



How Does the Performance of Islamic Microfinance Institutions Affect the Welfare of SMEs?: Empirical study of BTM Mulia Babat

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Abstract. This study aims to assess the direct and indirect effectiveness of Islamic microfinance services, particularly financing products, in enhancing the welfare of small and medium-sized entrepreneurs (SMEs) in Lamongan, with Baitul Tamwil Muhammadiyah (BTM) Mulia Babat as the case study. The partial least square-structural equation modeling method is used in this quantitative study, examining data from 52 respondents, where the respondent data are BTM Mulia Babat business financing customers. The findings of this study found that Islamic microfinance services and business assistance directly have a positive impact on SMEs' increase in income. However, Islamic microfinance services and business assistance indirectly do not impact SMEs' welfare. Despite the increase in SMEs' income, it directly impacts SMEs' welfare. The novelty of this study is to identify the effectiveness of Islamic microfinance institutions in improving the welfare of SMEs. This study presents evidence of the impact of Islamic microfinance institutions on the welfare of micro and medium entrepreneurs. It can encourage more Islamic microfinance programs to offer feasible Islamic microfinance services as an alternative to boosting SMEs in the regions. This study's empirical implications and findings highlight the importance of business assistance from Islamic MIFs as business financing providers to support businesses.

Keywords: Islamic microfinance, *Baitul Tamwil Muhammadiyah*, SMEs welfare.

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INTRODUCTION

Over the last decade, Islamic financial institutions in Indonesia have developed rapidly despite being relatively new. The Financial Services Authority (OJK, 2021) reports that 197 such institutions are operating, not including those under the Ministry of Cooperatives and Small and Medium Enterprises. These Islamic financial institutions are projected as intermediary institutions that can provide convenience for the community in turning the wheels of the economy (Zitouni & Ben Jedidia, 2022). The primary role of financial institutions is as intermediaries that provide services to connect the community who save their funds with the community who will apply for financing. This role can solve the inequality in income

distribution among the community (Rahayu, 2020; Rohman et al., 2021; Wulandari & Kassim, 2016).

Based on data from September 2022, there were 26.36 million impoverished individuals in Indonesia, indicating that economic inequality is a severe issue (Badan Pusat Statistik, 2022). Most of the poor population is in Java, with 13.94 million people (Badan Pusat Statistik, 2022), especially in East Java, which still has many poor people. Hence, the efforts to establish Islamic microfinance institutions in the community are aimed at helping the lower classes improve their standard of living. Islamic Microfinance Institutions (IMFIs) have the same leading role as intermediary institutions. IMFIs focus their financing on small communities, both social (non-profit) such as zakat, infaq, alms or distribution and financing using the profit loss sharing system (As-Salafiyah & Kartikawati, 2022; Taufiq, 2020). IMFIs in Indonesia usually consist of Sharia Cooperatives (Koperasi Syariah) and Baitul Maal wa Tamwil (BMT).

The legal framework for licensing Islamic Microfinance Institutions (IMFIs) in Indonesia is defined by several regulations: the Financial Services Authority Regulation Number 12/PJOK.05/2014 on Business Licensing and Institutions of Microfinance Institutions; the Minister of Cooperatives and Small and Medium Enterprises Regulation Number 11 of 2018 on Licensing for Savings, Loans, and Cooperative Loan Businesses; the Minister of Cooperatives and Small and Medium Enterprises Regulation Number 11/PER/M.KUKM/XII/2017 on Sharia Savings, Loans, and Financing Business Activities by Cooperatives; and the Minister of Cooperatives and Small and Medium Enterprises Regulation Number 16/Per/M.KUKM/IX/2015. According to this legal framework, IMFIs are defined as entities implementing Sharia-based Savings, Loans, and Financing Business Activities by Cooperatives, which must also be overseen by the Sharia Supervisory Board (Taufiq, 2020).

IMFIs Indonesia is identical to Sharia cooperatives and BMT. Therefore, it is usually established on the initiative of individuals or groups to help micro and medium enterprises as a strategy for eradicating regional poverty, especially in rural areas and traditional markets with operational and managerial systems based on Sharia principles (Rohman et al., 2021). The presence of these IMFIs provides solutions to micro-entrepreneurs who have many obstacles in accessing credit schemes or financing from banks. It is meant to provide welfare to micro-entrepreneurs in the presence of this Sharia financial institution (Loke et al., 2020). There are 8.71 million micro and medium enterprises (KEMENKOPUKM.RI, 2022), and Java Island

dominates this sector. East Java in this sector ranks third after West Java and Central Java, with an achievement of 1.15 million units (Databoks, 2023).

The number of micro-entrepreneur units served by microfinance institutions, particularly cooperatives, in East Java totals 22,845 (Badan Pusat Statistik, 2022). In Lamongan Regency alone, there are 1,140 cooperative institutions (KEMENKOPUKM.RI, 2023). One notable financial institution in Lamongan is Baitul Tamwil Muhammadiyah (BTM) Mulia Babat, which is a cooperative. According to Elsafi et al. (2020), BTM, a cooperative affiliated with the Muhammadiyah Islamic organization, has implemented risk management standards that differ from other cooperatives. This makes BTM a compelling subject for the study of Sharia cooperatives. Additionally, "BTM" reputation as one of Muhammadiyah's charitable enterprises in the economic and financial sectors further adds to its interest as a case study. Based on the researcher's field review, there is no doubt that BTM is the right choice for the Muslim community, particularly the residents of Lamongan. In the Lamongan area, there is a BTM known as BTM Mulia Babat, which is an ideal option for the people of Lamongan. As of the 2021 period, the total assets of BTM Mulia Babat reached IDR 26,104,939,842.20 (KKS BTM Mulia Babat, 2021). According to the researcher's field investigation results, BTM Mulia Babat offers capital loans and financing facilities for small and medium enterprises (SMEs).

Previous studies found that Islamic microfinance services can increase the income of poor households (Ginanjar & Kassim, 2020; Hamdan et al., 2012), and business control is needed to increase SMEs' income (Ahmad et al., 2020; Mawardi et al., 2022), so that it can improve the welfare of SMEs (Loke et al., 2020; Rahayu, 2020; Rokhman & Abduh, 2020). Therefore, this study aims to determine the direct impact of the effectiveness of Islamic microfinance services and business assistance programs, particularly for financing products, on improving the welfare of SME actors. Additionally, it seeks to examine the indirect impact of the effectiveness of Islamic microfinance services, with the presence of business assistance programs, particularly for financing products, on enhancing the welfare of SME actors in Lamongan, focusing on BTM Mulia as the object of study. Since IMFIs provide various types of micro-enterprise capital financing services and business assistance programs, the novelty of this study lies in identifying the effectiveness of Islamic microfinance institutions, combined with business assistance programs, in improving the welfare of small and medium entrepreneurs (SMEs). While previous studies only measured the effectiveness of microfinance institutions on household income welfare (Al-Mamun & Mazumder, 2015; Al-Shami et al., 2016; Ali et al., 2017; Elsafi et al., 2020; Loke et al., 2020; Ülev et al., 2022). The implication

of this study is to present evidence on the impact of Islamic microfinance institutions on the welfare of micro and medium entrepreneurs, which can encourage more Islamic microfinance programs to offer feasible Islamic microfinance services as an alternative to increasing SMEs in the regions.

LITERATURE REVIEW

Islamic Microfinance

Islamic microfinance institutions (IMFIs) are in the same form as microfinance institutions (MFIs)/ micro-credit/ micro-savings. The difference is that IMFIs, in practice, use Sharia principles, whereas products, contracts, and operations use Sharia principles. IMFIs serve financing needs and launch financing systems for all micro sectors. In Islamic economic practices, banking and microfinance institutions must avoid elements of MAGHRIB (*maysir, gharar, riba*) (As-Salafiyah & Kartikawati, 2022).

In Indonesia, IMFIs have two characteristics: bank IMFIs and non-bank IMFIs. Bank IMFIs are still based on Islamic banking in general. Still, there are also differences in the Islamic banking law, BI, and OJK regulations regarding these differences, while non-bank IMFIs have enough legal and operational umbrellas. The system uses the same Sharia principles. However, the products and management differ slightly from the banking industry (As-Salafiyah & Kartikawati, 2022). Islamic MFIs can be an alternative to increase financial inclusion because IMFIs are an alternative platform to integrate commercial and social objectives to increase financial inclusion. This increase in financial inclusion can be successful if Islamic MIFs have factors that facilitate the community, such as affordability, accessibility, feasibility, and availability, and are adequate for the community, especially the lower middle class (Maulana & Umam, 2018).

As an intermediary institution, IMFIs also provide financing products where IMFIs financing products contain higher risks than debt-based products in conventional microfinance. Therefore, financiers such as IMFIs usually require SMEs to have time and effort in developing strategies to manage the potential financial risks of this financing (Rokhman & Abduh, 2020). This situation is expected to impact the performance of SMEs and, of course, provide them with satisfaction with Islamic microfinance institutions. According to Ashraf (2010) there would be an increase in risk, and it would have an impact on loan payback if the internal rate of return of the company owned by the consumers were not able to match the total cost of the

financing. A case when the internal rate of return's harsh requirement results in a high loan repayment, will impact the clients' psychological well-being, particularly their contentment with the IMFI they patronize. This study refers to providing satisfaction in terms of low costs, minimal risk, and low installment payments to customers.

To understand the importance and potential of Islamic microfinance, one needs to have a clear perspective on the operation of Islamic microfinance financial products in various countries, including Indonesia. With that, we clearly see the differences between Islamic and conventional microfinance. The basic premise of Islamic microfinance operations lies in the absence of interest in its financing practices. This is a significant difference from conventional modes of finance, where the interest rate determines the balance between demand and supply. In conventional, interest has a vital role to play in the survival of conventional microfinance institutions. On the other hand, Islamic microfinance has eliminated the use of interest in their operations and intermediary mechanisms (Uddin & Barai, 2016). Therefore, Islamic microfinance is proposed to be an effective method for increasing community income, especially with the proposed business financing program, which can increase long-term poor household income (Ginanjar & Kassim, 2020; Hamdan et al., 2012). Hence, the following hypotheses are proposed:

H1. Islamic MFI services have a significant positive impact on increasing the income of SMEs.

Business Assistance

The business assistance program for business financing customers is essential and highly beneficial for Islamic microfinance institutions. This program is sometimes referred to as business control. This business control is highly helpful for improving the effectiveness of funding and attempts to lessen the misappropriation of funds by SMEs for other purposes. The benefit of Islamic finance, particularly *Murabahah* and *Ijarah* financing, is that it can alleviate the misuse of capital for other purposes because SMEs that receive capital financing typically do so from IMFIs in the form of business capital goods rather than funds (Hadisumarto & B. Ismail, 2010).

Usually, direct visits to the business can be used to conduct frequent progress checks on the business as part of this business control or business support program. According to Hadisumarto & B. Ismail (2010), business help in the context of *mudharabah* funding can be provided through direct visits as well as periodic reviews of business data. In this business assistance, a careful evaluation of the financing project provided by IMFIs is also needed by

means of continuous profit-and-loss sharing, which may minimize the occurrence of risky cases in business (Chapra, 1985). Cross-checking among Islamic microfinance financing customers can also be done. Hence, in each area, IMFIs are highly recommended to group participants (so they can get to know each other, exchange information, communicate, and work together). It is useful for facilitating the business control process or monitoring process (Hadisumarto & B. Ismail, 2010). According to Ibrahim & Ghazali (2014), business assistance to financing customers can also increase the effectiveness of IMFI financing and can support their welfare. Hence, the following hypotheses are proposed:

H2. Business assistance has a significant positive impact on increasing the income of SMEs.

SMEs and welfare

According to Friedlander, (1980) welfare is a system that is administered in an orderly manner through social services and institutions with the goal of assisting people and groups in achieving a healthy and satisfactory standard of living as well as personal and social relationships that offer opportunities for skill development so that people can adjust their welfare to suit their needs (Laksmi & Arjawa, 2023). Welfare can indicate that the individual or group has reached a limit that can provide them with the opportunity to develop abilities so that they can meet their needs. In order to provide a comprehensive view, Islamic law indicators are used to measure the idea of welfare in Islam. Al-Syatibi separates *Maqashid Syariah* into two groups, which are used as one of the welfare criteria (Kusuma & Ryandono, 2016; Mawardi et al., 2022; Widiastuti et al., 2021). 1) Sharia objectives, including *dharuriyat*, *haajiyat*, and *tahsiniyat*; 2) Humanitarian objectives (Rahman et al., 2017). According to Fadhilah et al., 2020; Rahman et al., (2017), Imam Al-Ghazali divided these factors into five categories that are crucial to understanding: the protection of religion, life, wealth, intelligence, offspring, and property. Islamic welfare is centred on providing the greatest good to individuals both in this life and the next. These considerations serve as the foundation for the five components that this study uses as metrics to determine Islamic welfare or well-being.

Micro, Small, and Medium-Sized Enterprises (MSMEs) were defined by Law No. 20 of 2008 as profitable businesses owned by people and individual business entities that satisfy specific requirements. SMEs have an important role in the surrounding community and have a positive impact. The existence of MSMEs can open up employment opportunities for the surrounding community so that they can meet their needs (Arifin et al., 2021). Based on the findings of Fianto et al., (2018), it is emphasized that Islamic microfinance in Indonesia has an important

role in people's income. Islamic microfinance can provide financial assistance to the poor to help them develop and improve SMEs (Gebru & Paul, 2011). It is hoped that the assets of customer micro-businesses can grow gradually using financial assistance, thus increasing their income-generating capacity and improving family welfare (Rokhman & Abduh, 2020). Research conducted by Gina & Effendi (2015) shows that financing from Islamic microfinance institutions has a positive effect on income, and income affects the welfare of SMEs. Aristina & Widiastuti (2020), in their research, stated that financing provided by BMT plays a role in improving the welfare of members who are SMEs. Hence, the following hypotheses are proposed:

H3. Increased income for SMEs has a significant positive impact on their welfare.

H4. The indirect effect of Islamic MFI services has a significant positive impact on SMEs' welfare through increasing their income.

H5. The indirect effect of business assistance has a significant positive impact on SMEs' welfare through increasing their income.

METHOD

This research uses a quantitative approach to measure the statistics of the effect of Islamic microfinance (Islamic MIF) on the level of SMEs welfare using constructs. The analytical method used in this research is PLS-SEM, which follows Ghozali, (2014) and Hair et al., (2019). Several researchers have conducted research on microfinance's impact in previous studies (Al-Mamun & Mazumder, 2015; Loke et al., 2020; Nawaz et al., 2021; Santoso et al., 2020). PLS-SEM is a flexible and credible statistical tool and has benefits in projecting research theory and as a statistical tool for complex multivariate models (Hair, et al., 2019).

Models with several constructs can be estimated using the PLS-SEM analysis method, which can also be used to discover developing correlations between variables (Sinkovics et al., 2016; Hair, et al., 2019). This approach is a thorough multivariate analysis tool that has a number of benefits, such as the capacity to examine intricate associations (Hair, et al., 2014). It can only look at a tiny sample size and doesn't really normalise the data. Moreover, variables can be simultaneously analysed to ascertain the fundamental structure of the entire collection. Like the others, this also yields results that are valid, understandable, and free of additional analysis, such as outlier detection (Hair, et.al., 2014). The PLS-SEM approach is a statistical tool that is more potent, adaptable, and superior for forecasting and evaluating a hypothesis, as numerous

earlier studies have also demonstrated (Henseler et al., 2015). This statistical method can be applied multiple times to the Islamic microfinance topic, depending on the research topic (Ginanjar & Kassim, 2020; Mohd Thas Thaker et al., 2022; Nawaz et al., 2021; Purwanto et al., 2022; Wibowo et al., 2020).

The type of data used in this study is primary data. This data is based on the results of field research through structured questionnaires (Malhotra, 2009). The collection of data samples in this study used a purposive sampling technique, which was identical to the calculation using the Slovin formula with a level of 5%. The population of this study was the number of BTM Mulia Babat business financing customers for two years, which amounted to 200 customers (Purwanti, 2024). It was obtained from the Slovin Formula of 20 respondents. Therefore, this study used data from 52 respondents, where analyzing data using the PLS-SEM method, more than 30 data were needed (Hair et al., 2011). The sample data using the PLS-SEM method to analyze, a conceptual framework is created as follows, see Figure 1:



Figure 1. Factor The Effect of Islamic MIFs to SMEs' Welfare

The variables discussed in this study can be seen in Figure 1. there are two exogenous variables, namely Islamic MIF services and business assistance BTM Mulia, then the SMEs welfare variable as endogenous variables. To find the relationship between Islamic MIF services and the business assistance BTM Mulia on SMEs welfare, especially those included in the business development program, for a clearer and more concrete picture, this research adds intervening variables, namely increased income SMEs BTM Mulia customers. The increase income SMEs variable is included because the samples in this study are the SMEs BTM Mulia customers. It would give very stimulating pictures and proper correlations, as shown in Figure 1.

RESULTS

The characteristics of the respondents were differentiated based on age, last education, marital status, family members, and type of business, which obtained the following results:

Table 1. Description of Respondents' Characteristics

Items	Criteria	Percentage	Conclusion
Age	22 - 30	8%	Valid
	31 - 40	28%	Valid
	41 - 50	13%	Valid
	50 <	3%	Valid
Last Education	SD	5%	Valid
	SMP	2%	Valid
	SMA	37%	Valid
	S1	7%	Valid
	S2-S3	1%	Valid
	Marital status	Marriage	43%
	Unmarriage	4%	Valid
	Other	5%	Valid
Family members	None	1%	Valid
	1 member	16%	Valid
	2 members	15%	Valid
Type of business	3 members <	20%	Valid
	Food & Beverage	30%	Valid
	Fashion	7%	Valid
	Shop Owner	9%	Valid
	Farmer	2%	Valid
	Skincare & Cosmetics	2%	Valid
	Other	2%	Valid

Source: Respondent Data on google form. 2024

After describing the respondents' data, PLS-SEM tests are carried out. The PLS-SEM data processing results must pass multiple tests to achieve the best outcomes. Meaningful model measurements may only be obtained for each variable with multiple indicators if a multicollinearity test is passed using the collinearity statistics of the Variance Inflation Factor (VIF) value. According to Hair et al., (2010); Memon et al., (2017), all indicators in this data set match the criteria, with the VIF value ranging from 1,772 to 6,193, which is significantly less than 10,000. Next, a validity and reliability test is conducted, which includes discriminant and convergent validity. When the construction indicators are in line to help develop the conceptual meaning of the latent variable, convergent validity—a test used to assess the consistency of the indicators of each variable—is attained (Hair, J. F., Ringle, G. T. M., & Sarstedt, 2014). Compare the results of the factor loading, Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE) while testing this. Factor loading and latent variables of correlation are assessed using discriminant validity. Therefore, in order to obtain the desired findings in terms of validity, convergent and discriminant validity tests must be employed, with the goal of verifying the validity of each factor indicator used in the study as

well as the content of the research model (Hair, J. F., Ringle, G. T. M., & Sarstedt, 2014). Factor loading revealed low values for a number of indicators; seven indications—X2.5, Y.1, Y.12, Y.16, Y.2, Y.7, and Y.13—are eliminated since, in accordance with Hair et al., (2021), the recommended loading is > 0.70 . The factor loading and VIF table for the data processing outcomes are shown as follows:

Table 2. VIF & Factor Loading Values

VIF		Before Correction				After Correction			
		Business Assistance Program (X2)	Increase Income SME's (Z)	Islamic MIF Services (X1)	SMEs welfare (Y)	Business Assistance Program (X2)	Increase Income SME's (Z)	Islamic MIF Services (X1)	SMEs welfare (Y)
X1.1	2,680								
X1.2	1,988	X1.1		0.820	X1.1			0.820	
X1.3	1,772	X1.2		0.708	X1.2			0.708	
X1.4	2,020	X1.3		0.735	X1.3			0.735	
X1.5	2,710	X1.4		0.745	X1.4			0.745	
X1.6	3,721	X1.5		0.794	X1.5			0.794	
X2.1	2,586	X1.6		0.892	X1.6			0.892	
X2.2	4,626	X2.1	0.852		X2.1	0.855			
X2.3	5,383	X2.2	0.933		X2.2	0.932			
X2.4	2,114	X2.3	0.947		X2.3	0.945			
Z.1	5,415	X2.4	0.827		X2.4	0.829			
Z.2	5,020	X2.5	0.069		Z.1		0.895		
Z.3	5,082	Z.1		0.894	Z.2		0.918		
Z.4	6,193	Z.2		0.917	Z.3		0.921		
Z.5	6,078	Z.3		0.920	Z.4		0.861		
Y3	2,992	Z.4		0.862	Z.5		0.851		
Y4	5,447	Z.5		0.852	Y3				0.801
Y5	4,618	Y1			Y4				0.846
Y6	4,173	Y2			Y5				0.848
Y8	3,984	Y3			Y6				0.880
Y9	4,314	Y4			Y8				0.812

(continued)

VIF		Before Correction				After Correction			
		Business Assistance Program (X2)	Increase Income SME's (Z)	Islamic MIF Services (X1)	SMEs welfare (Y)	Business Assistance Program (X2)	Increase Income SME's (Z)	Islamic MIF Services (X1)	SMEs welfare (Y)
Y10	2,502	Y5			0.836	Y9			0.814
Y12	3,929	Y6			0.867	Y10			0.734
Y14	6,175	Y7			0.671	Y12			0.853
Y15	2,928	Y8			0.813	Y14			0.880
		Y9			0.807	Y15			0.748
		Y10			0.733				
		Y11			0.598				
		Y12			0.851				
		Y13			0.888				
		Y14			0.863				
		Y15			0.742				
		Y16			0.676				

A result of more than 5% for the AVE indicates good construct validity. According to Cronbach's Alpha and Composite Reliability values, the reliability test is conducted in the

interim. A construct is deemed dependable in this instance if its composite reliability value is 0.7 and its Cronbach's Alpha value is more than 0.6. Cronbach's Alpha estimates a variable's least reliable level, whereas composite reliability gauges a variable's true dependability. Accordingly, the composite reliability value typically has a higher significance than the Cronbach's Alpha value (Abdillah and Jogiyanto, 2016; Sekaran and Bougie, 2013). According to Hair et al., (2012), discriminant validity describes how different a construct is from another. The Fornell-Lacker, cross-loading, and Heterotrait-Monotrait ratio (HTMT) criteria were used in this study by Hair, J. F., Ringle, G. T. M., & Sarstedt, (2014) to measure discriminant validity efficiently. According to Fornell and Larcke (1981), all latent variables meet discriminant validity if the AVE squared value, which is displayed in the data processing findings of this research model, is higher than the correlation value of the latent variables. It is also strengthened by the HTMT results, where no values are close to 1 (Ab Hamid et al., 2017). So, the results of discriminant validity in this research model are valid. The results of construct validity and reliability are shown in the following table:

Table 3. Construct reliability and validity

		Cronbach's Alpha	Composite Reliability	Average Variance Extracted
Business Assistance Program		0.913	0.939	0.795
Increase Income SME's		0.934	0.950	0.791
Islamic MIF Services		0.878	0.905	0.616
SMEs welfare		0.947	0.954	0.677
	Business Assistance Programme	Increase Income SME's	Islamic MIFs Services	SMEs welfare
<i>Fornell-Lacker criterion</i>				
Business Assistance Program	0.892			
Increase Income SME's	0.866	0.889		
Islamic MIF Services	0.665	0.653	0.785	
SMEs welfare	0.587	0.663	0.524	0.823
<i>(continued)</i>				
<i>Heterotrait-Monotrait ratio (HTMT)</i>				
Business Assistance Program	X			
Increase Income SME's	0.962	X		
Islamic MIF Services	0.836	0.707	X	
SMEs welfare	0.781	0.821	0.522	X
<i>Cross-loadings</i>				
	Business Assistance Program	Increase Income SME's	Islamic MIF Services	SMEs welfare
X1.1	0.469	0.447	0.820	0.426
X1.2	0.339	0.313	0.708	0.331
X1.3	0.377	0.381	0.735	0.265
X1.4	0.448	0.461	0.745	0.465
X1.5	0.650	0.631	0.794	0.496
X1.6	0.684	0.679	0.892	0.430
X2.1	0.855	0.712	0.598	0.574
X2.2	0.932	0.807	0.651	0.570
X2.3	0.945	0.815	0.563	0.554
X2.4	0.829	0.748	0.559	0.393
X3.1	0.804	0.895	0.618	0.621
X3.2	0.794	0.918	0.641	0.628
X3.3	0.816	0.921	0.640	0.624
X3.4	0.718	0.861	0.507	0.537
X3.5	0.710	0.851	0.480	0.526
Y3	0.456	0.531	0.405	0.801
Y4	0.375	0.457	0.323	0.846
Y5	0.465	0.550	0.457	0.848

Y6	0.552	0.592	0.440	0.880
Y8	0.530	0.548	0.505	0.812
Y9	0.486	0.515	0.354	0.814
Y10	0.523	0.653	0.408	0.734
Y12	0.466	0.483	0.521	0.853
Y14	0.488	0.563	0.454	0.880
Y15	0.436	0.490	0.424	0.748

Bootstrapping result estimations and *t*-statistic significance values are also used in the path coefficient analysis. When all measurement items have a *t*-statistic value greater than 1.96 and a *p*-value less than 0.05 at a significance threshold of 5%, each hypothesis item is considered significant. According to Ghazali, (2008) and Hair et al., (2017), the original sample, also known as the parameter coefficient, shows the direction of influence. Ghazali, (2008) and Hair et al., (2017) evaluate the original sample by taking into account its effects, both positive and negative, as well as the impact of the independent variable on the dependent variable. Using partial least squares structural equation modelling for data processing, the following outcomes were obtained:

Table 4. Partial Least Squares-Structural Equation Modelling

Hypotheses	Original Sample	t-statistic	p-values	Results
H1: Islamic MIF Services → Increase Income SME's	0.655	9.612	0.000	<i>Significant</i>
H2: Business Assistance Program → Increase Income SME's	0.774	8.127	0.000	<i>Significant</i>
H3: Increase Income SME's → SMEs welfare	0.663	9.753	0.000	<i>Significant</i>
H4: Islamic MIF Services → Increase Income SME's → SMEs welfare	0.040	0.740	0.460	<i>Not significant</i>
H5: Business Assistance Program → Increase Income SME's → SMEs welfare	0.238	0.995	0.320	<i>Not significant</i>

Description: *) significant at a real rate of 5%

DISCUSSION

Effect of Islamic MIF services on increase income SME's

Islamic MIFs offer a variety of financing products, which are opportunities to increase the income of the poorest to free them from poverty (Kireti & Sakwa, 2014). Therefore, the positive impact of the Islamic microfinance program has been seen in the financing products enjoyed by people with various income levels, and this has happened in various countries (Loke et al., 2020). Either is Islamic microfinance in Indonesia, precisely in the Lamongan area, namely

BTM Mulia Babat, which has several financing products to help with financial problems for all levels of society, especially those with low incomes.

As evidenced by the analysis results in Table 3, H1 presents the following values: t -statistic $9.612 > 1.96$, p -value = 0.000, and the original sample value = 0.655. These results indicate that Islamic MIF services have a significant positive relationship to the increase in income of SME customers; this aligns with several findings Al-Mamun & Mazumder, (2015); Al-Shami et al., (2016); Elsaifi et al., (2020); Loke et al., (2020); Uddin & Barai, (2016). Islamic MIFs in several Islamic countries provide opportunities for people with low and medium incomes to improve their welfare. Islamic MIFs have savings and financing products that are suitable for lower-middle-class people. From these products, this study found that financing products at Islamic MIFs, especially BTM Mulia Babat, have a socio-economic impact on small and medium-sized entrepreneurs. The financing product mechanism at BTM Mulia Babat is based on Sharia transaction contracts. Where the financing products offered by BTM Mulia Babat are *Mudharabah*, *Murabahah*, *Ijarah or Multijasa*, *Hiwalah*, and *Umrah or Hajj* financing (Arif, 2023).

Based on the respondents' answers, the research shows that they are satisfied with the services provided by BTM Mulia Babat, especially in its financing products. On average, respondents in this study stated that BTM Mulia Babat's financing products helped them in developing their businesses. Financing for business development has been proven to have a positive impact on increasing the business income of BTM Mulia Babat financing customers, and this is also reinforced by evidence of increased respondent income before and after receiving business financing from BTM Mulia Babat. The comparison of respondents' income before and after receiving financing is quite significant. They experienced an increase in business income after receiving financing. In terms of services, BTM Mulia Babat provides convenience to its customers when applying for financing, which was conveyed directly by the manager of BTM Mulia (Purwanti, 2024). Despite providing convenience in applying for financing to customers, they still analyze prospective financing customers using 5C (character, capacity, capital, collateral, and condition) as a form of risk mitigation from bad financing (Purwanti, 2024).

Business assistance program to increase income SME's

BTM Mulia Babat has its own way of mitigating credit risk or bad financing; it provides assistance or visits to customers who have applied for financing at BTM Mulia Babat, especially customers who apply for financing for business capital. The importance of business

assistance in increasing the effectiveness of business financing for customers has been highlighted in previous studies (Hadisumarto & B. Ismail, 2010; Hamdan et al., 2012; Harahap et al., 2023; Maulidia & Nur, 2022; Suharti, 2018). The existence of this business assistance program ensures that this business-based financing is not misused and avoids lousy financing. This program is also often referred to as business control, and it is beneficial for increasing the effectiveness of financing (Hadisumarto & B. Ismail, 2010). This program can also reduce the deviation of the use of business capital so that it is not used or purchased for other things outside of business needs.

The results of this study indicate that the business assistance program has a significant positive effect on increasing SMEs' income, as evidenced by the H2 t -statistic value of $8.127 > 1.96$ with a significance of 0.000, followed by the original sample value of 0.774. This finding aligns with several previous studies in the Islamic microfinance field (Hadisumarto & B. Ismail, 2010; Hamdan et al., 2012; Harahap et al., 2023; Mawardi et al., 2022). This business control or business assistance program can help financing customers to improve their businesses so that they can increase their income.

Increase income SME's to SME's welfare

The increasing income of SME's plays a crucial role in enhancing the SME's welfare. SME's welfare in the context of this study is measured by the *Maqashid Syariah* parameters so that the assessment of its welfare is comprehensive for life in the *dunya* and the *akhirah*. As summarized in Table 3 showed that H3 is supported by this findings. The increasing income of SMEs has a significant positive impact on SMEs' welfare proven by t -statistic $9.753 > 1.96$ and it is statistically significant at 0.000. The result of the original sample is 0.663. This result implies that higher the number of SMEs income the higher the SMEs welfare. It support the finding by Prihadini & Asrori (2017) that customer business development has a positive and significant effect on the level of customer welfare.

The additional capital from BTM Mulia is a catalyst to boost the SME business after receiving microfinance. Financing the business has led to increasing business profits, business scale, and assets. Also, the increase in revenue supports the SME to achieve household basic requirements of consumption even raise the SME's quality of life. In this study, the concept of achieving SME welfare is defined by meeting the five basic needs in Islam based on *Maqashid Syariah*. The fundamentals are material and spiritual to safeguard religion (*deen*), soul (*nafs*), intellect

(*aql*), descent (*nasl*), and property (*maal*) (Dahlan, 2003). Because of this, Islamic microfinance demonstrates a positive impact on welfare by the financing indicator.

Indirect Effects Islamic MIFs and Business Assistance Programme to increase income SMEs to SMEs welfare

Furthermore, this study also established the indirect effect of SME income on the influence of Islamic MFI services on SMEs' welfare. However, an increase in SME income does not establish a relationship between Islamic MIFs' service and SMEs' welfare. The empirical statistic shows that the *t*-statistic for H4 is $0.740 < 1.96$. Therefore, H4 is not statistically significant (Table 3), and the amount or quality of Islamic MIFs' service does have no indirect effect on increasing the income of SMEs to SMEs' welfare.

In addition, the increase in SME income also does not mediate business assistance programs to SME's welfare. As seen in Table 3, H5 is not statistically significant. The *t*-statistic for H5 is lower than *t*-table ($0.995 < 1.96$). It implies that the increase in SME income is not able to mediate the influence of business assistance programs on SMEs' welfare, so large and small amounts of business assistance programs do not affect SME's welfare. However, the business assistance program is non-formal technical assistance designed by BTM Mulia to monitor SME business performance. The model is one-on-one discussions to support SME business operations so that there are no problems with instalments or even increasing the scale of the business.

Managerial relevancy

The theoretical implications in this study establish a unique welfare measurement, which is used as a reference to measure the success of Islamic microfinance in SME business financing products in improving their welfare. The business assistance program from Islamic microfinance is very much needed. In addition to reducing the risk of bad debt, it also provides benefits to help the government eradicate poverty and improve community welfare. For empirical implications, this study highlights the importance of business assistance in helping to increase the income of SMEs that receive financing from Islamic MFIs; this is evident in one of the objects of this study, namely BTM Mulia Babat. Thus, Islamic MIFs that provide business financing products must regularly monitor and evaluate the business system in addition to offering advice to businesses with substandard performance.

CONCLUSION

Using BTM Mulia Babat as a case study of Islamic microfinance, this study shows that its 0 increase in income of BTM Mulia financing customers has an impact on their welfare. However, when viewed directly, this does not have an impact on the welfare of SMEs. Therefore, the indirect findings of this study are the responsibility of Islamic MIFs in resolving this. In the future, it is hoped that Islamic MIF services will have a direct impact on the welfare of business financing customers. In empirical implications, the findings of this study highlight the importance of business control from Islamic MIFs as business financing providers to support their business. Thus, Islamic MIFs that have business financing products are required to monitor and evaluate regularly in order to minimize the risk of bad financing. The scope of this study is limited to one Islamic microfinance, namely, only taking a case study at BTM Mulia Lamongan. Although the respondents in this study were only 52, this is because BTM Mulia's business financing customers are still fewer than non-business financing customers. However, the results of managing respondent data in this study are indirectly in line with the information from the source, namely the BTM Mulia Manager. Nevertheless, this study is considered capable of representing the management of business financing and business control assistance in Islamic microfinance in East Java, especially in the Lamongan area.

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