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THE RISING OF BANK BAITULMAL: AN INTEGRATIVE INSTITUTION FOR POVERTY ALLEVIATION*

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Abstract

Efforts performed in poverty alleviation by Islamic banking and financial institutions in terms of empowering the core poor in the society have been hampered by many constraints. As a result, the core poor are still being financially excluded. This paper attempts to explore constraints faced by Islamic Banking and suggests setting up a new integrative Islamic Financial Institution which could perform the 'desired' shari'ah mission, i.e. to alleviate poverty as one of the main objectives of maqasid shari'ah. The method used here is exploratory analysis to identify problems and come up with the solution. It is found that there are several hindrances for Islamic Banking and Financial system internally and externally to perform poverty alleviation. Internally, the driven profit mission of these institutions, the fractional reserve system, lack of financial support from government to support the core poor and business failures, and the lack of sufficient social capital improvement, while externally; the lack of political will, lack of sufficient financial regulation and framework for dealing in shari'ah court, the use of paper currency only and the inflationary system, and less integrated system with Baitulmal institution.

Keywords: *Poverty Alleviation, Financial Constraints, Bank Baitulmal*

Abstrak

Upaya pengentasan kemiskinan melalui bank dan lembaga keuangan Islam dengan memberdayakan masyarakat miskin telah menemui banyak hambatan. Hasilnya, masyarakat miskin tetap menjadi pihak yang terus mengalami

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kekurangan finansial. Studi ini akan mengeksplorasi berbagai keterbatasan yang dihadapi oleh Bank Islam dan akan memberikan masukan baru untuk lembaga keuangan Islam yang terintegrasi dan dapat menunjukkan semangat misi syariah, khususnya pengentasan kemiskinan sebagai tujuan dari maqasid syariah. Metode yang digunakan adalah analisis eksplanasi untuk mengidentifikasi masalah beserta solusinya. Hasil penelitian menunjukkan bahwa terdapat beberapa keterbatasan dari bank dan lembaga keuangan Islam baik secara internal maupun eksternal untuk mengentaskan kemiskinan. Secara internal yaitu misi institusi yang lebih mengutamakan keuntungan, pemisahan sistem cadangan keuangan, buruknya dukungan keuangan dari pemerintah kepada masyarakat miskin dan kegagalan bisnis, buruknya regulasi keuangan dan buruknya dukungan modal sosial. Sedangkan secara eksternal yaitu kurangnya keinginan dan upaya, buruknya regulasi keuangan dan pemahaman tentang hukum syariah, penggunaan mata uang kertas dan inflasi, serta kurangnya sistem terintegrasi pada institusi Baitulmal

Kata Kunci: *Pengentasan Kemiskinan, Keterbatasan Keuangan, Bank Baitulmal*

BACKGROUND

Islamic Banking in the world has been realizing strong growth in terms of increasing asset ratio since its establishment. Islamic banking assets includes both pure-play Islamic banks and windows with commercial banks globally have reached USD 1.54 trillion in 2012,¹ and it further increases in 2013 to USD 1.7 trillion with the annual growth of 17.6% over the four previous years of 2009-2013 and It has reached to serve 38 million customers globally. This has shown us the good performance of Islamic banking institutions. Apart from Bahrain, the growing of Islamic banking assets can be representatively seen from the six rapid growth market (RGMs) which constitute 78% of the international Islamic banking asset as seen from the table below. Saudi Arabia is the highest increase in asset and growth rate among QISMUT countries (Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab

¹ GIBEC Newsletter, *Global Islamic Banking Excellent Center*, (London: GIBEC, 2014).

Emirates, and Turkey) in which in 2012, it has almost USD 250 billion with the growth rate above 50% in which 3.6 times faster than the growth rate of conventional banking institutions.

However, have these achievements fulfilled the original mission of Islamic Bank? The fact shows that the main contributor element for the development of Islamic bank in its assets and growth nowadays are coming from the debt financing schemes either *murabaha* or *ba'i bithaman ajil* and not from equity based such as *mudaraba* and *musyaraka*. Moreover, the facts that debt financing schemes are more preferable than equity financing, it shows that Islamic banks are not supporting productive economic sector which is needed to improve the welfare of the people. In 2007, only 1.7% of total global financing consist of PLS based contract.² More than 70% of Islamic finance products offered are based on the *murabaha* principle.³ Today, many believe that products offered by Islamic banks are similar to those of conventional banks and the only difference lies in the terminologies used.⁴ People are not satisfied with the mission shifted, since *murabaha* and BBA are similar to credit scheme in practicality. The empirical evidence showed that *mudaraba* and *musyaraka* are least practiced. As a consequence, there is less impact for improving real sector let alone to reach *maqasid syariah* by alleviating poverty.

While there has been a tremendous expansion in the asset and growth if Islamic Banking Institutions, that poverty remained unsolved. There is a problem of idealism gap. Despite its strong growth in asset ratio since its establishment up to this point, the idealism objectives were being lag behind as it has deviated from the original true concept of Islamic bank. The original philosophy of its establishment was to uphold social justice based on the Qur'anic concept. In his word, Ali

² Jamshed Uppal and Inayat Mangla, *Islamic Banking and Finance Revisited After Forty Years: Some Global Challenges*, Accessed through the <http://assets.conferencespot.org/files/262756/2014-02-spring.pdf>, (2014).

³ Adiwarmar Karim, *Global Islamic Microfinance Landscape, in Global Islamic Finance Report*, (London: Edbiz Consulting Limited, 2012).

⁴ Sudin Haron, *The Changing Face of Islamic Banking*, Presented at 1st National Conference on Islamic Finance, University Darul Iman Malaysia, Terengganu, Malaysia (2007).

viewed that Islamic financial system is not just eliminating the *riba*, but it has to apply all principles of Islamic justice and strengthening law, practice, procedures and instruments that will help justice, equity and fairness are uphold.⁵ For example, when the first time established, Dubai Islamic Bank had a mission to protect the Muslims from *riba* which has changed their life to unhappy economically, socially and politically. Khan believed that Islamic bank, apart from doing business through its products and investment which are *shariah* compliant; it is also responsible to promote social benefit to the society through its equity product such as the Profit and Loss Sharing mechanism in the form of *mudaraba* and *musyaraka* and also through free interest loan (*qardul hasan*) as well as zakat distribution.⁶

Therefore, the expected improvements in the welfare of the needy and the poor through the products of Islamic bank are not met. Due to this, social justice is still far from the reality. This paper attempts to evaluate problems that have hindered the Islamic bank from fulfilling its *shari'ah* mission i.e. to alleviate poverty as one of the objective of *shari'ah* when this Islamic bank was first established. This paper tries to explore the external and internal problems in Islamic banking for poverty alleviation.

THEORETICAL FRAMEWORK

1. Internal Constraints for Islamic Banking

Internal constraints consist from: *first*, the driven profit mission. The maximizing profit motive in certain things has benefited Islamic Banks such as to have increased its annual growth of assets, the numbers of customers and market share. Many Islamic banking institutions are currently operating their institutions under the mission to obtain maximum profit.⁷ However, increase in Islamic banking and financial share market doesn't necessarily mean increase income distribution. In fact, the motive has forced the institution to expand more less risk

⁵ Muazzam Ali, *A Framework of Islamic Banking: Directory of Islamic Financial Institutions*, (London: Croom Helm, 1988), pp. 3-13.

⁶ Ajaz Ahmed Khan, *Islamic Micro Finance: Theory, Policy and Practice*, (Birmingham: Islamic Relief, 2008).

⁷ Adiwarman Karim, *Global Islamic Microfinance Landscape...*(2012).

products as *murabaha* and *ba'i bithaman ajil* rather than the equity financing schemes while the equity financing schemes as *mudaraba* and *musyaraka* have been marginalized. Islamic banks are found to have pursued the goal of capital accumulation that is rising of financial resource, rather than resource mobilization. The avoidance of financing equity schemes has led to the problem of inequity which is in light of the purpose of *maqasid shari'ah*. It further creates inability to help the poor improve their income through small and medium enterprise.

Second, the fractional reserve system. One of the main functions of commercial banks which differ from other financial institutions or any other business institution is the ability to create money through credit creation.⁸ For example, Bank A is having USD 100.000 new deposit, with the reserve requirement say only 10%, its multiplier process it could now lend the money for USD 1 million. It has created new credit for USD 0.9 million at most. This has led the increase in money supply in the market. In fact, the money created is fictive and not real. This system allows commercial bank to increase their deposit in manifolds, and hence creating abundant credit in the market. Consequently, it has created money supply at large amount although they are not real. Although it could bring positive impact for the growth of economy at certain level, but when the increase in money supply is not followed by the increase in availability of goods and services in the real market, it consequently pushes up the inflation rate. As a result, the increases in price aggregate at last absorb the real value of people's wealth because it has decreased the value of purchasing power. Inflation has caused the poor become poorer. It means, any poor person that has just improves his or her income, is now back to the previous level or even worse. Therefore, through the process of fractional reserve system, the institution has not helped the poverty alleviation.

2. Externally Constraints for Islamic Banking

There are at least four external constraints that have hindered the Islamic bank to reach its social justice mission in the help for poverty

⁸ Isra Ahmadsyah, *Mata Uang Dalam Islam*, (Banda Aceh: Ar-Raniry Press, 2005).

alleviation, among others are: *first*, lack of political will. One of the founders of economic *shari'ah*, Khursid Ahmad, who has been struggling to develop the implementation of economic *shari'ah* for forty years has been unsatisfied with the concern of the development of the Islamic *shari'ah* in general and Islamic banking in specific. In his opinion, there are two main reasons that have slowed the mission i.e. lack of political will from the leaders as well as so much efforts being done to fulfill 'shariah compliance' while little efforts have been done to perform 'shari'ah based'.⁹

Second, lack of sufficient *shari'ah* court framework and regulation. From the practical perspective, there are problems that have hindrance the performance of its current Islamic banking especially in dealing with the problem of default payment. There are many cases that moral hazard and fraudulent have led the increase the cases for default payment apart from asymmetric information, economic viability, low rate of return on investment (RoI), and debt trap. Iqbal and Molyneux listed that there are four areas in Islamic banking that need for further consideration: the problem of asymmetric information and the cost involved in reducing it; the problems of moral hazard; the problem of verifying ex-ante the promises and intentions that are frequently involved in financial transactions (adverse selection problem); and the agency costs and the need for monitoring the counterparties' behavior.¹⁰

Third, the use of paper currency only and the inflationary system. One of the great economic diseases in poverty alleviation is the occurrence of inflationary. The inflation has taken away the wealth of the people. As we know, inflation will mostly affect the poor people especially the poorest among the poor. Any incremental wealth resulted from the financing program will be eaten up by the rate of inflation and leave the poor at stagnant level even worse. It is only when the additional income is much greater than the impact of inflation, their welfare could be realized. From the theoretical point of view, the reasons for inflation

⁹ Emmy Abdul Alim, *Global Leaders in Islamic Finance: Industry Milestones and Reflections*, (Singapore: John Wiley and Sons, 2014).

¹⁰ Munawar Iqbal and Philip Molyneux, *Thirty Years of Islamic Banking: History, Performance and Prospects*, (London: Palgrave Macmillan, 2005).

to take place in the economy at least coming from the fact that money supply is in excessive compared to the availability of goods and services. Whenever money is more than goods and services, the price of goods and services will be higher, because the ability of people to buy is in excessive while goods and services are limited.

Fourth, lack of integrative cooperation with *baitulmal* and *waqf* Institution. So far Islamic bank has been working separately with two important Islamic social economic institutions *baitulmal* and *waqf* institution. Less integrated system from these three institutions has led to the less effort in performing poverty alleviation. Although Islamic bank is serving the poor through *qardul hasan*, but the scheme does not really help the poor, since it is only small proportion. Based on their study, Abidin and his friends found that only 3 out of 13 of Islamic banks offer *qardul hasan* and the total amount captured for the year is less than 0.2% of the total net financing amount reported.¹¹ If there is strong integrative cooperation with Baitulmal, Islamic bank could improve their allocation of *qardul hasan* scheme. This is because *qardul hasan* can be used to perform social justice by increasing the access of the poor people for higher income, better education, health care, and physical infrastructure.¹²

RESEARCH FINDINGS AND DISCUSSION

1. Understanding the Core Poverty in Islamic View Point

In Islamic perspective, the two main sources to understand the basic or the underlying principles of Islam in many aspects of life including poverty are coming from the *Qur'an* and the *Sunnah*. The *Qur'an* is the holy book of Islam and it is the primary sources of *shari'ah* upon which all other sources of law are founded their authority, while *sunnah* is the second source of *shari'ah*. It is the traditions of the Prophet

¹¹ Ahmad Zainal Abidin *et al.*, "A Case Study on the Implementation of Qardul Hasan Concept as a Financing Product in Islamic Banks in Malaysia", *International Journal of Economics, Management, and Accounting, Supplementary Issue No. 19*, (2011), pp. 81-100.

¹² Abul Hasan M Shadeq, "Waqf: Perpetual Charity and Poverty Alleviation", *International Journal of Social Economics, Vol. 29, No.1*, (2002), pp. 135-151.

Muhammad. In the poverty issue, Islam really concerns on poverty and put serious warning for those who are able to solve it, but let it unresolved. From the *Qur'anic* revelations, there are several verses indicate how Muslim should behave concerning poverty.

First, Islam condemns those who do not care the poor people, as it is said among others in the Quran, verse 42-44, chapter 74, in which among those who are sinful, the Qur'an mentioned are those...*who do not pray nor feed the poor*. Similarly, the *Sunnah* of the Prophet Muhammad also encourages the rich to give charity and ask the poor to refrain from begging. One time, the Prophet mentioned that: *"the person who sleeps full while his neighbor sleeps hungry is not a true believer"* (Al Bayhaqi). In another *Hadith* (the saying, action and silent of the Prophet), narrated Hakim bin Hizam that the Prophet Muhammad (peace and blessings be upon him) said: *"The upper hand is better than the lower hand (i.e. he who gives in charity is better than him who takes it)* (Sahih Bukhari). While the Prophet asks the rich to put more concern on the poor, the Prophet Muhammad (pbuh) also reminds the Muslims not to become poor let alone depend on other people. There are two *hadiths* which strongly urge the Muslims to refrain becoming poverty; one is when The Prophet Muhammad (pbuh) sought Allah's refuge from it: *"O Allah, I seek Your refuge from poverty, insufficiency, and lowliness "* (Ibn Majah) while the second *hadith* is when he said, *"Poverty is almost like disbelief in Allah"* (Al Baihaqi). Therefore, it is very clear that Islam has firmly put the foundation to alleviate poverty. From the poor perspectives, they must try to work and earn the income with their hands, while for the rich perspectives; they must put serious concern to help poor. Therefore, it is incumbent upon Muslim in general, and those working in an Islamic based development organization in particular, to work towards the alleviation of poverty to build a secure and stable society.

2. State Responsibility

Islam is a comprehensive religion and has a comprehensive way and approaches to solve poverty. Al-Qardhawi suggested that the best solution to eradicate poverty is to strive for a living without depending on others for as long as we are capable of doing so. The prophet once

said, “None will ever take any food better than that of his hand’s work”. Therefore, individual effort to earn his or her life is strongly emphasized with or without the government’s help. In this case, the poor is urged to work by his own hand to pass the poverty circle. *Secondly*, poverty alleviation is the responsibility of the government. To approaches to poverty reduction programs, the government can perform general community development programs, the agricultural development programs, poverty-focused programs and the human resource development programs that focus on education of the people. The aims of these development programs are to generate employment, increase productivity and expand the economy.

Islam has urged Muslim and especially those who have the state authority to overcome the poverty problem. It is the state mission to change the *mustahiq* to become *muḥakki* and it is the state responsibility to help the core poor and the poor free from poverty. Islam places considerable importance on equity, justice, fairness and welfare of the poor and the needy. An Islamic State is responsible to fulfill the basic needs of all in the society. Eradication of poverty, upholding socio economic justice and maintaining equitable distribution of income are considered the most salient features of an Islamic state.¹³ The poverty alleviation faced stagnancy is due to the state negligence. Therefore, there is a need for structural solution to reduce poverty by the government. The prominent goal of *shari’ah* is justice and fairness and general welfare of the people, thus the *maqasid* of *shari’ah* is to safeguard public interest in this world and the hereafter.¹⁴ Fulfilling the basic needs all citizens in an Islamic society is the duty of the state and society as a whole as it is part of fulfilling the objectives of *shari’ah*.

Al Ghazali mentioned that these values are essential to preserve normal order in the society and the survival of every individual. Islam views that individual freedom and human dignity are supreme, thus securing human welfare is primary purpose behind the objective of

¹³ M. Umar Chapra, *Towards a Just Monetary System*, (Leicester: The Islamic Foundation, 1985).

¹⁴ Asyraf Wajdi Dusuki, *Islamic Financial System: Principles and Operations*, (Kuala Lumpur: International Shari’ah Research Academy for Islamic Finance, 2011).

shari'ah.¹⁵ For example, Islamic Government should enhance the educational system to the people and ensure that the poor will benefit from it. Having education provides added advantage to the people as they are able to participate in the industrialization and growth of the modern sector. This has widened the scope of employment opportunities for them, thus, bringing them out of poverty. The responsibility to protect these values should rest upon both the government and the individuals. Religion and life can be protected by meeting the basic needs that include among others, food, health and shelter.¹⁶ If the Muslims work to achieve these objectives of *shari'ah*, poverty should be at the very minimum level where social security and well-being are guaranteed.

The poor are vulnerable people that are being deprived of or have limited option and access to the basic human needs such as food, clothes, shelter, transport, education, health care, civil right and freedom to maintain a minimum standard of living. The government is created to develop the nation and to attain the welfare of the people, and one way to achieve it that is by having plan and program to reduce poverty. However, poverty reduction effort requires a comprehensive participation and coordination from different entities such as government, non-government organizations (NGOs) and private sector such us Islamic finance institutions. Multi approaches and integrative mission from all governmental agencies and departments as well as Islamic banks and other Islamic financial institutions are needed to reach objectives. The private sectors will do their part through business activities, while financial institutions will help them running their business. However, it is naïve to expect the current Islamic bank to have an integrated approach for poverty alleviation because Islamic banks are facing multi various constraints as discussed before. It needs a new approach so that poverty alleviation could be performed well.

¹⁵ M. Hashim Kamali, *Principles of Islamic Jurisprudence*, (Cambridge: Islamic Texts Society, 1991).

¹⁶ Habib Ahmed, *Role of Zakah and Awqaf in Poverty Alleviation*, (Jeddah: Islamic Development Bank, 2004).

3. The Rising of Bank Baitulmal

In this paper, the writer is proposing a new approach of an integrated mechanism of Islamic bank and *baitulmal*, namely Bank Baitulmal, which has different characteristics and mechanisms. Bank Baitulmal will have several characteristics that will differ from the current Islamic Bank as discussed below. *First, falah* or maximization via welfare improvement. One indispensable way to realize the Islamic goal of the prophet is to promote *al falah* or real well-being of all human beings on earth irrespective of their race, color, age, sex or nationality. Maximizing *falah* here means optimizing successful which is not only for this world but also for the hereafter. Therefore, the measurement of institutional successful is not measured by the profit per se, but more toward how BB is able to empower the poor, improve their welfare and make realize towards their accountability in the hereafter. The *falah* maximization is plot as the foundation of BB. The first way to realize the *falah* mission for Islamic bank is to transform *mustabiq* into *muzakki*. All stake holders of Bank Baitulmal should realize the importance of having strong mission to transform *mustabiq* into *muzakki* within a definite time frame. Transforming *mustabiq* into *muzakki* could be done through the Bank Baitulmal Empowerment Mechanism. However, *falah* maximization also has to be translated as trying to achieve maximum successful in the hereafter. So it does not stop at the point where the worldly welfare has been achieved. But the BMM has the long mission to transform the stakeholders especially the recipients to become more accountable towards their God through its social capital improvement.

Second, government's ownership. The second feature of Bank Baitulmal is that it belongs to the government. This is to help realize *falah* maximization because it can't be done by private sector which normally has strong profit motive. As a result, part of community members such as poor are being financially neglected. Consequently, all the operational cost to run the BB will be covered by the government. Unlike many of Islamic banks which cover their operational cost from the profit made from its projects, the BB will have strong financial sustainability provided it is operated in the appropriate management system. The most important thing, that the government will allocate its

fund for development through the Bank Baitulmal. So far, there is no government Islamic bank play a role in the system. This institution will integrate several of important aspects such as legal, theological, economical, political, financial and social aspects. It is expected that by having Bank Baitulmal, the government has a strong structural financial institution to alleviate poverty. The advantage of this position, the BB will have strong fund to financially include the core poor, the poor and the less poor into their financial services in the form of *hibah*, *qardul hasan* if they reach status the less poor, then they will be financially served with *profit and loss sharing* schemes such *mudaraba* and *musyaraka*. Secondly, the government could strongly link the BB with the *Baitulmal* and *Waqf* institution. The *Baitulmal* is operating its *zakah*, *infaq* and *shadaqa* (ZIS), while the *Waqf* institution is ruling the *awqaf* fund.

Third, Strong regulation basis. *Bank Baitulmal* is built by the Government through legislation approval from legislative body. So, it has strong legislation basis. As it is owned by the government, the Bank Baitulmal is able to have strong link with the police department and attorney to prosecute any breach of contract if the lost is due to fraudulent. This strong relationship will help the Bank Baitulmal to reduce default payment from moral hazard, because any fraudulent will be brought to the court and customer the will be punished. Therefore, there is a very clear indication to warn and execute of any negative act against the contract that have been made between BB and the clients. It is easy for the government to confiscate the asset or even to put penalty on any wrongdoings. Another negative element of conventional banking system has excluded the poor people financially is the requirement of *collateral*, now it could be replaced by the principle of *trust*. But this has to be strictly abide the receiver, in which breaking the trust, the fund receiver will be penalized strongly.

Fourth, strong integrated financial support from *waqf* and ZIS funds. The need to link the Islamic financial institutions like Islamic banks with charity of *waqf* (endowment) and ZIS' funds has been realized by many Islamic scholars. The core poor are seen as bad credit risk and therefore, they are neglected from credit scheme. It means they are not ready to face financial risk, and for them, charity based will be appropriate.

Charity fund could be used to help providing safety net to the very poor and uses the *waqf* fund to build capacity and technical assistance for skill improvement before they are linked to financial service. Apart from government's funds coming from national income/wealth, there are two other sources of funds that could be used for enhancing livelihood programs through charity based and *qard al hasan* scheme. These funds will be used first to support the basic need and necessities of the core poor and the poor through the charity based. The charity fund could be also used to help finance for several forms of events of the poor people such as personal crisis; sickness, injury, loss of employment, death, house damage or burned, theft, accident or natural disaster such as earthquake, floods and famines. This fund could further be used for improving education, health condition, and home constructions to reach the level of necessities for the poor. While for the less poor, they could be served directly from *qardul hasan*. Financing house or other necessities for the poor which may cost large amount of money are now very possible under the scheme of *qard al hasan*. This Bank Baitulmal empowerment mechanism can replace *murabaha* and *BBA*. More than that, as it is similar to other bank, Bank Baitulmal also has deposit from those depositors who want to invest their money as in the case of normal bank, and therefore this institution has enough funds to perform equity financing. Financial services will be integrated to help the poor move from economically inactive to economically active, from using the *qard hasan* fund for consumptive or livelihood purposes to equity financing such as profit and loss sharing scheme for productive purposes. Some fund could be used for improving social capital such as to educate the stake holders on Islamic values as well as training for client's skill and capacity. Combining the three sources of fund, the fund could also be used to support medium and large investment programs.

Fifth, 100% reserve system. The Bank Baitulmal will adopt 100% reserve system and not fractional reserve. It is because, it avoids from inflationary, instability of economy to the society. It doesn't have to worry on fund insufficiency since it has enough funds to support financial services. This system will help economy reduce the inflationary since the increase of money supply will not be as fast as in the case fractional

reserve. It helps economy to grow without destroying its value. Since the money supply will only increase when the economy really grows, there is enough time for the good sector to have balance with financial sector, hence creates stability in price level. Temporary price increase is acceptable, but because the increase in money supply is not much, the price will tend to decrease again.

Sixth, gold dinar as parallel currency. Theoretically, there are advantages of having gold currency rather than fiat money. It is more universal, more stable, less speculative, less inflationary and induces more *shadaqah*. Gold currency form has shown to be stable in the long run; therefore, it has to be reconsidered to include in our financial transaction although many obstacles could hamper it appearing into reality. We could not deny that the value of dinar in the time of the Prophet Muhammad SAW, was equal to a sheep, and nowadays, the value of a dinar is still equivalent to a sheep. This has shown us at least the proper currency will prove the Qur'an *surah 2* verses 279 to be true. Otherwise, we still face with huge fluctuation of the currency system, which resulted a man lose its money. At least, the gold *dinar* could help sustaining poor's welfare. The Bank Baitulmal will use parallel currencies that are paper and *dinar*. Although many are still against the use of gold due to its insufficient and vulnerable system, one should not neglect it at all. Insufficient gold may because of inequalities distribution of welfare. With the good system of dinar currency, it is expected that the fluctuation of the value of money could be resolved and hence, it help poor people to regain their identity. The parallel system uses gold currency to be adopted slowly in which the Bank Baitulmal could lend it in the form of *qardul hasan*.

Seventh, Strong Islamic social capital mission. There are three levels improving of social capital of Bank Baitulmal. First, is by inserting the values of *tauhid* (the oneness of God) and the *iman* (faith) towards unseen world, the reward and punishment from God either in this world or in the hereafter. These values are the foundation of the next level of social capital. This is needed as to create the same mission for all the members of stake holders such as to get rid of the poverty by improving the income generation as well as improve the understanding of Islamic

teaching. Then secondly, there is a need to strengthen the values the moral and ethics so that this will improve the accountability of each client or recipient of the Bank Baitulmal. By this, hopefully the fraudulent acts could be reduced. The small entrepreneurs will need to have Islamic entrepreneurial skill to operate their business with the help of Bank Baitulmal's team of consulting.

To perform these three levels of social capital values, the Bank Baitulmal needs to set up its own department which regulate and operate the social capital mechanisms. Apart from that, the Bank Baitulmal would have good network between internal departments with external support institution. External support institution is an inter-link institutions such as *Ulama* council) and Professional Consulting. The *Ulama* council will be used for developing and supervising *shar'ia* compliances are fulfilled while the professional consulting is needed to develop the special skills related to microfinance industry. The Bank Baitulmal will have strong training and consulting team to improve social capital. The mission on this team is not only to improve financial literacy, technical skill and managerial skill for the staffs and the clients, but the team also put a long term mission to educate all the stake holders of BB; started from its own staff, the government officers, the depositors and all customers in accordance with the will of the *shari'ah* aims i.e. to transform people from *jahiliyah* (not knowing) to become '*alim* (knowledgeable person) in many areas of '*ilm* (knowledgeable). This mission in needed so that to upgrade the capacity building at all level of stakeholders; especially staffs and clients.

CONCLUSION

Applying all these categories, the Bank Baitulmal is expected to solve the limitation of either Islamic Bank or *Baitulmal* in alleviating poverty. And this institution could have stronger effects towards poverty alleviation. The unique features of the Bank Baitulmal such as its strong *falah* mission for upholding justice, belongs to the state or government, strong regulation basis, strong integrated financial support from *waqf* and ZIS' fund, the use of gold dinar as an alternative currency, 100% reserve system and strong capital social mission are believed to have

reduced the internal as well as external constraints of Islamic bank in performing poverty alleviation programs through its financial services. The Bank Baitulmal is more applicable towards social justice.

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