacity, a potential that is shared by everyone. Nevertheless, critical analysis will still be blunt and not develop if it is not sharpened and practiced.

Critical analysis determines the possibility of a new reality, a better agreement. According to Muhadjir (2000) in Adnan, MA and Purwoko (2014), in terms of the philosophy of science, critical theory has been active in creating meaning, not merely passively accepting meaning for its role. Patti Lather in Noeng pointed out that the critical theory approach includes the postpositive era approach, which seeks the meaning behind the empirical and rejects value-free. The most important tool for carrying out a critical analysis, which is the "question". First of all, critical analysis requires finding facts and characteristics of the situation or reality that is being tried to be understood. Namely by finding out: "What is happening?"; "What are the consequences of this situation? What is the impact of the situation or event or statement on the other party?"; "Who is the party that benefits from the situation or proposal?"; "Who has been harmed by the situation or proposal?"; "What is the cause of this situation?" (Adnan, 2013)

The critical analysis also tries to understand the "history" of statements, situations, or problems that need to be understood. A critical analysis examines situations or events or statements that are in the process of change. "How can the situation occur? How permanent is the situation? What are the possible ways for the situation to change? What is the cause of the change? A critical analysis examines the situation or event from a complete perspective. The contradiction or opposite of a situation needs to be sought when observing a new situation or several circumstances. Critical analysis research method is one example of the application of qualitative methods carried out explosively, using the method of critical analysis, the analysis will focus on aspects of language and contexts related to related aspects.

5. Results

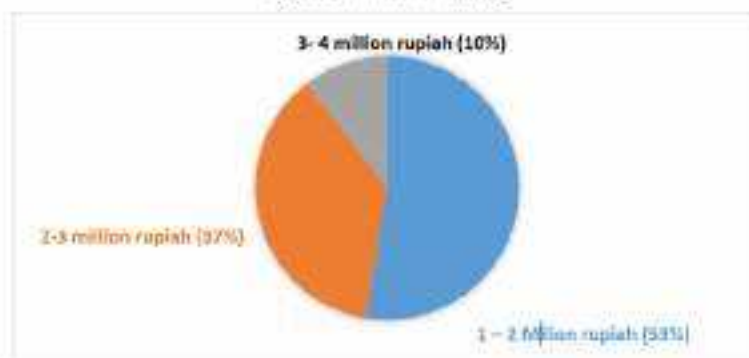
In this study, 19 informants were interviewed from two BMTs who met the criteria. Informant interviews were conducted in various places in Yogyakarta provinces, namely the Wirobrajan market, the Pakualaman market, the Giwangan market, the Bantul market, and where the locations of these informants. The general condition of the informant is as follows.

The Number of respondents was 19 people where 47% of informants are male, while 53% are female. It is found that most entrepreneurs are at the age of 31-40 years and their education was high senior high school by 79%.

Table II Demographic Data

Sex	Number	%
Male	9	47%
Female	10	53%
Total	19	100%
Age	Number	%
31-40	7	37%
41-50	5	26%
51-60	6	32%
61<	1	5%
Total	19	100%
Education	Number	%
Junior High school (SMP)	4	21%
Senior High school/Vocational school (SMA/SMK)	15	79%
Total	19	100%

Figure 2: Amount Financing



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Source: Primary Data Processed

Figure 2 shows that the number of financing received by an entrepreneur who is a respondent of this study is more dominant to receive funding of Rp. 1,000,000.00 - Rp. 2,000,000.00 of 53% or as many as 10 people. This, of course, has been adjusted to the capital required by the entrepreneur and has been adjusted to the ability of the entrepreneurs in the payment.

Table III Informant Data Based On the Duration of the Financing

No	Duration Of Financing (year)	Number	Percentage (%)
1	1-2	2	10%
2	2-3	2	11%
3	3-4	2	11%
4	4-5	5	26%
5	5<	8	42%
	Total	19	100%

Source: primary data processed

It can be seen from Table III the entrepreneurs who were the respondents in this study were 42% or as many as 8 people who have received financing from BMT for more than 5 years. This shows that the majority of entrepreneurs have for years been getting funding from the same BMT. The results of the interviews of researchers with informants regarding the informant profile are as follows:

- 1) Mrs. SP, 64-years old, trades fruits in the Wirobrajan market with funding of Rp. 3,000,000 and she has received financing for 10 years from BMT.
- 2) Mrs. SK, 43 years old, trades vegetables in Wirobrajan Market with funding of Rp. 1,000,000 and she has received financing for 4 years from BMT.
- 3) Mr. SH, 45 years old, trades vegetables in Wirobrajan Market with funding of Rp. 1,000,000 and he has received financing for 4 years from BMT.
- 4) Mrs. SM, 52-years-old, sells catfish in Wirobrajan Market with the financing of Rp. 1,000,000. She has received financing for 10 years from BMT.
- 5) Mrs. ER, 33-year-old. She sells sea fish in Wirobrajan Market with funding of Rp. 2,000,000 and she has received funding for 8 years from BMT.
- 6) Mr. SY, 50 years old, trades vegetables in the Pakualaman Market with the financing of Rp. 2,000,000 and he has received financing for 10 years from BMT.
- 7) Mr. SI, 37 years old, sells groceries in the Pakualaman Market with funding of Rp. 1,000,000 and he has received financing for 4 years from BMT.
- 8) Mr. IN, aged 41, sells various snacks at the Pakualaman Market with the financing of Rp. 1,000,000 and he has received financing for 4 years from BMT.
- 9) Mrs. AG, a woman aged 35 years, sells fish in Bantul Market with funding of Rp. 2,000,000 and she has received financing for 4 years from BMT.
- 10) Mrs. SJ, aged 31, sells chicken meat in Bantul Market with funding of Rp. 1,000,000 and she has received funding for 7 years from BMT.
- 11) Mrs. SY, aged 55, sells snacks at the Bantul Market with funding of Rp. 1,000,000 and she has received financing for 10 years from BMT.
- 12) Mr. TM, age 44, trades vegetables in Bantul Market with funding of Rp. 1,000,000 and he has received financing for 4 years from BMT.
- 13) Mr. KD, aged 51, sells food at the Bantul Market with funding of Rp. 3,000,000 and he has received financing for 10 years from BMT.
- 14) Mr. BG, 56 years old, sells chicken meat at Giwangan Market with the financing of Rp. 2,000,000 and he has received financing for 4 years from BMT.
- 15) Mrs. TN, 31-year-old. She sells various snacks at Giwangan Market with the financing of Rp. 1,000,000 and she has received financing for 1 year from BMT.
- 16) Mr. SB, 38 years old, sells coconuts at Giwangan Market with the financing of Rp. 1,000,000 and he has received financing for 1 year from BMT.
- 17) Mr. FO, 35 years old, trades groceries in the Giwangan Market with the financing of Rp. 2,000,000 and he has received financing for 2 years from BMT.
- 18) Mrs. SU, 48 years old, sells spices around Pakualaman with the financing of Rp. 2,000,000 and she has received financing for years from BMT.
- 19) Mrs. WN, age 51, sells soto food with the financing of Rp. 2,000,000. for 8 years from BMT.

6. Discussion

This study has conducted on entrepreneurs in two BMTs in Yogyakarta. Researchers have found that several factors that led to the effectiveness of *musharakah* financing on the development of micro and small businesses from the perspective of the micro and small entrepreneur.

6.1. Understanding Musharakah Financing Agreement

All entrepreneurs who received funding from two BMTs who are the informants in this study said they did not understand the contract used in the financing. They only understand that the financing provided to them are the *sharia* agreements and are free of interest. As conveyed by 33-year-old ER

mother who sells sea fish in Wirobrajan Market with funding of Rp. 2,000,000. Ms. ER has been financing for 8 years from BMT BIF.

"I have been told what marketing contracts or agreements are used, but I don't know what exactly are the contracts. I have received funding for 8 years now and there has never been a problem with the contract, everything went smoothly."

6.2. BMT Financing is Very Helpful for Micro-Small Enterprises

Micro-small enterprises who received funding from the two BMTs all felt that have been helped by the financing received for the same reason, which has helped them in terms of capital. Funding obtained by entrepreneurs is used for business needs only. But some entrepreneurs used the money for other purposes. Mr. JN, Mr. TM, Ms. ER, and Ms. SK stated that the funding obtained was used for both business and household needs. When asked the reason why the financing was used for household needs, Mr. JN revealed that sometimes it requires more funds to finance households especially when the sales are slow. Mrs. SK also revealed that she used the money when she was in difficulties. Otherwise, she solely used the money for business purposes only.

"Not just making capital, sometimes it is borrowed to pay for children's school fees, especially when the sale is so slow then it is used to pay for basic things. However, I will pay back and buy the merchandise afterward."

6.3. The Financing Provided is following Micro-Small Enterprises Needs

The financing provided by BMT has been adjusted to the needs of entrepreneurs and the ability of entrepreneurs to pay. All entrepreneurs stated that the financing obtained was sufficient for their business needs. But there are a few entrepreneurs, namely Mrs. SP, Mrs. ER, Mrs. AG, Mrs. SL, Mr. FD, Mr. SB, Mrs. SU, stating that the funds received were insufficient for business needs. When asked why these entrepreneurs felt inadequate with the financing provided by BMT, one of the entrepreneurs, Mr. FD who is 35 years old, traded groceries in Giwangan Market with the financing of Rp. 2,000,000 and have received financing for 2 years explained the reason:

"I got this BMT loan, Alhamdulillah, I can add to venture to the capital. I know this is a small amount of capital to sell the basic needs of various items, but buyers will be happy if there is diversification in goods sold. So I need to use my capital too. It would be better if BMT can increase the capital and also provide guidance so that sellers like me does not experience losses."

6.4. Musharakah Installment Payments for Financing

Payment of installment financing is considered not burdensome for these entrepreneurs. Almost all informants that were asked said that there was no difficulty in paying the installments. The average entrepreneur makes installments of Rp.20,000.00-Rp.50,000.00 per day. With such a large installment the entrepreneur does not feel burdened because it has previously been adjusted to the entrepreneur's ability to pay and the entrepreneur's business conditions in the field. Mr. BG explained the reason,

"The income from this business is not combined with my income outside of this business, because I am afraid to mix, because every day I have to pay installments for BMT loans. The repayments are quite bearable, even though if the sales are lower, I can still pay later for several days."

6.5. Reasons for Choosing Musharakah Financing in BMT

Entrepreneurs choose to finance from BMT, of course, for different reasons. The majority of entrepreneurs choose to get finance from BMT because the financing is easy to obtain and the conditions are less complicated. However, several different entrepreneurs say that choosing BMT financing is due to the close distance between the entrepreneur's place of sale and the branch office and BMT head office, so entrepreneurs do not need to go far to get financing from BMT. Unlike the

other reasons, there is one entrepreneur, Ms. SP, who thinks that the reason for choosing to finance from BMT is because the interest from the financing is low.

"From the beginning in business, I used a private capital, a year later I got a loan from BMT when checking the place of my business it was recommended for me to make a record of merchandise and profits obtained. I choose to apply for capital in BMT because the installments were low, which is not the same if I borrow from loan sharks."

6.6. Making Business Financial Records

Based on the results of the interviews with informants, all BMT entrepreneurs make simple financial records, especially entrepreneur accounts receivable records. Some informants make notes on purchases of merchandise and record the results of income per day and deduct expenses per day. In addition, several informants noted what items had to be purchased and at what price the items were purchased. This note is used to determine the selling price of goods is sold to its entrepreneurs.

"Do not make a complete financial record only to record input every day, while checking the inventory of goods, later at the end of the month we need to buy merchandise again from the monthly sales money."

When asked whether BMT had ever trained to make business finance training, some informants answered that they had, some said they had never and some said they forgot. However, almost all informants agreed that BMTs needed to provide business assistance and teach them to make financial records so that their businesses did not suffer losses.

"The determination of the selling price was not difficult, I took advantage not much, for example, the price of a tea box containing twenty-five thousand, I sold the price per seed five thousand so fortunately per seed is one thousand rupiahs. If the problem of profit and loss, yes I see from the results so that I can reduce spending later to find a loss or profit."

With a simple calculation, the researcher found that the simple notes made by the informants were valuable records for the smooth running of his business.

6.7. Business Development and Expansion

Based on the results of the study, entrepreneurs who became informants in this study experienced business expansions and developments. The following explanations from the informants are summarized in the following table:

Table IV. Respondent Data based on Business Development

No.	Type of business development	Number
1.	Increase the amount of merchandise	6
2.	Adding new Products	7
3.	Adding new assets or equipment	6
	Total	19

Source: primary data processed

From Table IV, it can be seen that the informant uses the financing of *musharakah*, among others: to add merchandise and new product types by 36% with a total of seven people. In addition, some answered to add the new equipment or assets by 32% with a total of six people and the addition of these assets in the form of additional tools and means for trading. However, to increase the amount of merchandise, six people vote for it. The following are the results of an interview with SK, a vegetable seller,

"After receiving funding from BMT, my business is now higher after I increase the merchandise of varied vegetables. I have never thought of venturing capital before because it is already sufficient with the funding obtained. Alhamdulillah, the important thing is that my business continues and there are profits to meet my needs."

Figure 3: Respondent Data Based on Increased Sales Turnover



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Source: Primary Data Processed

Based on the chart above, it can be seen that the respondents experienced an increase in sales turnover. As many as 68% of respondents experienced a turnover of 68% or 50,000. - Rp. 500,000 rupiah and 32% of respondents experienced a greater increase of 500,000 to 1,000,000 rupiah.

7. Conclusion and Recommendation

Results from the findings can develop a conceptual framework that can be derived to give a general understanding of the effectiveness of *musharakah* financing for empowering micro-businesses from the perspective of an entrepreneur with a critical approach (Figure 1).

Based on an interview with BMT entrepreneurs in Yogyakarta province, it can be concluded that *musharakah* financing in BMT is effective in empowering Micro and Small Enterprise (MSEs). Most respondents have increased their income after receiving *musharakah* financing, one of the products of the BMT.

Based on the research, some conclusions can be drawn as follows: first, the entrepreneurs do not quite understand the contract in Islamic financing, for MSEs the important financing is capital, free from usury and cheaper than installments to moneylenders. Second, BMT financing for MSEs is very helpful in fulfilling business capital, although some entrepreneurs consider that their capitals are still insufficient to meet their business capital.

Third, MSEs tend to choose BMT for financing based on location close to the place of business and ease of accessing financing. Fourth, the condition of MSEs before and after receiving funding from BMT has changed. After obtaining financing, UMK sales turnover increased from before. This happened because the capital for the business has become stable and the amount of merchandise inventory can be fulfilled and able to meet market demand.

Fifth, BMT Financing is very effective in encouraging MSE empowerment, including entrepreneurs, who are being able to increase the amount of merchandise inventory, adding new types of products, expanding business premises, and adding new equipment for trading facilities. Thus, the business continuity of entrepreneurs will be more advance and eventually will improve the economy of MSEs. Thus, a conceptual framework is constructed to explain the effectiveness factors of *Musharakah* Micro-Financing.

In the future, *musharakah* financing in BMT has the potential to contribute to the development of BMT and community economic empowerment because of the nature of the financing, which not only provides capital assistance but also provides business assistance for entrepreneurs. In addition, it reduces the dependence of small businesses on loan sharks, which are usury transactions and prohibited in Islam.

Figure 4: The conceptual framework of the effectiveness factors of Musharakah Micro-Financing



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8. Limitation of the study and Suggestion for Future Research

Some limitations of this study need to be highlighted. This study has been addressed to analyze the effectiveness of *musharakah* financing of BMT in empowering micro and small enterprises. There are around 3,874 BMTs in Indonesia (<https://knks.go.id>, 2020). Therefore, by taking only two BMT in Yogyakarta Provinces (i.e. BMT BIF and BMT Tamzis), it does not significantly represent the actual situation of BMTs in Indonesia. As a consequence, the research findings could not be generalized for the whole BMTs in Indonesia as well.

This research contains several limitations, for example, this research is only limited to micro-business financing. Though small and medium-sized businesses certainly play a role in financing *musharakah* in BMT. In addition, this research also ⁵⁸ 'focuses' on the type of BMT, whereas in Islamic financial institutions there are also known *Sharia People's Financing Banks* and *Sharia Commercial Banks*, which of course also play a role in empowering micro, small and medium businesses. Both types of institutions are not involved at all in this research. Although there is no guarantee that there will be significant differences if they are involved, their involvement will certainly improve what is found in this study. On this basis, the authors suggest that in the following research, it is better to expand, both types of informants, not only micro-business operators but also a small and medium entrepreneur as well as other types of Islamic financial institutions. It is no less interesting, of course, that in subsequent studies, quantitative methods are used to test the findings obtained in this qualitative study.

Acknowledgment

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The authors would like to acknowledge the support given ³⁹ the Ministry of Higher Education Malaysia through a research grant award (Project code: FRGS-RACER grant code: 600-IRMI/FRGS-RACER S/3 (091/2019). Our gratitude is also extended to all parties who are directly or indirectly involved in completing the research project.

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