



Local Government Policy Model on Developing Sharia Financing for Micro Small and Medium Enterprises in Bogor Indonesia

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Abstract

This study aims to know the policy model issued by the local government and Bogor regency in developing sharia financing for Micro Small and Medium Enterprises (MSMEs) also provide a policy model proposal which can be applied by Bogor regional government in developing sharia financing for MSMEs. The determination of policy model in this study uses descriptive qualitative method based on two approaches of the study technique, namely, the literature review and the field survey (interview and observation). The types of data collected are primary and secondary data. The result of this study shows that the policy model on Bogor regional government is still on the regent's policy process, while on Bogor local government there is no policy about sharia financing for MSMEs doer yet.

Keywords: Policy Model; Local Government; Sharia Financing; MSMEs.

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1. Introduction

Micro, Small and Medium Enterprises (MSMEs) is one of important parts on Indonesian economy, where the existence of this MSMEs gives positive impact for Indonesian economy especially when there is monetary crisis. This is because MSMEs has the flexibility and ability to adjust, towards market condition, which its changes are unpredictable than large scale company. Besides, the existence of MSMEs is predicted able to reduce unemployment number by opening more jobs offer. According to Siarno, the existence of MSMEs is expected to be able to give good contribution for overcoming economic problems which often happens such the number of unemployment, high level of poverty number, and any kind of imbalance of income distribution. Even though MSMEs is already expected to give contribution to build better economic, but in fact MSMEs also still has to face problem [15]. Primiana explained the major problem that MSMEs faced at the time being is on production, marketing, relation, also technology that is about fund access and business opportunity. The funding difficulty is often faced in developing business which based on the difficulty to get fund and investment from banking institution [14]. One of the reasons of those capital problem is high credit interest rate and material guarantee that needed (collateral minded) in order to get credit which is hard to fulfill. The provision of credit facilities as the main activity of banking institutions basically has the same characteristics since then. But, in its development it leads to variation and pattern which combine technology development with market segment and regulation that follows. The other problem about funding also because of the different perception between MSMEs with financial institution which has the principle of caution. The considerable business risk made financial institutions are more cautious in giving credit to MSMEs so MSMEs character doer is needed to assuring financial institution to cooperate that they are able to pay the credit. The obstacles faced by MSMEs related to financing matters concerning MSMEs access towards credit from bank because of technical or non-technical matter. The existence of Islamic Microfinance Institutions (IMFIs) is expected to be solution to solve funding problem for MSMEs doer on Bogor regency especially. This refers to the Law No. 20 year 2008 about Micro, Small and Medium Enterprises, article 7 and 8 stating that the government and local government to widen business by establishing legislation and regulation includes funding. The funding regulation is to expand funding sources and able to facilitate MSMEs, either on bank institution or non-bank institution, increasing funding institution and expanding network, giving convenient in order to get loan, and help MSMEs to get loan to produce services or other financial products with government warrant [10]. The government role in mediating the problem above of course is awaited by the society. One of them is by giving policy model that is suitable for MSMEs doer's need in solving the lack of fund also in developing sharia product financing available on IMFIs by giving facility for MSMEs doer in proposing loan. That is why, this study, is studied in order to know the policy issued by Bogor local and regional government in developing sharia financing for MSMEs doer also giving policy model which can be applied by local government, either regional or local government of Bogor.

2. Theoretical Framework

Micro, small and medium enterprises is the business that needs serious attention. Opportunity problem and development problem of micro, small and medium enterprises in national and global economies show things that need to be strengthened in business regulation (whether it able to survive or not) and effort that needs to be developed in the future in order to attain the potential and dynamic micro business perspectives [9, 13].

Muslimin said that the government, business world, and society struggled to foster and develop the micro, small and medium enterprises in the field of processing and production, marketing, human resources, as well as design and technology [7]. Fostering and development on processing and production field aim to increase the management ability as well as processing and production technique, improve engineering and engineering design, provide convenience in getting production facilities and infrastructure and processing, raw material, substitute material, and package [7]. Likewise, in the field of marketing the formulation of fostering and developing steps is needed, either it will be done in domestic or overseas. Those steps can be reach through conducting research and marketing assessment, the escalation of management skill and marketing technique also providing facilities and promotional support as well as market test for small business. In addition, it also intended to develop marketing institution and distribution network, also marketing small business' product [7]. There are at least five steps to foster and develop the human resource of micro, small and medium enterprises, namely: (1) socialize and cultivate entrepreneurship; (2) improve technical and managerial skills; (3) make and develop education, training and consultant institutions for micro business; (4) provide instructor and consultant staffs for micro business; (5) instill and develop spirit, passion, and entrepreneurial behavior characterized by: (a) willingness and the ability to think and act creatively and innovatively; (b) willingness and ability to work with independence spirit; (c) willingness and the ability to solve problem and making decisions systematically, includes courage to take risk; (d) willingness and ability to cooperate by health business ethics [7, 12, 19]. The development of micro, small and medium enterprises in production and processing, marketing, human resource, also design and technology field need to be pushed its funding development which able to support the life of MSMEs. Some studies explained that Islamic microfinance from *BMT* gave positive impact towards MSMEs with average business profit increasing up to 6.21 percent [1, 5]. Sharia financing for the development of MSMEs need to get support from the government especially in the urban district and Bogor regency by making local regulation by referring to the Law No. 20 Year 2008 in handling capital issue, because of classical issue faced by MSMEs. IMFIs role can be one of funding solutions for MSMEs entrepreneur so will no longer rely on capital financing towards informal institution which commonly still using *riba* and not in accordance with Islamic principle. It is expected with that regulation, MSMEs doer will no longer depend into something to propose for funding towards informal institution which able to decrease MSMEs existent in the future [2, 8, 17, 18]. Based on the framework above, so the framework of this study can be shown on Figure 1.

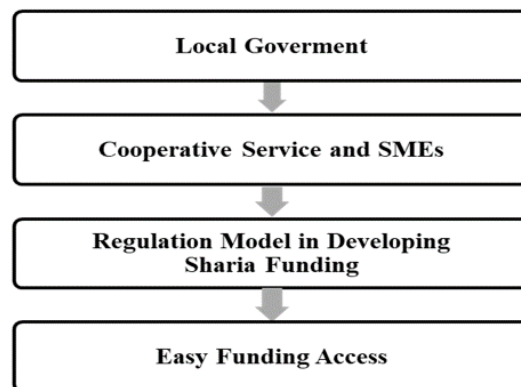


Figure 1: Theoretical Framework on Developing Sharia Financing for MSMEs

3. Research Method

This study uses descriptive method with qualitative data [16]. The focus of this study is regulation of Bogor urban district and regency formulation in developing sharia funding for MSMEs doer, factors that influence Bogor urban district and regency regulation in empowerment of MSMEs doer, also the ideal form of regulation that should be used by the government of urban and Bogor regency in developing sharia funding for MSMEs. The method used is descriptive comparative method. This study is using two technique approaches, that is literature research and field survey by interview and observation. data types collected are primary and secondary data. Primary data is obtained from direct interview with the respondent and field observation. the secondary data is obtained from the result of literature research, documenter review. The location taken is on Cooperative Service and SMEs Bogor urban district and Cooperative Service and SMEs Bogor Regency. While the place and time of this study is on March 2018 to April 2018. The data validity check is by using triangulation technique data source by comparing observation data with interview results as well as interview results with related document, and the analysis is done by data reduction, presenting data, and drawing conclusion [11].

4. Result and Discussion

Bogor Urban District Government and Regency regulation concerning of MSMEs financing which lead to the Law No. 20 Year 2008 regarding Micro, Small and Medium Enterprises which explained that the nature of development is effort made by the government, Local Government, Business World, and community to empower micro, small and medium enterprises by the provision of mentoring guidance facility and reinforcement assistance to improve business capability and competitiveness of micro, small and medium enterprises [10, 14]. To strengthen its policy, the above regulation is strengthened by Law No. 23 Year 2014 regarding Local Government, Regulation No. 18 Year 2016 about formation and composition of Local Personnel, Regent Regulation No. 57 Year 2016 about Position, Organization Structure, Job and Function also Work Procedure of Small and Medium Enterprises Cooperative Service. One of the functions and task of MSMEs service is doing assistance, directing, and promoting MSMEs on regency area. The implementation of assistance and direction which done through training, seminar, and other supporting activity which create business opportunity and insight for MSMEs doer. But new problems arise, where those opportunity should be followed by capital fulfilment so the business can be operated by the MSMEs doer so can be developed well. MSMEs financing access mostly obtained from regular bank rather than financing institute such cooperative and non-ban finance institute. However, in local scale, the existence of non-bank finance institution such cooperative still become strategic partner for MSMEs. The saving and loan cooperative has a big role in fulfilling MSMEs capital needs on Bogor Regency. The inability of entrepreneur especially on the fulfilment of the capital should be the main focus of the government in developing small and medium micro business. One of the programs proposed by the government in effort to provide capital provision is by giving loan in the form of *KUR (Kredit Usaha Rakyat)* which cooperate with Bank Rakyat Indonesia (BRI) by giving *IUMK (Izin Usaha Mikro Kecil)* as collateral and proof of membership as MSMEs doer published by *DiSKOP UMKM* Bogor Regency. *IUMKM* is sign of legality towards somebody or entrepreneur/certain activities in the form of micro and small business permit in the shape of one page. The purpose of the making *IUMKM* is to give legal certainty and tool empowerment for Micro and Small (*PUMKM*) business doer in developing their business. By the existence of

this *IUMKM* it is expected that the business doer can get benefit such: (a) Get certainty and protection in business activity in the location appointed; (b) Get assistance in developing the business; (c) Get easiness in getting access for financing to bank and non-ban finance institution; (d) Get easiness in empowerment from central government, local government and/other institutions [3, 6]. As for the other program run by *DISKOP UMKM* as a way to escalate MSMEs on Bogor Regency can be seen as follows. **Firstly, Training Program.** This program is given specifically for MSMEs doer which want a change on their business. The implementation of the training program is the result of community demand especially MSMEs doer which already given their inspiration towards sub-district then sub-district party reported the things MSMEs doer needed. After that, government will give training for MSMEs doer as needed. One of the training programs that has been running is entrepreneurship training. In this training every entrepreneur is given information and knowledge about product diversification, marketing procedures, business opportunity, information about market condition to innovation that need to be developed by entrepreneur so their business can survive amidst a lot of competition. **Secondly, Capital Facility.** The second program is giving capital facility for entrepreneur. This is out of financing activities provided by *BRI* in the form of *KUR*. The capital given is not in money form, but in the form of goods. The stakeholders in this activity is companies located in Bogor regency area which required to channel CSR (Cooperate Social Responsibility) fund for people located around the area. *DISKOP UMKM* as liaisons between business actors and companies which about to give CSR fund held a seminar so that business actors are able to meet in person as well as sharing information with those companies. For example some companies which already active following this activity is BJB bank, Telkom, Peruri, etc. All the company must tell and explain about their company's program which already run. This is intended so that the assistance given by the company is on the right hand in accordance with the business they held. Furthermore, capital here is also categorized by giving rental place for business doer who run their business, but did not have suitable place [5]. **Thirdly, Marketing Facility.** The third program is giving marketing facility program especially for MSMEs doer which have not have clear market share. One of the things that is often done by *DISKOP UMKM* is bazar program. Where there are some events, the business doer which match with the theme will be included so that their product can be introduced and known by the society. Beside bazar program, there are also exhibition held by the government, as ever done on *Pekan Olah Raga Nasional (PON)* year of 2016. The entrepreneur especially which run on Souvenir and Fashion sectors will be included to make things/goods related to *PON* event so that those things can be used as souvenirs or support for *PON* event which held once every 4 years. **Fourthly, Partnership.** The next program is partnership program. This program is done with the collaboration between parties as MSMEs will be represented by *DISKOP UMKM* with supermarkets on Bogor Regency area such Indomart, Alfamart, Hypermart, and retail markets also modern, etc. This is done to make the products made by MSMEs doer can be distributed in retail market which is known by the society. The management of micro and small business which already run in Bogor Regency so far is already developed, the good cooperation between MSMEs doer with the government also stakeholders cause a good relation. On 2016 it is known that Bogor Regency has sharia finance institution named BPRS Tegar Beriman. In its business activity, that finance institution is run with sharia principle. But there is still the absence of written regulation between the cooperation of BPRS with MSMEs in an effort to upgrade micro business because of that institution still on still developing category. Besides, sharia funding which has been carried out by the central government, in fact it still has not yet work in Bogor Regency area. This is because there is still no sharia financing who are willing to

cooperate with MSMEs in order to give sharia funding for MSMEs. In the future it is known that *DISKOP UMKM* already planned about regulation that will rule about sharia funding as well as making MSMEs clinic. It is expected that those programs will run soon, so can be one of the ways to develop MSMEs in Bogor Regency. The regulation to make business clinic is adapted from *Pusat Layanan Usaha Terpadu (PLUT)* Cooperation regulations and MSMEs where its main program is MSMEs business consultation. Financing program regulation which already run in Bogor Urban District is already developing because of the participation of Bank BRI Syariah which volunteered as business partner for MSMEs doer to get shariah-based funding. Four from thirty-five person or about 10% of *UMM* doer which already join the training or seminar about sharia funding chose to join and participate as partners of BRI Syariah bank. It shows that the understanding of sharia funding is still low which in fact sharia funding is much more profitable also halal as their partner to run their business. This should be consideration also study material for Bogor Urban District government to issued regulations about capital loan for MSMEs doer on Islamic Financing Institution or Islamic Microfinance Institution. With this regulation it is expected to be benchmark for entrepreneur to change direction into sharia-based financing. There are at least two programs run by *DISKOP UMKM* Bogor Urban District in developing Bogor Urban MSMEs. **Firstly, Creating Conducive Business Climate.** This program is related to the existence of financing intermediation for entrepreneur outside of loan in the form of *KUR*. On its implementation there are already companies which already propose to follow this program that is *BRI Syariah*. *BRI Syariah* side already signed diskop MSMEs Bogor urban district by offering finance assistance for micro business doer by held sharia finance seminar for MSMEs doer. **Secondly, Development of Support System for MSMEs.** In this program it is in the form of partnership facility with companies which already cooperate with Bogor Urban MSMEs. As for example, *LIPPO Plaza Keboen Raya* which held culinary exhibition by inviting micro business doer on Bogor urban district are to join in those exhibitions. Besides, there are also partnership cooperation such with supermarkets spread in the region of Bogor to market their products. Not only supermarket, tourist area in Bogor urban district also become the objective of MSMEs Bogor urban in running this activity, such on *SKI Tajur*. Based on the result of the analysis of local government regulations that already carried out, the study gave proposal for local regulations in developing sharia financing for MSMEs (Figure 2).

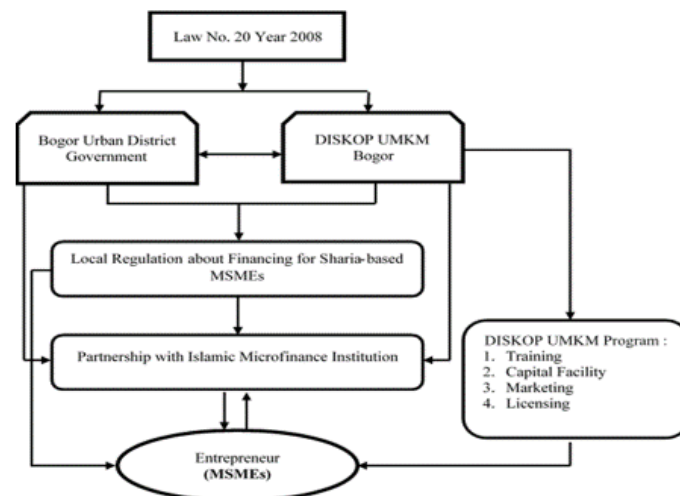


Figure 2: Regulation Model Proposed for Bogor Urban District and Regency Government

Figure 2 describes the regulation model as follows:

1. MSMEs Institutes is Law No. 20 Year 2008 as the main cornerstone wherein all the regulations concerning have been listed about Entrepreneur (MSMEs). This regulation becomes benchmark and cornerstone for Cooperation Government and MSMEs.
2. Based on those regulations, Bogor Urban and Regency Government and local *DISKOP UMKM* cooperate to discussing regulations about Syariah Financing.
3. Based on those Local Regulation, Local Government and local *DISKOP UMKM* undertake partnership with Syariah micro finance institution, it is expected from that partnership IMFIs are able to distribute the funding towards MSMEs.
4. Through those regulations also, Local Government and local *DISKOP UMKM* are able to guide MSMEs who need more capital to propose it to IMFIs.
5. Bogor Urban and Regency *DISKOP UMKM* carried out their duties and function matching to Law No. 20 Year 2008 and Local Regulation to help MSMEs in developing their business and human resource through training, funding and marketing facility socialization.

The existence of Islamic Microfinance Institutions as one of effort to improve the economy by giving *halal* and good finance service. Either from product, operational, everything should be run in *halal* way. IMFIs is not only giving *halal* and good service, but also the existence of IMFIs is an institution that run in order to help between IMFIs members. Through local regulation drafts, so Bogor urban and regency government is expected to establish partnership with IMFIs to give finance facility toward MSMEs, more than that IMFIs also able to give socialization or training also business assistance in order to enhance MSMEs business. Partnership also can be done by stakeholders by distributing the products because one of MSMEs obstacles is marketing. So, by the existence of partnership with retail company, the products produce by MSMEs will be distributed to retail company. Here are Bogor Urban and Regency Government partnership model through MSMEs (Figure 3).

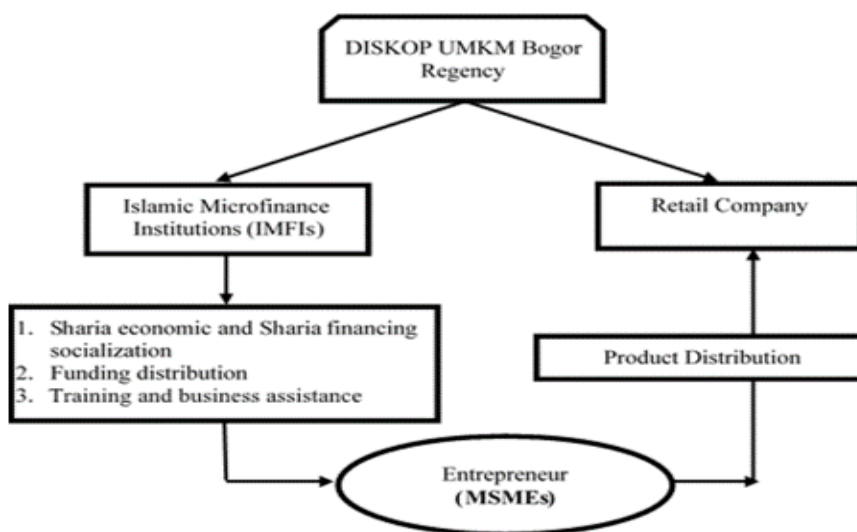


Figure 3: Bogor Urban and Regency Government Partnership Model

Figure 3 describes the partnership model as follows:

1. After Local Regulations about Sharia funding is published, so Bogor Urban District and Regency Government through local DISKOP UMKM perform partnership with micro Syariah financing institution to facilitate MSMEs in capital problem.
2. Besides partnership with MSMEs, DISKOP UMKM also expected to perform partnership with retail company. Those partnership is expected to facilitate product marketing produced by MSMEs.
3. Partnership with IMFIs also can be done from various ways such Socialization about Sharia economic and Sharia funding understanding, funding proposal, and training as well as business assistance for MSMEs, so it is expected from that partnership to develop MSMEs business.

5. Conclusion

Based on the result and discussion above, then the following are the conclusion from this study:

1. Regulations about sharia funding in Bogor regency is still in the making process so the distribution of the funding can be done through Sharia banks.
2. The right regulation model is by inserting regent regulation about Sharia financing.
3. The business doer/entrepreneur must hold *IUMKM* as form of legality of business ownership which published by Syariah finance institute and conventional.

6. Recommendation

Based on the conclusion, the study recommends some efforts to be done for the next:

1. After the final regulation of Sharia funding, Bogor regional government must establish a more synergic collaboration with Sharia banks.
2. Issuance of regent regulations regarding Sharia finance for MSMEs.
3. Ease of procedure in making *IUMKM* by Bogor regional government so that MSMEs are easier to apply for funding to Sharia financial institutions.

The study discusses the local government policy model to develop the Sharia financing for micro small and medium enterprises by using the limited samples, namely only two local governments. The next study will take more local governments in order to further and deeper explore the focus of interest.

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