

BANK WAKAF MIKRO: ITS OPERATIONS AND ITS ROLE IN EMPOWERING COMMUNITIES SURROUNDING ISLAMIC BOARDING SCHOOLS IN INDONESIA

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Abstract

This study aims to examine the operation of BWMs (Bank Wakaf Mikro, or Micro Wakaf Bank) in Islamic boarding schools and its role in the economic empowerment of the Muslim community surrounding them. Many poor people cannot access financial services because they are seen as unbankable. BWMs were established to address this issue. This research is a type of qualitative descriptive study, conducted at BWMs in West Sumatra, Yogyakarta, Central Java and East Java. Data collection techniques are done by interview, observations and documentation data. The results show that BWM is a Sharia Microfinance Institution (LKMS) incorporated as a cooperative. The empowerment model carried out by BWM is to provide financing and assistance to poor but potentially productive market segments located around the vicinity of Islamic boarding schools. Distribution of funding follows a group pattern with a joint responsibility scheme. In its journey, BWM has shown its role in community economic empowerment through providing training to prospective customers, then channeling financing to those who pass the group feasibility test. They also provide further assistance to these customers through weekly learning circles (*halaqah*) activities.

Keywords: Bank Wakaf Mikro; Islamic microfinance institutions; Cooperatives; Empowerment; Assistance

Abstrak

Penelitian ini bertujuan membedah operasional BWM di pondok pesantren dan peranya terhadap pemberdayaan ekonomi masyarakat Muslim di lingkungan sekitarnya. Banyak masyarakat miskin tidak dapat mengakses jasa keuangan karena mereka dipandang unbankable. Padahal, Bank Wakaf Mikro (BWM) didirikan untuk menjawab persoalan tersebut. Penelitian ini merupakan jenis penelitian deskriptif kualitatif, dilakukan pada BWM yang ada di Sumatera Barat, Yogyakarta, Jawa Tengah, dan Jawa Timur. Teknik pengumpulan data dilakukan dengan wawancara, observasi dan data dokumentasi. Hasil penelitian menunjukkan bahwa BWM merupakan Lembaga Keuangan Mikro Syariah (LKMS) berbadan hukum koperasi. Model pemberdayaan yang dilakukan oleh BWM adalah menyediakan pembiayaan dan pendampingan dengan segmen pasar masyarakat miskin potensial produktif yang berada di sekitar pondok pesantren. Penyaluran pembiayaan dan pendampingan menggunakan pendekatan kelompok dengan sistem tanggung renteng. Dalam perjalannya BWM sudah menunjukkan perannya dalam pemberdayaan ekonomi masyarakat melalui pemberian pelatihan kepada calon nasabah, kemudian menyalurkan pembiayaan kepada nasabah yang lulus uji kelayakan kelompok dan memberikan pendampingan kepada nasabah yang menerima pembiayaan melalui kegiatan halaqah mingguan.

Kata Kunci: Bank Wakaf Mikro; Lembaga keuangan mikro Syariah; Koperasi; Pemberdayaan; Pendampingan

Background

Microfinance institutions are important actors that encourage the economic development of local communities, especially for middle to lower income entrepreneurs who own micro-businesses. This is because many poor people

often unable to access financial services as they are considered unbankable. Access to finance is an obstacle for people in the peripheries from boosting their economic productivity. An estimated 72% of people living in Islamic

countries cannot access formal financial services.¹

To overcome this problem, microfinance institutions were established. Microfinance institutions, according to Law No. 1, 2013 concerning Microfinance Institutions are financial institutions that provide business development services and community empowerment, either through loans or microfinancing to the community, as well as providing business development consulting services.

In this regard, the government has launched the Bank Wakaf Mikro program since October 2017. The Financial Services Authority (OJK) established the Sharia Microfinance Institution (LKMS) in the form of a BWM to facilitate financial access for the poor.² The management of this institution is based on Law No. 1, 2013 concerning Microfinance Institutions. OJK sees the opportunity of bringing together philanthropist investors to offer a service for people who need financing for their small businesses. This venture is considered as a form of donation because the yield is very low. According to OJK Chairman of the Board of Commissioners, Wimboh Santoso, one of OJK's tasks is to support government programs to overcome poverty and income inequality by increasing financial access in the lower-income community. Thus, OJK facilitates BWM business models in cooperation with financial institutions that offer Sharia microfinancing platforms. The emergence of BWM is the government's response to

complaints from people in the rural areas who have difficulty in accessing banking services, because they are considered to be unbankable.³

The development of Sharia Microfinance Institutions (LKMS) is very important for the improvement of lower-income communities' economic condition and standard of living. Given this strategic position, LKMS is expected to become the main supporting pillar of the national economic resilience system. LKMS was established in various forms, such as sharia cooperatives and a body called *Baitul Mal wa Tamwil*. *Baitul Mal wa Tamwil* is a Sharia Microfinance Institution that has had a significant role in helping small and medium businesses. This LKMS is considered as capable organization in the effort to overcome capital problems experienced by micro business owners who cannot access banking.⁴

The Head of the Sharia Banking Department of the Financial Services Authority (OJK), Ahmad Soekro, says that BWM was founded for the first time by the Islamic boarding school whose administrators wanted to actualize the economic potential of the surrounding community.⁵ Thus, BWM is a microeconomic financing institution that began from Islamic boarding school environment. The latter is seen as having a strategic function in assisting and encouraging the development of the local community's economic condition.

Tirta Rahayu Ningsih's research shows that Islamic boarding schools have a strategic role in the local community's life, not only as an

¹Rashidah Abdul Rahman Soheil Kazemian, "Sustainability of Islamic Microfinance Institutions through Community Development," *International Business Research* 8, no. 6 (2015): 197.

²Setyo Aji Harjanto, 'OJK Bentuk Bank Wakaf Mikro Untuk Sasar Masyarakat Bawah', *Ekonomi*, accessed December 12, 2019, <<https://www.cnnindonesia.com/ekonomi/20171124182522-78-257889/ojk-bentuk-bank-wakaf-mikro-untuk-sasar-masyarakat-bawah>>.

³Ani Faujiah, *Peran Bank Wakaf Mikro Dalam Upaya Memperkuat Ekonomi Kerakyatan* (Report, n.d.), p. 12.

⁴Rozalinda, "Peran *Baitul Mal wa Tamwil* (BMT) Taqwa Muhammadiyah dalam Membebaskan Masyarakat dari Rentenir di Kota Padang," *INFERENSI* Vol. 7, no. 2 (December 2013): 514, <https://doi.org/10.18326/infsl3.v7i2.513-533>.

⁵Hari Sutra Disemadi and Kholis Roisah, 'Kebijakan Model Bisnis Bank Wakaf Mikro Sebagai Solusi Pemberdayaan Ekonomi Masyarakat', *Law Reform* 15.2 (2019), 77.

educational and religious institution, but also as an economic, social and political institution. The economic role is particularly important. With the significant student population, boarding schools are a major source of economic activity of the area. In addition, Islamic boarding schools are seen as the driving force of economic activity both for those living inside and outside the school area.⁶ Thus, while their main function is transmit religious knowledge to their students, they also have the potential to empower the local community to improve their economic condition.⁷

Islamic boarding schools as an integral part of the community have the responsibility to develop and empower the community in all fields including economic services.⁸ On this basis, BWM makes Islamic boarding schools as a base for economic inclusion and empowerment. BWM is a unique institution, as it is not allowed to take deposits from the community. This is because it focuses on community empowerment through financing accompanied by business assistance. Until the beginning of March 2018, twenty BWMs have distributed financing to 2,784 customers totaling to Rp. 2.45 billion.⁹ Thus, this financial institution is expected to have a very important role in improving and developing the people's economic condition. According to Wimboh Santoso, Chairman of the OJK Board of Commissioners, in order to maintain the effectiveness of financing through BWM, assistance to customers must be in accordance with their line of business.¹⁰ The financing

scheme through BWM is financing without collateral with a maximum value of Rp. 3,000,000. In addition, the BWM funding scheme also provides entrepreneurial training and assistance. BWM also initiates the formation of community groups who will take loans. The pattern of financing is made per group or as a joint responsibility. The Waqf bank segment is a micro business actor. This is a good system that serves as an example for other institutions. This can serve as the basis for expanding access to finance and empowering the economic development of the local community. This study tries to explore how the BWM operates and the role it plays in the economic empowerment of lower-income Muslim communities. The results of this study are expected to advise the government of West Sumatra to develop BWMs in the region, as well as to motivate Islamic boarding schools in West Sumatra to establish their own BWM in order to improve the economic condition of their respective communities.

This research is qualitative descriptive study that seeks to understand data on BWMs and their role in the economic empowerment of local communities in a holistic way.¹¹ This research was conducted at 1) Bank Wakaf Mikro *Al-Kausar Sari Lamak Harau District Lima Puluh Kota*; 2) Bank Wakaf Mikro *Usaha Mandiri Sakinah* of Aisyiyah University (UNISA) Yogyakarta; 3) Bank Wakaf Mikro *Almuna Berkah Mandiri* at the Al Munawwir Krapyak Islamic boarding school in Yogyakarta; 4) Bank Wakaf Mikro *Al Manshur Barokahing Gusti* in

⁶Tirta Rahayu Ningsih, 'Pemberdayaan Ekonomi Pesantren Melalui Pengembangan Sumber Daya Lokal', *Lembaran Masyarakat: Jurnal Pengembangan Masyarakat Islam*, 3. 1 (2017), 57.

⁷Agusti Sri Kantun, Sukidin, 'The Role of Islamic Boarding School on the Economic Empowerment of the Society (a Case Study at Islamic Boarding School Salafiyah Syafi'iyah Banyuputih Situbondo)', *International Journal of Research in Humanities and Social Studies*, 6.3 (2019), 56-62.

⁸ Mohammad Nadzir, "Membangun Pemberdayaan Ekonomi di Pesantren," *Economica: Jurnal*

Ekonomi Islam Vol. 6, no. 1 (May 2016): 37, <https://doi.org/10.21580/economica.2015.6.1.785>.

⁹ Ani Nursalikah, 'OJK: Pembentukan Bank Wakaf Mikro Butuh Rp 8 Miliar', *Republika*, March 15, 2018.

¹⁰ Media Indonesia com developer, '20 Bank Wakaf Mikro Berdayakan Pesantren', *Media Indonesia*, March 10, 2018, <<https://mediaindonesia.com/read/detail/148766-20-bank-wakaf-mikro-berdayakan-pesantren>>.

¹¹Sugiono, *Metode Penelitian Bisnis* (Bandung: Alfabeta, 1999), h. 135-135.

Klaten district; 5) Islamic Microfinance Institution of Waqf Bank *Alpansa* in Klaten district; 6) Bank Wakaf Mikro *Alfitrah Wafa Mandiri* at the *As-Salafi Al-Fithrah* Islamic boarding school in Kedinding, Surabaya East Java; 7) Bank Wakaf Mikro at the *Mambaul Maarif Denanyar* Islamic boarding school in Jombang district, East Java; 8) Bank Wakaf Mikro at the *Babrul Ulum Tambak Beras* Islamic boarding school in Jombang district, East Java; 9) Bank Wakaf Mikro at the *Tebuireng Jombang* Islamic boarding school in Jombang district, East Java.

To obtain data about BWM operations and their role in the economic empowerment of the Muslim community, this research collected data by means of interviews, observations, and documentation.¹² Data obtained from interviews and official documents are analyzed by the following steps: we record memos in the field; we then encode the data and analyze it for common themes and categories. We then discuss the data and draw conclusions. We then carry out data reduction by way of abstraction, arranging them in separate units. The units are then categorized. These categories are made while coding. The final stage of data analysis is to check the validity of the data.¹³ To do this, the researchers conduct triangulation and discussions with peers.

The Operations of the Bank Wakaf Mikro

As discussed above, the purpose of BWM is to provide access to capital for small communities who do not have access to conventional financial institutions. As an operation of LKMS, BWM is subject to Law No. 1, 2013, concerning Microfinance Institutions,¹⁴ OJK regulations, and standard

operating procedures established by the Small Business Business Incubation Center (PINBUK). The operational systems of all BWMs throughout Indonesia are all the same because they are subject to the same regulations and are trained by the same institutions.

The Head of the OJK Sharia Banking Department, Ahmad Soekro said that BWM is just a name. BWM is an Islamic Microfinance Institution that has the legal entity of a cooperative. BWM is not an institution that carries out the banking functions of collecting funds from the public and distributing funds to the community. It is also not an institution that manages charitable endowments (*waqf*), but one that runs the function of Islamic microfinance that focuses on financing and mentoring small communities.¹⁴

The same explanation was given by Puguh, the manager of BWM Sumber Barokah Jombang. He said that BWM is an Islamic Microfinance Institution (LKMS) that has the legal status of a cooperative. The term “Bank Wakaf Mikro” is just branding. Furthermore, BWM not an institution that manages *waqf* as a *waqf* institution. In *waqf* institutions, the *naẓẓīr* must maintain the resilience and integrity of the *waqf* asset. This means that the asset should neither decrease in value, nor depleted. Those *waqf* institutions that manage liquid assets are allowed to distribute only the fruits of the initial *waqf* investment to those who have a right to receive it (*manwqaf ‘alayh*).¹⁵ This is different from BWM, which, as a LKMS, is able to distribute funds or assets to the community in the form of financing and to use part of that data for operational costs.

It is also not a bank that collects funds from the public and distributes it back to the

¹²Suharsimi Arikunto, *Prosedur Penelitian Suatu Pendekatan Praktek*, Edisi Revisi (Jakarta: Rineka Cipta, 2010), p. 172.

¹³Lexy Moleong, *Metodologi Penelitian Kualitatif* (Jakarta: Rosda Karya, 2004), p. 247.

¹⁴Gita Rossiana, ‘Bank Wakaf Mikro Bukan Bank, Justru Lembaga Non Bank Syariah, *CNBC Indonesia*,

accessed December 11, 2019, <<https://www.cnbcindonesia.com/syariah/20180406100953-29-9911/bank-wakaf-mikro-bukan-bank-justru-lembaga-non-bank>>.

¹⁵ Rozalinda, *Manajemen Wakaf Produktif*, 1st ed. (Jakarta: PT. Raja Grafindo Persada, 2015), p. 166–67.

public. This is because while the function of Islamic microfinance institutions is to provide financing to the public, it does not accept savings from the public. Instead, BWM is an institution entrusted to channel funds obtained from donors,¹⁶ who contribute to the National Amil Zakat Institution of Bank Syariah Mandiri (LAZNAS BSM).¹⁷ BWMs have the mandate of empowering the communities living in the vicinity of Islamic boarding schools. This is achieved by channeling financing funds to the productive poor. The OJK would work together with LAZNAS BSM, which acts as the receiving bank and distributor of the BWM's operational costs.

Using the term "bank" in the naming of this Islamic microfinance institution needs to be criticized. *First*, the use of the term is not appropriate, because there is no match between the concepts developed by PINBUK and OJK with actual practice in the field. Moreover, this provision is applied equally to all BWMs throughout Indonesia. Banks and cooperatives are two different institutions. Cooperatives are financial institutions that collect and distribute funds from members and are channeled back to its members. While the Bank is a financial institution that collects funds from the public and then distributes these funds to the public. Bank activity is not limited to its members.

Second, the naming of "Micro Waqf Bank" results in the perception that this institution manages *waqf* assets. The funds are sourced from *waqf* funds or cash *waqf*. In reality, however, the source of funds managed by BWMs are donations from unnamed parties, which are first channeled through LAZNAS BSM. Thus, the use of the name, Micro Waqf

Bank, needs to be seriously reviewed, because the *waqf* institution must manage *waqf* assets in accordance with the principles of *waqf* management. *Waqf* is characterized by the act of being entrusted with the property of another person and distributing its "fruits" for the greater good. Based on this definition, *waqf* assets must be well-maintained so as to prevent from devaluation and more so depletion. Because of this, the use of the term *waqf* for this LKMS is not appropriate.

BWM has its own characteristics that make this institution a role model for the empowerment of the poor. BWM is not allowed to collect and manage funds—whether savings or deposits—from the community, but provides financing assistance in accordance with Islamic principles. Their main market segment is the low-income poor communities around Islamic boarding schools. Distribution of funding to Islamic microfinance institutions uses a group approach with a joint responsibility system. Prospective customers will receive basic training before being given funding. Customers will be given regular assistance on business development, household economic management and religious education. The contract used in financing is a *qard* (interest-free loan). The yield of financing is equivalent to a margin of 2.5% to 3% per year. Meanwhile, financing is provided without collateral.¹⁸

More specifically, *qard* is a debt agreement between two parties, whereby one party hands over money to another provided that the party receiving the money returns the same value to the party giving the debt. However, the application of yields for *qard* financing is contrary to the *qard* principle itself. This

¹⁶The names of funders were not mentioned by each respondent when interviewed at each BWM studied

¹⁷ Zakat is to set aside a portion of a specific part of one's wealth that has reached a certain annual amount (*nisab*) to give to those who have a right to receive it. Rozalinda, *Ekonomi Islam Teori Dan Aplikasinya Pada Aktivitas Ekonomi*, 5th ed. (Jakarta: PT. Raja Grafindo Persada, 2018), 248. Lembaga Amil Zakat is an institution

that manages zakat funds. They consist of staff who help collect, distribute, and invest zakat money; see Law, No. 23, 2011, regarding the management of zakat, article 1.

¹⁸Laznas BSM Team, 'SOP & SOM Standar Operasional Prosedure dan Manajemen Untuk LKM Syariah-Bank Wakaf Mikro', (Jakarta: Laznas BSM, 2017), p. 10.

contract is a *tabarru'* agreement which should not result in profit-making on the part of the debtor, because it is considered usurious.¹⁹ This is in accordance with the prophetic tradition (*hadith*), which stipulates:

عَنْ فَضَالَةَ بْنِ عُبَيْدٍ صَاحِبِ النَّبِيِّ - صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ - أَنَّهُ قَالَ : كُلُّ قَرْضٍ جَرَّ مَنَفَعَةً فَهُوَ وَجْهٌ مِنْ وَجُوهِ الرِّبَا.²⁰

Narrated from Fadhalah ibn Ubayd, a friend of the Prophet, "Indeed the Prophet said: "All debts that bring surplus profit are one form of usury."

Thus, the application of the yield or margin in the financing contracts of BWMs is a fatal mistake. Transactions carried out in this manner contain elements of usury.

Recipients of funding at BWMs are economically disadvantaged people who have small businesses and have the ability to develop their businesses. The target of this Islamic microfinance institution is the community living around the boarding school be it students, alumni, families of students, caregivers' families or the general public who have productive businesses within a radius of 5 kilometers from the BWM location, have the commitment to follow BWM procedures and programs, and have business potential.

To get funding from BWM, the customer must meet the requirements, complete administrative requirements, own a business or is planning to start a business. BWM conducts an assessment of financing need before an application is approved. After all the requirements have been met, funding is be distributed in several stages,²¹ namely:

Identification of potential customers

Identification is carried out to determine the suitability of prospective customers with the criteria of program targets, such as distance of residence, and the type and place of the

applicant's business. Identification of prospective members is done by visiting the nearest village to get data on productive poor people. Customer identification is also carried out by visiting the Neighborhood Association, women in PKK, and women in Muslim organizations around Islamic boarding schools.

Socialization of BWM program

After getting data from the urban village, the local BWM would conduct socialization related to BWM institutions to the community through women in Muslim organizations, or PKK social gathering, and so on. Besides socialization, the manager also ensures that the public is interested in becoming prospective customers of BWM. This socialization aims to disseminate information about the basic idea, the stages of formation, participation requirements, and KUMPI²² activities in the hope that prospective program participants understand the program's conceptions and provisions.

Surveying the situation of prospective customers

After obtaining the data of prospective customers, employees of BWM conduct a survey to each prospective customer's home by asking a number of things related to their business. Then a feasibility assessment is conducted.

Feasibility test of prospective customers

The feasibility test is intended to verify the truth of poor family data obtained from identification activities and to select prospective program participants. The feasibility test is carried out by the BWM manager by directly visiting the candidate's homes to see the condition of the residential house and to interview the head and members of the

¹⁹Rozalinda, *Fiqh Ekonomi Syariah Prinsip Dan Implementasinya Pada Sektor Keuangan Syariah*, 1st ed. (Jakarta: Raja Grafindo Persada, 2016), p. 230.

²⁰Abu Bakar Ahmad ibn al-Husain ibn Ali al-Baihaqi, *Sunan Al-Kubra*, Juz 2 (Kairo: Majelis Dairah al-Maarif al-Nizhamiyah, 1344 H), p. 72.

²¹Laznas BSM Team.

²² KUMPI (Kelompok Usaha Masyarakat sekitar Pondok Pesantren Indonesia, or the business association of the community living at the vicinity of an Islamic boarding school).

community to obtain data on their economic situation and the local businesses that are currently operating.

Indicators of assessing the eligibility of prospective customers are: 1) Home Index (IR). IR is used as a criterion because prospective members' homes reflect the socioeconomic status as poor. 2) Revenue Index (IP). Based on poverty criteria in Indonesia, families who earn less than the minimum monthly income of Rp. 2,400,000 (according to local conditions) are classified as poor people. Residents who do not have jobs due to bodily disabilities are not the target of the BWM program. 3) Asset Index (IA). Assets that are valued do not include land owned; what is valued are only household assets (including agricultural equipment), livestock, liquid assets such as cash, savings. 4) Land Ownership Index (IT). The business capital program is intended for poor people who do not own land. Those who do own land are also eligible as long as the land they own is not large and is unproductive.

When a prospective member meets all four criteria, he/she can be declared to pass the feasibility test and must find four other members to form a temporary group (or prospective group). Candidates for this group can be approved to participate in the Pre-compulsory Group Training and Compulsory Group Training.

Pre-compulsory group training

This stage is carried out after the survey phase has been completed and prospective customers are selected. Pre-compulsory Group Training is a 60-minute meeting to carry out stabilization activities prior to the implementation of compulsory group training for prospective KUMPI members.

This activity is carried out to form KUMPI groups and prepare them to participate in program implementation. The activities are carried out by KUMPI facilitators and prospective members with the aim of strengthening the determination and interest of

the candidates to participate in the program and form group institutions. They are also aimed at introducing funding distribution mechanisms. Pre-compulsory Group Training is carried out by assistants and is followed by prospective KUMPI members

KUMPI is a channeling medium through which members can take advantage of funding capital from BWMs through the joint responsibility financing system. The objectives of forming KUMPI groups include: 1) strengthening the confidence of members entrusted with the loans. 2) KUMPI acts as a social pressure when members or other parties who deliberately break the rules. Groups are also place where members can help each other when facing difficulties. Only groups are entitled to pass loans and guarantee repayment of members' loans. 3) The group replaces guarantees and guarantors; 4) KUMPI gives guarantees to institutions that they are responsible, trustworthy and that members of the group are able to pay if someone is late in paying installments. When members receive loans, they are also able to pay the savings that have been set. 5) KUMPI members can help each other to overcome arrears. 6) KUMPI members will encourage each other to comply with all rules, especially in attending group meetings and making loan payments every week.

Compulsory Group Training (PWK)

PWK is a program organized by BWMs to disseminate knowledge to prospective customers, regarding: 1) principles, objectives and uses of business capital; 2) the system and procedures for its implementation; 3) rights and responsibilities of members. The requirement for participating in PWK is that members have passed the feasibility test submitted by field officers. These eligible members are those who have already participated in pre-PWK. PWK is held after a minimum of three groups are formed consisting of five members each. Members of the group must already meet

customer requirements. All prospective customers declare that will follow all PWK regulations during training.

Compulsory group training is carried out for five consecutive days, one-hour session per day. In this training, the members will be given material related to institutions, their rights and obligations, and knowledge about managing finances. PWK is an effort to ensure that trainees understand the principles and procedures of venture capital assistance.

Before the training, customers have been instructed to bring 2,000 rupiah for each training day. In the first day, the customers are told to submit this money to the supervisor, who will record the serial numbers. The supervisor will then entrust this sum to the participants sitting at the back. The next day the participants who were entrusted with the mandate are asked to hand over the money back. The supervisor will check the serial numbers and determine whether they are still the same or has changed. If the serial numbers of the Rp. 2,000 denominations are the same, the customer is deemed trustworthy. However, if the serial numbers have changed, this means that the customer is not trustworthy. At this time the supervisor will emphasize the importance of trustworthy behavior when handling money. At the end of the meeting on the second day, the supervisor organizes the same game of collecting Rp. 2,000 from each participant. This time, he will entrust the sum to the participants sitting in the penultimate sequence, and so on until the participants who sit at the front. Furthermore, according to Dafril, the manager of BWM Alkautsar Lima Puluh Kota, PWK participants are not allowed to come late. This is to instill discipline. If someone arrives late for no reason, the PWK at that time is dismissed and the entire process starts from the beginning again.

Group Training Test (UPK)

At this stage prospective customers are given 30 minutes to work on questions that

have been prepared by the supervisor. After finishing the work, the manager immediately corrects the results and quickly assigns grades. All prospective customers are required to take the Group Endorsement Test (UPK). This test is conducted on the fifth day of PWK by BWM supervisors. If the prospective group member is considered to have understood enough of the training material, then the group member is declared to have passed and then the group concerned will be confirmed as a BWM customer and ready to form a weekly religious gathering, or *halaqah mingguan* (HALMI).

The assessment for UPK is not only focused on the results of the answers. There are also other qualities that are considered such as discipline and trustworthiness. When the graduation criteria are not met, the proposal will be postponed or the amount of funding is reduced or the group will be liquidated.

Disbursement of funds

After finishing the UPK, a meeting will be held between the manager and the management regarding the prospective customers and the business they have. After agreeing with the management, the next step is to disburse the financing.

According to Devi Puspita Sari, Manager of BWM Mandiri Sakinah UNISA Yogyakarta, disbursement is carried out in three stages, because it uses a 2-2-1 pattern. This 2-2-1 financing disbursement pattern is a model that teaches caring attitudes by prioritizing disbursement to those need it most, who will get the first batch of financing. The seating arrangement during the training is sorted by group agreement; the person who sits at the back is the one who needs it the most. He/she will receive the disbursement of funding first. The order of disbursement will then follow the order of sitting arrangement from the back. The person sitting at the very front is the chairman of the group.

The funding disbursement mechanism at BWMs follows the following provisions. For

the first disbursement of each customer group with a 2-2-1 mechanism, the first week of HALMI is disbursed for two customers; then the second HALMI is two more customers; and the last is for the one remaining customer that is the chairman of the third HALMI.

For the initial disbursement, the BWM provides funding to customers in the amount of Rp1,000,000 per person. Every KUMPI customer makes a loan repayment every week from the time of the HALMI meeting until it is paid off. In addition, KUMPI customers must have joint responsibility savings managed by the KUMPI chairman (not the BWM). This group savings function as a group guarantee in the event of arrears in installments from KUMPI customers. If there is a lack of installments, the joint responsibility mechanism is carried out by using funds or group joint savings. At the time of disbursement the customer must sign a receipt of money from BWM as much as two copies, one for LKMS with a stamp duty of Rp. 6000, and one duplicate for the customer.

The Weekly Halaqah (HALMI)

The empowerment model applied at BWM is the weekly *halaqah* or religious gathering (HALMI). This weekly gathering is convened once a week. It is held for one hour accompanied by a BWM supervisor. Customers get assistance and guidance every week during their weekly *halaqah* activities. Customers receive guidance on business development, household economic management, and Islamic religious knowledge.

According to Fajri Rahman, BWM Supervisor of Al Kautsar HALMI, in order to foster a tough mental attitude on the part of BWM customers, activities are carried out routinely and must be attended by every customer. In this activity the customer must not be late. HALMI is done to develop a positive attitude and a sense of togetherness, commitment, consistency, and discipline. In addition, it also builds an attitude of solidarity, responsibility, and group collaboration through

a joint responsibility system in the payment of loan installments. HALMI is carried out at rotating members' houses or an agreed-upon location.

HALMI is an activity that offers guidance and knowledge to KUMPI members. It is also where the disbursements of funds are made, and loan payments and group savings are submitted. The installment payment for six customers who are receiving financing for the first time has been made. The financing installment at BWMs is Rp. 25,000 per week for a period of 40 weeks. After that, the funding is disbursed for the following six customers. When the installment payment process takes place, customers who attend HALMI read religious prayers and litanies together, such as the cantation of the Names of God (*asma' al-husna*), which is commonly recited during religious gatherings of this kind.

The contract that is applied in financing the BWM is *qard*. In the first round of the financial ceiling is channeled to customers in the amount of Rp. 1,000,000. Customers repay Rp. 25,000 for 40 weeks or Rp. 20,000 for 50 weeks. This all depends on the agreement of group members. According to Devi Puspasari, Manager of BWM Mandiri Sakinah UNISA Yogyakarta, customers are charged an assistance fee of 3% per year. The same rate is also charged other BWMs, such as BWM Akautsar Payakumbuh, as acknowledged by the Supervisor Fajri Rahman. BWM Alpansa, however, have a different rate, charging an operational fee 3%, as conveyed by Luthfiatul Umami, a customer of this particular BWM.

For customers who have already received financing, they will make the installment payments at the weekly HALMI. Phase I financing of Rp. 1,000,000, - with installments for 50 weeks of Rp.23,000, - with details of Rp. 20,000,- is the principal installment financing. Rp. 600, - is for assistance fee (*ujrah*) and Rp.2,400, - is for group savings used for joint responsibility and social money. Thus, the total

customer installments for 50 weeks are Rp. 23,000 x 50 weeks = Rp. 1,150,000, with details of the principal repayments of Rp. 1,000,000, - going back to the BWM, while Rp. 120,000 is returned to the group, and Rp. 30,000 is set aside for assistance fee (*ujrah*).

For the sake of joint responsibility and other social interests, the customer sets aside an amount of savings agreed upon by each KUMPI. This is because financing at BWMs requires joint responsibility. As explained by Eni Kartika Sari, Chairperson of BWM Almuna Krapyak Yogyakarta, if there is a group member who is unable to pay the installments for that week, then the amount due shall be distributed among all members.²³ The joint responsibility funds are taken from group savings deposited by members of the KUMPI. Based on the results of interviews with BWM managers, in the ground there will always be problematic customers who fall into financial mismanagement or who desert the group. In this case, the group is charged with overcoming it, so that the financing installments to the BWM remain smooth. This model is known as a joint responsibility model in Islamic jurisprudence (*fiqh*) known as *kafalah*. The *kafalah* agreement is an agreement between two parties where the first party bears the responsibility of the second party to pay off debts.²⁴ In this *kafalah* agreement, the debt of a person who is unable to pay is borne by another party.

The financing model carried out by BWM is a group-based model of empowering the poor. Although financing is received by each

customer for business development, each group member is responsible for paying installments to the group. With the *kafalah* model of Islamic economics, each group member is mutually responsible for the re-payment of the financing. If one person experiences difficulties in paying, then the other group members are responsible for paying the installments of the problematic members. This model has been applied by Muhammad Yunus with the pattern of social entrepreneurship at Grameen Bank in 1983 in Bangladesh.²⁵

The Role of the BWM on Community Economic Empowerment

Microfinance institutions are seen as an alternative method to overcome economic problems, especially the problem of poverty.²⁶ As an Islamic microfinance institution, BWM is oriented towards efforts to improve the welfare of members of low-income communities. Islamic microfinance institutions have a significant role in empowering society.²⁷ They are able to achieve this by becoming partners for small and medium-sized enterprises, both in terms of providing knowledge and financing.²⁸ So BWMs has an important role in empowering the community surrounding Islamic boarding schools.

The role of BWMs in empowering the economic condition of low-income communities can be seen in their provision of training and assistance to prospective customers and the distribution of financing funds.

Providing training to prospective Customers

²³ Laznas BSM, "SOP & SOM Standar Operasional Prosedure Dan Management Untuk LKM Syariah-Bank Wakaf Mikro" (LAZNAS BSM, 2017), p. 216.

²⁴ Rozalinda.

²⁵ Nurhayati, 'Social Entrepreneurship Muhammad Yunus Grameen Bank' *Jurnal Bisnis, Manajemen & Perbankan*, 2. 1 (2016), 31-48.

²⁶ Nur Indah Riwayatanti, "Islamic Microfinance as an Alternative for Poverty Alleviation: A Survey," *Afro Eurasian Studies* 2, no. 1 & 2 (2013): 267.

²⁷ Lathif Rifqi, "Community Empowerment through Islamic Microfinances: Perceptions in Comparison," *Shirkah: Journal of Economics and Business* 2, no. 1 (January 2018): 67, <https://doi.org/10.22515/shirkah.v2i1.35>.

²⁸ Jenita Jenita, "Peran Lembaga Keuangan Mikro Syariah Dalam Pemberdayaan Ekonomi Masyarakat Kecil Menengah," *Al-Masraf: Jurnal Lembaga Keuangan dan Perbankan* 2, no. 2 (November 2017): 190, <https://doi.org/10.15548/al-masraf.v2i2.136>.

Before BWM distributes funds to the public, the manager first provides guidance to prospective customers.

Channeling financing

Islamic microfinance institutions such as BWM contribute to the potential prosperity of the community living in the vicinity of Islamic boarding schools. They achieve this by providing loans or financing businesses without asking for guarantees. This has been well-received by the target segments, who responded positively for the chance to improve their standard of living through entrepreneurship. In the provision of financing, the criteria for selection are the productive potential of the candidates, as well as the place of their residence, which is the vicinity of Islamic boarding schools. This means that the people who are funded by BWM are those who have small-scale businesses such as food stands, sewing services, online stores, bakeries, laundry services, etc.

The ultimate purpose of establishing BWM is to reduce poverty.²⁹ People who borrow funds from BWM used it as venture capital to improve their living standards. The purpose of establishing this institution is to optimize the role of Islamic boarding schools in stimulating the productive potential of the poor. To empower the local community and improve its economic condition, financial institutions are needed that offer convenience to the customers. One way to do this is by providing business capital loans to micro businesses. BWM as an Islamic microfinance institution (LKMS) has proven its role in realizing financial inclusivity. As explained by Ningsih, a customer of BWM UNISA Yogyakarta, easy financing mechanism and straightforward administrative requirements, which include only photocopies of the national identification card, family card,

and the submission of an application form signed by the husband and wife. Furthermore, financing is made without collateral. Financing patterns are carried out in the form of group and joint responsibility by using the *qard* contract, as outlined above.

At BWM Al Fithrah Wawa Mandiri Surabaya, funding is provided to the community surrounding an Islamic boarding school. They use *qard* contracts in their financing of micro businesses. Its alignment program is realized through the provision of group-based financing and business assistance programs with low yields (equivalent to 3% per year) and without collateral.³⁰ One customer of this BWM is Harsini, an entrepreneur of cassava chips and banana chips, business she started together with her husband. Thanks to funding from BWM, her business has grown; now she has several employees. This is possible because the purpose of BWMs is to improve the living standards of microbusiness people and to help them with unsecured loans with a margin of 3% per year.

Assisting customers who receive financing

In the community empowerment program, BWMs use a mentoring model of the Weekly *Halaqah* (HALMI). Assistance to customers who receive financing is done in the form of Islamic religious guidance, household economic management, and business development training. As explained by Fajri Rahman, supervisor of BWM Alkautsar Payakumbuh's HALMI activities, customers are given guidance in the form of Islamic spiritual teachings, family economic management and business improvement. These three topics are directly taught by BWM supervisors. Islamic spiritual guidance receives the greater portion of time in HALMI sessions. Supervisors also offer customer consultations to solve business problems and improve operations. If the

²⁹ Besse Wediawati, Nury Effendi, Aldrin Herwany, Dian Masyita, 'Sustainability of Islamic

Microfinance in Indonesia: A Holistic Approach', *Academy of Strategic Management Journal*, 17. 3 (2018), 196.

³⁰ Laznas BSM Team.

customer needs more intensive consultation, the customer is given the opportunity to consult with the BWM Secretary who is more knowledgeable in economics and business.

Ahmad Chairuddin Saifuddin Zuhri al-Hadi Ilal Haq, Founder of BWM Alpana Klaten, explains that the training is given directly by the supervisor or by bringing in speakers. The latter is usually done in joint HALMI sessions, which is referred to as *Halaqah Akbar*. This joint session usually involves presentation by experts, motivators, entrepreneurs. BWM Alpana also provides assistance to customers through Compulsory Group Training (PWK) which is then followed up by HALMI activities. In addition, BWM Alpana provides regular assistance on business development by bringing in expert speakers through Islamic boarding school activities.

BWM Denanyar Sumber Barokah Jombang is one of the success stories of Islamic Microfinance Institutions (LKMS). Similar to other BWMs, BWM Sumber Barokah Denanyar Jombang also distributes funding to micro businesses. As explained by its manage, Puguh, the market segment of his BWM is productive poor people, the majority of whom are women who have micro businesses. Indeed, these microfinance institutions has had a positive impact on the economic empowerment of women.³¹ Women who are micro entrepreneurs are able to improve the family's economic condition.³² The amount of funding provided by this BWM is in accordance with the customer's ability to manage the funds and the his/her ability to pay the installments.

Meanwhile, the role of BWM Al Fithrah Wava Mandiri in empowering the productive poor around the Al Fithrah Kedinding Islamic Boarding School is to provide capital loans and

guidance. Specifically, they offer training on financial management and business development, as well as guidance in religious education:

First, Improvement of customer's business. Entrepreneurship development assistance is provided through mentoring and training in managing marketing, bookkeeping, display management, as well as capital access and business expansion. According to Devi Puspitas Sari, Manager of BWM of Aisiyah University in Yogyakarta, training is provided by experts, successful entrepreneurs, as well as supervisors of BWM. They provide assistance on a range of issues, such as food packaging and improving product quality. In addition, they also facilitate the marketing of customer products at certain events such as seminars and exhibitions.

Second, Household financial management. BWMs also provide family coaching assistance that can improve a family's economic situation. The assistance provided revolves around managing family finances, communication between family members, and other similar topics. Members in one HALMI group also teach each other skills. For example, if there is one member who has the ability to tailor clothes, she would share her knowledge with other members. Sharing knowledge and experiences between members can be carried out after the HALMI study program. There are cases of members who were previously worked as shop attendants, who are not tailoring for example members who previously only guarded the shop, are not making clothes. This has had the impact of increasing family income. Similarly, BWM Bank Wakaf Alfitrah Kedinding Surabaya provides household mmanagement and finance training to its

³¹Mohammad Mafizur Rahman, Rasheda Khanam, and Son Nghiem, "The Effects of Microfinance on Women's Empowerment: New Evidence from Bangladesh," *International Journal of Social Economics*, December 2017, 342, <https://doi.org/10.1108/IJSE-02-2016-0070>.

³²Izzani Ulfi, "Empowering Women Through Islamic Microfinance: Experience of Bmt Beringharjo," *JEBI (Jurnal Ekonomi dan Bisnis Islam)* 3, no. 1 (June 2018): p.97.

customers. The same is also implemented in BWM Tebuireng Mitra Sejahtera Jombang.

Third, Spiritual formation. In order to deepen the member's knowledge of their faith, the weekly religious gathers are held, where scripture is read and a religious leader from an Islamic boarding school is invited to provide guidance. The topics discussed are issues related to worship, alms, the education of children, etc. According to Aisyah, Supervisor of BWM Al-Fitrah Wawa Mandiri Kedinding Surabaya, the mentoring activity carried out by BWM Al Fithrah is in accordance with the purpose of BWMs, which is to improve the economic condition of the local community around the boarding school by providing assistance in household finance management and business development for BWM customers. The same is also acknowledged by Ali Hamdan, supervisor of BWM al Fithrah, Surabaya.

Fifth, Business Development Consultancy. BWM customers are given the opportunity by BWM managers to receive consultation on business development. Eni Kartika Sari, chairman of BWM al-Muna Berkah Mandiri Krapyak Yogyakarta said, that customers can come to the BWM office to consult about business development. BWM also facilitates the customer's expansion to online platforms, whether through Instagram, Facebook and WhatsApp. In addition, *waqf* banks also facilitate customers who want to sell their products at certain events.

Given the consistency and diversity of services offered by BWMs, it is clear that Islamic microfinance has a comprehensive approach in dealing with economic empowerment, which is aimed at a holistic human development in Muslim societies.³³

Funding obtained from BWM affects the increase in production and product sales of customers' businesses. According to a customer who is involved in the eel cultivation business,

he was usually only able to produce 10 kg of eels per week; but after financing, he was able to yield 15-20 kg of eels per week, resulting in an increase of about 10%.

With this increase of production, many customers see an increase of sales. According to Lina, customer of BWM Yogyakarta Aisiyiah University, she experienced an increase in income because the amount of production increased. The increase was approximately about 10% of the original income. This situation in turn affects the increase in economic conditions; as income and profits rise, so too the general economic condition of the household. According to her, there was an increase of about 10% from before, which amounted to Rp. 1,000,000, which is not that significant. From the example above it appears that the presence of BWMs has been able to contribute to the development of Islamic finance in Indonesia, namely supporting efforts to increase the distribution of social welfare and address the problem of inequality in national development.

The same situation was also felt by BWM Alpana customer, Maryoto, who sells vegetables on a mobile stall. He received financial assistance from BWM Alpana, and used it to increase his business capital. Funding funds provided by BWM Alpana was able to increase the volume of vegetable sales. While his income increased, the number is not yet significant, because it amounted to an increase from Rp. 1,000,000 to Rp. 2,000,000.

Even though for these customers, the BWM's empowerment program led to increases that they deemed insignificant, Islamic microfinance institutions proved capable of empowering local communities that have been economically deprived.

Cholipah, a customer of BWM al-Mansur Barokahing Gusti Klaten, has a laundry business. In one a day she can receive 5-10 kg

³³ Abubakar Sadiq Usman Rosmaini Tasmin, "The Role of Islamic Micro-Finance in Enhancing

Human Development in Muslim Countries," *Journal of Islamic Finance* 5, no. 1 (2016): 59.

worth of laundry. Cholipah has entered the second phase of financing with a loan of Rp. 1,500,000 and a weekly installment of Rp. 37,500. She says that feels very fortunate to be funded by BWM because previously she borrowed money from loan sharks. In BWM Denanyar Jombang, however, loans are given without interest. A similar situation is also directed at customers of BWM Tebuireng Mitra Sejahtera Jombang. As emphasized by Ahmad Dawwam, Manager of this BWM, before disbursing financing to customers, a feasibility test is conducted to ensure that these customers are not in debt to loan sharks. He would stress to prospective customers that financing funds should not be used to pay to pay off debts to loan sharks. They must be used for business.

As discussed above, the BWM financing program uses a group pattern of disbursement. The provisions begin with a grouping of 15 to 25 people in large groups called HALMI. This activity is intended to form bonds of friendship among KUMPI members and establish closer kinship. Thus, the project is not only about getting funding; social assistance, and friendship; rather religious/spiritual needs are also addressed. Funding provided by BWMs can help increase customer business. As acknowledged by Siti Aminah, a customer of BWM al-Fithrah Wafa Mandiri Kedinding Surabaya, since becoming a BWM customer, her business has greatly improved. In addition, she also got the chance to interact with other members and increase religious knowledge.

BWM Denanyar Jombang has around 300 customers. Their market segment consist of women only, because women can be invited to attend the Weekly *Halaqah*. Women are also seen as more capable of managing finances.³⁴ With financial assistance of only Rp.

1,000,000, these women have proven able to develop their businesses.

Customers have expressed not only an improvement in their business ventures, they have also developed strong friendship ties between members. This was acknowledged by a customer of BWM Sumber Barokah Jombang, Nur Hayati, who is the owner of a small-scale grocery shop (*warung*). She has had her *warung* business for five years. Nurhayati is the chairman of KUMPI BWM who is one of the customers of BWM Denanyar Sumber Barokah Jombang. She is currently in the third stage of the program and has received Rp. 2,500,000 of financing. For Luthfiatul Umami, customer of BWM Alpansa, applying for funding to BWM is intended to increase her business capital. Even though not much loan sum offered is not significant, it will allow her to expand her screen printing business.

The financing model undertaken by BWM is no different from the financing model that was carried out by Muhammad Yunus in Bangladesh in 1976-1979. Yunus founded the Grameen Bank by providing group-based microcredit without collateral to poor people who have businesses. He organized each loan applicant to form a group of five people. Group members cannot borrow simultaneously but must take turns. Other members can only borrow if the member who borrowed first can prove discipline and honesty in paying installments.³⁵ In addition, in his empowerment program, Yunus applied a joint responsibility mechanism. In this mechanism, if a group member is in a condition of not being able to pay installments, other members will form a joint venture to pay the installments of members who are experiencing difficulties. Every loan

³⁴ H. Yasmeen Sultana, M. Abdul Jamal, and Dur-E. Najaf, "Impact of Microfinance on Women Empowerment through Poverty Alleviation: An Assessment of Socio-Economic Conditions In Chennai City of Tamil Nadu," *Asian Journal for Poverty Studies*

(*AJPS*) 3, no. 2 (2017): 181, <https://doi.org/10.33369/ajps.v3i2.2785>.

³⁵ Md. Ashraful Khan, 'Microcredit and Grameen Bank: A View From The Grassroots', *International Journal of Current Research*, 8. 1 (2016), 41387-95.

can only be used for productive purposes or to support a business. Mit Ghramr Bank which he founded is for small business loans where 97% of his customers are women.³⁶

The success of Grameen Bank in developing microbusinesses lies in its effort of utilizing and developing social capital to encourage and guarantee the microfinance business. The social capital at play is the values and norms, trust and social networks that support cooperation to achieve certain economic goals.³⁷ This social capital is an advantage for Bank Wakaf Mikro in empowering communities surrounding the Islamic boarding schools of Indonesia.

Conclusion

Bank Wakaf Mikro (BWM) is an Islamic Microfinance Institution (LKMS) incorporated as a cooperative. The operation of BWM is to provide funding and assistance by means of financing the productive poor people who live around Islamic boarding schools. Loans or financing uses a group approach with a joint responsibility system. The roles of BWM in community economic empowerment are to provide training to prospective customers, channeling financing to customers who pass the group feasibility test, and providing assistance to customers who receive financing through the Weekly *Halaqah* activities. The investment program conducted by BWM runs in accordance with BWM's founding goals, which is to improve the welfare of local communities. The implementation of the BWM funding and assistance program is intended to have a positive economic impact in the form of increased production and increased income for members. However, for many members the increases they see have not been significant. This is caused by the small amount of financing they receive. However, this program has the

important role of freeing members of low-income communities from loan sharks. Empowering micro businesses through Islamic Microfinance Institutions has shown that they are capable of improving the economic condition of communities surrounding Islamic boarding schools

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