

**SHARIA LOCAL FUNDING (SALAF CARD): INNOVATION ON SMES FUNDING USING ISLAMIC BOARDING SCHOOL VENTURE CAPITAL**

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**ABSTRACT**

*Islamic boarding school is one of the educational institutions that have a strong network. Until now, there were 27,230 Islamic boarding schools scattered throughout Indonesia. Today, the function of Islamic boarding schools is not only functioning as an Islamic-based educational institution but also Islamic boarding schools has a function as a social institution. Islamic boarding schools are considered potential to become the basis of empowerment local people's economy and the center of economic development of the people in the regions, both in the form of Islamic financial institutions or Islamic boarding school cooperation. Law in Indonesia, No.33 of 2014 concerning guarantees on halal products provides significant opportunities for innovative product development given the huge potential of Indonesia's Muslim population. In the process, the requirement to use halal certification in trade as mandated by national law carries a dilemma on halal industrial players as well as micro, small and medium enterprises (SMEs). The problem of capital and funding is key problem. This qualitative paper offers a literature review. The purpose of this paper is to understand how innovative funding models are through Islamic Boarding School venture capital the company spurred the growth and development of the halal industry. The Sharia Local Funding Card (SALAF) is innovative Mudharabah and Musyarakah transaction models at Baitul Mal Wattamwil, which are realized in sustainable funding with the Sharia business capital company for halal industry players. Allocation of profit sharing is based on the contract by specifying several parts other than cards as productive deposits. These deposits will be managed as productive stimulus funds for maintenance of halal certification, training, and business assistance, and the SALAF card balance itself. SALAF card is an innovative model that has a sustainable funding agreement that involves several stakeholders to improve productivity, growth, and presence of halal products in the nation trade arena.*

**Keywords:** *financing, SMES, SALAF card, Islamic Boarding School venture capital*

**INTRODUCTION**

Islamic boarding school is an educational treasure that was present long before the establishment of the school. This institution has contributed greatly to the world of education and the formation of human resources. Over time, Islamic boarding schools have experienced development in Indonesia, both in terms of quantity and quality. Based on data published by the Ministry of Religion of the Republic of Indonesia (2012), there are 27,230 Islamic boarding schools scattered throughout Indonesia. With a total of 3,759,198 students, consisting of 1,886,748 male students (50.19%), and 1,872,450 female students (49.81%).

In its initial phase, Islamic boarding schools only referred to the development of the field of religious education. But nowadays, Islamic boarding schools have succeeded in carrying out social

movements by empowering people in their surroundings. According to Azyumardi Azra (1997) as quoted by Nadzir (2015), currently Islamic boarding schools are expected not only to play traditional functions as institutions that transfer Islamic knowledge. Moreover, Islamic boarding schools must also be able to become a center for community empowerment.

In addition, Islamic boarding schools are required to make changes without abandoning their characteristics as religious education institutions in the era of globalization. The changes made by the Islamic boarding school, one of which is the Islamic boarding school developed not only teaches about religion or *kitab kuning*, but also Islamic boarding schools can be developed as a base for people's economic empowerment and the center of economic development of the people in the regions, both in the form of institutions Islamic finance or cooperation of Islamic boarding school (Eljunusi: 2012).

One issue that is currently being discussed is the Islamic boarding school in relation to economic and financial elements, namely the existence of an Islamic boarding school program that is oriented towards the economic development of the ummah. Islamic boarding schools are seen as potential in developing the economy of rural communities because these institutions have strong networks and great influence to the alumnus and the society. In addition, the Islamic boarding school has a business unit that has legality, which has experience serving financial transactions for rural communities. (Bank Indonesia Communication Department: 2015).

Problems faced by micro, small and medium enterprises (SMEs) are not only financial. There are still many other big problems that are also very urgent. Among them are access to capital and limited resources. The level of financial literacy is minimal causing the access of financial institutions to the UMKM sector is low. In addition, SMEs tend to not understand a number of financial products offered by financial institutions. then forcing MSME players to only rely on manual and conventional banking financing (Martowardjojo: 2016).

Most of SMEs entrepreneur don't know how to register halal certification and don't understand the importance and benefit of halal certification for their products. So that's why, we endeavor to look for a solution for empowering and improving the economic productivity of SMEs in rural community especially in halal industry.

## **RESEARCH METHODS**

This research is descriptive research and thus adopts a qualitative approach (Moloeng, 1990: 5). According Sugiyono (2005: 21) descriptive method is used to describe or analyze a study that focuses on the problems discussed but not used to make broader conclusions. Whitney (1960: 160)

states that descriptive methods require ensuring the correct interpretation in finding the facts of the object being analyzed. This technique involves the study of literature, which seeks the development of science to the conclusions and generalizations made earlier (Nazir: 2005, 93).

Data analysis method used in this research is interactive exploration and clarification on a phenomenon. The analysis consists of several steps: (1) Data collection is to collect all data relevant to the problem. (2) Reduction of data by ensuring that the data has been collected is chosen according to the problems and ideas to facilitate the direction of the discussion plot. Data reduction in the context of this paper consists of discussion, brainstorming with people who have competencies in sharia and financial banking. In this process the author's intuition and subjectivity are also involved. (3) The data display implies data that has been selected and reduced is presented in form of written text or images. In this case, the existing data will help the author by giving an overview of the direction and ideas of the offered work scheme. (4) The drawing of conclusions and verification means that the data is discussed. The process of writing is done by understanding, diving, and exploring some data, especially comparison data from numbers and descriptive data.

## **RESULTS AND DISCUSSION**

The concept of the Sharia Local Funding Card (SALAF) is an innovative model of capital for sustainable financing where management is controlled by the Shariah Business Capital Company. SALAF Card is a financial derivation through optimization of profit sharing and loss arrangements through mudharabah and musyarakah to finance SMEs and halal industries carried out by Islamic boarding schools. This card is an instrument used to bind financial objects through increasing the intensity of mudharabah and musyarakah usage. This card is used to facilitate categorization of financing objects from Islamic venture capital companies and also to finance specialization for certain professions in SMEs and halal industries. Financing is carried out in the form of capital inclusion or direct financing to meet capital requirements, production and sustainability of increasing production capacity. The specific goal is to be used as a financing facility to regulate halal certification for SMEs in transformation into halal businesses and industries.

The SALAF card even though the payment due date is reached; payment potential similar to the mudaraba / musyarakah agreement can still work. The payment allocation model is set to make investors keep using the financial services of Islamic capital companies, even though there is a time lag from the first payment. This is the continuity that is the main characteristic of the SALAF card among other profit-sharing payment models. The SALAF card was obtained through a cooperation

agreement carried out by conducting a series of continuing education and socialization with cooperation from several important parties. The target of the SALAF card is specifically for SMEs entrepreneurs who will head to the halal industry. There are two possible categories of customers in the distribution of this card, these are:

1. SMEs entrepreneurs who are customers of Islamic business capital companies. The object of payment that has been registered as a shari'ah business capital company. Customer will be automatically directed through a cooperation contract using the SALAF card for future payments. Required to create a card application without waiting for the appropriate payment object.

2. The SMEs entrepreneurs who have recently been guided by the Islamic boarding school entrepreneurship group.

The launch of this card, with various concepts and models of innovation, is to attract possible payment objects to become sharia business capital company customers. The treatment given is done by educating and socializing the use of SALAF cards for payment so that it can become an asset and media market share that increases in the long term for Islamic capital companies.

Grand design of SALAF Card is in Increasing productivity of SMEs. The formation and distribution of SALAF cards to attract SMEs entrepreneurs requires synergistic steps and schemes with many parties involved. The first step is educating and socializing and synergic integration between the organizations involved to launch this payment card. The SALAF card is targeted at SMEs entrepreneurs who will start new businesses, patch capital in production, add new raw materials and production instruments, expand businesses that will be operated with adjacent business programs. Although this card is used for all things mentioned above; act as a stimulus to make SMEs entrepreneurs independent, for example to manage halal certification later. Below is a picture of the grand design forming and forming the SALAF card as an innovative solution of the mudharabah or musyarakah payment agreement from BMT which is the Islamic boarding school development unit.

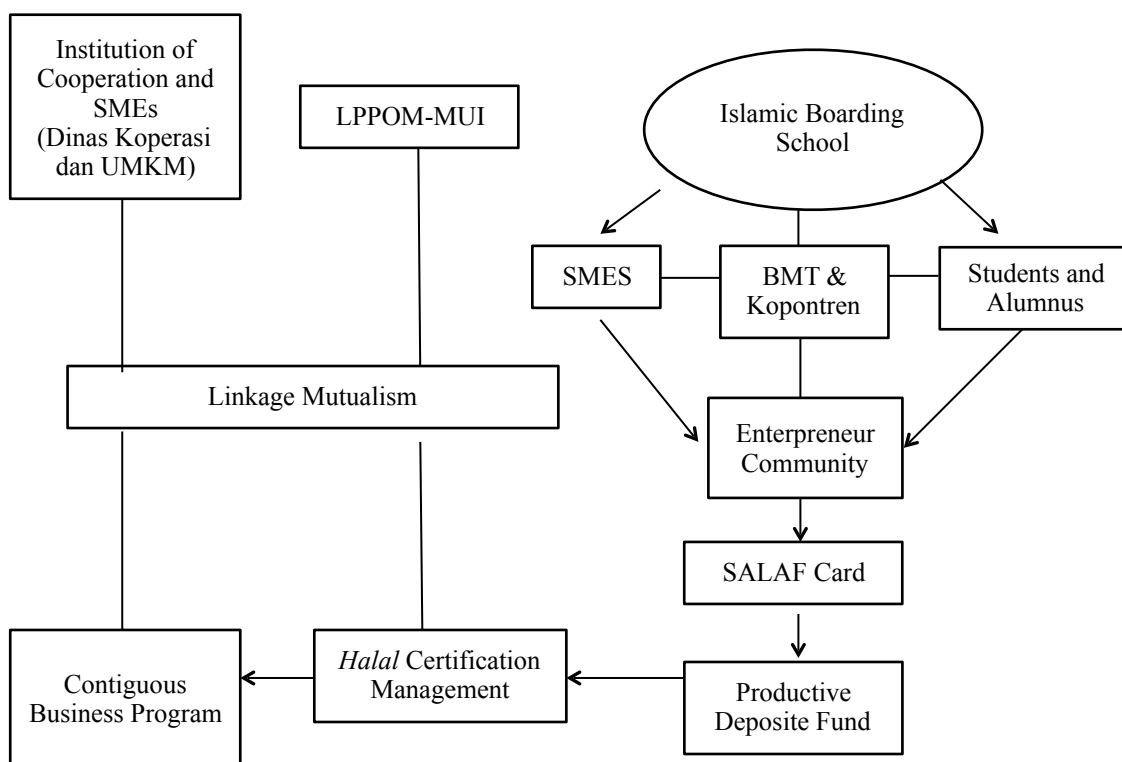


Figure 1. Scheme of formation of SALAF Card (written by authors; 2018)

In the scheme, there are several parties related to the Islamic business capital companies, each with its own functions and roles, such as:

#### 1. *Baitul Mal Wat Tamwil (BMT) and Kopontren*

This institution acts as a contributor to payment funds. The allocation of Islamic banking mudaraba and musyarakah payments can be directly distributed to the payment of the shari'ah business capital so that they can provide funds to SMEs entrepreneurs. Thus, the allocation of funds can be directly distributed in the production sharing agreement for productive payments. Indirectly, this capitalization relationship adds to the intensity of the use of mudharabah and musyarakah agreements by BMT and also increases the allocation of productive payments. In the long run, if this linkage continues to be used, the current popular agreement dominated by the murabahah agreement (78.5 percent) can be replaced by increased use of the mudaraba agreement (2.8 percent) and musyarakah (11.0 percent) in the financing mechanism of Islamic Financial Institutions.

#### 2. Institution of Cooperation and SMEs

The reciprocal relationship with Islamic boarding school will be conducted here. The Institution of cooperation and SMEs that will handle the policies, conditions, and development of

SMEs will be synchronized with BMT played by Islamic boarding school. Second, SMEs entrepreneurs can start a business program and business training that is close together. The amount of funds allocated to this program is 30 percent of the total revenue sharing fees that are separated. With the collaboration between the SMEs entrepreneurs group of Islamic Boarding School and the Institution cooperation and SMEs, the SMEs entrepreneur group can apply for a free halal certification program which is belong to the Institution cooperation and SMEs in province.

3. LPPOM-MUI Institution here is in terms of preparation and management process of halal certification which is a requirement for all goods distribution (according to the Act) conducted by the SMEs. Derive from the funds received by the payment object, there will be a separation of funds in the form of productive deposits. This is the total amount of deposit that will be allocated to manage halal certification. The amount of funds for the management of Halal certification is 30 percent of the total revenue sharing retribution.

This management policy can increase the quantity and transformation of the existence of SMEs entrepreneurs to conduct sharia business. It is expected that with this funding allocation, the object of payment can focus on business development and management of Halal certification with the Food and Drug Supervisory Agency - Indonesian Ulama Council (LPPOM-MUI).

### 3.1 Socialization and Education: SALAF Card Payment Scheme

The main thing in this grand design is continuing education and socialization for both old and prospective customers. This is because the SALAF card will only be given to customers who have made payment transactions from the BMT Islamic boarding school. Old customers will be directed to use the SALAF card, as well as new customers. The following are the steps needed to distribute SALAF card payments to SMEs entrepreneurs and the Halal industry.

### 3.2 SALAF Card Sustainable Payment Scheme

After the UMKM entrepreneurs and the Halal industry agree and understand the sustainable payment pattern of the SALAF card, the next step is the execution step. In this step, each payment object will be given a SALAF card. This card is operated with a mudaraba or musyarakah profit sharing agreement, depending on the financial condition of the object of payment.

In SALAF's innovative payment scheme, the accumulation of funds from this card will always increase. The more production sharing agreements are made, the more funds will be separated into this card. The balance in this card is placed as a stimulus for payment to pay for the needs of SMEs entrepreneurs and halal industries, including the management of halal certification. However, if the balance in the SALAF card is not enough to pay the next payment, the solution is to apply the previous

agreement regarding the reuse of the mudharabah and musyarakah agreements.

The SALAF card generally functions as a stimulus fund to help, care for, and patch the problems of production, capital, and sustainability of SMEs and home industries including halal certification. The funds generated by the mudharabah and musyarakah schemes will be different as productive savings after being divided by the distribution of the proceeds received. This savings fund will be managed for business assistance, halal certification, and alternative funds that are ready to be used for future funding if needed. The purpose of SALAF card funding is:

1. Branding goal. The SALAF card is intended to offer the media to increase the bargaining position of SMEs and Home Industry. This is answered with a sustainable funding model that is in line with the focus of Islamic boarding schools for SMEs.
2. Development goal. The SALAF card promotes funding from Islamic boarding schools to business partners. This is expected to be at stake with the core halal industry that is in line with the funding pattern of the Islamic boarding school. In addition, in the long run, SALAF cards can affect the halal industry and the development of global markets, and increase BMT assets, profits, and market share in Islamic boarding schools.
3. Sustainable goal. Specifically, the purpose of the SALAF card is to make it productive based on the intense use of capital funds for BMT financing. By saving and eliminating of non-productive fund allocations, the SALAF card is a solution for the development of sustainable SMEs and Indonesia's halal industry. Indirectly, this will bind business partners with the funding provided. This management model is also supported by BMT Islamic boarding school, LPPOM-MUI, and the Institution of cooperation and SMEs.

3.3 This paper uses SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis. This analysis tries to visualize how the scheme will be applied. There are many factors that influence how halal cards are formed such as the mentality, mindset, and industrial conditions of SMEs and home industries, the relationship between institutions, and professional fund management and correct distribution. All of these factors influence each other because the scheme which is built is to get benefits for each side, these factors can still be compressed and lowered.

Table 1. SWOT Analysis on the Application of SALAF Card Fund Schemes

<b>Analysis</b>	<b>Condition</b>
Strength	<ol style="list-style-type: none"> <li>1. The funding scheme is more unique and special, and focused on <i>Halal</i> Industry development in Indonesia.</li> <li>2. Using funding instrument with profit sharing concept with <i>mudharabah</i> and <i>musyarakah</i> contract</li> <li>3. Empowering the client for productive SMEs to <i>Halal</i> things.</li> <li>4. Continuous funding with concern about supervising aspect.</li> <li>5. Continuous productive fund management model.</li> </ol>
Weakness	<ol style="list-style-type: none"> <li>1. Continuous supervising and periodic evaluation needed.</li> <li>2. Continuous synergy and communication with related part, mainly on <i>halal</i> certification and business mentoring program.</li> </ol>
Opportunnity	<ol style="list-style-type: none"> <li>1. Good prospect for Micro, Small, and Medium Enterprise (SMEs) and <i>Halal</i> Industry in global business reality.</li> <li>2. Profit sharing funding from <i>Shari'ah</i> venture capital companies that have high proportion on finding allocation.</li> <li>3. Mutualism synergy with vision, mission, and purpose from Institution of cooperation and SMEs</li> <li>4. Government support by Constitution No. 33 2014 about <i>Halal</i> Product Guarantee in Indonesia ratification.</li> <li>5. Increase the portion of profit sharing contract, real sector funding, and SMEs productive activity.</li> </ol>
Threat	<ol style="list-style-type: none"> <li>1. Funding with interest that practiced by profit oriented finance institute and loan shark.</li> <li>2. Product socialization is not massive and the funding type is profit oriented (the interest high or low).</li> </ol>



## CONCLUSION

Sharia Local Funding Card (SALAF) is a sustainable funding innovation model managed by Islamic boarding school. SALAF Card is a funding derivation by optimizing the profit sharing contract based on mudharabah and musyarakah for SMEs and home industry funding. The SALAF card innovation model is the elimination of profit-sharing based contributions called productive savings funds. This allocation fund will be input for SALAF card balances for halal certification, training, and business mentoring, and as a constant fund in a funding card that can be used at any time for production needs and industrial equipment supplies.

SALAF Card involves several related parts such as sharia banking, , institution of cooperation and SMEs, and LPPOM MUI to achieve sustainable goals and innovation in the funding model. In the allocation of funds there are two main steps that must be considered to use of SALAF card steps and sustainable fund allocation. SALAF Card has three main funding objectives, namely branding targets, development targets, and sustainable targets. Funding by SALAF card scheme is expected to be one of the innovative solutions to provide Islamic business capital funding model arrangements. Consider the potential growth of the world's Muslim population with several policies that support the use of halal certification by the constitution, so that sustainable funding is needed by every business that intends to enter the market. With the SALAF card the opportunity and potential are managed productively to increase the competitiveness and the existence of halal products in global trade.

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Tim kolaborasi dari Pusat Pengembangan Ekonomi Islam Dubai, Thomson Reuters dan Dinar Standard. (2015). Status Laporan Ekonomi Islam Global. Thomson Reuters