The Effectiveness of Productive Infaq-Based Community Economic Empowerment to the Small and Medium Enterprises (SMEs) Growth in Pekalongan

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ABSTRACT

This study aims to find out (1) the procedure of distributing productive *infaq* to empower the SMEs' economy and (2) the effectiveness of productive *infaq*-based economy empowerment for SMEs growth by BAZNAS through Sharia Financial Institutions in Pekalongan. This research applies a qualitative method using a phenomenology approach, where BAZNAS serves as the primary data. During data collection, this research uses triangulation: observation, interviews, and documentation. Additionally, the sample was selected based on a purposive sampling technique. This study finds out that productive *infaq* is allocated by sharia financial institutions. Also, the distribution of ZIS (alms and *infaq*) through the non-profit institutions does not apply profit sharing between BAZNAS and the institutions because it is under *qardul hasan*. BAZNAS utilizes the productive *infaq* to increase the capital for business people. If the business has achieved its targets and objectives, the program can be found to be effective. *Infaq* of Sharia Financial Institutions in 2017-2018 reached 160 million IDR that has been distributed to the SMEs. As a result, the distribution can be considered very effective and may need improvement to get economic growth in Pekalongan.

Keywords*: Productive Infaq, Qard Funding, SMEs Growth.*

INTRODUCTION

Since its independence, poverty is a major issue in the development sector in Indonesia (Thee, 2012). Poverty is an economic problem which may come from low income.

The Central Statistics Agency of Pekalongan claimed that the poverty rate in this city increases fluctuates every year. The percentage of the poor population reached 20,52% in 2018 and decreased to 20,21% in 2019. While in 2020 it increased by 22,16% due to the Covid 19 pandemic, showing the

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high number of poor in Pekalongan. Therefore, there must be a mechanism that can distribute the wealth of the upper-class to the lower-class community.

Pekalongan is known as Creative City and Santri City, where the majority of the people are Muslims and many kind of crafts and arts are also developed. Expectedly, this condition is able to increase the community economic empowerment in Pekalongan. However, the number of small and medium enterprises (SMEs) in Pekalongan experienced a decrease by 0.1% in 2017 (BPS of Pekalongan, 2018).

There are two kinds of obstacles influencing SMEs' growth: (1) internal factors such as low capital, production, marketing, and human resources, and (2) external factors such as problems from SMEs' developers and coaches (Wahyuningsih, 2019). In terms of capital, the SMEs can be acknowledged to be a solution to those problems because SMEs can hire low-educated human resources as the activator for economic activities and local community (Mubarok *et al.,* 2020).

Given what zakat can contribute to economy and society, Zakat Infaq, and Alms (ZIS) institutions have been set up to collect and distribute funds in Indonesia. They are under the control of BAZNAS which has been established in this city since 2017. Consequently, it is possible to reduce poverty by distributing infaq besides alms. Islam as the religion of r*ahmatan lil 'alamin* has provided solutions to poverty, one of which is by distributing infaq.

Allah said in Al Baqarah (2: 273): "*(Alms are) for the poor who are straitened for the cause of Allah, who cannot travel in the land (for trade). The unthinking man accounted them wealthy because of their restrain. You should know them by their mark; they do not beg of men with importunity. And whatsoever good think you spend, so Allah knows it.*"

Infaq comes from the word "*anfaqa*," which means issuing something (wealth) for the benefit of something. It also covers the infaq issued by unbelievers for the benefit of their religion (Quran surah Al Anfal: 36). According to sharia terminology, infaq means spending part of assets or earning as a part of Islamic teachings (Hafidhuddin, 1998).

Infaq can be seen significant in alleviating poverty and empowering the community's economics. In fact, it is not only limited to poverty alleviation but also provides an opportunity to increase the ownership volume and improves the poor to be well-off. Infaq can improve the lower-class communities quality of life through SMEs by developing their skills. All roles cannot be separated from the infaq's main role as poverty alleviation and economic empowerment activator.

Empowering the community's economics through infaq distribution as venture capital for micro enterprises is expected to be one of the solutions to overcome poverty. Recently, the micro enterprises in Pekalongan grow significantly, which can be proven by the emergence of many SMEs annually and they have reached 21,561 units in 2018.

The distribution of productive infaq is a program that can alleviate poverty by utilizing funds from BAZNAS Pekalongan which then is distributed through sharia financial institutions. The funds are from donator and have been deposited into INFAQ accounts a Central Java Bank: Muamalat Bank and BMT SMNU. The funds are utilized as productive infaq in the form of an interest-free capital loan. One of the sharia financial institutions that distributes the productive infaq is KSP DMI Pekalongan (Slamet, 2018).

KSP DMI Pekalongan is a relatively new credit union established by M. Yusuf Kalla on July 23, 2013, in Pekalongan and first operated back in September 2013. One of the funding programs of KMI DMI is BIMAT (Community Funding) as a result of infaq distribution by BAZNAS (Jaidi, 2018).

The purpose of infaq management for the SMEs' growth will be realized only if there is an active role from infaq managers such as BAZNAS Pekalongan, financial institutions, and the local government, especially the

Department of Industry, Trading, and Cooperative. The infaq management being developed is a productive infaq where the Baitul Mal provides infaq as a capital for zakat recipients. Hopefully, this method will accelerate the economic growth to improve a *Mustahiq* to be a *Muzakki* (donor) based on the development of productive infaq distribution.

LITERATURE REVIEW

Effectiveness may be dependent more on achieving objectives of planned programs. Indicators of goal achievement can be seen from how success the planned program or the policy is. The greater success achieved, the more effective the programs (Arens and Loebbecke, 2001).

The economic empowerment for ummah is an attempt to strengthen the socio-economic condition whose purpose is to achieve the ummah's strong ability through grants of productive business loans. As a result, they can increase their income and pay their zakat (Haris *et al.,* 2018). Zakat is a certain amount of wealth required by Allah SWT to be given to people who have the rights to receive it (Qardhawi, 2011).

Additionally, infaq is a voluntary expenditure allowed for one as much as he wants to give to others. It also can be interpreted as spending assets, productivity, or income on behalf of religious orders. Moreover, sadaqah is a gift from a Muslim to others in an unlimited number in a hope to receive God's blessings (Rafdison, 2018).

The productive infaq distribution is generally developed in under the contract of qardhul hasan contract, a form of loan without a certain rate of principal return. If the borrowers cannot return the loan principal, they cannot legally claim the inability because the funds are basically theirs. Qardhul financing is provided for social policy, and the borrowers are not required to return anything except the loan capital. The borrowers are bound only to ask for what they can. Qardhul hasan is an uncommercialized loan agreement but it is social in nature. In addition, qardhul hasan is a policy of loan agreement from people who have money to borrowers without any compensation for the loan repayment and is uncommercial (Rochayatun & Sayugo, 2021).

Allocating productive infaq to SMEs for economic growth has been regulated in law 20/2008: SMEs are productive businesses owned by individuals and/or individual business entities that meet micro enterprises' criteria. The criteria are to have a net worth of not more than 50 million IDR (excluding land and buildings where the business is carried out) or have annual sales of at most 300 million IDR.

Micro enterprises are one of the crucial drivers for economic development and growth in every country. The allocation of infaq funds may be more useful if it is set up for a productive and efficient form so that it can be one of the ummah's institutions by developing productive businesses. Allocation and productive infaq can strengthen the capital structure of SMEs actors and the performance of managed businesses. If SMEs can increase their income, the allocation of productive infaq funds will be more useful for economic growth.

Most Islamic Financial Institutions utilize infaq for productives purpose in the form of qardhul hasan. Santoso (2017) tends to disagree with the conception that infaq received by mustahik is loans.

RESEARCH METHODOLOGY

This study is a descriptive qualitative one using a phenomenology approach (Ghozali, 2016). Researchers chose BAZNAS and KSPPS DMI Pekalongan as

the primary data, and related literature such as books, financial statements, and internet as the secondary data. During data collection, this research uses triangulation: observation, interviews, and documentation (Furqani *et al.,* 2018). The setting of this study took place in Podosugih, West Pekalongan, Central Java. This study further confirms that productive infaq is allocated by Sharia Financial Institutions in Pekalongan.

DISCUSSION

The procedure of distributing productive infaq by BAZNAS Pekalongan through Sharia Financial Institutions

Productive distribution can be proposed to increase the capital for business actors. For example, in BAZNAS Pekalongan, the distribution of infaq and alms (ZIS) may be very beneficial for both consumptive and productive communities. The productive mustahik consisting of eight eligible groups (*asnaf)* who can work and are potential (Wibowo & Restuningsih, 2019). The ZIS is allocated for economic activities in the form of productive revolving fund/infaq credit which are allocated through Sharia Financial Institutions such as BTM Muhammadiyah, KSP DMI, BMT Mitra Umat, etc. The ZIS distribution through the Sharia Financial Institutions is a non-profit sharing between the BAZNAS and the institutions because it is under qardhul hasan contract. The procedure of distributing ZIS are elaborated as follows:

1. BAZNAS management announces financial support for SMEs (maximally 1,000,000 IDR).
2. The SMEs apply for the fund to BAZNAS.
3. The board of BAZNAS conducts a fit and proper test to decide whether or not the application will be granted.
4. BAZNAS invites applicants who have passed the test to be given such briefing.
5. The financial support, be it goods or money, is distributed directly to the entrepreneurs.
6. Some supports are saved in the appointed KSPPS/BMT/Banks until the savings are as much as the capital they should be receiving.
7. BAZNAS officers regularly check the designated KSPPS/BMT/Banks.

8. The board of BAZNAS routinely provides assistance to the beneficiaries. This distribution is very beneficial for the community, especially the poor.

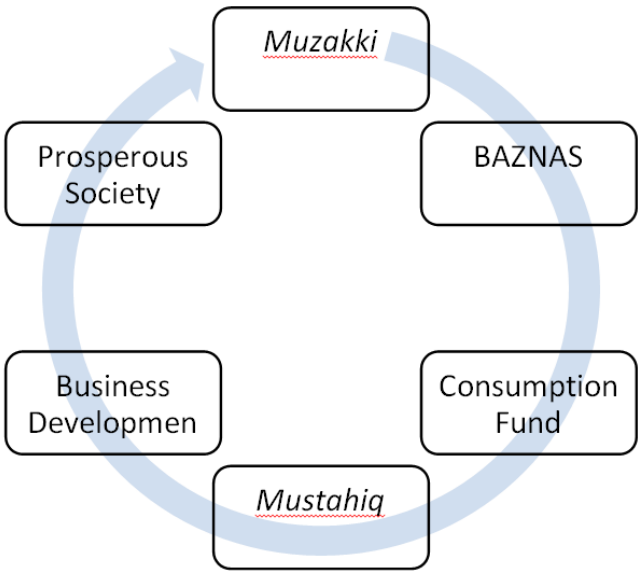
Hopefully, the funds are able to sustain the community's economic needs. The receivers of productive ZIS are expected to be able to pay zakat and be a muzakki in the future meaning that mustahik should not be continuously subordinate on zakat.

Qardhul hasan is one of the simple concepts that can realize the microfinance objectives (Ashany, 2012) by which microfinance institutions can provide for entrepreneurs who need a small amount of capital and may not have business experience yet. These institutions are only permitted to charge service fees, and the repayment is based on installments for the agreed period. It is also important to note that qardhul hasan participants may be not eligible entrepreneurs to receive support from other types of funding (such as mudharabah, musyarakah, murabahah). Therefore, qardhul hasan is the only solution to support them. The results show that qardhul hasan can develop SMEs businesses effectively and it may be necessary to improve the community's economy.

Another research shows that business income, profits, and assets as parts of SMEs business performance can increase significantly after they receive LAZ's support including qardhul hasan. It not only improves SMEs business performance, but also increases household income from the SMEs (Wibowo & Restuningsih, 2019).

Based on the above discussion, researcher can conclude that with the BAZNAS' assistance, productive infaq can change a family who previously is incapable to be able to provide employment opportunities for the community. Also as it has been described in the procedure of BAZNAS distribution, it can change a family to become able as follows (Widyatama *et al.,* 2020):

Figure 1. Productive Infaq Scheme Distribution



Source: Widyatama (2020) and Utami (2020)

According to Herwiyansyah & Zahnia (2017), the provision of infaq capital in the form of venture capital may have a positive impact on mustahik as they can increase their income by using the capital. If they receive the capital from the Islamic Financial Institutions (LKS), they can start their business from the micro level to earn income and improve their economic condition if their business grows.

Effectiveness of the productive infaq-based community economic empowerment on the development of micro-businesses

Effectiveness can be seen as the success of a program or policy to achieve the goals through certain ways based on the plan with regards to time spent to finish the work on time. Good or bad program implementation depends on the achieved goals where excellent results are in accordance with the set objectives. Effectiveness is also often associated with efficiency, but both of them basically have different meanings (Wibowo & Restuningsih, 2019).

Effectiveness depends more on achieving certain objectives by paying attention to the plan. Goal achievement can be measured from how success the program or policy is. The greater the success, the more effective it is (Arens and Loebbecke, 2001). The community needs to adapt to the policies or programs in their surrounding.

The community economic empowerment is an attempt to improve socioeconomic conditions by strengthening community's skills through financial support i.e. productive business loans. It enables mustahik to increase their income and pay their zakat of their business (Haris *et al.,* 2018). Empowerment can also be interpreted as an effort to build a community by encouraging, motivating, arousing, and developing the community's potentials (Mubyarto, 2000). In short, the community's economic empowerment tries to increase the community's skills or potentials in economic activities to meet their needs and improve their welfare.

The goals of the community economic empowerment include: a) promoting authentic and integral development of human beings among the weak, vulnerable, poor, marginal, and low level community, such as farmers, agricultural labors, poor communities in cities, underdeveloped indigenous peoples, young job seekers, the disabled and discriminated or disregarded women, and b) empowering the community socioeconomically to build an independent community to meet their needs.

The distribution of productive infaq is very beneficial for the community to satisfy economic needs, particularly the poor. The fund distributed to mustahik is used to increase their business' productivity. The amount of loan that they have to repay is similar to the amount of the loan without any additional costs. A program can be said effective only id if the business can achieve the targets and objectives. According to Siswanto, indicators of productive infaq effectiveness of Sharia Financial Institutions are as follows:

1. Usability: flexible, stable, sustainable, and simple plan to manage various functions.

   The productive infaq distribution program is very helpful for mustahik who lack of venture capital during business development. As Rodhiyah said,

   Yes, provisions of business capital loans from KSP DMI is very helpful. It does not only have small amount of contract we have to pay but also is easy and without collaterals. Many banks also offer capital loans but they need collaterals and there will be interest too (Rodhiyah, personal interview, July 14, 2019).

   The planning must be flexible where everyone can make a business capital loan as long as it meets the criteria and the requirements set by KSP DMI. Moreover, stable means that KMI DMI is stable in distributing the BAZNAS' funds which can be seen from

the large amount of money received by KSP DMI (40 million IDR). Furthermore, the program should be sustainable meaning that KSP DMI continuously receives funds from BAZNAS from 2013 to 2014. Additionally, simple means the distribution process is not difficult for the borrowers where it does not require collateral and interest, and the process is easy (Irfan, personal interview, on July 16, 2019).

2. Accuracy and Objectivity: evaluation in all plans.

Accuracy means productive infaq empowerment by BAZNAS Pekalongan practiced by Sharia Financial Institution can be said as an excellent and precise program. It targets mustahik who needs capital to develop their business and to promote them for being a muzakki. Irfan stated:

Initially we helped them by providing business capital aiming to escalate mustahik to be muzakki. So they will be independent in developing their business and are not dependent on loans. It is useful for encouraging the productive and skilled poor to increase their business productivity optimally, to actively work because productivity can release them from poverty until they become muzakki in the future.

Objectivity means that the community empowerment program is aimed to those who want to ask for a capital loan as long as they meet the specified requirements. Based on the interview, the productive infaq in BTM Muhammadiyah is 40 million IDR of which 5 million IDR is distributed to customer 1 to develop their business. The customer 1 gains 250,000-350,000 IDR but after the productive infaq support, they can increase the income up to 300,000-500,000 IDR. Another 5 million IDR is also distributed to customer 2 to develop a publishing company earning 150,000-250.000 IDR, and reaching 200,000-350,000 IDR after the support.

The productive infaq for about 3 million IDR is also distributed to customer 3 as a grocery store owner. They earn 150,000 IDR, and reach 300,000 IDR per day after receiving the infaq. Similar thing also happens to customer 4, who had the same profession. They earn 70,000 IDR per day, and reach 180,000 IDR per day after receiving the infaq of 2 million IDR. For a pecel seller as the customer 5, 2 million IDR is distributed. They only manage to earn 25,000-100,000 IDR previously, and after the infaq is distributed they can earn 50,000-150,000 IDR. In sum, the result shows that the customers' income

increases after they receive the productive infaq loan distributed by BTM Muhammadiyah.

The infaq distribution of 40 million IDR through KSP DMI affects the receivers. The customer 1 receives 5 million IDR for his coffee stall and is able to double their income. Before receiving the infaq, they earn 25,000-80,000 IDR, and reach twice oftheir previous income 50,000-150,000 IDR. The customer 2 receiveds 5 million IDR to support his meatball stall. They can only earn 50,000-100,000 IDR before receiving the infaq, and increase their income by 100,000-250,000 after receiving the infaq. The customer 3 receives 5 million IDR to support his batik business. Earning only 200.000 IDR before receiving the infaq, and 320,000 IDR after. The customer 4 receives 4 million IDR to support his online batik selling and can increase their income up to 350,000 per day.

The customer 5 received 2 million IDR to support his phone credit business, and can generate income up to 200,000 IDR per day.

BMT Mitra Umat receives 40 million IDR as the productive infaq from BAZNAS Pekalongan. The funds are distributed to different types of *mustahik* business. The customer 1 receives 5 million IDR of which they can earn 250,000, previously it is only 180,000 IDR from their *soto* stall. The customer 2 receives 5 million IDR for his batik business, and can increased their earning from 100,000 to 180,000 IDR. The customer 3 receives 2.5 million IDR for their small restaurant where they previously earn 80,000-150,000 IDR, and it increases up to 100,000-250,000 IDR. The customer 4 receives 2 million IDR for his soap selling and food stall, and they can increase earnings from both business. To sum up, the data shows that all of the infaq beneficiaries can increase their income after receiving the capital loan.

BMT Minna Lana receives 40 million IDR from the productive infaq. The customer 1 receives 5 million IDR for supporting her cosmetic store, where she previously can earn 250,000 IDR per day, and increase to 370,000 IDR after receiving the loan. The customer 2 and 3 receive 2.5 million for their publishing company and gas business where both experience increases after receiving the loan.

A food stall owner and a breakfast roving seller, the customer 4 and 5, receive productive infaq of 2 million IDR which enable them to increase their income per day. It then can be concluded that productive infaq distribution still has an impact on increasing customer income or mustahik although each customer receive different amount.

One of the objective of distributing productive infaq is to prosper poor entrepreneurs who lack of capital but they have potentials to develop their businesses. Besides, it is significant to improve the mustahik's socio-economic quality. The growth of SMEs in Pekalongan can be observed from 20 business actors experiencing income increases after receiving support. The financial support is distributed by BAZNAS Pekalongan through 4

Sharia Financial Institutions. The productive infaq can strengthen the SMEs' capital structure and business performance. If the SMEs experience increasing income, the productive infaq is useful for economic growth.

3. Cost Effectiveness is related to time, effort, and emotional flow.

In terms of time, cost effectiveness is defined as a process of drawing funds quickly and efficiently in order mustahik can use it immediately. The funding support can reach 5-2 million IDR with twenty months as a maximum time of repayment. In addition, it is related to the distribution procedure consisting of two periods and several stages.

The first period of the first phase is distributed to 9 people, where each receives 5 million IDR and should be repaid within 20 months. The funds are re-distributed to eleven mustahik receiving different amount ranging from 4-2 million IDR. Furthermore, the second period is also distributed similarly to the first one.

The capital loan in the form of productive infaq will affect members who initially have not run a business yet. As a result, they will earn money to meet their daily needs. Mustahik seem very satisfied with the capital loan as it can increase their daily financial turnover from their increasing business income. Is is in line with Sallah's research (2020) finding out that the results of the mentoring program statistically improve the family welfare, increase business profits, and enhance the independence of business women.

The DMI customer 1 said, I am very grateful that this infaq can help me buy goods. It also adds my capital to buy meat and *soto* spices. I am absolutely happy.

However the MU customer 2 stated, But it is not so helpful. Selling clothes does not mean that people need clothes every day so they will buy clothes. It is different from a food seller.

Emotional effectiveness means that mustahik realize that they are supported by the loans that can be used in business capital turnover and support family's economy. In measuring infaq's effectiveness, observations and analysis on how much mustahik are able to be empowered and prosperous should be carried out. By distributing the productive infaq, mustahik believes they are able to run and develop their business because of the capital loan and support from BAZNAS Pekalongan through Sharia Financial Institutions.

4. Accountability: implementation's responsibility.

Accountability is closely related to responsibility of promoters sending their money or assets to BAZNAS, and from BAZNAS to LKS. The second term, responsibility, means whether or not the institution distributing the loans to the right mustahik who really need the capital loans. In addition, it is also related to the mustahik's responsibility to repay or return the loan.

According to the interviews with related parties including BAZNAS and 4 LKSs, it is confirmed that the loan is appropriately distributed to the mustahik. The mustahik have implemented their role responsibly. Yuliani claims "so far there has been no stuck credit, the program has been carried out according to the plan, and the first and second period funds from BAZNAS amounting to 40 million IDR have been distributed well. It means that it has been well realized." It is in line with Maulana, Hidayat, & Malik (2016) research contending that optimizing productive zakat distribution is in the continuum position involving interval category of "Good." It then can be concluded that the optimization of zakat distribution in empowering mustahik in PKPU Bandung is satisfied.

5. Punctuality and planning: rapid changes may construct incorrect or inappropriate plan over time.

Punctuality and planning are very influential in this case. If the implementation does not worked as planned, the program will run unexpectedly. Both punctuality and planning are related to mustahik's responsibilities to repay the business capital loans. After the capital loan has been utilized, it can be used for other similar programs.

Based on the author's interview with the mustahik, it shows that there has never been any deposits arrears or stuck credit. All mustahik

regularly repay the loan. It is also supported by the interview with KMI DMI Pekalongan officer (Susi, 2019). Additionally, it is in line with Mursal et al. research (2021) claiming that productive infaq utilization is provided in the form of venture capital to mustahik who have limited funds to support their business. Mustahik has optimized the productive infaq appropriately, which can be seen from their increasing income and their regular repayment.

The community empowerment program is effective and it can promote the community empowerment in Pekalongan, especially by utilizing the productive infaq. Empowering the community is an attempt to raise the community's dignity to eradicate poverty and underdevelopment. In other words, empowering means increasing the community's ability and independence. The productive infaq empowerment tries to increase the community's ability or potentials in economic activities to meet their needs and improve people's welfare. This empowerment program is in accordance with the concept of community empowerment set by Anwas (2014). He mentioned that the concept of empowerment is the result of powerless and weak individual or community in reality. The powerlessness includes knowledge, experience, attitude, skills, venture capital, networking, enthusiasm, hard work, perseverance, and other aspects. The weaknesses in this aspect covers dependency, powerlessness, and poverty.

The author is interested in investigating problems of the weakness or powerlessness that may lead to poverty. Such cases generally occur everywhere, and most of entrepreneurs, especially who will start a business, find it difficult to gain capital. However, the productive infaq from LKS Pekalongan is distributed to mustahik who have run their business for less than 2 years and are experiencing capital difficulties. Expectedly, the micro business actor can continue runing or expanding their business owing to the capital loan.

Most of micro entrepreneurs in this study arelack of financial management skills. They do not separate their personal and business funds. It creates difficulty for them to develop their business, as the capital mixes with other sources (household needs). The growth of micro business can be faster and be expanded by the role and supports from Sharia Financial Institutions. The institutions are consistent with economic empowerment programs such as distributing productive infaq to micro-businesses to help the economic community. This is why productive infaq plays a role in changing their economy, especially their living standard. The discussion can be seen in a wider perspective

that involves the one's relationship with Allah and other human beings (Rachmawati *et al.,* 2020).

CONCLUSIONS AND SUGGESTIONS

Based on the above results, it can be drawn that infaq funds can be used productively under empowerment programs aiming to increase capital loans in order entrepreneurs can develop their businesses. For example, in BAZNAS Pekalongan, the distribution of ZIS (alms and infaq) is beneficial for the consumptive and productive community after they receive capital loans from the empowerment of productive infaq. The funds are in the form of rolling loan/productive infaq and distributed by Sharia Financial Institutions such as BTM Muhammadiyah, KSP DMI, BMT Mitra Umat, and BMT Minna Lana. In this scheme, there is no sharing profit between BAZNAS and LKS because it is a non-profit program and under qardhul hasan contract.

The productive funds are distributed by BAZNAS Pekalongan targeting to solve societal problems of poverty, unemployment, and financial imbalance. It will be an effective program if it can reach such target and goal. For example, KSP DMI receives Rolling Productive Infaq for two periods (2017-208) of 80,000,000 IDR. The funds are distributed to support 20 SMEs not only to obtain the effective distribution but also are necessary to be developed for the sake of Pekalongan's economic growth.

This research was conducted with the help of several parties, the author ought to appreciate their help, especially to FEBI IAIN Pekalongan and LP2M IAIN Pekalongan for all kind of supports. Therefore, the author proposes several suggestions as follows:

1. there must be more socialization related to infaq emphasizing that not only zakat and infaq, but also alms can be managed productively. Beside adding the number of mustahik, it can increase collected funds. It is one of the ways to pull up the poor.

2. there will be a better procedure in distributing the productive infaq conducted by BAZNAS Pekalongan (as the funds collector) through BTM Muhammadiyah, KSP DMI, BMT Mitra Umat, BMT Minna Lana, or the other financial institutions.

3. BAZNAS Pekalongan needs to add more donors and partners to boost the number of beneficiaries for economic development and other aspects.

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