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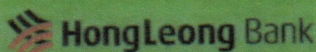


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Model of Micro Business Incubation

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ABSTRACT

The study of Zakat to deal with poverty issues is still booming in Indonesia. However, the most study did not elaborate in more detail especially in the relation zakat management, level of assistances, and micro businesses incubation effectivity. To deal with the issue, therefore, this research aims to develop a comprehensive model of micro business Incubation by employing a mix approach. The findings of the first phase of the study indicate that the micro business empowerment model through BAZNAS free loans interest and assistance requires training management skills, innovation and marketing assistance. Thus, model is expected able to improve the performance of micro-businesses. The findings of the second phase of the study indicate that the micro business incubation through free loans interest and assistance, positively influences the performance of micro business.

Key words: *poverty, financing, micro business, performance*

1.1. Background

Zakat is an obligation for all Muslims who can afford or has reached the *nisab* in his property. Conceptually, *Zakat* is both as a vertical and horizontal relationship. In horizontal relationship, the purpose of *Zakat* is not merely sympathizing consumptive poor, but it has a more permanent goal that is to alleviate poverty. The distribution of *Zakat*, *Infaq* and *Shadaqah* (ZIS) funds, especially *Zakat*, has now grown, from initially only oriented to meeting the needs (consumptive), now meeting the needs of the productive as well. In Indonesia, the productive *Zakat* had been ratified by MUI in 1982. It is also reinforced by the description of the alms collected by Amil *Zakat* Institute (LAZ) and Badan Amil *Zakat* (BAZ) that it can be given consumptively and productively to improve the business done by the *mustahik* (Hafifuddin, 2002).

Institute of *Amil Zakat* should be able to provide clear evidence on the distribution of productive public funds targeted and its success to fight against poverty. This is to restore the confidence of the public or foster the credibility of BAZ and LAZ in managing charitable funds.

Badan Amil *Zakat* (*Baznas*) is an integrated part of the national BAZ relating to the collection and distribution of *Zakat* program. The program run by this institution is an extension of the program launched by the BAZNAS adapted to local knowledge, including the distribution of *Zakat* funds productively.

Based on the finding by Adiwijaya 2008, it shows that managers of *Baznas* in Semarang agree that the allocation of *Zakat* funds is done in the form of productive *Zakat*, but it needs professional management and *Shariah* compliance. Moreover,

Adiwijaya (2009) finds that the good governance of BAZNAS is by its transparency and accountability. This is important because it relates to the trust factor of *muzaki* as stakeholders, especially funders. In addition, it is also needed *Baznas* management beneficial to alleviating poverty. This means that poverty eradication should be felt by the community and perceived by the public. In this case, Adiwijaya (2010) states that the poor will remain poor even if given cash transfer. However, the poor will become not poor anymore if employed, empowered to their own power. To empower the poor, it needs working capital without interest, free coaching and mentoring to succeed. All of the findings of these studies can be done by *Baznas* because the sources of the funds collected are from *Zakat*, *Infaq* and *shadaqah* of the society.

In Islam, there is a *qordul- hasan* terms, it is a loan without interest that allows the clients to use the funds for a certain period and return the same amount at the end of the agreed period. If the borrower has suffered a loss due to innegligence, then such losses may reduce the amount of the loan. The budget for *qardhul hasan* program is obtained from *Zakat*, *Infaq* and *Shadaqah* collected by *Baznas*.

1.2. Formulation of the problem

How is the empowerment model of Micro business through free loans interest and assistance by *Baznas* effective to poverty alleviation programs?

2. Literature Review

2.1. The underlying theory:

Agency theory: In this theory it is explained that ideally, Agents of Regional Amil *Zakat* (*Baznas*) can be trusted to carry out their duties and responsibilities in the welfare maximization (Jensen, 1976). In the course of time, the issues of agency become more complex, the agency problems do not only occur between the manager and the owner, but also between the owner and other *stakeholders* such as: suppliers, employees and the public (Shleifer and Vishny, 1997; Zhuang, *et.al* 2000; Ariyoto, 2000). The existence of the agency conflict is more complex; therefore, it needs *good Governace*, so that the interests of the various parties involved in *Baznas* can be fulfilled.

Based on the theoretical references and previous empirical studies, it is stated that to empower the poor to be self-empowered, they must be (1) employed, (2) given the venture capital and business training, (3) given the business assistance to succeed.

Employing the poor can be done by way of creating jobs, and jobs can be increased if the development of new businesses in the community arises. There are many Micro-businesses become extinct at the age of two to five years (Trenggono, 2009). Therefore, the recommendation to maintain micro businesses to *survive* is by the protection and empowerment of their business.

One of the affairs of the people that must be realized by the state (*Daulah Islamiyah*) is to set up economic sector by the aim of improving the economic welfare of the people and, as a result, the state or country becomes strong. The form of the state's obligation on this issue can be arranged through the institution of Baitul Mal BAZ), in addition to enforcement of *sharia* compliance by the state to arrange the mechanisms and economic transactions (ways to obtain and develop or invest property or consumer spending), sanctions (*uqubat*) for violations of the law,

and enforcement of security that will protect people's economic activity so that economic activities become fluent.

Legislation of the Ministry of Religious Affairs on *Zakat* Management, (2003: 53) explains that the utilization of *Zakat* can cater the consumptive and productive needs.

1. Consumptive Needs

Zakat is intended for the fulfillment of the lives of the eight *asnaf*. In accordance with the Act (Law), the eight *asnaf* proposed is indigent, poor, *amyl*, *muallaf*, *Riqab*, *gharim*, *sabilillah*, and *Ibn sabil* which in its application may include people who economically most vulnerable such as orphans, the elderly, the disabled, students, boarding school, abandoned children, those who debt, those who refugees displaced and victims of natural disasters.

Utilization of *Zakat* collection result to fulfill the consumptive needs of the eight *mustahiq* can be done by the following requirements:

- a. The results of the data collection and the truth of *mustahiq* especially the poor.
- b. Prioritizing people who are most vulnerable to comply the basic needs of economic and in need of assistance.
- c. Prioritizing *mustahiq* in their respective areas.

The distribution of *Zakat* to them is instantaneous due to the urgent to solve the problem arise.

2. Productive Needs

Particularly, *Zakat* utilization in the form of *Infaq* and *Shadaqah* is intended for productive enterprises and the goal is to improve the welfare of the community. The utilization of collecting *Zakat* to fulfill the productive needs is based on the following considerations:

- a. If the utilization of *Zakat* for eight *mustahiq* has been met and there is still an excess.
- b. There are real businesses likely to develop.
- c. Approved by the Advisory Council.

The channeling or distributing *Zakat* in this case is in the form of assistance through sustainable empowerment programs or activities, with a revolving fund to allow recipients to gain more funds.

2.2. Previous Study:

Perception of *Zakat*, *infaq* and *shadaqah* management in Kodia Semarang on the productive management of *BAZNAS* by Adiwijaya et al. (2008) concludes that the fund managers of philanthropy in Semarang strongly agree if *Baznas* is managed, programmed and coordinated massively. In that study, it is recommended that it is necessary to have reliable governance for funding to be unearthed from the public and useful for the alleviation of poverty.

Moreover, the study by Adiwijaya, et.al (2009,2010) concerning on good governance in poverty alleviation in *Baznas* of Jakarta, generate new conclusions and findings to be investigated further as follows: the transparent and accountable management is expected by the *stakeholders*, especially funders because it involves the accountability of funds. Another very interesting finding is the need of more efficacies. The fund management is expected to be allocated for the empowerment of the community either by way of the poor to be employed, made assistance for

micro business, given training and venture capital without interest and unsecured known as *qardul hasan*. Another productive sector which is also expected to be made is a free school for the poor from kindergarten to college or vocational.

From the findings, the further study is conducted on how the model of small and medium enterprise empowerment through *free loans interest* by *Baznas* influence the welfare of *mustahik*.

Trenggono (2009) reveals the findings on the empowerment of small and medium enterprises. The study recommends the following matters:

- a. That the *second idea* (creativity business) and business innovations is needed for Micro business to be able to grow. A total of 73 Micro business collapse because they cannot adapt to the social development of communities and those who are able to create idea and innovate, survive and grow.
- b. Micro business need to consider the wishes of the people and do not really focus on the products and services that can be done alone. Those who grow are always attentive to the wants of society, and meet the wishes of the people and sell it to them.
- c. Working capital on Micro business (Micro business) should always be available since the findings of many studies reveal that Micro business that do not have sufficient working capital cannot move and eventually die.
- d. *Management skill* is a necessary factor for Micro business with a focus on technical ability to those who cannot develop their business well. Management skill is needed in order to develop micro-enterprises because in the management skills there is a segment of the market analysis, innovations, and who should do what and certainly, it's very different with a technical focus on how to create a product.

3. Research Methods

3.1. Approach

This study is a mixed study conducted by using two approaches, Qualitative and quantitative approaches. The methods and techniques used are in-depth interview, questionnaire and observation to the respondent of *mustahik* by *Baznas*. Overall, the data collected are assisted with analysis tools of Partial Least Square (PLS) to make it easier to analyze the data.

3.2. Flow Chart of Study

Flowchart of the study conducted from the first to the second stage is as follows. In the first stage, it identifies important factors in the empowerment of Micro business via *free loans interest* and its impact on the welfare of *mustahik*. This can be done by collecting a variety of both theoretical and empirical references before then conducted in-depth surveys through qualitative research with respondents of *mustahik* by *Baznas*. The next step is to formulate a model of Micro business empowerment through *free loans interest* by *Baznas*.

Flowchart of the study is illustrated in Figure 3.1 as follows:

Flowchart

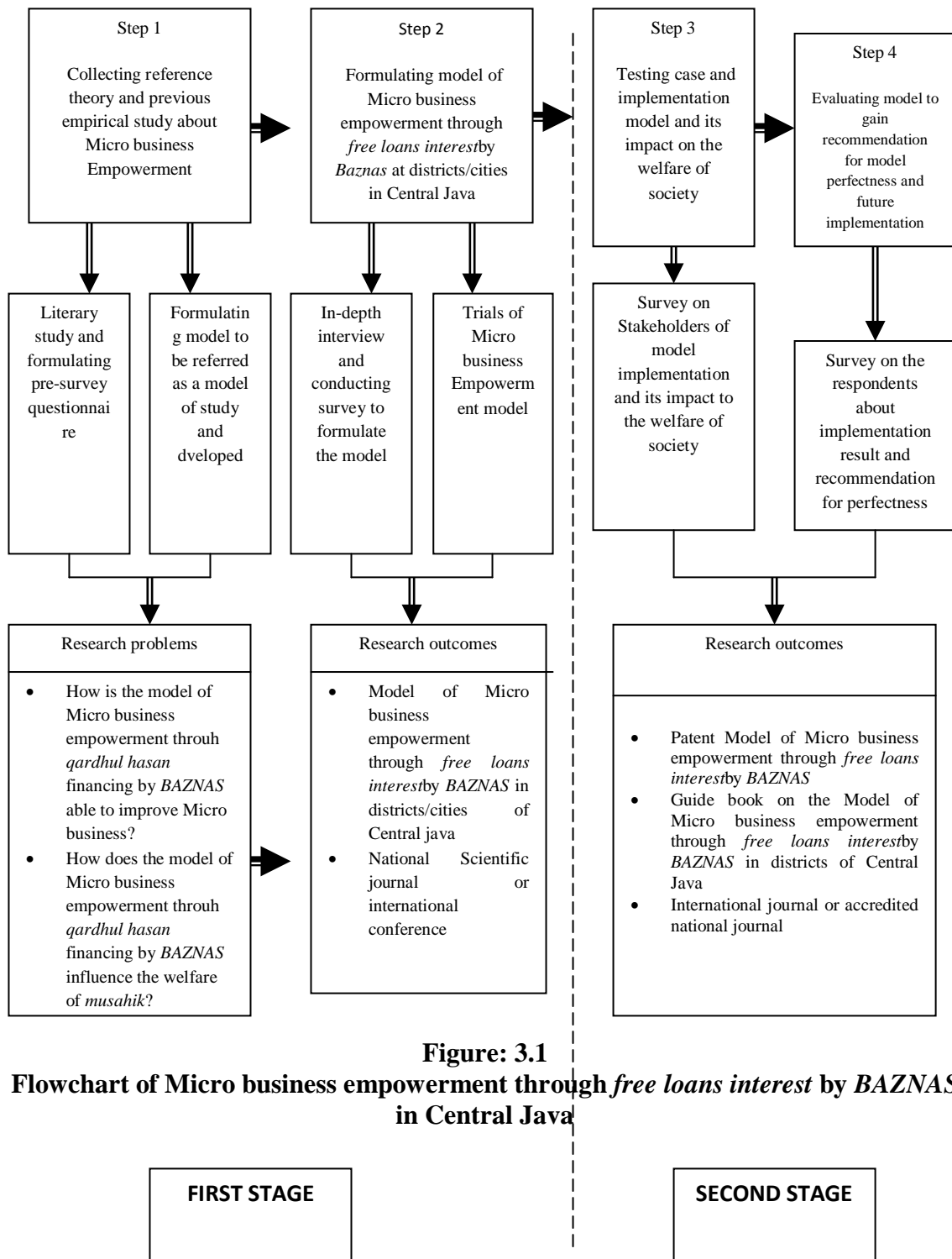


Figure: 3.1

Flowchart of Micro business empowerment through *free loans interest* by BAZNAS in Central Java

4. FINDINGS AND DISCUSSION

4.1 Descriptive Analysis on Characteristics of Respondents

Respondents in this study are those who receive donations (*mustahik*) of *Baznas* In Central Java. From the 200 questionnaires distributed either through in-depth interview with respondents or through the mail survey for respondents who could not be met when surveyed; only 128 are returned and filled. Yet, there are four questionnaires that must be canceled because the contents are incomplete and there is misinterpretation while reading instructions. Therefore, there are only 124 questionnaires that can be processed. From these, there are some respondents who agree to be interviewed in person and in-depth, some others are willing to be interviewed by telephone and in-depth so that qualitative data can be fulfilled.

Table 4.1
RESPONDENT PROFILE

No.	Description		(%)
1	Sex	Woman	78
		Man	22
2	Age	Until the 30 Yrs Old	24
		Between 31 to 40 years	12
		Between 41 to 50 years	40
		Above 50 years	24
3	Long as manager	Under 1 year	4
		Between 1 to 2 yrs	24
		Between 3 to 5 yrs	55
		Above 5 Years	17
4	Education	Elementary School	-
		Junior High School	-
		Senior High School	21
		Diploma	36
		Undergraduate	43
	Postgraduate	0	

Source: processed data

4.2 Description of Latent Variable

4.2.1 Description of Financing Variable

Based on the observations of the writer to variable of Financing through questionnaires and interviews with managers, it is obtained the following results:

Table 4.2
DESCRIPTION OF VARIABLE FINANCING

No.	Indicator	Respondents Opinions				
		1: Strongly Disagree	2: Disagree	3: Fairly Agree	4: Agree	5: Strongly Agree
1	No need for administrative costs	1%	5%	17%	50% of	27%
2	No need for interest costs	1%	6%	17%	75%	1%
3	Provision of payment periods	-	1%	39%	54%	6%
4	No collateral	1%	-	10%	62%	27%
5	Grants business loans if not improved	1%	-	5%	56%	38%
6	Lending greater when well-growing	-	2%	12%	43%	43%

Source: processed data

Based on the observations of the writer towards an indicator of administrative costs on *free loans interest*, a total of 94% respondents of *Baznas* managers state that administrative costs do not need to exist, because the source of funds comes from *Zakat*, *Infaq* and *Shadaqah*.

Based on the observations of the writer towards an indicator of the cost of the interest on *free loans interest*, a total of 93% respondents of *Baznas* managers state that interest costs do not need to exist, because it is considered as burdensome as well as administrative costs.

Based on the observations of the writer towards an indicator of payment periods at *free loans interest*, as much as 99% respondents require the provision of payment periods, because there are many micro businesses that need adjustment (needs time to develop) and do not get the results yet that can restore *qardul hasan* loans.

Based on the observations of the writer towards an indicator of the absence of collateral in *free loans interest*, a total of 99% respondents require that the financial collateral does not need to exist, because they do not have assets that can be pledged as collateral and if any, they are worried that pioneered micro businesses fail to grow.

Based on the observations of the writer towards an indicator of business loans grants if they do not develop in *free loans interest*, as many as 99% of respondents disagree if the loan is granted. The managers of *Baznas* want to give businesses that grow and are responsible for providing loans.

Based on the observations of the writer towards an indicator of lending greater when the businesses grow on *free loans interest*, As much as 98% respondents state that

additional capital is required if they want to develop their business and require additional capital when their business begin to develop.

4.2.2 Description of Management Skill Variable

Based on the observations of the writer to Management skill variable through questionnaires and in-depth interviews with managers, it is obtained the following results:

Table 4.3
DESCRIPTION OF MANAGEMENT SKILLS VARIABLE

No.	Indicator	Respondents Opinions				
		1: Strongly Disagree	2: Disagree	3: Fairly Agree	4: Agree	5: Strongly Agree
1	Determining market segment	2%	4%	22%	58%	14%
2	Perseverance and tenacity	5%	-	21%	52%	22%
3	Creativity	4%	6%	39%	49%	2%
4	Looking at consumer desires	-	6%	35%	48%	11%
5	Competitive conditions around	4%	5%	25%	32%	34%
6	Determining more added value than a business venture around	6%	14%	55%	15%	10%
7	Promotion	-	8%	31%	36%	25%

Source: processed Data

Based on the observations of determining market segments, respondents are expecting the determination of market segments. As many as 94% respondents agree that the managers of Micro business financing targeted by *Baznas* determine market segments.

Based on the observations of the persistence and tenacity, the respondents strongly agree on indicators of perseverance and tenacity. As many as 95% respondents agree that the managers of Micro business financing targeted by *Baznas* have the perseverance and tenacity in developing the business.

Based on the observation on indicators of creativity, respondents are expecting the creativity in the business. 90% respondents agree that the managers of Micro business financing targeted by *Baznas* develop their creativity.

Based on the observation on the indicator to see the desire of customers, respondents strongly agree to see customer desires before acting. A total of 94% respondents agree that the managers of Micro business financing targeted by *Baznas* are able to see the desires of customers.

Based on the observation of indicators about competitive conditions around, respondents strongly agree when doing business, we notice about the competition

conditions around. As many as 91% respondents agree that the managers of Micro business financing targeted by *Baznas* pay attention to the conditions of competition around.

Based on the observation of the determination of the more added-value than the surrounding businesses, respondents are expecting to determine more added value than a business venture around. 82% respondents agree that the managers of Micro business financing targeted by *Baznas* determine the more added value of their business than the others around.

Based on the observation of the Promotion, respondents strongly agree with the Promotion. As many as 92% respondents agree that the managers of Micro business financing targeted by *Baznas* are happy if assisted Promotion to the right people and in large numbers.

4.2.3 Description of Innovation Variable

Based on the observations of the writer to variable of Innovation through questionnaires and interviews with managers, it is obtained the following results:

Table 4.4
VARIABLE DESCRIPTION OF INNOVATION

No.	Indicator	Respondents Opinions				
		1: Strongly Disagree	2: Disagree	3: Fairly Agree	4: Agree	5: Strongly Agree
1	Modifying the product	-	4%	20%	37% of	23%
2	Creating new products	1%	5%	26%	45%	23%
3	Assessment of new product development	-	5%	29%	40%	10%
4	Business product always varied and different from others	2%	4%	14%	63%	17%

Source: data processed

Based on the observation of modifying the products indicator, the respondents agree to modify product. As many as 96% respondents agree enough when the managers of Micro business financing targeted by *Baznas* modify their product.

Based on the observation of creating new products, respondents agree with the creation of new products. As many as 94% respondents agree that the managers of Micro business financing targeted by *Baznas* are able to create new products.

Based on the observation of the assessment of new product development, the respondents agree with the development of new products. A total of 95% respondents agreed when the managers of Micro business financing targeted by *Baznas* assess the development of new products.

Based on the observation of the business product always varied and different from the others, the respondents agree to the variation of products and different from others. A total of 94% the respondents agree when the managers of Micro business financing targeted by *Baznas* make the observation of the business product to be always varied and different from the others.

4.2.4 Description of Business Assistance Variable

Based on the observations of the writer to variable of business assistance through questionnaires and interviews with managers, it is obtained the following results:

Table 4.5
DESCRIPTION OF BUSINESS ASSISTANCE

No.	Indicator	Respondents Opinions				
		1: Strongly Disagree	2: Disagree	3: Fairly Agree	4: Agree	5: Strongly Agree
1	Giving a loan along with mentoring	-	-	6%	89%	5%
2	Business management training	-	-	7%	86%	7%
3	Training to improve the quality of business	-	-	10%	88%	2%
4	Giving spiritual business	-	-	5%	80%	15%

Source: processed data

Based on observations on giving loan along mentoring to managers in support for micro enterprises assisted by *Baznas*, as many as 94% respondents agree that in support for Micro business assisted *Baznas*, manager are given a loan and its facilitation.

Based on observations of business management training, respondents are expecting business management training. As many as 93% respondents agree that in support for Micro business assisted *Baznas*, managers are given training in business management.

Based on observations on training of business quality improvement, respondents are expecting training quality improvement. As many as 90% respondents agree that in support for micro enterprises assisted by *Baznas*, managers are given training on business quality improvement.

Based on the observations on giving spiritual business, respondents are expecting to give spiritual business. As many as 95% respondents agree that in support for micro enterprises assisted *Baznas*, managers are trained on spiritual business.

4.2.5 Description Marketing Assistance Variable

Based on the observations of the writer to this variable through questionnaires and interviews with managers, it is obtained the following results:

Table 4.6
DESCRIPTION OF MARKETING ASSISTANCE VARIABLE

No.	Indicator	Respondents Opinions				
		1: Strongly Disagree	2: Disagree	3: Fairly Agree	4: Agree	5: Strongly Agree
1	Organizing exhibition for Micro business	-		24%	37%	39%
2	Creating attractive packaging for Micro business commodity		6%	26%	45%	23%
3	Giving briefing in marketing	-	5%	29%	40%	26%
4	Providing quality training products	3%	3%	14%	63%	17%

Source: data processed

Based on the observation of organizing exhibition for Micro business, the respondents agree with this. As many as 96% of respondents agree enough when the managers of Micro business financing targeted by *Baznas* are provided exhibition for their business.

Based on the observation of creating new attractive packages indicator, respondents agree with this. As many as 94% respondents agree that the managers of Micro business financing targeted by *Baznas* are able to create new package of products.

Based on the observation of giving a briefing in marketing, the respondents agree with it. A total of 95% the respondents agree when the managers of Micro business financing targeted by *Baznas* are given briefing of marketing.

Based on the observation on the business quality training product, the respondents agree with it. A total of 94% respondents agree when the managers of Micro business financing targeted by *Baznas* are facilitated business quality training product.

4.2.6 Description of Micro business Performance Variable

Based on the observations of the writer to variable of performance of Micro business through questionnaires and interviews with managers, it is obtained the following results:

Table 4.7
DESCRIPTION OF MICRO BUSINESS PERFORMANCE VARIABLE

No.	Indicator	Respondents Opinions				
		1: Strongly Disagree	2: Disagree	3: Fairly Agree	4: Agree	5: Strongly Agree
1	Micro business Empowerment through <i>free loans interest</i> by BAZNAS can increase sales turnover	-	1%	33%	62%	4%
2	Micro business Empowerment through <i>free loans interest</i> by BAZNAS can increase operating income	-	1%	37%	54%	8%
3	Micro business Empowerment through <i>free loans interest</i> by BAZNAS can increase working capital	-	6%	36%	49%	9%

Source: data processed

Based on the observations of the writer to variable of performance of Micro business on the indicator of increased sales turnover, as many as 99% respondents agree with it. Moreover, based on the observations of the writer on the indicator of increased profits, 99% respondents agree. Based on the observations of the writer for indicators of an increase in working capital, as many as 94% of respondents agree. This means the Micro business empowerment through *free loans interest* by BAZNAS is responded positively to the performance of Micro business targeted by *Baznas*.

5. Conclusion

Based on the findings of the first year of the study, the important factors in the Micro business empowerment through *free loans interest* by BAZNAS are as follows:

- a. Respondents require no administration and interest costs of financing as a source of funding comes from *Zakat, infaq* and *shadaqah*.
- b. There must be provision of loan payment because Business has not developed yet.
- c. There is no collateral in free loans interest.
- d. They should be given a greater loan when developing micro-enterprises.

- e. Granted when jammed or micro businesses do not thrive.
- f. Respondents calls for management skills training.
- g. Respondents (*mustahik* in Micro business) are given training and assistance to succeed, because they have low knowledge in business.
- h. The respondents should be given the facility of marketing to market their product to survive and grow their business.

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