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Does Islamic Microfinance indeed base on Sharia-compliant? The Shreds of Evidence Report in Ogan Komering Ilir regency, South Sumatera, Indonesia

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Abstract: The development of Islamic economics and finance in Indonesia in the last few decades has experienced significant developments. It can be seen in the increasing number of sharia businesses in various sectors. From financial institutions, both bank and non-bank financial institutions, Islamic capital markets, sharia bonds (Sukuk) to tourism development managed in a sharia manner. Over time, this rapid development must also be balanced with compliance with sharia values. This study aims to assess Islamic microfinance institutions (BMT) in implementing sharia principles in their products. The product studied in this study is *Murabahah*. This research uses a qualitative approach with field studies. The results of this study, the BMT studied in this study in general, have implemented sharia values. The implication of this research is to strengthen the compliance of Islamic financial institutions in implementing Islamic values. This research can also be used as a reference by related parties, especially in developing Islamic financial institutions.

Keywords: BMT; Murabahah; Sharia Microfinance Institutions

JEL Classification: G200, G210, G230,

Introduction

The Sharia economy has been developing in Indonesia since several decades ago. To be precise, since the early 1990s. The development of Islamic banks in Indonesia was marked by the establishment of Bank Muamalat in 1991 (Bank Muamalat, 2016). However, in subsequent developments, Islamic economic growth in Indonesia has been slow. Especially at that time, there was an economic crisis in 1998. The economic crisis at that time harmed the Indonesian economic system. This situation also affected the development of the Islamic economy, which also experienced a slowdown.

After the economic crisis in 1998, the development of Indonesia's sharia economy moved in a positive direction. Gradually, many Islamic banks were established. To date, there are at least 14 Islamic commercial banks in Indonesia (OJK, 2021). However, the development of Islamic economics and finance, for now, is not only oriented to the banking sector alone.

But also in other sectors such as the non-bank financial industry, Islamic capital market, potential development of *zakat, infaq* and alms, even to the development of the halal industry (Antonio & Rusydiana, 2010).

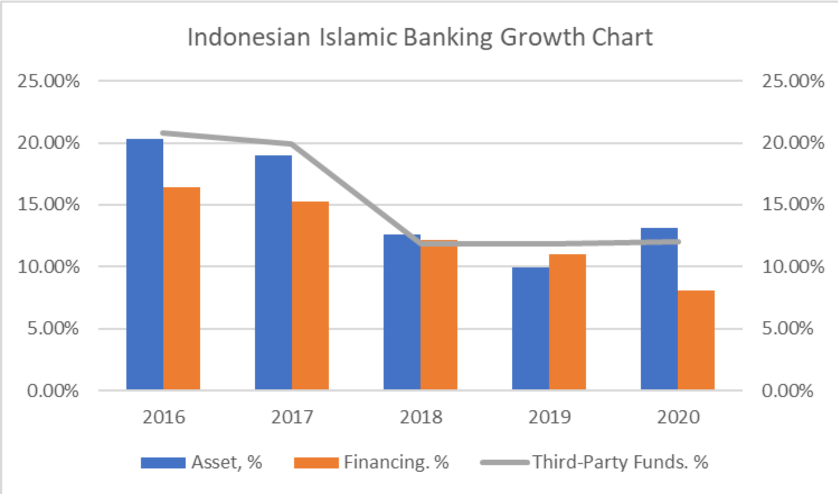

Figure 1 Growth of Islamic Banking in Indonesia
Source: (OJK, 2021)

In the next stage, the Islamic economy began to develop again in a positive direction. Countries with a majority Muslim population do not only recognize Islamic economics. Countries with a non-Muslim majority population have also accepted the Islamic economic system, such as in the UK, Singapore and even recently, China has also participated in developing the sharia economic and financial system in their country (Janwari, 2013).

Table 1 Top Countries by Islamic Finance Assets (US$ billion, 2014-2019)

Country	2014	2015	2016	2017	2018	2019	5-year CAGR
Iran	345	434	545	578	575	698	15.10%
Saudi Arabia	413	447	473	509	541	629	8.80%
Malaysia	415	414	406	491	521	570	6.50%
UEA	161	187	203	222	238	234	7.70%
Qatar	87	101	68	129	125	144	10.70%
Kuwait	98	100	120	109	116	132	6.30%
Indonesia	40	48	82	82	86	99	19.70%
Bahrain	73	81	99	84	86	96	5.60%
Turkey	54	52	50	54	51	63	3.10%
Bangladesh	23	26	21	34	38	54	14.20%
Others	265	311	230	169	136	164	-9.10%
Total	1,975	2,291	2,307	2,461	2,513	2,875	7.80%

Source: (Alpen Capital, 2021).

The Islamic economic system is developed in various sectors. One of the most dominant sectors is the financial system. This financial system is then known as the Islamic financial system. This Islamic financial system then developed in various countries, especially in countries with a majority Muslim population. The most dominant countries implementing this Islamic financial system include Malaysia, Iran, Saudi Arabia, United Arab Emirates, Qatar, Kuwait, and Indonesia. Complete data is shown in Table 1.

In its development, Islamic financial institutions have changed into many kinds and forms. Starting from bank financial institutions such as Islamic banks to non-bank Islamic financial institutions (non-bank financial institutions). Non-bank financial institutions include savings and loan cooperatives, insurance, pawnshops, leasing, pension funds, and there is also baitul mal wat tamwil (BMT) (Kusmiyati, 2007). This BMT is widely applied in Indonesia as one of the Islamic microfinance institutions (Nurhasanah, 2011).
BMT is an Islamic microfinance institution whose function is the same as financial institutions in general, namely as an intermediary (intermediary) institution (Anggadini, 2011). In general, BMT operates its business through two sides: the collection of funds and the distribution of funds (Pradiansyah, 2020). The distribution side of funds has been the dominant side in BMT (Afrida, 2016). However, as a sharia financial institution, BMT does not only focus on profit institutions running its business. BMT also acts as a non-profit institution and distributes social funds such as zakat, infaq, alms and others (Rahmawati & Rokhman, 2016).

There are many types of transactions implemented in BMT. Starting from money lending and borrowing transactions, savings, business funding, rental, buying and selling, pawnshops, investments and so on. Of the many types of transactions, the Murabaha contract is one of the most widely applied transactions in Islamic microfinance institutions in Indonesia (Ernawati, 2012).

Murabahah is one type of contract in BMT which is included in the category of financing. One of the rules in the Murabaha contract is a financing contract in buying and selling where the BMT, when providing financing to the customer, explains in detail the price of the goods requested and how much profit is obtained (Syauqoti, 2018). So in a Murabaha transaction, it must be clearly explained how much profit the BMT will get (Syah, 2019). All of this is done so that transactions are avoided from unclear types of transactions, and there is no element of usury (Nurhayati & Wasilah, 2019).

Related to the many practices of Murabaha contracts in BMT, a question arises whether the Murabaha contracts that Islamic microfinance institutions widely apply are under sharia principles and values? This question can be answered through research. So, the purpose of this study is to find out whether BMT is under sharia values. The case study taken in this research is BMT As-Syafiiyah Tugumulyo OKI, South Sumatra Province.

Several previous studies that discuss the Murabaha contract with BMT include (Arifai, 2000; Astuti, 2015; Fauzi, 2019; Hadi Wijaya et al., 2020; Kholis, 2007; Melina & Zulfa, 2020; Soraya et al., 2015; Yuskar & Yonnedi, 2019). What distinguishes this research from several previous studies is that this research was conducted at a more recent time, as we know that time can be a differentiator in research. Therefore, if the research time is different, the results may also be different even though the object is the same. In addition, the thing that distinguishes again is the object of research.

The object of research in this study is BMT As-Syafi'iyah Tugumulyo OKI and is certainly different from the object of research conducted by previous studies. Research on BMT is essential, primarily related to its compliance in implementing sharia values. Because BMT is one of the crucial elements in Islamic financial institutions, it must be ensured following sharia values in its application.

Research Method

Type of this research is field research. The method used is a descriptive qualitative approach. The object of research in this study is BMT As-Syafi'iyah Tugumulyo OKI. The type of data is included in the primary data type, and it is the type of data obtained directly by the researcher. So researchers look for data directly in the field. In obtaining the data, the researcher interviewed the leaders of the As-Syafi'iyah BMT Tugumulyo OKI directly.

The data obtained is qualitative in the form of interviews in words related to the implementation of Murabaha at BMT As-Syafi'iyah Tugumulyo OKI. From the results of interviews in the field, the data were analyzed to obtain a research result. The study results are then matched with existing theories to conclude whether it is following sharia or not. Secondary data is needed in the form of a fatwa from the Indonesian Ulema Council (MUI) and several previous studies to strengthen the results of this study.

Result and Discussion

At this stage, the researcher will present the results of the research. The results of the study are the results of interviews with the Manager of BMT As-Syafi'iyah Tugumulyo OKI. In addition to explaining the research results, the researcher will analyze whether they are following the values or provisions of sharia or not. The sharia provisions refer to the fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN MUI), which explicitly discusses Murabaha contracts in Islamic financial institutions.

The researcher asked several questions about implementing the Murabaha contract at BMT As-Syafi'iyah Tugumulyo OKI in this study. At the initial stage, the researcher ensured that what would be applied was the actual Murabaha contract. Furthermore, it was answered by the As-Syafi'iyah BMT Manager Tugumulyo OKI that the contract applied was an actual Murabaha contract. *Murabahah* contract is one of the buying and selling contracts in Islamic financial institutions (DSN MUI, 2017).

The changing contract is one of the buying and selling contracts, so it must be ensured that all the conditions and pillars of the sale and purchase are carried out. Furthermore, the researcher asked about the terms and pillars in buying and selling whether it had been fulfilled or not. The answer from the As-Syafi'iyah BMT Manager Tugumulyo OKI is that all contracts and pillars have been fulfilled. One example is the issue of the halalness of the goods being traded. It is because the halal aspect is very fundamental in Islamic financial institutions (Fauroni, 2008). In addition, products in Islamic financial institutions must be protected from things that contain elements of *usury, maysir, gharar, haram and unjust* (DSN MUI, 2000; Makkulau & Abdullah, 2017).

Goods traded using a *Murabahah* contract at BMT As-Syafi'iyah Tugumulyo OKI are halal according to Islamic law. Thus, in this halal aspect, the *Murabahah* contract at BMT As-Syafi'iyah Tugumulyo OKI is in accordance with sharia values. It is in line with the MUI fatwa related to Murabaha contracts (DSN MUI, 2000). As we have seen, all Islamic financial institutions in Indonesia must comply with the regulations or fatwas issued by the MUI so that all contracts in sharia financial institutions must comply with the Fatwa DSN MUI.

Furthermore, in terms of sighat contract, the researcher asked how the sighat contract was implemented at BMT As-Syafi'iyah. Furthermore, the Manager of BMT As-Syafi'iyah replied that the sighat in the Murabaha contract at BMT As-Syafi'iyah had been carried out clearly, and firmly, both orally and in writing, so that it can be understood by all related parties, both from the BMT side and from the customer side. In the case of a written Murabaha agreement, it includes some information that both parties know.

This information includes the price of goods, how much profit BMT gets, and the price of goods when sold to customers. In addition, the goods promised in the sighat Murabaha contract must be following the reality of the goods being traded (Ayuningtyas & Darsono, 2018). Thus, the implementation of the Murabaha contract from the sighat aspect of the contract is under sharia. Furthermore, it aligns with the 2017 MUI DNS Fatwa related to the Murabaha sale and purchase contract (DSN MUI, 2017).

The subsequent discussion is regarding the ownership of goods by BMT before they are sold to customers. When the researcher asked whether the goods customer purchased were purchased in advance by the BMT, the BMT Manager replied that all the goods customers ordered were purchased in advance by the BMT. Therefore, it means that the goods must be controlled by ownership in advance by the BMT. Thus, in terms of ownership of the goods to be sold by BMT, it is following sharia values. Furthermore, it aligns with the Fatwa DSN MUI regarding Murabaha contracts (DSN MUI, 2000).

Regarding transparency in implementing the Murabaha contract, the researcher asked the BMT Manager As-Syafi'iyah whether the BMT explained the Murabaha implementation process. Then the BMT As-Syafi'iyah Manager answered that all the implementation processes in the transaction were carried out transparently and in detail. It includes discussions such as what type or specifications of the goods ordered, the BMT location, the purchase price obtained the goods, and what the price was when it was about to be resold to the customer to how much profit would be obtained the BMT. Therefore, all processes are carried out openly and transparently. Based on information from the Manager of BMT As-Syafi'iyah, related to transparency, it follows sharia provisions stated in the Fatwa of the DSN MUI regarding Murabaha contracts. Therefore, the seller must explain how the process of implementing the Murabaha contract transparently (DSN MUI, 2000).

In financing the Murabaha contract at BMT As-Syafi'iyah, it does not use the concept of a down payment at the beginning. However, a certain amount of money is submitted at the beginning as a registration fee and not a down payment. Islamic financial institutions can withdraw advances from the customer before the transaction is carried out based on the Fatwa DSN MUI regarding Murabaha contracts. It is because Islamic financial institutions have incurred operational costs. In addition, the down payment can also be used as collateral. For example, the customer does not want to continue financing the Murabaha contract. Therefore, the down payment can be a substitute for the operational costs that the BMT has incurred. In addition, for example, if there is a default by the customer in the future, the BMT can rearrange and reschedule the Murabaha contract payment (DSN MUI, 2017).

Conclusion

This study was conducted to test whether sharia microfinance institutions (BMT) have met sharia requirements in carrying out their business activities. The object of research is BMT As-Syafi'iyah Tugumulyo OKI. While the contract studied was only in one contract, namely the Murabaha contract. In conducting the research and analysis, the researcher asked several questions about how the Murabaha contract was implemented at BMT As-Syafi'iyah. Furthermore, the researcher identified the interview results using the Fatwa DSN MUI, which discussed the Murabaha contract and other sources such as previous research.

The results of this study are broadly speaking. The Murabaha contract practiced at BMT As-Syafi'iyah is following sharia values. First, regarding the contact clarity, the contract used has been explained at the beginning of the transaction, namely the Murabaha contract. Second, regarding the halalness of the goods being transacted. Goods that are transacted using a Murabaha contract are halal and not prohibited goods. Third, in terms of sighat when the transaction is executed. When carrying out a Murabaha transaction, it is carried out with a clear sighat, both orally and in writing. Fourth, in terms of ownership of the goods being traded. The goods being traded already belong to the BMT. Fifth, regarding the clarity of the transaction process. The BMT has explained all transaction information transparently, starting from the type of goods, the purchase price, the selling price, and the profit earned. Sixth, related to the advance at the beginning of the transaction. At BMT As-Syafi'iyah, there is no down payment at the beginning of the transaction. According to the Fatwa DSN MUI regarding Murabaha contracts, Islamic financial institutions can withdraw a down payment at the beginning of a Murabaha transaction.

This research is essential in Islamic economics and finance because it keeps the Islamic values in practice. The implications of this research are clearly stated by the researchers, namely as input for stakeholders in the field of Islamic economics and finance to continue to apply sharia principles in running their business. The limitations of this study are that this study only examines one contract in one Islamic microfinance institution. Of course, the results are also not broad. Suggestions for further researchers are to research in more Islamic microfinance institutions and with many contracts. Last but not least, the results of this study cannot be generalized and only represent the object that has been studied.

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