

# OPTIMIZATION OF COOPERATION NETWORK BETWEEN THE GOVERNMENT, PRIVATE SECTORS AND UNIVERSITIES IN STRENGTHENING SME CAPITAL THROUGH ISLAMIC MICRO FINANCE IN INDONESIA

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## ABSTRACT

*IMFI (Islamic Micro Finance Institutions) is a microfinance institution that can provide ease of access, especially for people who have SME ( Small and Medium Enterprises). The purpose of this study is to determine how the concept of cooperation network between the government, private sectors and universities in strengthening SME capital through IMFI. The method used in the study is a qualitative method using a discourse analysis data analysis technique. The result of this study indicates that the cooperation between the government, private sectors, and universities in strengthening the capital of SME through IMFI can be implemented using a linear collaborative of partnership model, while capitals that can be utilized such as RLF of government, CSR funds from the private sector (companies), program linkage with Islamic Banks, training and preparation of skilled workforces from universities to support the development of IMFI and SME.*

**Keywords:** Government, Private Sectors, Universities, IMFI, SME

**INTRODUCTION:**

Network of cooperation between the government, and private sectors along with universities in strengthening SME capital through Islamic microfinance institutions, is a form of cooperation that can be extended to provide wider access to SME in obtaining capital injections and other accesses. SME are one of the middle and lower public enterprises that have a large role in driving the economy of a country, from the aspect of employment, revenue generation for governments through tax and other roles. The most common problem faced by SME in some countries is the lack of accessibility to bank financing, the difficulty of SME to have access from the banks due to non-fulfillment of requirements applied by banks in the provision of enterprises financing or credit (Dasuki, 2011) such as 5C: *Collateral, Capacity, Character, Capital, Condition of economy*, and of those five requirements, the element of *Collateral* is the most difficult factor to be fulfilled by SME.

Overcoming the limitations of SME to access financing, the Indonesian government has launched the development and utilization of IMFI (Islamic Micro Finance Institutions) since December 7, 1995 as a movement (Obaidullah, 2008). The existence of IMFI is expected to be an option for the middle and lower communities, due to simple, affordable application requirements compared to banks. In general, IMFI in Indonesia consists of KJKS (koperasi jasa keuangan syariah) (Islamic financial services cooperative) that is supervised by the FSA, KSPPS (Koperasi Simpan Pinjam Pembiayaan Syariah) (Islamic Savings and Loans Financing Cooperative) and UJKS (Unit Jasa Keuangan Syariah) (Islamic Financing Services Unit), which is supervised by the Ministry of cooperatives (Martowijoyo, 1999) (Sudarsono, 2003), The government announced ‘2005’ as the Year of microfinance Indonesia (Pinbuk, 2014), through the development of Microfinance Institutions, this national movement aimed to bridge the economic disparities, alleviate poverty, and explore the economic potentials among the middle and lower communities. This was a huge opportunity for Indonesia as a country with the largest Muslim population in the world and is expected to be a central laboratory of IMFI (Obaidullah, 2008). The emergence of sharia-based Islamic microfinance institutions provides fresh air for the people of Indonesia who are predominantly Muslims and want to take advantage of financial services in accordance with Islamic principles. The existence of IMFI that operates on the middle and lower class communities’ are expected to make a real contribution and provide facilities to improve the standards of majority people living under this category.

In the last few years the growth of IMFI increased significantly as shown in Table 1.1 below:

**Table 1.1: IMF Growth in Java, 2016**

No.	Province	Asset > 1 billion	Asset of 500 million to 1 billion	Asset of 250 million to 500 million	Asset of 50 million to 250 million	Asset of 50 million	Total
1	Jakarta	20	36	53	55	16	180
2	West Java	30	23	290	293	24	660
3	Central Java	80	9	215	225	49	529
4	Yogyakarta	10	10	29	14	9	72
5	East Java	15	32	271	230	62	700
	<b>Total</b>	<b>155</b>	<b>110</b>	<b>852</b>	<b>817</b>	<b>160</b>	<b>2,141</b>

Source: Pinbuk, 2016

Progressively, IMFI continued to increase in numbers particularly throughout Indonesia, but from the development perspective, IMFI faced unavailability of sufficient capital financing SME, the limited ability of HR in managing IMFI. Further, there is also only limited access and cooperation network among IMFI, government agencies, private sectors, universities and others. The IMFI developments also show that the community interest to IMFI is very high, especially for the middle and lower communities who do not have access to banks. These communities firmly believed that, IMFI can resolve all those problems, particularly the problem of capital for directly relating to the sustainability IMFI in providing financial services to the communities. One of the methods to meet the capital requirement is to optimize the network of cooperation among the government, private sectors, and universities, so that the role of IMFI as microfinance institutions that operate at the grassroots, can take more roles particularly in providing facilities for productive financing to

SME. Based on the above problems, the following is a formulated research question: How the network model of cooperation that can be developed between governments, the private sector and universities to strengthen the capital and skills of SME through IMFI in Indonesia.

## LITERATURE REVIEW:

### Cooperation Network Theory or Partnership:

A cooperative is a network of organizations that are formally linked together and participate with each other to achieve agreed goals. There are some who do the research agreement between the companies, the government and Islamic banks to strengthen capital through IMFI SMEs, while cooperation with universities could do to provide training and human resource SME and IMFI (Obaidullah, 2008). A strong network can be an important aspect in promoting and developing the organization, IMFI is an institution of micro who really need the help of many agencies to be more independent, one satunya by building a network of cooperation, although not directly related, because the network is a powerful tool to strengthen the implementation of new public management and cannot give independence (Siregar, 2005). While the meaning of partnership when viewed from the aspect of etymology can be interpreted as a partnership that means alliance or consortium (Sulistiyani, 2004). Partnership and cooperation network is a social system, and new issues, where every member of cooperation can transfer energy in the form of information and other (Townly, 1998). According to (Ketll, 2009) the important thing is to optimize the results of network actions implemented so that a positive impact, while (Obaidullah, 2008) describes a network of cooperation to do the Fund are as follows:

1. ICB: Islamic Commercial Banks; FIN/CHNL: Financing directly or jointly with BPRS and/or Channeling Government Microfinance Schemes
2. UNIV: University, HRD: Human Resource Development; TA: Technical Assistance; BDPS: Business
3. Development Services Providers; ST/TT/MT: Spiritual and/or Technical and/or Managerial
4. Treatment
5. GOVT: Government; ZISW: Institutions dealing with Zakah, Infaq, Sadaqa and Waqf; CSR:
6. Corporate Social Responsibility; BNF/SCF: Basic Needs Fulfillment and/or Start-Up Capital Funding

A cooperation network that becomes the focus of this paper is the cooperation between government, private sectors, universities, in strengthening the SME capital through IMFI, one of the methods to strengthen the cooperation network is to optimize the above six aspects so that organizational goals can be well-achieved. There are several models of partnership based on the phenomena of cooperative relations as follows (Sulistiyani, 2004):

1. *Subordinate union of partnership.* A partnership implemented between two or more parties who have unbalanced status, ability or power with each other. Thus, the relationship created is not in a balanced straight line to each other, but is in relation to a top-down, strong-weak position. This condition has resulted in no balanced sharing and role or function.
2. *Linear union of partnership.* A partnership through the consolidation of parties on linear or straight line basis, the parties join to conduct cooperation are the organization of the parties that have similarities in relative terms. The similarity may be the purpose, or mission, the amount / volume of business or organization, or legal status.
3. *Linear collaborative of partnership.* A partnership undertaken through cooperation, this partnership model does not distinguish the amount or volume, status / legality, or the strength of the partners working together. The focus of the main pressure is the vision and mission complementing one another. In this partnership relationship is established in a linear fashion, which is positioned on a straight line, not subordinated to each other.

(Sutabri, 2005) states that a network or cooperation is often used for system administration system, services system, banking system, accounting system, inventory system, inventory systems, marketing system, technology system, and many more. A network is a means or channel to connect all interests of the organization in order to achieve its objectives. IMFI may cooperate with other institutions such as government, private, Islamic banks and universities, both in the provision of capital and human resources (Obaidullah, 2008).

### Economic Activities of SME :

Economic activity is an activity carried out by every one in an organization to generate income in order to meet their needs, such as consumption, production and distribution and then known with the cycle of economic activity circles in a simple model (Rahardja, 2008). Meanwhile, the definition of SME as contained in the law concerning micro, small and medium enterprises in Indonesia No. 20 (2008) that the category coverage of micro, small and medium enterprises are as follows (Koperasi, 2016) :

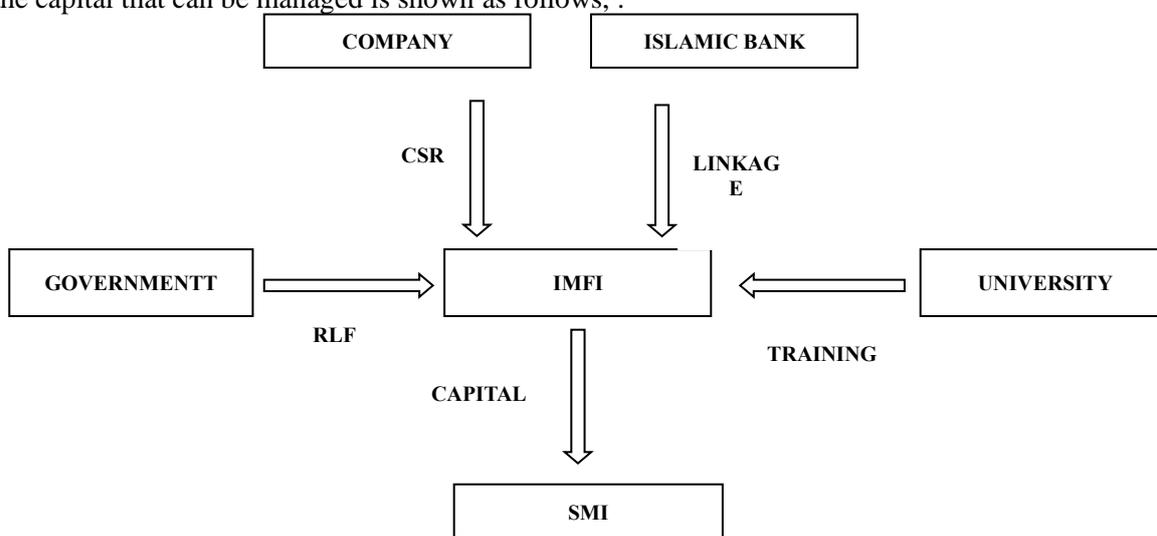
1.Small enterprises that hold a net worth of more than Rp. 50,000,000-, to Rp. 500,000,000.- Medium enterprises hold a net worth of more than Rp. 500,000,000-, to Rp. 10,000,000,000.-  
 2.Small enterprises hold an annual sales turnover of more than Rp. 300,000,000-, to Rp. 2,500,000,000.- Medium enterprises hold an annual sales turnover of more than Rp. 2,500,000,000-, to Rp. 50,000,000,000.-  
 SME development can be built one by performing a partnership between government, private sectors universities and IMFI. This partnership facilitates coordination and cooperation. This cooperation could indirectly help to exploit the opportunities of SME and IMFI in developing its business strategies that fit their needs. The main key of this cooperation is to create mechanism, plan and coordinate appropriately to execute the agreed cooperation. During the process of cooperation, it is important to maintain trust.

**Earlier Research:**

The research results of (Soekarto, 2013) showed that there are five priority development strategies of IMFI, which are as follows.

1. First, an increase in the quality of services and management of business according to sharia.
2. Second, enhanced trust of cooperatives through improved internal control and accountability of financial statements.
3. Third, to improve reliable and strong quality of human resources.
4. Four, establish the good relationships (partnerships) with other agencies.
5. Five, optimization of business services and development of members (SME) to motivate the loyalty and interest of saving for members.

The framework of a cooperation network between the Government, Private Sectors and Universities In Strengthening SME Capital through IMFI, microfinance institutions can collaborate with several institutions to raise the capital that can be managed is shown as follows, :



**Figure 1.1: Frame of Mind**

**Note:**

- SMI : Small and Medium Enterprises
- RLF : Revolving Loan Fund
- CSR : Corporate Social Responsibility
- LINKAGE : Financing
- TRAINING : Expertise
- CAPITAL : Fund

**RESEARCH MENTHOD:**

The Research Method used in the paper is a qualitative method using descriptive approach through the study of literature with a *discourse analysis* data analysis technique. Data collection techniques were obtained with technical documentation from various studies, writing, research, and other documents deemed necessary.

**DISCUSSION:**

**Basic Concepts of Capital Cooperation Network:**

The basic concept of cooperation network is to increase the SME capital through IMFI in cooperation with government agencies, private sectors, universities and this can be done with a *linear collaborative of partnership* model. The partnership or cooperation of this model can be applied by each institution though the quantity or volume, status / legality, or the strength of the partners has a different partnership. A major emphasis on this model is the vision and mission that are complementary to each other so as a good partnership or cooperation, particularly in the capital can be established. In simple terms the basic concept of cooperation network between government agencies, private sectors, universities in providing SME capital through IMFI is presented as follows:

**Table 1.2. : Cooperation Network**

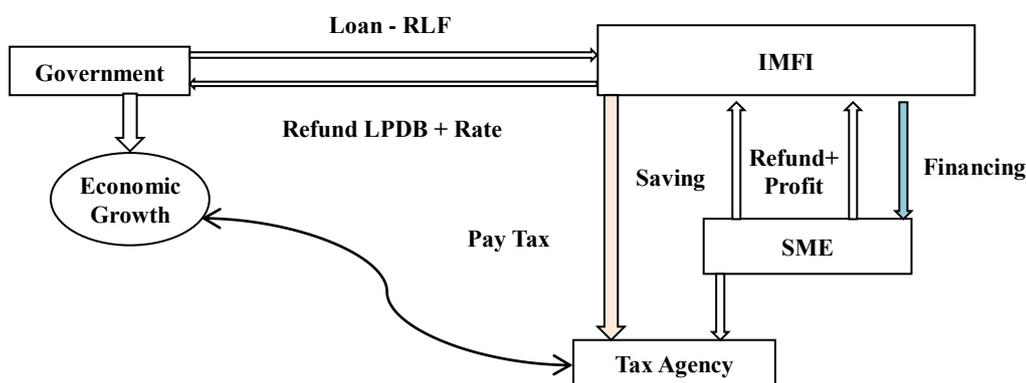
No.	Institutions	Capital
1	Government	RLF
2	Private Sectors	CSR
4	Universities	<i>Training &amp; Labor</i>
5	Islamic Banks	<i>Linkage Program</i>

**Source:** Adapted from various sources

Based on table 1.2 it can be explained that all sources of those funds are capital resources of SME through IMFI that can be well-managed. Today, many IMFIs have taken advantage of the *linkage program* of Islamic Bank, while the impact of utilizing those funds is not significant on the profitability of IMFI and SME as per the research results of (Irwandana, 2015) who showed that there is no significant difference in profitability of IMFI after using the *linkage program*. Thus, in order to optimize the potential of SME and IMFI it needs establish a cooperation with other agencies, particularly in strengthening the capital of SME through IMFI.

**Cooperation Network Concept Between IMFI and Government :**

Before implementing a network of cooperation with the government, IMFI need to legalize its efforts to obtain a license from the government both from the FSA and Mministry cooperative. When a business license has been obtained, IMFI can directly work with the government and take advantage of government programs, especially in the capital strengthening SMEs through IMFI like LPDB. In a simple way, the network model of cooperation between IMFI and the government has been running is as follows:



**Figure 1.2 : Current Cooperation Network Between IMFI and The Government**

Based on the above illustration it can be explained that, there are some disadvantages in the system of cooperation network that have been implementing at present:

1. There is no strict supervision or development performed by the government both to IMFI or SME, because of many existing human resources in the administration have not recognized on IMFI particularly in the implementation of the IMFI products contract. (Sakti, 2013) results showed that until recently supervised IMFI not as tight as banks, so many IMFI who have problems such as declining customer confidence and more
2. RLF Loan granted to IMFI is still using the system of interest, whereas IMFI is an Islamic-based microfinance institution, the implementation of the interest system can cause a *mismatch* because IMFI distributes those funds in the form of Islamic-based financing.

- The financing distributed to the sme is still a lot of consumer-oriented, making the economic growth the government wants is not achieved on a real basis. Sme contribution to achieve this time gdp 57.48% (Koperasi, 2016) so LKMS need more role either by using sources of funding through cooperation with other institutions.

Based on a wide range of problems, following is a model of cooperation network between IMFI and the government that can be applied in particular in strengthening SME capital through IMFI and capable of supporting the *economic growth*:

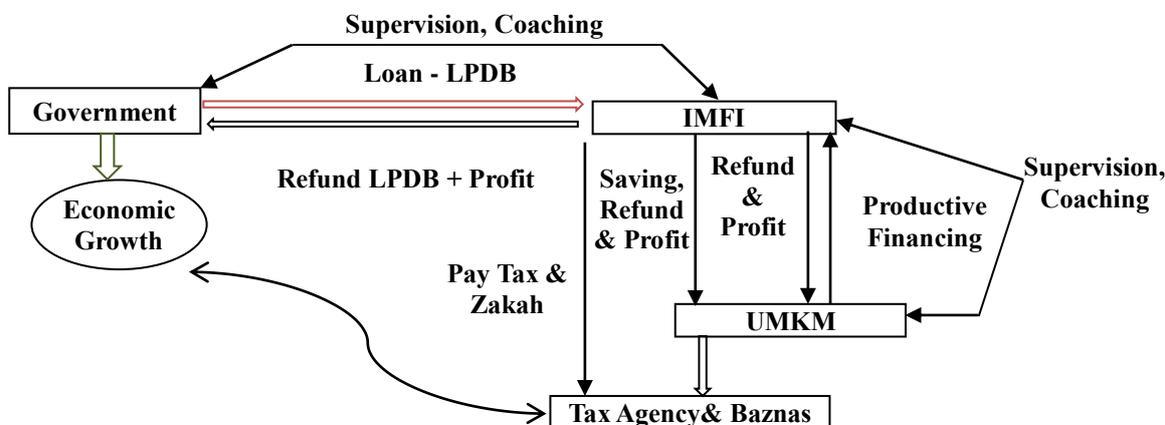


Figure 1.3. : Cooperation Network model between IMFI and Government

Based on the above illustration it can be explained that the concept of cooperation network between the government and IMFI is built a comprehensive manner:

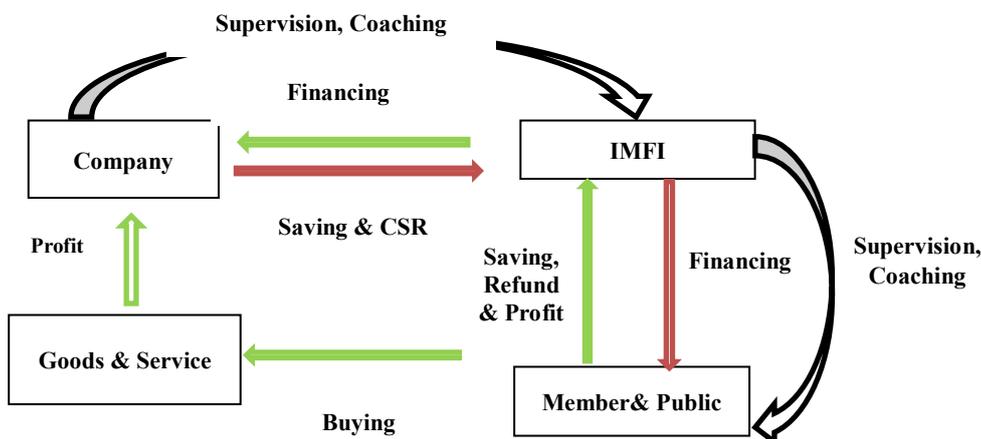
- The government provides financing (LPDB) on IMFI with a special skim using no interest, but using profit sharing, so as no party will be disadvantaged. IMFI will pay profit sharing to the government if IMFI has real benefits from the results of funding distributed to the SME (productive financing).
- The government performs supervision and development closely and carefully, by placement of human resources (HR) who are experts in their respective fields. Often the case today many IMFI supervised by supervisors who do not possess the background so that the sharia supervisory less than optimal
- Funds obtained by IMFI should be distributed in the form of productive financing prioritized on SME, and not consumer oriented. Products that can be applied on the financing are those using the covenants of *mudharabah, musyarakah, musyarakah mutanaqqishah, mukhabarah, amuzaraah and musaqah*, so as SME can develop their business on a real basis.
- IMFI needs to perform supervision and development on IMFI strictly and carefully, particularly on the business development of SME. IMFI does not only provide capital injection, but more importantly it need to ensure business continuity of SME by constantly making it evolv for better revenue and capable of paying its debts to IMFI, by making the audit to oversee the entire financing to SME.
- SME that grow well will have a positive impact on IMFI growth. SME that continue to grow will save their money in IMFI, so IMFI can distribute the funds back to the new SME in order to encourage the emergence of new SME in the community.
- Both IMFI and SME are required to pay tax and zakah of the results of operations performed. Especially for zakah, IMFI and SME should pay their zakah on a trusted zakah institution such as BAZNAS (badan amil zakat nasional) (national board of amil zakah) in the hope that such zakahs can be distributed appropriately and productively.

If the six points above implemented properly it can have a positive impact, especially for national economic growth and the community independence.

#### Cooperation Network concept between IMFI and Private Sectors :

The concept of cooperation network between IMFI and the private sectors is currently only limited to ordinary deposit and future deposit, even though it is already providing additional IMFI capital in distributing SME financing, but those funds usually do not have long period, so as on occasion there is a *mismatch* between funding sources of IMFI and the distributed financing term. Or in other case those funds cannot be utilized freely by IMFI particularly on long-term financing. SME as the economic activities of small communities

generally have a limited range, and want a relatively longer installment of financing, for the continuation of the business carried on and earn greater profit. To overcome these problems, IMFI needs to perform a cooperation with private companies by utilizing CSR funds of those companies. Following is a cooperation network concept between IMFI and the private sectors (the Companies)



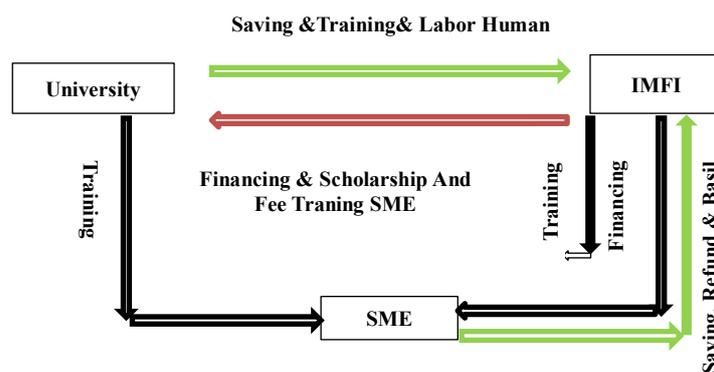
**Figure 1.4. : Cooperation Network model between the Companies and IMFI**

Based on the above illustration it can be explained that the cooperation network model between the company and IMFI particularly in strengthening the SME capital is presented as follows:

1. The companies do not only save money in IMFI but provide their CSR funds to IMFI for the distribution to SME or IMFI members. CSR funds can be provided free of charge to support the empowerment of SMEs through IMFI, companies can apply for funding if needed in particular for his employees because IMFI can only provide microfinance
2. The company deposit funds can be distributed in a wide range of financing products, particularly short-term financing, with the determination of margin and profit sharing ratio in accordance with the predetermined provisions by IMFI and SME or members.
3. For CSR source of funds derived from the companies can be used by IMFI in the form of long-term financing with the determination of cheaper margin and profit sharing ratio, so as capable of providing relief to SME in order to repay the financing funds.
4. To ensure that those CSR funds are used properly, the companies need to conduct supervision and development on IMFI.
5. Members that may be granted financing from the *saving* funds of the companies managed by IMFI are members who need consumptive and productive financing, while for CSR funds should be distributed to the members who hold the productive businesses and have limited capital.
6. To keep the sustainability of member SME, IMFI should conduct supervision and guidance so that members can pay their receivables and take advantage of available saving products at IMFI, so that funds collected at IMFI can be re-distributed to the members and the companies in the form of productive financing
7. Any financing performed by members in the consumptive and productive form can utilize or purchase goods and services produced by the companies so as it can directly add to the profit of the company.

**Cooperation Network concept between IMFI and Universities:**

One of the problems faced by IMFI and SMEs is the lack of competence of human resources (HR) and many IMFI are experiencing problems due to lack of competent human resources and does not understand sharia, whereas these institutions are run in accordance with Islamic principles. To resolve this issue IMFI and SMEs need to cooperate with universities, especially in the context of improving the knowledge and the provision of new employment. Here is a concept of cooperation networks between IMFI and Universities:



**Figure 1.5. : Cooperation Network model between the Universities and IMFI**

Based on the above illustration it can be explained that cooperation between IMFI and universities can be implemented in the following ways:

1. Universities deposit their funds at IMFI, or universities form the IMFI. To ensure the sustainability of proper IMFI, universities must provide training and supervision to IMFI. To maintain the purity of sharia IMFI needs to establish a sharia supervisory board, in which the membership may come from the universities.
2. Universities graduate can be taken as a manager of IMFI if they meet the prescribed criteria.
3. Universities can utilize the financing facilities of IMFI, such financing can be used for financing the need of employees and deans, and student fellowships.
4. To provide financing facilities at the universities, IMFI needs to distribute their funds to SME in the productive financing form, in order to maintain the continuity of SME. It needs the support of the universities, particularly in carrying out skills management training for SME, to provide relief to the SME trainer fees paid may IMFI. so that the continuity of SME can be guaranteed and continues to grow, and can directly affect the development of IMFI for SME will save their funds at IMFI and can refund their financing funds to IMFI including the profits.

### Cooperation Network concept between IMFI and Islamic Banks:

As Islamic microfinance institutions, in general, IMFI keeps its funds in the Islamic Banks, both in the form of ordinary deposits, demand deposits and time deposits. Today, almost all Islamic Banks have cooperation programs with IMFI, particularly in IMFI capital known as *Linkage Program*. Followings are the Linkage Program systems implemented by Bank BNI Syariah: The Financing Cooperation of a *Linkage Program* iB Hasanah is a financing facility where BNI Syariah as the owner of the funds distribute the financing using the executing pattern to the Islamic Financial Institutions (LKS) (BMT, SRB, KJKS, etc.) to be passed on to *end user* (sharia micro, small, and medium entrepreneurs). Cooperation with LKS can be performed directly or through the Counterpart Institute. Financing contract to LKS is *Mudharabah / Musharaka* while the financing contract of LKS to the end user in accordance with the needs (*Murabaha, Mudaraba, Musharaka, Ijarah*). (BNI Syariah, 2016). If we see from the program scheme is already quite good, but in reality the implementation of the program has several problems:

1. Islamic Banks do not run in accordance with the listed contract
2. Islamic Banks still want a definite refund, so as they distribute in the form of uncertainty contracts such as *murabahah*, so IMFI encounters difficulty in the distribution of those funds. Islamic Banks should better put *mudharabah* forward so as IMFI can freely distribute those funds to SME.
3. To keep IMFI *performance* in paying the distributed funds, the Islamic Banks need to apply strict requirements but still focus on the benefit, and conduct continual monitoring so that no financing is jammed.

Thus, the cooperation network model between LKSM and the Islamic Banks that can be practiced is as follows:

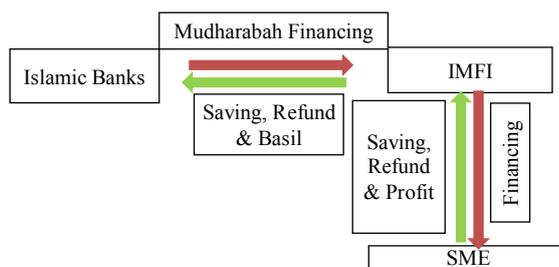


Figure 1.6. : Cooperation Network Model between IMFII and Islamic Banks

**Optimization of Cooperation Network between the government, private sectors and universities in strengthening SME capital through IMFII**

Following is a model of cooperation network in a whole or in combination of the several prior discussion:

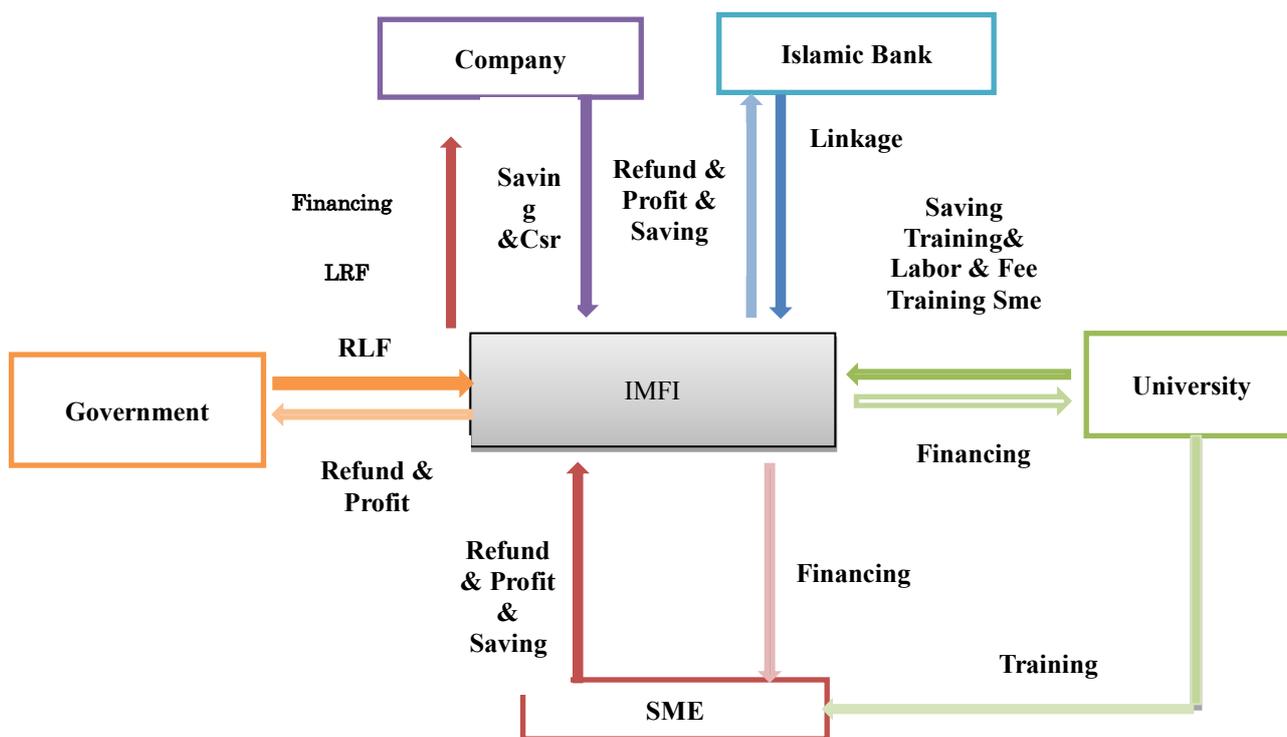


Figure 1.7. : Cooperation Network Model IMFII

**CONCLUSION :**

The results of this study can be summarized as follows: First, a network of cooperation between government, private sector, and universities to strengthen the capital of SME through IMFII can be implemented using linear collaborative partnership model. This means that the partnership or cooperation can be applied even if the number or volume, or legal status, or the strength of partners has a different partnership.

Second, the capital that can be utilized from the results of such cooperation, among others, include RLF from a government system without interest, CSR funds from the private sector (companies), the linkage program in the form of financing Islamic Bank, training and preparation of human resources skilled from university , All such cooperation can be done not only in Indonesia but also can be applied to other countries, because in general IMFII in the world have the same characteristics and have the same difficulty, namely the difficulty of capital and limited skilled human resources.

Third in order to strengthen the capital of SME through IMFII, all sources of capital and skilled labor through such cooperation should be used and managed properly, so that difficulties in accessing capital and limited resources of SME can be completed, and to boost economic growth significantly.

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