

PRO POOR STRATEGIES USING SHARIA MICROFINANCING IN INDONESIA: CASE STUDY OF BAITUL MAAL WAT TAMWIL (BMT)

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Abstract: Poverty is the most recent problem for lots of countries in this century. Lots of countries handled the poverty through economic policies which is influence by their own major religion belief. In Indonesia, more than 87 percent belief in Islam, but the stakeholder run the economics system in conventional economics. Even though the primary economic principle that Indonesia use is conventional, but in financing system for the society, Indonesia using 2 methods; which are conventional and sharia financing system. The purposes of this study is to explore the products and approaches in Sharia ways in Microfinance which are pro poor strategies. It will describe the principal, products and also the effectiveness of performance for BMT help the poor people in rural areas. Nowadays, BMT develop in Indonesia for more than 3.300 unit and give loan to more than 1,5 million small and micro entrepreneurs. In this paper, it also explore one of the BMT in the Bantul district, Yogyakarta province as the case studies. This BMT called as BMT Matahari which implement the proper sharia principles in banking system. In the last section of this journal will describe the weakness and strengthen of BMT among other microfinance.

Keywords: BMT (Baitul Maal wat Tamwil); Sharia-microfinance; poverty; economic policy
JEL Classification: G21

Abstrak: Kemiskinan adalah masalah terbaru untuk banyak negara di abad ini. Banyak negara menangani kemiskinan melalui kebijakan ekonomi yang dipengaruhi oleh keyakinan agama utama mereka sendiri. Di Indonesia, lebih dari 87 persen kepercayaan Islam, tetapi stakeholder menjalankan sistem ekonomi dalam ekonomi konvensional. Walaupun prinsip ekonomi utama yang digunakan Indonesia adalah konvensional, namun dalam sistem pembiayaan bagi masyarakat, Indonesia menggunakan 2 metode yaitu sistem pembiayaan konvensional dan syariah. Tujuan dari studi ini adalah untuk mengeksplorasi produk dan pendekatan dengan cara Syariah di Keuangan Mikro yang strategi miskin pro. Ini akan menjelaskan pokok, produk dan juga efektifitas kinerja untuk BMT membantu orang-orang miskin di daerah pedesaan. Saat ini, BMT berkembang di Indonesia selama lebih dari 3.300 satuan dan memberikan pinjaman kepada lebih dari 1,5 juta pengusaha kecil dan mikro. Dalam tulisan ini, juga mengeksplorasi salah satu BMT di Kabupaten Bantul, Provinsi Yogyakarta sebagai studi kasus. BMT ini disebut sebagai BMT Matahari yang menerapkan prinsip syariah yang tepat dalam sistem perbankan. Pada bagian terakhir dari jurnal ini akan menjelaskan kelemahan dan memperkuat BMT antara keuangan mikro lainnya.

Kata kunci: BMT (Baitul Maal wa Tamwir); keuangan mikro syariah; kemiskinan; kebijakan ekonomi

Klasifikasi JEL: G21

INTRODUCTION

Religion belief is a human characteristic which is neglected with development practice and theory. Religious principles and social teaching could positively contribute to poverty alleviation. More than 87% Indonesia population beliefs in Islam and it make the performance for all sector influenced by it. In the economic sector, for the purposing of the poverty alleviation, is the biggest challenge for the country. In Indonesia itself, approximately 11,66% lived under the poverty line in 2012. Moreover, the number of poor people were appear because of the inequality problem. With this fact, the government of Indonesia need to put poverty alleviation policies as the important agenda in every year. One of the economic instrument to reduce the poverty that discuss in this paper is banking system. In Indonesia, the implementation of banking system were divide into two classification, which are conventional and 'Sharia' banking. Conventional banking is the banking system based on the economic system that applied until recently and it based on the international regulation. Otherwise, the Sharia banking system rely on the mix between conventional and Islam principles.

In the Islam tenets, poverty alleviation is one of the most important principle, and the God command for all the moslem to eradicate poverty and help poor through charities. Mainly forms as Zakat, Infaq, Shadaqah (abbreviated as ZIS) and Waqf. The activities already appear since the era of Prophet Muhammad. At the moment, Prophet Muhammad also established Baitul Maal, it is the house of treasure and employed to address the problem of poverty in the societies. It include the basic safety nets for the needs, socio-economic empowerment to tight the disparity among citizens and also natural resource management for the human being welfare.

Islam and Pro Poor Strategies. Muslim not only teach to concern with religious or spiritual practice, but also teach how to have social etiquette and social relationship. Islam also teach to take care each others and seeks social justice for the poor and disempowered citizens.

In the Al Qur'an (the holy bible of Islam) stated as a central tenet of Muslim faith:

Righteousness is not to turn your faces towards the East and the West; the righteousness is her who believes in Allah, the Last Day, the angels, the Book and the Prophets; who gives of this money, in spite of loving it, to the near of kin, the orphans, the needy, the wayfarers and the beggars, and for the freeing of slaves; who performs the prayers and pays the alms-tax. Such are those who keep their pledges once they have made them, and endure patiently privation, adversity and times of fighting. (Qur'an 2: 177).

Shepherd (2009) stated that Islamic social teaching is most relevant to development for the equality. It proof that equality is clearly evident in its approach to the allocation of scarce resources. After the Prophet Muhammad passed away, he stated clearly that Muslim are equal and deserve respect, means at that moment, in social relations indicate of how powerful the sense of equality was. Moreover, the inequality is the initial problem of the poverty in this world; non equal access and opportunities in society. Based on this discussion, narrowing the description that Islam is really concern of poverty alleviation.

As the former discussion about distribute the charities, ZIS, to the poor, is one of the pro poor instruments in Islam. *Zakat* in Arabic means as to grow or to increase, but when referred to people, it means to improve or to become better (Qardhawi, 2009). In Sharia, it means to determined the share of wealth prescribed by God to be distributed among deserving categories. *Zakat* is a kind of charity that must be given to someone who could earn money. Many Islamic scholars stated that *zakat* will clean of the inner soul and increase the wealth for the poor to grow and also for the person who give it. Although it is compulsory charity to fight the poverty, but the awareness for Muslim paying *zakat* is very low. The amount of *zakat* collected per year is lower than the potency itself. Furthermore, the additional problem is, most of the Muslim paid their *zakat* majority in the Ramadan month, while the poor people need help throughout the year, it makes the *zakat* as the microfinance funds. Nowadays,

lots of Sharia institution have collaboration with the public and private companies to deduct *zakat* from the employees' salary directly before being paid in every month (Chalikuzhi, 2009).

The other charities is *Shadaqa* implies giving away goods and funds in expression of the faithfulness and in realization of the belief in resurrection of afterlife to God (Qardawi, 2009). Obaidullah (2008) explain clearly that *shadaqa* may include various forms of charity, such as donations (*tabarruat*), gifts (*hiba*), charitable spending (*infaq*) and may indicate acts of kindness and charity. Since it is a voluntary charity, the total amount of *shadaqa* collected is very low. The other charity is *Waqf*, means to stop, to contain or to preserve. It is holding certain physical assets and preserving it to the long term benefit for the society. Ahmed (2007) explained the objective of *waqf* are including the provision of religious services, socio-economic relief to the needy and the poor segment, education, environmental, scientific and other purposes. The forms of *waqf* assets mostly are land or building that used for the religious or society purposes.

Pro poor strategies based on Islam tenets already describe as above. To explore the Sharia Microfinance's products and approaches as pro poor strategies is the aim of this paper. These paper only focusing the Sharia Microfinance on Baitul Maal wa Tamwir or abbreviated BMT. Furthermore, the last section will deliberate the example case of BMT in one of the rural areas in Yogyakarta Province, Indonesia.

RESEARCH METHODS

This paper is using a secondary data. The coverage area is Indonesia and make some focusing of example case in Bantul district, Yogyakarta Province for the BMT case study. Since the coverage area is nationally, this paper have the source data from *Badan Pusat Statistik*, the Indonesia Statistical Bureau and *Bank Indonesia*, the Central Bank in Indonesia. Otherwise, to explore the example case of BMT, the source data is handle by interview and observation to the one of the BMT in Bantul district. Moreover, to collect the development of the Sharia Microfinance products, this paper

adopt from some publication belongs to the Islamic Economics and Finance articles.

RESULT AND DISCUSSION

Microfinance and Islamic Microfinance

Microfinance is the important component for poverty alleviation strategy because they offers basic financial services for poor people. One of the consultative group, CGAP or Consultative Group to Assist the Poor describe the microfinance as the supply for loans, savings and other basic financial services for the poor. CGAP report that the target group of microfinance is poor people who live at the border of the poverty line or those who could reach more easily decent quality of life and who have entrepreneurial ideas but lack access to formal finance. As the financial institutional, microfinance has to pursue dual objectives, which are acquire financial sustainability and serving the poor for the social objective. Zeller et al. (1997) drawn that microfinance have three ways in poverty alleviation for microfinance, which are improve income generation through providing production credit and saving for asset accumulation; decreasing insurance cost through holding more efficient asset and liability, and smoothing consumption by providing consumption credit. In practice, microfinance contribute on micro-credit, micro-saving, micro-entrepreneurs and constraint the practice of informal money lenders.

Nowadays, the microfinance serve the distribution of Islamic charities, the ZIS (*Zakat, Infaq, and Shadaqa*), and most of the micro-finance who done this are Islamic microfinance. Since Indonesia have been mandated to develop Islamic banking by the Constitution Act No.10 Year 1998 and Act No 23 Year 1999, the number of Islamic microfinance was increased. Islamic. The categorization of Small and Micro Financial Institution in Indonesia (see Table 1) is divide into formal and informal financial institution. The BMT is the one of the informal financial institution cover almost unlimited forms of saving-lending initiatives in society.

The principles of Islamic finance are laid down in the Islamic law which based on the concept of brotherhood and solidarity. Islam

Table 1. Categorization of small and micro financial institution in Indonesia

Formal		Informal
Bank	Non-Bank	
Commercial bank (<i>bank umum</i>)	Co-Operative	KSM (<i>kelompok swadaya masyarakat</i> – self-help group)
Rural bank (<i>bank perkreditan rakyat</i>)	LDKP (<i>lembaga dana kredit pedesaan</i> –village-based institution for sme financing)	LSM (<i>lembaga swadaya masyarakat</i> – non-governmental organization) BMT (<i>baitul maal wa tamwir</i> – islamic co-operative or ksm)

source: ceds, 2013.

affirms in ethical, moral, social and religious factors to promote equality and fairness for the good of all society.

BMT products for pro poor strategies

Structurally, BMT embody of Baitul Maal and Baitul Tamwil. The Baitul Tamwil is deliberate to carried out the financial intermediations through mobilizing deposits from members and financing the commercial ventures. It designed like cooperative system. As mentioned above, the Baitul Maal is for collecting the ZIS and distribute the funds to the poor people. Basically, the Islamic microfinances is not having the interest rate for the financing arrangement, but they share the profit and loss based on contract and mutual partnership. These principle always deliberate the difference between conventional microfinance and Islamic microfinance.

In Indonesia, BMT was developed in 1980 by Muslim activists and nowadays, the BMT already developed after the first Sharia Bank in the country, Bank Muamalat Indonesia, establish in mid of 1990s. Generally, BMT institutions are led by leading Islamic organizations such as *Pusat Inkubasi Bisnis Usaha Kecil* (PINBUK) or Centre for Micro Enterprise Incubation and *Dompot Dhuafa* foundation, Sharia banks, Islamic boarding schools (*pesantren*) and Muslims patrons who have strong socio-economics and religious influences in the community. In September 2010, PINBUK supervise 3,068 BMTs and financing total 1,67 billion IDR. The total number of BMTs in this year is more than 3,300

BMTs. They attracted to Indonesia civils because BMTs are generally unregistered under the normal practice rules of *Bank Indonesia*-the Central Bank and they developed significantly in quantity and spread in wide areas, especially in rural and played significant role in bridging the access of financial services to the poor and SME.

Sharia-compliant instrument of BMT are: (1) Prohibition on usury and interest (*riba*)-no contractual guarantee(s) on investment and no taking profit from time value of money; (2) Prohibition on realising a gain from speculation (*mayseer*); (3) Elimination of uncertainties or ambiguities of contractual agreement (*gharar*) in commercial transactions; (4) All activities must be for permitted purposes (*halal*); (5) Committing to knowledgeable consent on the contract; (6) Comply with Islamic ethics, for example equality and avoid robbery.

The BMT mobilize the funds broadly divided into three parts. First part is the charity that includes ZIS and waqaf, hiba and tabarru. ZIS and waqaf already explained above and hiba and tabarru are gift and voluntary contribution from people who want to share the wealth to the poor as the more gift. Second, *wadiah*, *qard al-hasan* and *mudharabah* for the deposits product. Third, equity that may take the form of classical *musharakah* or the modern stocks.

Instrument of financing could be broadly divided into (1) Murabahah; (2) Musyarakah; (3) Mudharabah; (4) Ijara; (5) Istisna; (6) Salam.

Murabahah (Arabic *مرا بحة*, more accurately transliterated as *murābahah*) involves a finance

party for purchasing tangible assets from a seller and selling them to a buyer at a predetermined profit margin. In the context of trade finance, the buyer will settle the marked-up purchase price by way of immediate lump sum payment. In the context of consumer finance, the buyer will settle the marked-up purchase price by way of deferred installments. Using a *tawarruq* structure and an asset for which there is a highly liquid market, the buyer will settle the marked-up purchase price by way of deferred installments but will also appoint the finance party as its agent to on-sell the assets on a spot basis and remit to the buyer the proceeds of any such sale. *Murabaha* is the most popular and flexible *Shari'a*-compliant structure and is used in micro-finance initiatives. However, it is costly to implement and a growing number of *Shari'a* scholars do not approve of it, especially in *tawarruq* structure, on the basis that it is merely disguised lending where the participants have no interest in actually acquiring the underlying commodities. This applies all the more in the context of providing microfinance to start-ups and small companies whose businesses do not involve the sale and purchase of commodities and which do not have sufficient surplus funds to be credibly investing in commodities.

Mudarabah is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The capital investment comes from the first partner, who is called the "rabb-ul-mal", while the management and work is the exclusive responsibility of the other party, who is called the "mudarib". The *Mudarabah* (Profit Sharing) is a contract, with one party providing 100 percent of the capital and the other party providing its specialized knowledge to invest the capital and manage the investment project. Profits generated are shared between the parties according to a pre-agreed ratio. If there is a loss, the first partner "rabb-ul-mal" will lose his capital, and the other party "mudarib" will lose the time and effort invested in the project

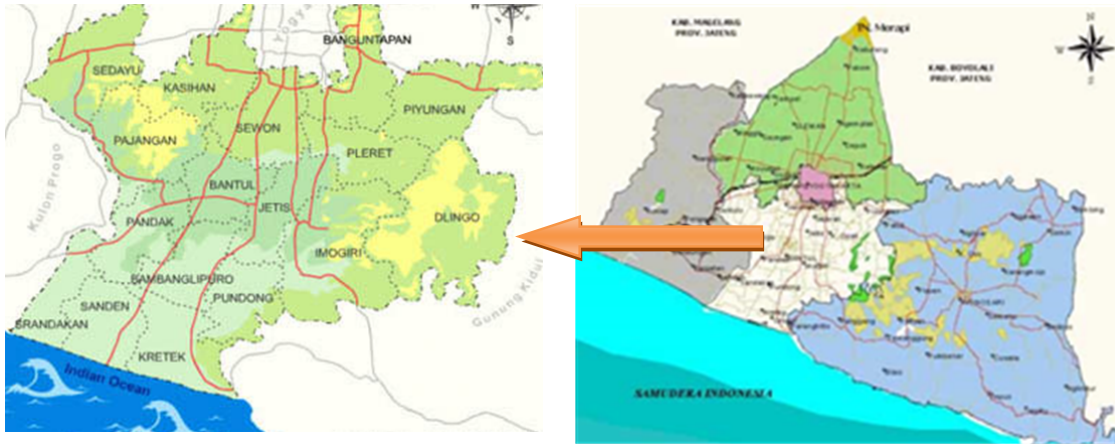
Ijara means lease, rent or wage. Generally, the *Ijara* concept refers to selling the benefit of use or service for a fixed price or wage. Under this concept, the Bank makes available to the customer the use of service of assets/equipment such as plant, office automation, motor vehicle

for a fixed period and price.

Istisna (Manufacturing Finance) is a process where payments are made in stages to facilitate step wise progress in the Manufacturing/processing/construction works. *Istisna* enables any construction company get finance to construct slabs/sections of a building by availing finances in installments for each slab. *Istisna* also helps manufacturers to avail finance for manufacturing/processing cost for any large order for goods supposed to supply in stages. *Istisna* helps use of limited funds to develop higher value goods/assets in different stages/contracts.

Case study of BMT Matahari, District of Bantul, Yogyakarta Province

BMT Matahari located in rural area in Yogyakarta Province, it is in the Bantul district. Bantul district have 17 sub-districts. The total area of Bantul district is 508,85 km² with population approximately 1,2 million. Most of the civils work in the agriculture (25 percent) and trade (21 percent) sectors. In the 2006, Bantul was hit the earthquake and impact huge damage and caused more than 3.000 persons died. After this catastrophe, lots of civil become suddenly poor. Otherwise, lots of grant help Bantul to recover from this catastrophe, most of the grants are using for build up the physical infrastructure and housing. After this earthquake, the number of BMT in Bantul district become increasing, from 25 BMTs in 2008 become 42 BMTs in 2010 spread in the 17 sub-districts in Bantul. One of the BMT in Imogiri sub-district called 'BMT Matahari' already build since 1994 and it's belong to the one of the biggest Islam community organization called 'Muhammadiyah'. In the beginning of BMT Matahari, it only have 8 members and nowadays it already have 400 members and transaction money 1 million IDR in each month. BMT Matahari have 9 persons as the human resources, 6 person as the committee and 3 person for the daily operational. The operational hour is start from 8.00 am to 4.00 pm. The informant of the in-depth interview for this case study is the manager of operational in BMT Matahari, he is Suprihatin. He explain, even the working hour is start from 8.00 am and close to 4.00 pm but most of the staffs start to

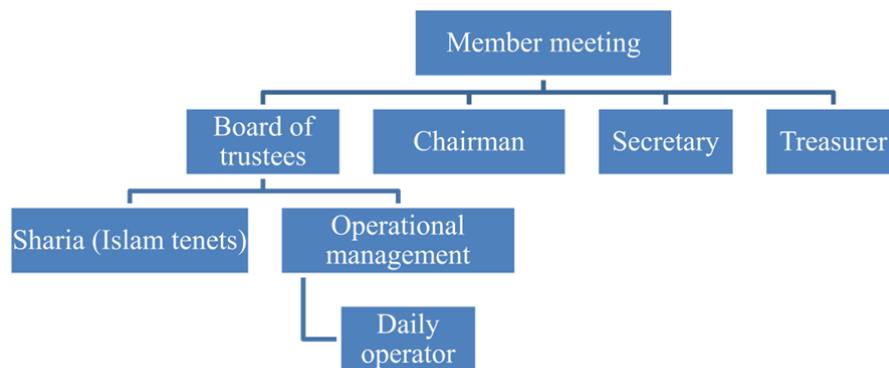


Picture 1. Maps of Bantul District

work in the early of morning and finish until 5.00 pm. Most of the activities done after the working hour because most of the clients need the BMT Matahari's service outside the working hour. BMT Matahari was build by the result of meeting in *Majelis Ekonomi* (Committee of Economics) in Central Committee Muhammadiyah and *Majelis Ta'lim* (Operational meeting committee).

The structure of BMT Matahari staff is different (See picture 2), Board of trustees, chairman, secretary and treasurer have the same position. The manager explained that every month they have a routine meeting, but they don't discuss about the BMT, they usually have spiritual deepen discussion concerning daily spiritual life. The discussion regarding the problem of BMT Matahari is only occasionally.

Mr. Suprihatin stated that the challenging to operate this BMT are making justification to the candidate client who wants to have loan in BMT Matahari. He explain that one of the BMT Matahari principle is to help poor people to have equal access for earn money from business. Otherwise, the BMT need to strain the candidate of clients who want to have financial products. Even though most of the microfinance ask the guarantee or assurance goods, e.g. land, car, etc., but most of the BMT Matahari clients do not need to give the assurance. BMT Matahari and the candidate of client will have agreements and BMT will survey the competence to pay in installments of the loan. Based on the survey, the BMT will make the decision whether the candidate client proposal were approve or not.



Source: Interview of operational management of BMT Matahari, 2013.

Picture 2. Organizational Structure of BMT Matahari

Products of BMT Matahari

BMT Matahari have very easy criteria to be a member in this informal microfinance. Everyone could be a member of BMT Matahari, even though they are not Muslim or even age is not restricted to be member in BMT Matahari. The member obligations are put the capital stock in BMT Matahari with amount of 180.000 IDR or equal to approximately US\$ 18, and each month the member have dues 10.000 IDR each month or equal to approximately US\$ 1. The products of BMT Matahari consists of financings and investments. Financing system compose as *Murabahah*, *Musyarakah*, *Mudharabah* and investment system compose as *Wadiah*, *General Mudharabah*, *Termin of Mudharabah*, *Hajj Investment*. As illustration above, *Murabahah*, *Musyarakah* and *Mudharabah* has the same meaning and operational implementation of products. *Murabahah* is for the trade and mostly the client just propose the need of the goods and BMT will buy for the client. The payment of the client are based on the agreement between BMT and the client itself. *Musyarakah* involves the profit-loss sharing concept and non-interest inside of the implementation product for business loan. The profit-loss sharing amount is based on the agreement between client and BMT. It means, if the client have loss for the beginning time of the business, the BMT will also get the loss sharing for the business, and the percentage of the amount is based on the agreement between them. Furthermore, *Mudharabah* is almost the same with *Musyarakah*, but the different is *Mudharabah* is the client loan to BMT Matahari to add more capital for their business. In this product, the client propose the goods and services to the BMT Matahari as the loan for *Mudharabah* and the BMT will buy the goods and services that client propose. In finance products, most of the clients came from trade sector-home industry and livestock sector. The informant describe that they could not support agriculture business because in this sector, farmers need lots of capital and operational cash to support them, and BMT Matahari could not support that much of loan for farmers. Most of the clients in the finance products is home industry in the food trade and traditional handicraft, e.g. *keris* (Javanese small blade),

Javanese batik, and miniature of temple and aero plane. Most of the fund for the finance products came from ZIS and also investment products. The BMT Matahari have lots of collaboration to some of the National Zakat Agency in Yogyakarta province, e.g. Baitul Maal Muamalat, *Dompot Dhuafa*, etc.

The other product is investment product, *wadiah* is the investment fund from member to support micro and SME business without asking for the profit sharing. This product is purely charity from the client to lend the money to be as loan to other without expecting profit sharing. General *mudharabah* and *termin of mudharabah* are almost the same to *wadiah*, but the different is that the client get the profit sharing from the third party through BMT Matahari. General *mudharabah* had the minimum amount to invest, which is 500.000 IDR (equal to US\$ 50) and minimum one month investing. Otherwise, the minimum amount *termin of mudharabah* is 1.000.000 IDR (equal to US\$ 100) with minimum one month time of investing. The last investment is Hajj. This product is specialized to Muslim member who want to have Hajj. It is divided two products of Hajj investment, which are investment to register the Hajj and also investment to save the money for Hajj allowance when the clients want to set forth Hajj.

One of the client, Mr. Didik age 38 years old were interviewed about his business and opinion regarding the BMT Matahari. Mr. Didik has the car repair station after the earthquake destroy his house in 2006. His family suggest him to have a small business in car repair since he was graduate from vocational school of machine. But, at that moment, he need large of money to build the car repair station, and his father suggest him to go to the BMT Matahari. After he learn, he decide to have financial product, it is *musyarakah*. Based on his explained, he feel comfort to take loan in BMT Matahari, he stated as follows:

"I feel comfort to take loan in BMT Matahari, they help.. assist me and they also teach me to always honest in reporting, and run the business. It's not my first or two for having loan from BMT, but this is my fifth loan. Start from small amount and now getting bigger... and BMT still trust and give me chance."

He also add that he prefer the BMT Matahari because Mr.Didik already know all the board of trustees. He never take other financial products in Bank, because he think interest rate is *riba* and in Islam, *riba* is forbidden.

"The profit-loss sharing is more fair to us as a poor clients. BMT will always support us, even though we have trouble in business cycle. Business cycle is not always having profit but we also get the loss. Only BMT and certain BMT who play role in Sharia principles run this tenet. I know, some of the BMT were not having profit-loss sharing, they only support the profit sharing without loss sharing." (Mr.Didik, client of BMT Matahari)

Nowadays, Mr. Didik prepare for the second branch of the car repair station which is have in the main road of Imogiri sub-district.

BMT as one of pro poor instruments for poverty alleviation. Sulaiman (2008: 105-118) stated that one of instrument for overcoming the problem of poor groups in society is access of the poor to the financial services especially Islamic Financial Services.

CONCLUSION

The pro poor strategies which is implemented by the BMT is empowering of persons to be entrepreneur and make lots of jobs to others. As the case study, one principle that BMT Matahari have is 'empowering to the poor people to improve their wealth by their attempts'. BMT which implement the proper Sharia principles, they have to help the clients to improve their business, furthermore, they will go in through the business implementation to fix the problem and improve the business performance.

Moreover, the principle of profit-loss sharing and non-interest is the basic principle of BMT as the pro poor. While the business having loss profit, the BMT will also help and support.

For example, if the client could not pay the installment payment, BMT will have more time without giving penalty. But, if the client still could not pay the installment payment, BMT will assist the client to fix the problem in business. Most of the basic principle from BMT which is pro poor is that BMT coverage area is in the rural area and only support for micro, SME and also help the poor people.

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