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Model of Collaboration Between Sharia Microfinance Institutions and Banking Institutions: A Solution to the Scale Gap in Financing for Microenterprises in Indonesia

Heri Junaidi
Universitas Islam Negeri Raden Fatah Palembang, Indonesia
Email: heri_junaidi@radenfatah.ac.id

Abstract: Various laws and regulations, as well as Islamic law, have provided a lot of information about the collaboration model in the financial sector, including the issue of scale gaps in the financing of Islamic Microfinance Institutions that are inadequate to support the development of ultra-micro and micro small businesses that are growing in their neighborhoods. This study examines the collaboration model of Islamic microfinance institutions that have limited capital and service coverage in supporting microenterprise development in Indonesia, while Islamic banking institutions are more oriented towards financing middle and upper-class business groups. This study aims to identify an effective collaboration model that is able to bridge the gap between the financing of Islamic microfinance institutions and Islamic banking institutions, then provide a design of a collaboration strategy that is sustainable and consistent with sharia principles to strengthen the sharia-based microfinance ecosystem. The method of this study is descriptive-exploratory qualitative, with secondary sources of data from various online media. Data collection techniques through literature studies, analysis was carried out, including data reduction, data presentation, verification, and conclusion drawing. The results of the study show that the development model of collaboration between the financing of Islamic microfinance institutions and Islamic banking in resolving the scale gap has shown a new perspective that complements the current approach. Based on this, it is necessary to modify what has been developed in the form of a productive-independent collaboration theory, where the theory is an effort to minimize the impact of microenterprises' financing dependence on Islamic Banks, which causes loss of independence. The offer is also balanced with comprehensive cooperation management, with justice and benefits for all.

Keywords: Collaboration, Sharia Microfinance Institution, Scale Gap, Microenterprise

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Abstrak: *Berbagai peraturan perundang-undangan maupun hukum Islam telah memberikan banyak informasi mengenai model kerjasama dibidang keuangan diantaranya persoalan scale gap dalam pembiayaan lembaga keuangan mikro syariah. Studi ini mengkaji bagaimana model kalaborasi lembaga keuangan mikro syariah yang memiliki keterbatasan modal dan jangkauan layanan dalam mendukung pengembangan usaha mikro di Indonesia, sementara lembaga perbankan Syariah lebih berorientasi pada pembiayaan kelompok usaha menengah ke atas. Kajian ini bertujuan mengidentifikasi model kolaborasi yang efektif yang mampu menjembatani scale gap lembaga keuangan mikro syariah dengan Bank Syariah, kemudian memberikan rancangan strategi kolaborasi yang berkelanjutan untuk memperkuat ekosistem keuangan mikro berbasis syariah. Studi ini menggunakan metode kualitatif deskriptif-eksploratif dengan sumber data sekunder diperoleh dari berbagai informasi dari media online. Data diperoleh melalui studi literatur, dianalisis dengan cara reduksi, verifikasi dan penarikan kesimpulan. Hasil kajian menunjukkan model pengembangan kolaborasi antara lembaga keuangan mikro syariah dan perbankan syariah dalam menyelesaikan scale gap telah menunjukkan perspektif baru yang melengkapi pendekatan yang selama ini berlaku. Berdasarkan hal ini, perlu dilakukan modifikasi terhadap apa yang telah dikembangkan dalam bentuk teori kolaborasi produktif-independen. Teori ini merupakan upaya untuk meminimalkan dampak ketergantungan usaha mikro kecil menengah terhadap bank syariah yang menyebabkan hilangnya independensi. Tawaran ini juga diimbangi dengan pengelolaan kerja sama yang komprehensif, berkeadilan, dan bermanfaat bagi semua.*
Kata Kunci: *Kolaborasi, Lembaga Keuangan Mikro Syariah, Kesenjangan Skala, Usaha Mikro*

Introduction

The development of Sharia Microfinance Institutions in Indonesia, such as *Baitul Māl Wat Tamwīl* (BMT), Sharia Cooperatives, Sharia Savings and Loan Cooperatives (KSPPS), Sharia People's Economic Banks (BPRS), is an important part of efforts to encourage national economic growth through a local community approach,[1] increased financial inclusion,[2] economic empowerment of small

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[1]Bhayu Rhama, 'Local Communities' and Tourists' Adaptation to Pandemic-Induced Social Disruption: Comparing National Parks and Urban Destinations', *International Journal of Disaster Risk Reduction* 82 (November 1, 2022), p. 103380; Paul J. Gertler et al., 'Road Maintenance and Local Economic Development: Evidence from Indonesia's Highways', *Journal of Urban Economics* 143 (September 1, 2024), p. 103687.

[2]Daniel Taylor, Francis Osei-Tutu, and Isaac S. Awuye, 'The Role of Accounting Standards in Financial Inclusion', *International Review of Financial Analysis* 96 (November 1, 2024), p. 103594; Junli Shao, Dengrong Wu, and Cheng Jin, 'How Do Financial Inclusion and Education Increase Resource Efficiency?', *Resources Policy* 85 (August 1, 2023), p. 104005.

communities.[3] The development is also evidenced by the quantity where BMT and KSPPS amounted to 4000 to 4500 excluding active ones,[4] and BPRRS amounted to 160-170 units,[5] with total assets estimated at Rp1.64 trillion.[6] The development of total assets All of this is a hope for ultra-micro customers and micro businesses to develop businesses through financing that do not have access to financial services from banks.

Amidst the hopes of ultra-micro and micro entrepreneurs, Sharia Economic Financial Institutions have various problems such as weak human resources in understanding sharia principles or financial management,[7] weak in competing with conventional financial institutions that have extensive products and networks,[8] The development of conventional and sharia financial technology (fintech),[9] the risk of bad financing from grassroots customers,[10] lack of product diversification making it vulnerable to changes in market conditions, and limited initial capital to support operational activities due to the difficulty of gaining access to financing sources that are in accordance with the principles of sharia principles in enlarging business capacity, for financing expansion and liquidity

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[3]Phemelo Tamasiga et al., 'Empowering Communities beyond Wires: Renewable Energy Microgrids and the Impacts on Energy Poverty and Socio-Economic Outcomes', *Energy Reports* 12 (December 1, 2024), p. 4475-88; Md Salauddin Palash et al., 'Economic Well-Being Induced Women's Empowerment: Evidence from Coastal Fishing Communities of Bangladesh', *Heliyon* 10, no. 7 (April 15, 2024), p. e28743.

[4]KNEKS, 'Organizing BMT 4.0 Training in Aceh', National Committee for Sharia Economics and Finance, 2022, https://kneks.go.id/berita/472/penyelenggaraan-pelatihan-bmt-40-di-aceh?category=1.

[5]Dedy Mainata and Angrum Pratiwi, 'Business Feasibility Study of the Establishment of an Islamic People's Financing Bank (BPRS) in East Kalimantan', *JESI (Indonesian Journal of Sharia Economics)* 10, no. 2 (December 29, 2020), p. 112.

[6]Suheriadi, 'Assets of Indonesian Microfinance Institutions Reach Rp 1.64 Trillion', 2024, https://www.fortuneidn.com/finance/suheriadi/aset-lembaga-keuangan-mikro-ri-tembus-rp-1-64-triliun.

[7]Chuanzhi Huo, Weijie Leng, and Yuy Xiang, 'Efficient Natural Resources Management through Financial and Innovative Technologies in Developing Nations from the Lens of Economic Development', *Resources Policy* 99 (December 1, 2024), p. 105401.

[8]Abdul Malik Iddrisu and Michael Danquah, 'The Financial Inclusion Agenda: Examining the Role of Conventional Banks in Deepening Access to Formal Credit', *Economic Systems* 48, no. 2 (June 1, 2024), p. 101202; Zeyu Xing, Haydar Yalçin, and Tugrul Daim, 'Digital Economy's Influence on R&D Network Configurations: Integrating Resource Dependence Theory and Institutional Theory', *Technovation* 137 (September 1, 2024), p. 103098.

[9]Jian Yao and Cunyi Yang, 'Financial Technology and Climate Risks in the Financial Market', *International Review of Financial Analysis* 99 (March 1, 2025), p. 103920; Rosella Carè et al., 'Exploring the Landscape of Financial Inclusion through the Lens of Financial Technologies: A Review', *Finance Research Letters* 72 (February 1, 2025), p. 106500.

[10]Yongfang Ai, Guanglin Sun, and Tao Kong, 'Digital Finance and Stock Price Crash Risk', *International Review of Economics & Finance* 88 (November 1, 2023), p. 607-19.

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which has implications for the ability to distribute financing is also limited with a limited number of customers.[11]

So far, studies on Islamic Microfinance Institutions have looked at the *First*, risk management on operational risks, such as studies on the risk management practices of MFIs in improving the effectiveness of sharia-based risk management,[12] the application of murabahah financing,[13] and the role of MFIs in increasing the income and welfare of beneficiaries.[14] *Second,* the challenges of developing MFIs in supporting business development;[15] Opportunities and challenges in facing digital transformation as a step towards efficiency in the reach of microfinance services.[16] The role of Islamic Microfinance Institutions in the Indonesian economy, theoretically and empirically.[17] *Third*, comparative studies, such as a comparison of the financial sustainability of MFIs in Indonesia and Malaysia.[18] Financing from MFIs for women's empowerment in Bangladesh and Indonesia.[19] *Fourth,* various Sharia economic law studies on the principle of

[11]Richard Harrison et al., 'Why Do Small Businesses Have Difficulty in Accessing Bank Financing?', *International Review of Financial Analysis* 84 (November 1, 2022), p. 102352; Thang Ngoc Bach et al., 'Gender Discrimination, Social Networks and Access to Informal Finance of Vietnamese Small and Medium Enterprises', *Economic Analysis and Policy* 78 (1 June 2023), p. 358-72.

[12]Quang Khai Nguyen, 'Oversight of Bank Risk-Taking by Audit Committees and Sharia Committees: Conventional vs Islamic Banks', *Heliyon* 7, no. 8 (August 1, 2021), p. e07798.

[13]Mohammad Ghozali et al., 'The Law Concept of Sharia Banking Compliance on Murabaha Financing in Indonesia', *Samarah: Journal of Family Law and Islamic Law* 8, no. 3 (August 24, 2024), p. 1391.

[14]D. Burdon et al., 'Linking Natural Capital, Benefits and Beneficiaries: The Role of Participatory Mapping and Logic Chains for Community Engagement', *Environmental Science & Policy* 134 (August 1, 2022), p. 85-99.

[15]Hyun-Jung Nam, Jonathan A. Batten, and Doojin Ryu, 'Do Institutional Quality and Trade Openness Enhance the Role of Financial Openness in Eastern European Financial Development?', *Global Finance Journal* 64 (March 1, 2025), p. 101071.

[16]Wided Dafri and Reema Al-Qaruty, 'Challenges and Opportunities to Enhance Digital Financial Transformation in Crisis Management', *Social Sciences & Humanities Open* 8, no. 1 (January 1, 2023), p. 100662; Debidutta Pattnaik, Sougata Ray, and M. Kabir Hassan, 'Microfinance: A Bibliometric Exploration of the Knowledge Landscape', *Heliyon* 10, no. 10 (May 30, 2024), p. e31216.

[17]Md Hamid Uddin et al., 'Why Do Microfinance Institutions Charge Higher Interest Rates than Banks? *The Role of Operating Costs*', *Finance Research Letters* 70 (December 1, 2024), p. 106319; Chaerani Nisa, Vive rita, and Dony Abdul Chalid, 'Impact of Competition on Microfinance Institutions: Bibliometric Analysis and Systematic Literature Review', *Heliyon* 8, no. 10 (October 1, 2022), p. e10749.

[18]Diah Pranitasari Diah Pranitasari, 'Book of Conference: The 2nd International Conference, Silatnas, and Long-Life Achievement Awards FORDEBI (INSAF 2)', 2021, http://repository.stei.ac.id/7342/.

[19]M. Kabir Hassan et al., 'Convergence in Islamic Financial Development: Evidence from Islamic Countries Using the Fourier Panel KPSS Stationarity Test', *Borsa Istanbul Review* 23, no. 6 (November 1, 2023), p. 1289–1302.

cooperation in MFIs, such as the operationalization of musyarakah-based financing in business partnerships in MFIs.[20] The role and implementation of Fiqh Islamic Microfinance Institutions in Indonesia.[21]

This study examines what has not been studied by previous researchers by looking at the collaboration model of Islamic microfinance institutions in Indonesia that have limited capital and service coverage, while Islamic banking institutions are more oriented towards financing middle and upper class business groups. The main question of this study is what is the caloboration model that can bridge the gap, and how is the calobaration in the development of Islamic microfinance institutions effective and sustainable in supporting microenterprise development in Indonesia. This study aims to identify an effective calibration model that is able to bridge the gap between SMFIs and Sharia banking institutions in an effort to provide financing that suits the needs of micro-enterprises in Indonesia, then provide a draft collaboration strategy that is sustainable and consistent with the principles of sharia to strengthen the sharia-based microfinance ecosystem. This study is useful to support microenterprise development through wider access to financing for business capacity building.

In examining this, 3 main theories are used, namely 1) the synergy theory of *Muhammad Baqir al-Sadr* in his book *iqtiṣādunā* which mentions the importance of cooperation in various economic entities between institutions, and the government.[22] His theory is also in line with Muhammad Umar Chapra in the book *Islam and The Economi Challenge* which emphasizes the importance of cooperation between Sharia financial institutions, the Government and the community to create empowerment of the lower society.[23] Both provide a foundation for building synergy in the Sharia economic system. SMFIs have the advantage of understanding the needs of micro businesses at the local level, while Islamic banking has the capacity of large capital with more advanced professional technology. This theory provides the main construction for the creation of an

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[20]Muhammad Abubakar Siddique and Muhammad Zahid Siddique, 'Intrinsically Irreconcilable: The Case against Running *Musharakah* as Employed by Islamic Banks', *Borsa Istanbul Review* 22, no. 5 (September 1, 2022), p. 861–72.

[21]Panji Adam, *Fatwa-Fatwa of Sharia Economics: Concept, Methodology & Implementation in Islamic Financial Institutions* (Amzah, 2022).

[22]Hongwei Ma and Guisheng Hou, 'Study on the Evolution of Collaborative Innovation in Marine Economy Considering the Participation of Financial Institutions and Two Types of Cooperation', *Heliyon* 10, no. 4 (February 29, 2024), p. e26450; Guanghao Wang et al., 'The Impact of Renewable Energy on Extreme Volatility in Wholesale Electricity Prices: Evidence from Organisation for Economic Co-Operation and Development Countries', *Journal of Cleaner Production* 484 (15 December 2024), p. 144343; Rashmeet Singh et al., 'Network Cooperation and Economic Performance of SMEs: Direct and Mediating Impacts of Innovation and Internationalization', *Journal of Business Research* 148 (1 September 2022), p. 116–30.

[23]Misbah Nosheen, Javed Iqbal, and Shahzad Ahmad, 'Economic Empowerment of Women through Climate Change Mitigation', *Journal of Cleaner Production* 421 (October 1, 2023), p. 138480.

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ecosystem between SMFIs and Islamic banking to build a robust microfinance ecosystem and minimize financing risks; 2) Agency Theory introduced by Jensen and Meckling which explains the relationship between the principal (trust giver) and the Agent (trustee in carrying out responsibilities).[24] In this theory will see SMFIs act as agents channeling sholesale funds from Islamic banking to micro businesses, while Islamic Banks as principals provide large capital and oversee its management; 3) Istihsan theory which is promoted from the imams of the mazhab (*Abu Ḥanifah,*[25] Imam *Malik,*[26] Imam *Ash-Shafiṭibi*[27] to moderate Muslim economists such as *Muḥammad Bāqir al-Şadr,*[28] Umar Chepra[29] and Monzer Kahf[30] all of which provide flexibility in developing Islamic financial institution policies with the needs without leaving the goal of sharia ustama which is the benefit of the people.

The method of this study is descriptive-exploratory qualitative[31] to explore collaboration models that can be utilized and understand the dynamics of Sharia Microfinance Institutions, Sharia Banking Institutions as a solution to scale the financing gap for Sharia micro-enterprises. Data sources are secondary sources of various information from online media such as 1) Financial Services Authority, Bank Indonesia, National Committee for Sharia Economics and Finance (KNEKS); 2) Association of Sharia Microfinance Institutions that relate to the calibration of institutions in supporting sharia micro-enterprises. Several other important sources from several journals relevant to Islamic financial calobarations

[24]Humera Amin, Mohsin Malik, and Helana Scheepers, 'An Agency Theory Unpacking of How Monitoring and Evaluation Affect International Development Project Impact', *International Journal of Project Management* 42, no. 8 (November 1, 2024), p. 102654; Jinjin Zhang et al., 'Product Market Competition and the Value of Corporate Cash: An Agency Theory Explanation', *International Review of Financial Analysis* 84 (November 1, 2022), p. 102422.

[25]Heni Ani Nuraeni, Yusi Rida Alsyaina, and Zulfa Salma Octavia, 'The Importance of Getting to Know the Schools of Fiqh for Muslims in Indonesia', *Al-Afkar, Journal for Islamic Studies* 7, no. 4 (2024), p. 1424–32.

[26]Muhajirin Muhajirin, 'considering Istihsan As Dalil Legality In Muamalah', *Tatar Pasundan: Journal of Religious Education and Training* 16, no. 1 (July 4, 2022), p. 90–102.

[27]Afthon Yazid and Arif Sugitanata, 'The Complexity and Diversity Methods of Legal Discovery in Islam: In the Perspective of the Ulama of Mazhab al-Arba'ah', *Kawanua International Journal of Multicultural Studies* 4, no. 2 (December 31, 2023), p. 152–64.

[28] طارق مكرم الله and بنت أحمدنظرة , 'The concept of objective interpretation and its approach according to Muhammad Baqir al-Sadr, an analytical study', *Journal of Islam in Asia (E-ISSN 2289-8077)* 19, no. 1 (June 30, 2022), p. 140–69.

[29]Mustapa Khamal Rokan and Aida Nur Hasanah, *COMPANY LAW Concepts of Positive and Islamic Law and Case-Based* (Medan: Perdana Publishing, 2020).

[30]Monzer Kahf, 'Institutional Structure of the Islamic Economic System', in *Institutional Islamic Economics and Finance* (Routledge, 2022).

[31]Hayley Beer et al., 'Listening to What Matters Most: Consumer Endorsed Patient Reported Outcome Measures (PROMs) for Use in Multiple Myeloma Clinical Trials: A Descriptive Exploratory Study', *Clinical Lymphoma Myeloma and Leukemia* 23, no. 7 (July 1, 2023), p. 505–14.

and Islamic micro-development from online media, including Sharia economic law studies on the steps to develop these calobarations. data collection techniques through literature studies by tracing theories, concepts and findings of previous research, as well as information from secondary data sources. Data analysis was carried out 1) data reduction to identify data based on the focus of the study, as well as grouping data into categories of initial themes; 2) data presentation by compiling data in the form of narratives, tables, matrices or diagrams to facilitate interpretation; 3) verification and drawing conclusions from the findings of the answers to the questions of this study with inductive analysis so that it can be a collaborative model development.

Basic Concepts of Collaboration in Shari'ah Economic Institutions

Etymologically, collaboration from Latin *collaborate* (Latin), *collaboration* (French) and *callaborate* (English) which means working together.[32] In relation to economic institutions are a form of formal and non-formal cooperation in an effort to achieve common goals in the field of increasing productivity, financial inclusion, or sustainable economic development. Collaboration in economic institutions is a form of cooperation between various economic institutions, both formal (Banks, Microfinance Institutions, Cooperatives, BMT) and informal (community business groups), to achieve common goals such as increased productivity, financial inclusion, poverty reduction, or sustainable economic development.[33]

In the perspective of Islamic Economic Law, economic institutional collaboration activities reflect the cooperation of economic institutions such as Islamic microfinance institutions, Islamic Banks, Islamic cooperatives that aim to meet the needs of the community,[34] strengthen the ecosystem justice,[35] welfare in

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[32]Christoffer Rönndahl et al., 'Making Sense of Collaboration in Major Infrastructure Construction Projects', *Project Leadership and Society*, 21 January 2025, 100178; Yi-Chun Carol Liu et al., 'Anosmia: Brighton Collaboration Case Definition and Guidelines for Data Collection, Analysis, and Presentation of Immunization Safety Data', *Vaccine* 41, no. 11 (10 March 2023), p. 1902–10.

[33]Karim Barkat et al., 'Achieving the Sustainable Development Goals in Developing Countries: The Role of Remittances and the Mediating Effect of Financial Inclusion', *International Review of Economics & Finance* 95 (September 1, 2024), p. 103460; Syed Anees Haider Zaidi, Rana Umair Ashraf, and Taimoor Hassan, 'Effects of Globalization and Financial Inclusion on Energy Intensity: The Case of Emerging Economies', *Energy* 306 (October 15, 2024), p. 132380.

[34]Isaac Otchere, Adam Abdulrahman, and Jun Wang, 'Environmental, Social, and Governance Investing and Sustainability of Pension Funds: Evidence from the Organisation for Economic Cooperation and Development Countries', *Economic Modeling* 143 (February 1, 2025), p. 106948.

[35]Muhammad Atif Khan et al., 'Justice and Finance: Does Judicial Efficiency Contribute to Financial System Efficiency?', *Borsa Istanbul Review* 24, no. 2 (March 1, 2024), p. 248-55; Belen Catala, Teresa Savall, and Rafael Chaves-Avila, 'From Entrepreneurial and Innovation

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accordance with the values of *maqāṣid ash- syarīʿah.*[36] Sharia Economic Law provides important principles in conducting such collaborations such as 1) musyarakah which involves combining the resources of two parties in achieving a common goal within agreed rules.[37] 2) Mudarabah between the provider of capital and the recipient of capital for development, with business results based on agreement; 3) Urf, where the implementation of economic institutional collaborations that are commonly done and do not conflict with sharia, is the basis for laws and regulations that have been established. In this connection, the Law of the Republic of Indonesia Number 21 of 2008 concerning Islamic banking directs cooperation to increase access and financial inclusion. In addition, there is a Fatwa DSN-MUI which provides guidelines for forms of cooperation between institutions.

Efforts to build collaboration to minimize the scale gap to create sustainable impacts both economically, socially, and environmentally. Providing awareness of Islamic banking institutions of the importance of Islamic Microfinance Institutions that reach out to unreached communities, as well as being a partner for financial knowledge assistance to ultra-micro and micro small business partners, therefore, a comprehensive form of economic institutional collaboration is needed.[38] In general, forms of collaboration in the economy such as 1) collaboration between companies through *joint ventures*, strategic alliances and business partnerships for the development and expansion of markets for one product;[39] 2) public-private partnerships where there is government collaboration with the private sector in infrastructure development, education and public services;[40] 3) Collaboration between different economic sectors to provide

Ecosystems to the Social Economy Ecosystem', *Journal of Business Research* 163 (1 August 2023), p. 113932.

[36]Ayumiati Ayumiati et al., 'Budget Management of the Aceh Government: An Analysis of the Maqāṣid al-Sharī'ah Approach', *Samarah: Journal of Family Law and Islamic Law* 8, no. 1 (April 27, 2024), p. 538.

[37]Pu-yan Nie, Chan Wang, and Hong-xing Wen, 'Horizontal Mergers under Uniform Resource Constraints', *Journal of Retailing and Consumer Services* 63 (November 1, 2021), p. 102697.

[38]Bambang Tri Harsanto and Wahyuningrat Wahyuningrat, 'Investigating the Keys to the Failure of Inter-Village Government Collaboration in Developing Rural Economic Potentials in Indonesia', *Regional Science Policy & Practice* 16, no. 5 (May 1, 2024), p. 100023.

[39]Jason Lu Jin and Liwen Wang, 'Resource Complementarity, Partner Differences, and International Joint Venture Performance', *Journal of Business Research* 130 (June 1, 2021), p. 232-46.

[40]Zhang et al., 'Product Market Competition and the Value of Corporate Cash'; Ying Xie et al., 'Green Construction Supply Chain Management. Chain Management: Integrating Governmental Intervention and Public-Private Partnerships through Ecological Modernization', *Journal of Cleaner Production* 331 (10 January 2022), p. 129986.

integrated economic solutions;[41] 4) Collaboration across countries such as the Asean Economic Community (AEC) or the Belt and Road Initiative (BRI);[42] 5) Collaboration between formal and informal sectors to empower communities such as Sharia Microfinance Institutions and Sharia Bank Institutions to support micro-enterprises.[43] Economic institutional collaboration is an important step in the effort to minimize the financing scale gap, which aims to minimize the gap between the financing needs of Islamic micro businesses and the ability of Islamic microfinance institutions to fulfill them, as shown in the following table.

Table 1: Scale Gap of Sharia Microfinance Institution Financing for Sharia Microenterprises

No.	Islamic Microfinance Institutions	Minimum Starting Funds	Scale Gap
1	Micro Waqf Bank (BMW)[44]	Has a maximum initial capital of IDR 8 billion / institution	1. Reachability around the pesantren and not reachable for empowerment in other areas 2. Risk of customer financing not in accordance with acceptance
2	*Baitul Māl Wat Tamwīl* (BMT)[45]	Relies on member savings as the main source of capital	1. Financing to limited customers 2. Inefficient manual infra-structure system 3. High risk of bad debts
3	Sharia Savings and Loan Cooperative (KSPPS)[46]	Low-income Member Savings	Limited reach and only serves members

Source: Data analysis 2025, processed from various sources

[41]Muhammad Umair Shah and Ryan Rezai, 'Public-Sector Participation in the Circular Economy: A Stakeholder Relationship Analysis of Economic and Social Factors of the Recycling System', *Journal of Cleaner Production* 400 (10 May 2023), p. 136700.

[42]Emma Aisbett et al., 'International Green Economy Collaborations: Chasing Mutual Gains in the Energy Transition', *Energy Research & Social Science* 104 (October 1, 2023), p. 103249.

[43]Bing Xu et al., 'Financial Support for Micro and Small Enterprises: Economic Benefit or Social Responsibility?', *Journal of Business Research* 115 (July 1, 2020), p. 266-71; Alyas A. Widita, Alex M. Lechner, and Dyah T. Widyastuti, 'Spatial Patterns and Drivers of Micro, Small and Medium-Sized Enterprises (MSMEs) within and across Indonesian Cities: Evidence from Highly Granular Data', *Regional Science Policy & Practice* 16, no. 11 (November 1, 2024), p. 100137.

[44]Andri Soemitra, Kusmilawaty, and Tri Inda Fadhila Rahma, 'The Role of Micro Waqf Bank in Women's Micro-Business Empowerment through Islamic Social Finance: Mixed-Method Evidence from Mawaridussalam Indonesia', *Economies* 10, no. 7 (July 2022), p. 157.

[45]Ficha Melina, 'murabahah Loan In Baitul Maal Wat Tamwil (BMT)', *Tabarru' Journal: Islamic Banking and Finance* 3, no. 2 (November 1, 2020), p. 269–80.

[46]Dina Alafi Hidayatin, Rika Puspita Sari, and Novianita Sari, 'Financial Health Analysis of Islamic Savings and Loan and Financing Cooperatives Amid the Covid19 Pandemic', *AKUNESA Accounting Journal* 10, no. 3 (May 25, 2022), p. 55–67.

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The data shows the main findings from the side of customers of Ultra Micro Enterprises (UMI) and Small Micro Enterprises (MSE) of Sharia Microfinance Institutions with minimal funds have implications for business expansion both in terms of production scale, product quality and product marketing.[47] It also hampers innovation to compete in the market, coupled with not having the ability of funds to adopt technology as an effort of efficiency and productivity, as well as difficulties in increasing the capacity of human resources.[48] Even more severe due to the difficulty of obtaining formal financing from SMFIs, the group then enters into transactions with moneylenders with maximum interest rates which causes their financial burden to become weak and ends in business bankruptcy.[49] As for Sharia Financial Institutions, the scale gap in terms of role in the financial ecosystem. With limited capital, they are unable to serve all the needs of micro businesses in their area, so that Islamic financial inclusion is also hampered. The inability to meet financing needs will reduce public trust in the institution and eventually turn to conventional financial institutions such as bank plecitan in jogjakarta or rente.[50]

The results of the data search also show that as a result of the scale gap, MFIs are under operational pressure between serving the needs of many customers and or maintaining the quality of service.[51] This split in thinking affects the efficiency and effectiveness of services. One example is the increase in non-performing financing due to the lack of capacity to assess customer eligibility and mentoring during the financing period, resulting in the risk of non-performing financing (NPF). The study also found that the scale gap of Islamic Microfinance

[47]Zhaofang Mao, Ruiying Yuan, and Jianan Wang, 'Precision Marketing for Newly-Launched Products: How to Offer Free Trials to Consumers?', *Journal of Retailing and Consumer Services* 81 (November 1, 2024), p. 104013.

[48]Xuejiao Ma et al., 'Is More Always Better? Investor-Firm Interactions, Market Competition and Innovation Performance of Firms', *Technological Forecasting and Social Change* 210 (January 1, 2025), p. 123856.

[49]Marianne Aasen and Ingrid Christensen, 'Lost in Transaction? An Institutional Analysis of Households' Transaction Costs from Demand-Side Grid Management', *Energy Policy* 193 (October 1, 2024), p. 114310; Ilias Filippou et al., 'Importance of Transaction Costs for Asset Allocation in Foreign Exchange Markets', *Journal of Financial Economics* 159 (September 1, 2024), p. 103886.

[50]Clionadh Raleigh et al., 'Climate Finance and Conflict: Adaptation amid Instability', *The Lancet Planetary Health* 8, no. 1 (January 1, 2024), p. e51-60; Juan Piñeiro-Chousa, Aleksandar Šević, and Isaac González-López, 'Impact of Social Metrics in Decentralized Finance', *Journal of Business Research* 158 (1 March 2023), p. 113673.

[51]Julian Barnikol and Ingo Liefner, 'Serving Society at Large. Operationalization and Evidence of (Advanced) Frugal Innovation in Industrialized Economies', *Technological Forecasting and Social Change* 204 (1 July 2024), p. 123444.

Institutions will build dependency on external funds such as government subsidies and or grants.[52]

The positive impact of the scale gap cannot be denied. Some of them are increased cooperation between institutions, where MFIs can collaborate with Islamic banks.[53] Selective to micro business segments that are considered to have the potential to grow,[54] can also encourage funding innovations such as from productive waqf, zakat and Islamic crowdfunding.[55] Based on this, the scale gap of Islamic microfinance institutions for Islamic micro business financing has a positive impact and a negative impact. The data can be described in the following table:

Table 2: Impact of *Scale Gap* in Islamic Microfinance Institution Financing for Microenterprises

No.	Positive Impact	Negative Impact
1	Increase innovation in creating financing products that are more in line with the needs of micro businesses.	Weak funding of MFIs makes access to capital for ultra micro and micro small businesses limited
2	Motivate the MFI team for mentoring or training programs to the financed micro-entrepreneurs in order to increase product capacity, so that the payment of financing responsibilities becomes smooth.	The weakness of MFIs in meeting the capital needs of ultra and micro small enterprises allows them to access informal sources of financing such as high-interest loan sharks.
3	Increase motivation to be able to work together, cooperate with Islamic banking institutions and cooperate with the government.	Scale gap can increase the risk of non-performing financing if the MFI imposes financing beyond its capacity, thus disrupting the sustainability of the MFI itself.
4	Build financial awareness among micro enterprises of the importance of financial management and	Failure of MFIs to meet financing needs can reduce business confidence in the institution's credibility.

[52]Ying Huang, 'Government Subsidies and Corporate Disclosure', *Journal of Accounting and Economics* 74, no. 1 (2022), p. 101480.

[53]Shuxian Jin et al., 'Conflict, Cooperation, and Institutional Choice', *Journal of Experimental Social Psychology* 111 (1 March 2024), p. 104566; Marco Fabbri, 'Institutional Quality Shapes Cooperation with Out-Group Strangers', *Evolution and Human Behavior* 43, no. 1 (2022), p. 53–70.

[54]Zhaofu Hong et al., 'Competition and Cooperation in a Platform-Based Business Ecosystem within Complementary Partners', *International Journal of Production Economics* 275 (2024), p. 109337.

[55]Raditya Sukmana, 'Critical Assessment of Islamic Endowment Funds (Waqf) Literature: Lessons for Government and Future Directions', *Heliyon* 6, no. 10 (October 1, 2020), p. e05074; Fuadi Fuadi, Siti Sahara, and Meta Suriyani, 'The Implications of Regulating Zakat to Reduce Income Tax and Make It A Source of Local Revenue in Aceh', *Samarah: Journal of Family Law and Islamic Law* 8, no. 3 (2024), p. 1763.

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	responsibility for repayment of financing to them.	
5	-	The goal of SMFIs to accelerate sharia-based economic growth to reduce economic inequality is difficult to achieve.

Source: Data analysis 2025

Scale Gap in the View of Islamic Law

In the perspective of Islamic Law, the scale gap is an imbalance between the funding needs of micro-enterprises and the capacity of Islamic Microfinance Institutions (MFIs) with the potential loss of the principles of justice, equality and economic equity.[56] In terms of the principle of justice in the distribution of wealth, the scale gap will have implications for the difficulty of micro businesses to obtain adequate financing which is contrary to this principle (Qur'an, al-Hasr: 7). In addition, ultra-micro and small micro businesses are managed by the *mustaḍ'afin* (Muslim grassroots), which may hinder the assistance of these groups in improving their living standards to become muzakki (Qur'an *al-Mā'idah*: 2). In another study, MFIs became weak due to the scale gap which resulted in the development of loan sharks among grassroots Muslim communities. This is a burden that must be the responsibility of financial economic institutions and Islamic banking (Qur'an, *al-Baqarah*: 275).

Sharia Economic Law provides the final sign of economic activity is maslahah, scale gaps that cannot be overcome hinder the achievement of this goal (Qur'an, *al-Qaşaş*: 77). Steps and efforts to overcome the scale gap in the study of Sharia Economic Law have a positive impact where the distribution to Muslim micro businesses will increase which can reduce economic inequality as part of the principle of wealth distribution in Islamic economics as stated in Qur'an, *al-Ḥasyr* verse 7. In addition, ultra-micro, micro and small businesses that are mostly managed by the lower community will have the opportunity to develop through fairer access to financing and become part of efforts to keep them out of the cycle of poverty (Qur'an, *Qaşaş*: 5).

More broadly, Sharia Economic Law considers that reducing the scale gap can improve the Islamic economic system and increase the credibility and trust of the Muslim business community in the institution. Their assessment is that if SMFIs are not able to close the scale gap, it means that the management considers they to have failed to fulfill the mandate to help people in need, and it means harming the vision and mission of the SMFI.[57] Some concrete examples, due to

[56]Teagan Goforth, Todd Levin, and Destenie Nock, 'Incorporating Energy Justice and Equity Objectives in Power System Models', *Renewable and Sustainable Energy Reviews* 210 (2025), p. 115155.

[57]Md Kausar Alam and Muhammad Shahin Miah, 'Do Islamic Banks Use Institutional Theory in the Light of Shariah Governance? Empirical Evidence from a Muslim Dominant Country', *Heliyon* 10, no. 2 (2024), p. e24252.

the scale gap in LKMS financing, cannot be resolved as described in the interview.

Ahmad, a yam plantation owner and cassava chips micro-entrepreneur after the 2024 harvest, tried to increase the capacity of cassava products by buying an automatic frying machine for Rp 23,000,000, - He then applied for LKMS financing which was only able to provide a maximum loan of Rp 10,000,000, meaning that Ahmad's steps to improve the management of his harvested cassava production in meeting market consumer demand were not achieved and continued to use manual methods which eliminated his business growth opportunities. His last resort was to borrow from moneylenders with high interest rates, which eventually burdened his finances and put him in a cycle of debt.

Aminah, a street vendor, applied for financing of Rp 5,000,000 to MFIs to buy stock ahead of the fasting month and preparation for Eid. Due to limited funds, LKMS only provided Rp 2,000,000. This did not meet her capital needs, Aminah was then disappointed because she considered LKMS unable to support the development of her business, so the institution lost potential customers and then sought financing from conventional institutions.

Based on these two cases, it can be seen that when MFIs are unable to provide financing to micro businesses in their neighborhood, and expect the presence of MFIs to enlighten business development, the opposite is felt. On the contrary, SMFIs experience a decline in stability because they provide small financing to micro businesses and do not have enough capital to provide assistance, resulting in non-performing financing so that they are unable to provide new financing.[58]

LKMS provides financing with mudarabah scheme to a small trader named Maisaroh to open a new outlet. Due to low capital and LKMS negligence to provide assessment and assistance, it turns out that siti chose a less strategic outlet location so that her business suffered losses, unable to return capital to LKMS or share the results as agreed. The impact of the case caused the SMFI to experience losses because the loaned capital was lost, on the one hand the operational burden increased because it provided additional funds to collect bad debts, as well as evaluate and provide assistance to uloang. This also implies the stagnation of SMFIs in providing financing to new customers.

[58]Lei Song et al., 'Inventory and Financing Decisions in Cross-Border e-Commerce: The Financing and Information Roles of a Bonded Warehouse', *Expert Systems with Applications* 238 (March 15, 2024), p. 121639.

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Some of these cases are also evidenced by data from the Financial Services Authority, which reports the KLMS scale gap for the 2022-2024 period due to the ratio of non-performing financing in Islamic MFIs increasing from 12.80% in 2019 to 25.88% in the December 2023 report.[59] The results of the Ministry of Finance's Fiscal Policy Agency report in December 2022 identified that MFIs below Rp 100,000,000,- hindered the optimal distribution of financing.[60]

Basis for Collaboration as a Bridge to the Gap of Islamic Financial Institutions

The vision of Islamic banking institutions in general is to become a trusted Islamic financial institution, contributing to creating a fair, balanced and sustainable Islamic economic system for the welfare of the people. The mission of the institution is 1) to provide sharia-based financial services free from usury, gharar and maisir; 2) to improve the welfare of the people with fair and productive financing; 3) to develop Islamic economics at the local, national and global levels; 3) to utilize innovation and modern technology for efficient, transparent and accessible financial services; 4) to strengthen the social role in managing Islamic social funds;; 5) to maintain environmental sustainability and business activities that support sustainable economic development. While the objectives of Sharia banking institutions are 1) providing halal financial alternatives; 2) increasing inclusive finance and expanding Sharia banking services; 3) increasing Sharia economic stability with productive financing and avoiding speculative financing; 4) encouraging the economic welfare of the people through Sharia-based financing; 6) realizing a fair and equitable financial system; 7) strengthening socio-economic collaboration in helping manage social funds effectively and increasing solidarity.[61] Based on this, it shows some differences from the vision, mission, and objectives between the two as in the following table:

Table 3: Differences in Vision, Mission, and Objectives between Islamic Microfinance Institutions and Islamic Banking Institutions

Aspects	Islamic Microfinance Institutions	Islamic Banking Institutions
Vision	Empowering micro and small communities	Supporting the global Islamic Economic system

[59]Akbar Maulana al Ishaqi, 'OJK Notes MFIs Face High Bad Credit Problem', Bisnis.com, November 28, 2024, https://finansial.bisnis.com/read/20241128/89/1819500/ojk-catat-lkm-hadapi-masalah-kredit-macet-tinggi.

[60]KEMENKEU, 'Directorate General of Fiscal Balance | DJPK Financial Report FY 2022', June 12, 2024, https://djpk.kemenkeu.go.id/?p=53005.

[61]Pulok Kumar Mukherjee et al., 'Socio-Economic Sustainability with Circular Economy - An Alternative Approach', *Science of the Total Environment* 904 (December 15, 2023), p. 166630.

	Focus on small community economic empowerment and poverty alleviation	Focus on building a fair, stable and sustainable economic system
	Focus on local communities and village communities	Serving individuals, corporations, national and global markets
Mission	Providing financing for ultra-micro, micro and small businesses	Provides a full range of Islamic financial services for individuals and corporations.
	Islamic and member-based social fund	Managing Islamic social funds focuses on financial integration
	Provide training and mentoring for small businesses	Less focus on education and/or direct mentoring
	Mudarabah, murabahah, and *qarḍul ḥasan-based* financing	Financial services, investment and sukuk financing
	Less technology, more manual and local	Adopt modern technology such as mobile banking and digital banking.
Destination	Economic empowerment of small communities and poverty reduction	Serving the financial needs of the wider community including the large and corporate sectors
	Ensuring economic justice at the local community level	Support the stability of the Sharia economic system at the national and global levels
	Encouraging the independence of micro and small enterprises	Catalyzing the Islamic financial system
	Focusing on local issues, alleviating rural poverty	Contribute to national and global economic development.

Source: Data Analysis, 2025

In terms of differences in funding sources and facilities provided, as shown in the following table

Table 4: Differences in Funding Sources of Islamic Microfinance Institutions and Islamic Banking Institutions

No.	Islamic Microfinance Institutions	Islamic Banking Institutions
1	Member and customer savings	Customer deposits such as savings, current accounts, and mudharabah and wadiah-based deposits
2	Donations and Social Funds such as zakat, infaq, sadaqah and waqf	Investment and capital markets (sukuk, Islamic mutual funds and Islamic capital market instruments)
3	Initial capital from founding fund or parent institution	Interbank loans

All of these similarities and differences require collaboration, from which the Government of the Republic of Indonesia regulation provides the main signposts to overcome the scale gap and increase Sharia financial inclusion. In the Law of the Republic of Indonesia Number 1 of 2013 concerning Microfinance

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Institutions, it has regulated the implementation of Microfinance Institutions (MFIs) and Sharia Microfinance Institutions (SMFIs) that encourage legal certainty, growth and contribution.[62] Financial Services Authority Regulation Number 19/POJK.05/2021 concerning the implementation of operational guidelines for Microfinance Institutions so as to increase the range of LKMS services.[63] One of the solutions offered by Financial Services Authority Regulation Number 16/POJK.05/ 2019 concerning the transformation of conventional Microfinance Institutions into Rural Banks and Sharia Microfinance Institutions into Sharia People's Financing Banks.[64]

The development of Sharia Microfinance Institutions (MFIs) through collaboration with Sharia Banking institutions can be carried out based on the Presidential Regulation of the Republic of Indonesia number 28 of 2020 concerning the National Committee for Sharia Economics and Finance (KNEKS) which affirms the commitment of the Government of the Republic of Indonesia in developing Sharia economy and finance through collaboration between related institutions. Included in the Sharia Microfinance Development Strategy document in Indonesia by the National Committee for Sharia Economics and Finance (KNEKS). Based on this, the need for collaboration strategies and movements is an important part of accelerating the development of the Islamic financial ecosystem in Indonesia.[65]

Collaboration Model as a Bridge for the Development of Islamic Microfinance Institutions

Various discussions and findings in the study of building a solution to the scale gap in financing for micro businesses in Indonesia require a suitable model to bridge this gap, one of which is the collaboration model. The results of data searches reveal various collaboration models in Sharia financial institutions, such as the digital collaboration model between Sharia banks and Sharia Fintech platforms for Sharia-based online financing. This collaboration is useful in expanding the financial network of unbanked communities and accelerating

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[62]Sunny Li Sun and Hao Liang, 'Globalization and Affordability of Microfinance', *Journal of Business Venturing* 36, no. 1 (2021), p. 106065.

[63]M. Agus Yozami, 'OJK Issues Rules Related to MFI Business and Preparation of Securities Company Financial Statements', hukumonline.com, 2021, https://www.hukumonline.com/berita/a/ojk-terbitkan-aturan-terkait-usaha-lkm-dan-penyusunan-laporan-keuangan-perusahaan-efek-lt61558f3bd8cd1/.

[64]Hukum Online, 'Financial Services Authority Regulation Number 16/POJK.05/2019 of 2019 - Hukumonline Data Center', hukumonline.com, 2019, https://www.hukumonline.com/pusatdata/detail/lt5d0b4d0e77bc4/peraturan-otoritas-jasa-keuangan-nomor-16-pojk05-2019-tahun-2019/related_regulation/.

[65]Yuguang Bao et al., 'How to Enable Human-Centric Collaboration in Social Product Development Paradigm: A Practical and Theoretical Exploration', *Computers & Industrial Engineering* 198 (2024), p. 110632.

digitization services.[66] The Islamic Social Finance Collaboration model between Islamic Financial Institutions and Sharia Social Fund Management Institutions, such as Baznas or Baznasda. This model is focused on Sharia-based economic empowerment that minimizes social inequality and increases the economic sustainability of small communities.[67]

The collaboration model that is also used is the usual partnership model between Sharia financial institutions and corporations (private companies, BUMN, BUMD) carried out in the field of agriculture and halal tourism.[68] The integrated Financial Ecosystem model is carried out across sectors in the Sharia ecosystem, such as Islamic Bank financing with the Murabahah or Ijarah platform.[69] International Collaboration Model between Islamic Financial Institutions in various countries to increase global competitiveness, such as the collaboration of the Islamic Development Bank (IDB) with Bank Syariah Indonesia in Indonesia for infrastructure financing.[70] The collaboration model that is also used is the linkage model or the Channeling model.[71] The Linked model is a pattern of cooperation between Islamic banking institutions and Islamic Microfinance Institutions to bridge the financing needs of the community in the ultra-micro and small micro segments, while the channeling model is a form of channeling funds from Islamic Banking Institutions with Islamic Microfinance Institutions as intermediaries channeling financing to the community without having full control over the institution. Of the various collaboration models, these two models are the point of development models that are the deepening of this study. The linked model and the channeling model show differences as in the following table:

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[66]Dananjani Basnayake et al., 'Financial Inclusion through Digitalization and Economic Growth in Asia-Pacific Countries', *International Review of Financial Analysis* 96 (1 November 2024), p. 103596.

[67]Ilaria Baffo et al., 'Optimizing Public Investments: A Sustainable Economic, Environmental, and Social Investment Multi-Criteria Decision Model (SEESIM)', *Regional Science Policy & Practice* 16, no. 11 (1 November 2024), p. 100140.

[68]Hassan et al., 'Convergence in Islamic Financial Development'; Dwi Suhartanto et al., 'Holistic Tourist Experience in Halal Tourism Evidence from Indonesian Domestic Tourists', *Tourism Management Perspectives* 40 (October 1, 2021), p. 100884.

[69]Odongo Kodongo, 'Financial Inclusion Effects of Engaging with the Fintech Ecosystem', *International Review of Economics & Finance* 96 (November 1, 2024), p. 103671.

[70]Jiayin Meng, Zhen Ye, and Ying Wang, 'Financing and Investing in Sustainable Infrastructure: A Review and Research Agenda', *Sustainable Futures* 8 (December 1, 2024), p. 100312.

[71]Keisuke Sato, Shintaro Katayama, and Atsushi Koike, 'Analysis of Prediction Characteristics of GRP Change by the SCGE Model for the Linkage of Road Development and Regional Industrial Policy', *Transportation Research Procedia*, World Conference on Transport Research - WCTR 2023 Montreal July 17-21, 2023, 82 (January 1, 2025), p. 938-56.

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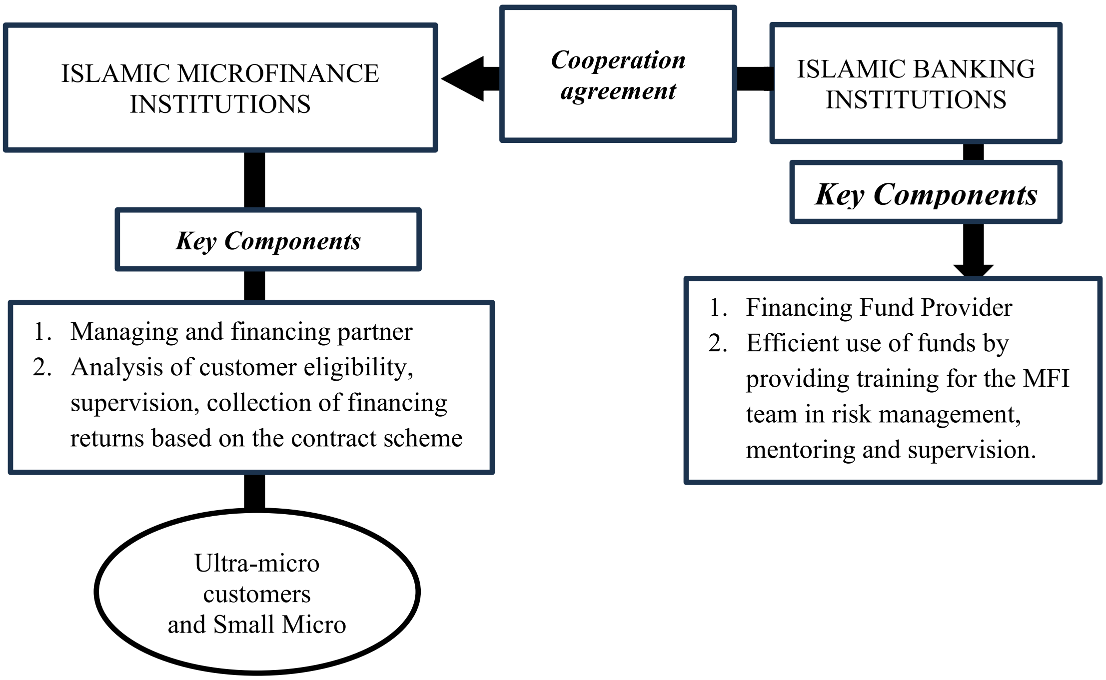
Table 5: Differences between Linked and Channeling Model Collaboration[72]

No.	Aspects	Model	
		Linked	**Channeling**
1	Ownership	Funds are given to MFIs to manage	Fixed Funds Owned by Islamic Banks
2	Role	MFIs as fund managers and financing providers	MFIs as intermediary agents to channel funds
3	Risk	Financing risks are borne by the MFI	Fixed Financing Risks in Islamic Banks
4	Relationship	Partnership-based with self-management	Assignment-based for fund disbursement

Based on these various models, the collaboration model used to bridge the financing gap between Islamic Microfinance Institutions and Islamic Banking Institutions can be seen in the following figure:

Figure 1: Sharia Microfinance Institution Linked Collaboration Model with Sharia Financial Institutions as a Financing Scale Gap Solution



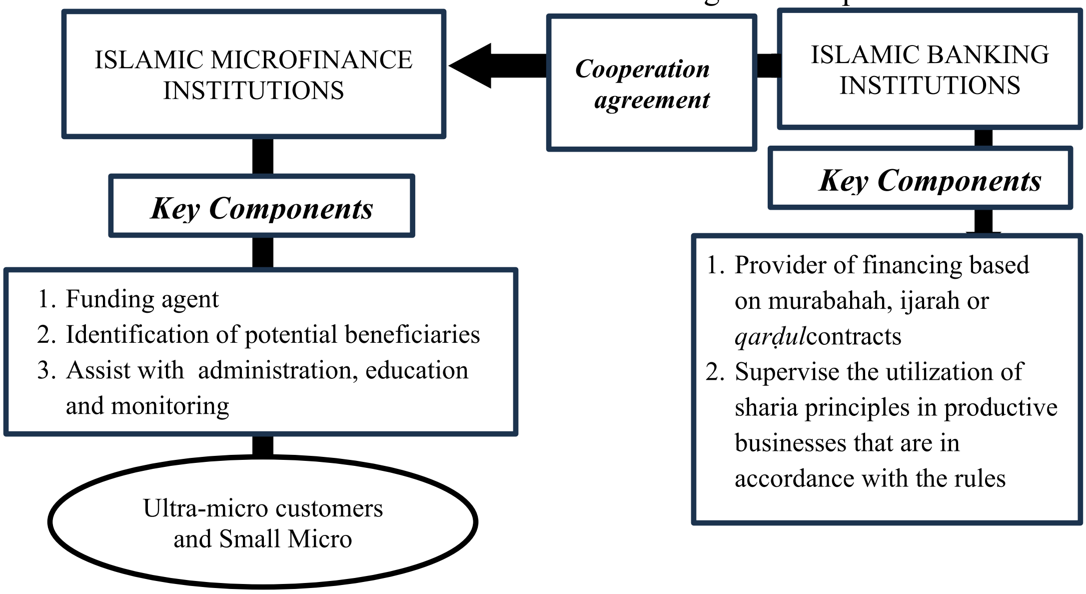
Based on this figure, it shows that Sharia Banking Institutions provide funds to Sharia Microfinance Institutions based on a cooperation agreement in the form of a sharia contract, profit margin and return mechanism. Furthermore, the Islamic Microfinance Institution manages the funds by channeling them to

[72]Lei Wei et al., 'A Link-Based Flow Model with Turn-Level Queue Transmission and Time-Varying Free-Flow Speed for Urban Road Networks', *Transportation Research Part C: Emerging Technologies* 170 (2025), p. 104937.

productive sector businesses in accordance with the basic contract with the Islamic Banking Institution. SMFIs also have an obligation to collect refunds from customers, and margins which are then deposited with the Islamic Banking Institution based on the contract agreement. In this process, the Islamic Banking Institution conducts periodic monitoring of the activities of the Islamic Microfinance Institution to ensure its sharia compliance.

Activities with linked collaboration as a solution to the financing scale gap in Sharia Microfinance institutions as happened at BMT Bina Ummat Sejahtera (BUS) Lasem in Rembang, Central Java. This institution collaborates with BRI Syariah Semarang Branch through the Mudarabah scheme. BRI Syariah provides funds to BMT which are then channeled to customers with the principle of profit sharing. These activities have implications for increasing profitability through this collaboration and provide significant benefits and there is no longer a scale gap in financing. From the bank's side, BRI Syariah gains value in the reach of Islamic financial services in the Sharia micro sector.

Figure 2: Collaborative Model of Channeling Sharia Microfinance Institutions with Sharia Financial Institutions as a Financing Scale Gap Solution



Based on this picture, it shows that Sharia Banking institutions provide funds in accordance with the contract and hand over operational responsibility to Sharia Microfinance institutions as agents. The team from the Sharia Microfinance institution identifies potential beneficiaries who are in accordance with the Sharia criteria that are the SOP of the SMFI. Furthermore, the results of the team's identification and verification are given to the Sharia Banking Institution to provide financing according to the recommendations of the SMFI team. In the process, the SMFI team provides assistance in the management of

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funds and monitors the progress of their use, so that the return of LPS funds through SMFI is in accordance with the agreed value and schedule.[73] As an example of a Sharia People's Financing Bank (BPRS) channeling collaboration with a Sharia-based P2P Financing Fintech company through the role of the Financial Services Authority (OJK), in this scheme, BPRS can channel financing sourced from fintech funds as a provider of funds. The impact of this is that BPRS gets additional funds in increasing unlimited financing to its customers, while P2P fintech gets customer service coverage in regional areas.[74]

In calculating the profit from financing from the collaboration, it can increase access to capital, such as Islamic banking, which provides funds to MFIs with low profit-sharing margins, and then channels them to various micro businesses with competitive margins. Islamic banking provides funds of Rp. 500,000,000 to MFIs with a mudharabah contract with a profit sharing of 20%, while MFIs channel the funds to customers 15%/year. The funds channeled to customers are Rp 500,000,000 to customers with a margin of 15%. In the calculation of Rp 500,000,000 x 15% = Rp 75,000,000, - The profit sharing share for Islamic banking is 20% (Rp 75,000,000 x 20% = Rp. 15,000,000 then the net income of SMFI from the collaboration is 75,000,000, - Rp.15,000,000 = Rp 60,000,000.

Development of a Collaboration Model for Islamic Microfinance Institutions with Future Islamic Banking Institutions

This sub-section is an answer to the question of collaboration in the development of effective Islamic microfinance institutions that are sustainable in supporting the development of micro-enterprises in Indonesia based on the existence of a financing scale gap. Based on previous studies, the scale gap as a problem of disparity between the financing, capacity, and resources available at Islamic microfinance institutions and the needs of their customers requires a solution. Between needs and limitations will implicate the issue of the entry of various solutions that burden ultra-micro and micro small businesses. Islamic law provides an important view that the presence of loan sharks, usury and all forms caused by the inability of microfinance institutions must be found a solution. Exploitation and injustice will continue to run rampant amid efforts to build Sharia financial mechanisms, so the various integration cooperation models and collaboration models that have developed must increasingly have a constructive-

[73]Shishir Mathur, Hilary Nixon, and Shreya Chokshi, 'Predevelopment Revolving Loan Funds to Develop Affordable Housing: Program Features and How They Can Be Strengthened', *Cities* 155 (2024), p. 105494.

[74]Victor Murinde, Efthymios Rizopoulos, and Markos Zachariadis, 'The Impact of the FinTech Revolution on the Future of Banking: Opportunities and Risks', *International Review of Financial Analysis* 81 (2022), p. 102103.

productive-useful and equitable impact. The results of data review of existing collaboration models have weak points that can have long implications, namely:

First, there can be dependence of Islamic Microfinance Institutions on Islamic Banking. This will reduce the credibility and independence of the institution. This means that the institution loses flexibility in determining financing margin policies and expansion strategies. For example, if the profit sharing as described in the previous sub chapter (20%) is then increased by 30%, there is a change, where the funds channeled to customers: Rp500,000,000 x 15% = Rp75,000,000. Share of profit sharing for Islamic banking (30%): Rp75,000,000 x 30% = Rp22,500,000. Net income of SMFI from collaboration: Rp 75,000,0000- Rp 22,500,000 = Rp52,500,000

Second, the management of Sharia Microfinance Institutions will experience moral hazard, where the management can act irresponsibly because they feel that they do not fully bear the risk and or do not fully bear the consequences of the collaboration. This means that SMFIs that are too dependent on Islamic Banking funding will be able to neglect the principle of prudence in channeling financing, because they consider that the assumption of risk is borne by the Bank. From this point of view, there is also a risk of accepting family-based customers.

Third, dependence on the Sharia banking system will have implications for SMFI operations in the event of system changes and or system failures that occur in Sharia banking as a collaboration partner. This can also occur in the effectiveness of services to the community if the implementation of product standards that are not in accordance with the needs of the area that is the responsibility of the SMFI.

These three things will have a long-term impact that continues to hinder innovation and development of SMFIs to be independent and means it will be difficult to compete with other microfinance institutions. In addition, policy changes from both internal and external banking as well as the monetary crisis, SMFIs that experience dependence in collaboration will experience liquidity difficulties. One example, when there is a financing collaboration with a decision to provide 70% of funds from Sharia banking, then when there is a termination of funding for various reasons from Sharia

banking, the SMFI then only has 30% of the funding capacity to meet the financing demands of its customers. This is very risky for massive savings withdrawal due to loss of trust. These weak points became the basic evaluation in developing a collaborative model for the development of Islamic Microfinance Institutions with Islamic Banking Institutions with several stages as in the following table:

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Table 6: Internal Steps of Pre-Collaboration for Model Development

No.	**Focus**	**State Analysis**	**Adequate**	**Simply**	**Less**
1	Readiness of MFI Management	1. Commitment to grow and escape the financing scale gap	√		
		2. Readiness to comply with established collaboration rules	√		
		3. Willingness to train and develop for MFIs	√		
		4. Readiness for certified training in each competency			
2	Evaluation of Human Resources capacity strength in management	1. Financial Management Staff	√		
		2. Financial Operational System	√		
		3. Financial Technology	√		
3	Liquidity Evaluation	1. Member Savings	√		
		2. Community Savings	√		
		Diversify funding from other sources:			
		a. Zakat	√		
		b. *Infak*	√		
		c. Almsgiving	√		
		d. Productive Waqf	√		
4	Reputation and Credibility	1. Assurance that Financing Products are in accordance with Sharia principles by being accompanied by the Sharia Supervisory Board.	√ √		
		2. Track Record as long as established shows low non-performing financing (NPF)	√		
		3. Healthy Financing Portfolio	√		
5	Operations Executive	1. Readiness to synchronize the needs of ultra-micro, micro and small businesses with the financing standards of Islamic banks	√		
		2. The mentoring team applies a pattern that minimizes the risk of financing	√		
		3. Ultra-micro, micro-small business financing evaluation team for commitment to provide solutions in the financing payment compliance assessment process	√		

Source: Data Analysis, 2025

The table is a reference for SMFIs to assess the internal readiness of SMFI management before collaborating with the world of Islamic Banking, with adequate (√) it is possible that Islamic banks are ready to collaborate in the field of financing. The feasibility study of Islamic banks that have a high risk of failure due to internal factors is the cause then the collaboration will experience losses due to non-performing financing due to the unpreparedness of the management to collaborate. Adequate capability will give the Financial Services Authority (OJK) confidence to grant permission for the collaboration.

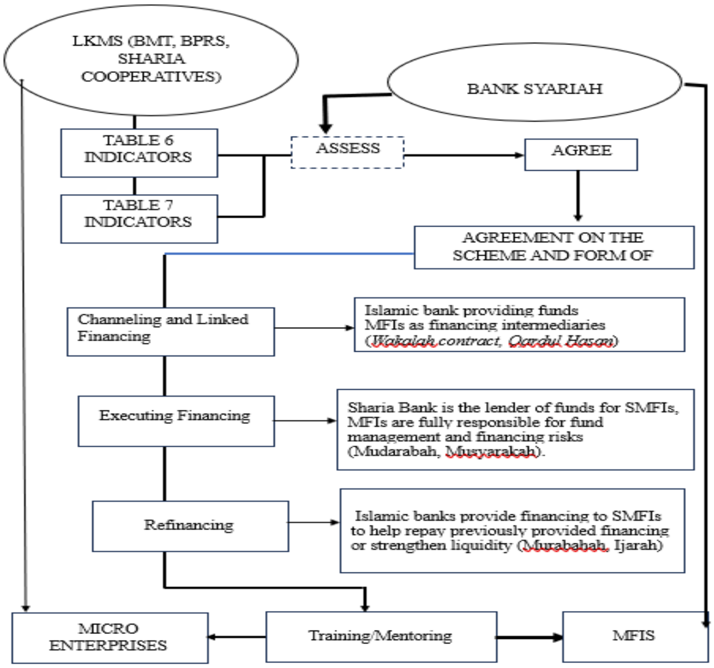
The loss of trust of Sharia banks due to unprofessional and disproportionate track record of MFIs in managing financing through MFIs will be minimized from positive answers (TABLE 5), because the main requirement for Sharia banks to collaborate is an administrative system that is consistent with Sharia bank standards. The readiness of the management to adapt to the bank's financial technology is also very urgent. Non-conformity and or unwillingness of SMFIs to conform to the bank's financial ecosystem will be an obstacle that is not expected by the Islamic Bank.

Table 7: External Steps of MFIs in Developing Collaboration with Islamic Banking

No.	Focus	Activities	Already	Process	Not yet
1	Keep in Touch with Proposals	1. Actively communicate in various meetings with the Islamic Banking world and or join as a member of the Islamic microfinance association	√		
		2. Have cooperation with government programs and / or non-government empowerment organizations	√		
2	Collaborative cooperation proposal	Structure is clear, specific, worthwhile:			
		a. Co-financing of linked and or Channeling schemes	√		
		b. Sharia social mission financing, namely Empowerment of ultra-micro and micro small businesses	√		
		c. Offering a competitive, transparent profit-sharing scheme in line with the vision of Sharia banks.	√		

Table 6 is an important part of entering into collaboration with Islamic banking that can be a mutually beneficial collaboration, accepted by Islamic banks without hesitation. Internally and externally, this is an important part that must be done so that the development of collaboration models formed with various financing schemes for Islamic social can be guaranteed, and run by making a mutual benefit. The basic structure will not be able to run well when all elements can be implemented, especially by SMFIs as partners of Islamic Banking. The various steps can also be seen in the following figure:

Figure 4: Development Model for the Collaboration of Islamic Microfinance Institutions with Islamic Banking Institutions



The explanation of building the synergy of the collaboration model requires development construction as shown in the figure. SMFIs (BMT, BPRS, Sharia Cooperatives) conduct internal and external activities to give trust to Islamic banking. In (Table 6) there are five important elements that become the internal priority scale of SMFIs, namely: 1) Adequate commitment of all SMFI management to complete the financing *Scale Gap*, readiness to obey the rules, willingness to practice so as to obtain competent certification in the field of financial management and financial technology; 2) Along with this readiness, it is also necessary to evaluate the strength of human resources for financial management, financial operational systems, and financial technology; 3) Evaluate liquidity from the strength of member savings, community savings, and diversification of other funding sources, both from zakat, infaq, sadaqah, and productive waqf; 4) Building reputation and credibility that their financing is based on sharia principles and accompanied by a sharia supervisory board plus a low track record of *non-performance financing*; 5) Operational implementation is based on the readiness of the board to synchronize the needs of ultra-micro and micro sharia businesses with the financing standards of Islamic banks, as well as committing to provide assistance as an evaluation and solution to the process of assessing compliance with their financing payments.

The five internal elements in the adequate assessment are followed by the external activities of the MFI board by establishing friendship both in Islamic banking activities and becoming a member of the Islamic microfinance association. The bonding phase is also carried out by having collaborative government programs or non-government empowerment organizations (NGOs). During the process, the MFI team also prepares a collaborative cooperation proposal to be assessed by the destination Islamic bank. When the Islamic bank gets approval from the results of the feasibility study, an agreement is made on the scheme and form of collaboration, either in the form of Chaneling and Linked financing where the Islamic bank is the provider of funds, the SMFI is the intermediary for financing in the form of a wakalah and */ or qarḍul ḥasan* contract. It can also be done with the collaboration model of executing financing where the Islamic bank is the provider of funds, SMFIs are fully responsible for the management of funds and financing risks, through mudarabah and/or musyarakah schemes. The collaboration can also be in the form of refinancing where Islamic banks provide financing to SMFIs to help pay off previously provided financing and/or strengthen liquidity, through murabahah and/or ijarah schemes. In various forms of approved collaboration schemes, a training-mentoring program is also established. The Islamic bank trains and mentors the MFI team, while the MFI mentors the micro businesses that receive the financing.

The development of the collaboration model offered as shown in the figure is also based on the interpretation of laws and regulations, namely Law of the Republic of Indonesia Number 21 of 2008 concerning Sharia Banking, Law of the Republic of Indonesia Number 1 of 2013 concerning Sharia Financial Institutions, and Financial Services Authority Regulation Number 62/POJK.03/2016. In the study of Islamic Law, these activities build the principles of justice and balance, benefit, and away from ribawi, garar, and maisir. It is also in line with the DSN-MUI rules in DSN-MUI Fatwa Number 91/DSN-MUI/IV/2014 concerning syndicated financing (*al-Tamwil al-Muṣrifi al-Mujamma'*) and DSN-MUI Fatwa Number 07/DSN-MUI/IV/2000 concerning mudharabah (*Qiraḍ*) financing.

The model is also in line with synergy theory as a basic construction of cooperation with their respective advantages. It also has the same value in Agency Theory where the Islamic Bank acts as a trustor, and SMFI acts as a trustee as an agent of wholesale funds from Islamic banking to micro businesses. The pattern developed adapts to the istihsan theory in this study, where collaborative activities provide flexibility in developing Islamic financial institution policies with needs without leaving the main objective of sharia, namely, the benefit of the people.

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Conclusion

The study on the development model of collaboration between SMFIs and Islamic banking in resolving the *scale gap* has shown a new perspective that complements the current approach. CSFI collaboration means that the importance of togetherness in strengthening ultra-micro and micro small businesses that have contributed greatly to strengthening the macro economy. This research also provides a new concept in sharpening the analysis that sees the collaboration model as a form of temporal solution, becoming a basis for strengthening the improvement of collaboration models that can eliminate moral *hazard*, strengthen inclusive financial ecosystems, and overcome the limitations of capital, networks, and technology owned by SMFIs through the support of Islamic Banks. As well as sharpening Islamic economic studies on the empowerment of Islamic Microfinance Institutions for the empowerment of the people. Based on this, it is necessary to modify the theory of productive-independent collaboration, which is an effort to minimize the impact of SMFI dependence on Islamic Banks, which causes loss of independence. The offer is also balanced with comprehensive cooperation management, with justice and benefits for all.

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