

THE PROSPECT OF ISLAMIC MICROFINANCE INSTITUTION IN INDONESIA

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Abstrak

Institusi keuangan mikro Islam di Indonesia dikenal sebagai Baitul Mal Wattamwil (BMT). Tujuan dibentuknya BMT adalah untuk membantu pengusaha mikro, kecil dan menengah agar bisa mengakses pembiayaan dalam rangka mengembangkan usaha. BMT mendorong banyak pihak untuk mendirikan dan mengembangkan BMT dengan hanya berbekal ilmu baik tentang filosofi, pengelolaan BMT dan berorientasi jangka pendek yang berdampak pada BMT yang bermasalah. Akibatnya banyak persoalan muncul seperti alokasi dana yang tidak tepat, kecurangan pengelola, moral hazard dan bahkan berujung dengan kolapnya BMT tersebut. Dari hal tersebut perlu mengidentifikasi persoalan dan tantangan yang dihadapi BMT baik dari sisi regulasi, supervisi, manajemen operasional, sumber daya, maupun instrumen-instrumen yang terkait. Barulah kemudian mendesain tawaran solutif untuk menyelesaikan persoalan dan menaklukkan tantangan, sekaligus menyusun rekomendasi pada pihak-pihak berotoritas untuk memitigasi dan menyelesaikan persoalan.

[The Islamic microfinance institution is well known as Baitul Mal Wattamwil (BMT). The purpose of establishing the BMT is to help micro and medium entrepreneurs to be able to access financing to develop their business. The BMT stimulates and supports people to establish and develop it only by having a modal of knowledge, for example philosophy, management of BMT and having short orientation that leads to the emerge of problem in the BMT.

Consequently, many problems occur, such as mismatch of fund allocation, fraud of depositor fund, moral hazard that lead to the collapse of the BMT. Regarding to those problem, it needs to identify problems and challenge faced by the BMT from the aspects of supervision, operational management, resources and other related instruments. Moreover, it is also necessary to design solution of the problem as well as to arrange recommendation to the authoritative people to solve the problem.]

Keywords: *Islamic micro Finance Institution, Challenge of BMT, Problem, Solution*

Introduction

The mushroom growth of Islamic banking in Indonesia¹, though recent has been phenomenal, especially after the Indonesian government giving support to the industry development by formal regulation, namely Banking Act No. 10 Year 1998 and Islamic banking act No. 21 Year 2008.² There are three types of Islamic bank in Indonesia. They are Islamic commercial banks (BUS), Islamic banking units (UUS) and Islamic rural banks (BPRS). Until August 2012, there are 11 Islamic commercial banks, 24 Islamic banking units, 156 Islamic rural banks. Total number of offices around Indonesia is 2460.³ Unfortunately, there are 32% of Indonesian people did not have any account in bank, and 40 % of Indonesian people did not have any acces to the bank for getting credit or financing. It's mean that about 90 million people of Indonesia are not reached by bank service because of their condition as unbanked people. For this reason, the existence of financial inclusion that provide financial service for their

¹ Indonesia is the largest archipelago in the world, having 13.667 island, 300 tribes, and 336 ethnic groups who speaks more than 250 different languages and dialects. Its located between two oceans, the Pacific and the Indian Oceans. Indonesia also the largest Moslem population in the world, about 82,5% citizen of Indonesia (end of 2011 about 237 million people) are Moslem.

² Nur Kholis, "Portrait of Islamic Political Economy in Indonesia for Reformation Era", *Journal MILLAH, Master of Islamic Studies UII* (accredited journal), Vol. X, No. 2, February 2011, p. 420.

³ *Islamic Banking Statistic*, (August 2012), p. 1.

interest is needed.⁴ Financial inclusion that configured many years ago (since 1990-an) is BMT.

BMT is an acronym of *Baitul Mal wat Tamwil*, a type of Islamic microfinance institution in Indonesia. Actually BMT is not an bank, but it is operated like a bank. BMT is an Islamic microfinance institution, established by individual or group initiatives to help micro- entrepreneur as a strategy for eradicating rural poverty,⁵ especially in villages or traditional markets, operationally based on syariah principles and cooperation.⁶ End of Year 2010, there are about 4000 BMT overall Indonesia.⁷

BMT is needed by the society of Indonesia because these rational, namely: (1) There are more than 51,3 millions micro-entrepreneur in Indonesia.⁸ (2) There are just a few banks having good attention and having willingness to provide credit scheme for micro-entrepreneur. In other word, micro-entrepreneur have many constraints to access credit and financing scheme from banks.

The existence of BMT should contribute to alleviate poverty from society because one of their aims is helping micro-entrepreneur by providing micro credit scheme for them as a strategy for eradicating rural poverty. Sen defines poverty as the deprivation of basic capabilities that provide a person with the freedom to choose the life he or she has reason to value. These capabilities include good health, education, social networks, command over economic resource, and influence on decision-making that affect one's life. Income is important because money allows a person to develop his or her capabilities, but it is only a means to live

⁴ "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 69 Year VI, September 2012, p. 10.

⁵ It is related with a research done by Saad al-Harran in Malaysia that published in book format, namely Saad al-Harran, *Islamic Marketing Strategy Eradicating Rural Poverty in Malaysia* (Selangor: Pelanduk Publication, 1994).

⁶ PINBUK, *Pedoman Cara Pembentukan BMT...*, p. 2.

⁷ "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 47 Year V, November 2010.

⁸ *Badan Pusat Statistik (BPS)*, 2009.

a valuable life.

According to the standard of world bank, poverty line for absolute poverty is 1 dollar per day (about Rp 9.250,-), unfortunately poverty line in Indonesia only Rp 5.095 per day or 0,55 dolar AS. Based on this poverty line, the statistic of poverty people in Indonesia 29,13 million.⁹ If the poverty line in Indonesia is increased to Rp 5.300 (0,57 dolar AS), the the statistics of poverty people in Indonesia will be 45,9 million. If the poverty line in Indonesia is increased to 0,99 dolar AS, the the statistics of poverty people in Indonesia will be 109 million. So, the poverty is a crucial problem faced by Indonesian society.

Based on these realities, it is very important to provide many financing scheme to make poverty people leave their poverty by their effort themselves. The possible finance institution that provide this scheme is BMT. In this case, BMT has very big role and contribution to eradicate and alleviate poverty from the society. Although BMT had big role and contribution in poverty alleviation by providing Islamic microfinancing scheme to micro entrepreneur but the existence and development of BMT face many challenges and problems. So that, this research tries to identify problem and challenge definitely faced by BMT as Islamic microfinance institution in Indonesia. Problem identification extracted from many angle of views like regulation, supervision, operation, human resources, operation system, instrumens, etc. Based on the problem and challenges identified, this research also elaborate and design solution for the problem identified, and arranging recommendation for competent authorities to solve the problem.

Furthermore, Dadan wrote an article, *Urgency of Legality for Islamic Micro Finance Institution*. This article recommend that government of Indonesia have to legislate specific regulation for Islamic microfinance institution. If the existence of BMT supported by clear and robust regulation from government so that there are formal institution in

⁹ BPS, *Laporan Bulanan Data Sosial Ekonomi*, Edition 27, August 2012, p. iv.

government that provide services regularly for BMT's supervision, BMT's development assistance and guarantee in the case of liquidity problem, it is believed that BMT will enhance their role to alleviate poverty in Indonesia.¹⁰

While a research conducted by Kholis resulted finding that the experience of BMT Dana Syariah in Yogyakarta shows positive result of Islamic microfinance activities. The financing activities done by BMT Dana Syariah generate positive economic effect include income growth and reducing poverty, self employment, asset ownership, food security, and capability to make their children educated. Based on the above explanation, there is no doubt that the BMT Dana Syariah as one Islamic microfinance institution has played an important role in the provision of micro-financing for micro enterprises and, thus, the reduction of poverty in Yogyakarta especially in Pakem market community, although the outcome is not as impressive yet.¹¹

Habib Ahmed wrote an article *Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions*. It is about theoretical basis, operational framework, and empirical support for the establishment of Islamic microfinance institutions. Before presenting Islamic microfinance institutions as a good alternative of microfinance institution model, he evaluated the conventional microfinance institution. According to some microfinance institution in meeting some of their objective. Some of recent studies, there were many facts point out the failure of the conventional the problem identified are (1) asymmetric information problem, (2) economic viability of the conventional microfinance institution, (3) low rate of return on investment, (4) high drop out rate

¹⁰ Dadan Muttaqien, "Urgency of Legality for Islamic Micro Finance Institution", in *Journal MILLAH, Master of Islamic Studies UII* (accredited journal), Vol. X, End Year Special Edition, December 2010, p. 193.

¹¹ Nur Kholis, "The Contribution of Islamic Micro Finance Institution in Increasing Social Welfare in Indonesia (A Case Study of BMT's Role at Pakem Market Traders Yogyakarta)", in *Jurnal Ekonomi Islam SYIRKAH*, Vol. 4, No. 1, 2009, ISSN: 1978-0079, p. 51.

and non graduation from poverty, (5) debt trap, (6) targetting woman as recipient.¹²

After critically evaluating the conventional microfinance institution, he presented Islamic microfinance institution as a good alternative of microfinance institution model. He wrote that theoritically there is a great potentiality of Islamic microfinance institutions that can cater for the needs of the poor. Islamic microfinance institutions have some inherent characteristic that can mitigate some of problem faced by conventional microfinance institution. Empirical evidence from three Islamic microfinance institution operating in Bangladesh, in general, support some of theoritical assertion. The case studies, however, reveal that Islamic microfinance institutions have not yet tapped some of the sources of funds, nor have they used the variety of financial instrument in their operation.

PINBUK had also conducted a study of development evaluation of Pondok Pesantren Cooperative (KOPONTREN) and BMT. The study was conducted based on the survey upon 24 BMT and 30 KOPONTREN in three province, west Java, middle Java and east Java province. The study conclude that there three external factor which possibly support the existence of KOPONTREN and BMT. They are (1) the conscience and willingness of Moslem to utilize and assist the Islamic financial institution. (2) KOPONTREN and BMT basically serve the customer well, both in delivering the product or service, and collecting the customer obligation; (3) KOPONTREN and BMT provide the easy procedure to get the finance project.

Besides the supporting factor, the research also found some external obstacles. They are (1) the lack of knowledge of society toward BMT, as well as (2) misunderstanding among the part of society about the social and religious role of KOPONTREN and or BMT. (3) It is also

¹² Habib Ahmed, "Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions", in *Journal Islamic Economic Studies*, Vol. 9, No. 2, p. 27-64.

found that basically there is no leading competitive commodity that can be financed; (4) KOPONTREN and BMT at most are lack of supervision and development assistance; (5) there is no single institution which can provide guarantee in the case of liquidity problem.

Amir Mu'allim explained that the problem faced by BMT are the existence of society prejudice toward operation of BMT that are not in line with syariah rules. It caused trust degradation of saver of BMT and saver candidate. He also stated that the development of Islamic banking industry is very rapid but it does not accompanied by supported infrastructure like professional human resource available and legality infrastructure. This situation bring Islamic banking in trouble in the future. He concluded that the complexity of problem faced by Islamic financial institution, especially BMT, bring negative impact to the society trust toward Islamic financial institution, especially BMT.¹³

While a research conducted by Abul Hasan M. Sadeq resulted any finding, namely the experience of Bangladesh shows positive result of microfinance activities, although the outcome is not as impressive and even if some have serious doubt about any positive income effect. Besides, the way the microfinance activities are being undertaken seem to raise serious social concern, which seem to have affected religious feeling of people by affecting local faith and culture, leading to social unrest and conflicts, transmitting the effect even to the national election.

He shows at the paper that there is an alternative example that microfinance institution operated based on Islamic teaching (syariah). This kind of Islamic microfinance institution seems to be free from the alleged undesirable socio-cultural effect. In fact, the IMFI came into being with an objective to free microfinance activities from the alleged undesirable socio-cultural implications even interest free.¹⁴

¹³ Amir Mu'allim, "Persepsi Masyarakat terhadap Lembaga Keuangan Syariah", *Jurnal al-Mawarid*, X Edition, Year 2003, p. 17-31.

¹⁴ Abul Hasan M. Sadeq, "Poverty alleviation and Economic Development: Theory and Practice", A Paper presented in *First International Conference on Inclusive*

Based on the literature review delivered, this research is different from previous researches conducted about BMT and Islamic microfinance in other model. This research is done to analysis the challenges and problems facing Islamic microfinance institution in Indonesia and their's proposed solution.

Historical Development of BMT in Indonesia and ITS Business Model

Historical Development of BMT in Indonesia

Baitul Mal Wattamwil (BMT) is an Islamic micro finance institution, established by individual or group initiatives to help micro and medium entrepreneur as a strategy for eradicating rural poverty or alleviating poverty, especially in villages or traditional market, operationally based on syariah principle and cooperation. BMT is an unique Islamic micro finance institution established by Indonesian Moslem to abolish *ceti* or *rentenir* and avoid *MAGHRIB* (*Maysir, Gharar and Riba*) in Indonesian Moslem societies by providing many financing schemes for helping micro and medium entrepreneur.

BMT as Islamic microfinance institution started to emerge in Indonesia in the early 1980s with the establishment of *Baitut Tamwil Salman* in Bandung and *Koperasi Ridho Gusti* in Jakarta. BMT is a name of institution resulted from combination of two concepts, namely *bayt al-mal* and *bayt al-tamwil*. Concept of *bayt al-mal* refers to institution at the era of Rasulullah Saw that managed fund resulted from any resources, namely *ghanimah, jizyah* etc to be delivered to the rightful claimant based on Islamic principle.¹⁵ The establishment of *bayt al-mal* directed as *Islamic Financial Sector Development*, Brunei, organized by IRTI and CIBFM, 17-19 April 2007, p. 24-54.

¹⁵ Abdullah Alwi Haji Hassan, "Konsep dan Peranan Baitulmal di Zaman Kegemilangan Islam", in Nik Mustapha Hj. Nik Hassan (ed.), *Ke Arab Pembangunan Baitulmal Kebangsaan* (Kuala Lumpur: PPZ and MAIWP, 2003), p. 2. See also Zakariah Abdul Rashid, "Baitulmal: Konsep Asal dan Amalan Masa Kini", in Nik Mustapha Hj. Nik Hassan (ed.), *Ke Arab Pembangunan Baitulmal Kebangsaan* (Kuala Lumpur: PPZ and

institution had a right to manage public finance in Islam. *Bayt al-mal* in BMT has a function as a collector institution of *zakat*,¹⁶ *infaq*, *sadaqah*, *wakaf*, and distributor to those who are deserve it (*mustabiq*).¹⁷ *Baitul altammil* in BMT is financial institution with business oriented and develops productive businesses as well as investment which addressed to enhance the quality of human economic life especially for those who are having small economy.¹⁸ The noble aims of BMT establishment are helping micro and medium entrepreneur by providing many Islamic financing schemes for them based on syariah principle and cooperation. Of course it is very good goal.

BMT is not a bank, although most them operate exactly like bank. Some BMT are registered with Ministry of Cooperation and Small Enterprise as syariah saving and loan cooperative. Some BMT also becomes part of Islamic cooperative or as the business unit of Islamic charity organization. Most operates informally with minimum regulation and supervision.

At the beginning of 1995, Chief of ICMI (Ikatan Cendekiawan Muslim Indonesia) make collaboration with chief of MUI (Majelis Ulama Indonesia) to build a foundation named Yayasan Inkubasi Bisnis dan Usaha Kecil (YINBUK)¹⁹, a foundation for developing micro entrepreneur, legalized in front of a notarist Leily Yudoparipurno, SH. No. 05, Mac, 13, 1995.²⁰ The objective of this foundation is to develop

MAIWP, 2003), p. 41-43.

¹⁶ Didin Hafidhuddin, *Zakat dalam Perekonomian Modern* (Jakarta: Gema Insani Press, 2002), p. 91-123; See also Mohd. Ma'sum Billah, *Islamic Law of Trade and Finance A Selection of Issues* (Petaling Jaya: Ilmiah Publishers, 2003), p. 247.

¹⁷ Amin Aziz, *Tata Cara Pendirian BMT* (Jakarta: PKES, 2006).

¹⁸ Hertanto Widodo *et al.*, *Panduan Praktis Operasional Baitul Mal Wattammil (BMT)* (Bandung: Mizan, 1999), p. 81.

¹⁹ Sofyan S. Harahap and Yuswar Z. Basri, "The History and Development of Islamic Banking in Indonesia, 1990-2002", in Bala Shanmugan (ed.), *Islamic Banking: An International Perspective* (Serdang: Universti Putra Malaysia Press, 2004), p. 41.

²⁰ PINBUK DIY, *Company Profile PINBUK DIY* (Yogyakarta: PINBUK DIY, t.t.), p. 3.

micro and medium entrepreneur. The operation of YINBUK supported by Pusat Inkubasi Bisnis dan Usaha Kecil (PINBUK), a center established by YINBUK for developing micro entrepreneur in the society. Contributed by this foundation, the development of BMT as an Islamic microfinance institution is spreading overall Indonesia.²¹

The development of BMT in Indonesia has been rapidly developed. The number of BMT has risen from 300 at the end of 1995, to 1501 at the end of 1997, and 4000s at the end of 2010. The exact number of BMT is almost impossible to be counted fairly as many of BMT are not registered in PINBUK (Pusat Inkubasi Usaha Kecil) or affiliated to other NGO. Asset of all BMT in Indonesia per October 2010 about IDR 4,5 Trilyun.²² Many BMT are very succes in developing their business, their asset many milyards, for example BMT Ben Taqwa Grobogan, BMT BUS Rembang, BMT al-Ikhlas Yogyakarta etc.

BMT have more outreach than Islamic bank. The outreach of Islamic bank is usually at big cities and provincial capital cities. BMT on the other hand their outlet and offices in small rural cities, village, suburbs or big cities' slum. They serve people who never has acces to finance before.²³

BMT distribute loan starting from IDR 100.000,- (USD 12) to IDR 50 million (USD 5500) to micro entrepreneur. BMT as bottom up initiative of the people have advantages of informal network with their member. With their unique approach, they serve large constituency, many of them are not bankable and do not have acces to financial institution before.

²¹ M. Amin Aziz, "Prospek BMT Berbadan Hukum Koperasi", in Baihaqi Abd. Madjid and Saifuddin A. Rasyid (eds.), *Paradigma Baru Ekonomi Kerakyatan Sistem Syariah: Perjalanan Gagasan & Gerakan BMT di Indonesia* (Jakarta: PINBUK, 2000), p. 179.

²² "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 47 Year V, November 2010, p. 24.

²³ Sulistyowati, "Mengembangkan Franchise BMT-BNI" in Irwan Kelana (eds.), *Perbankan Syariah Masa Depan* (Jakarta: PT Senayan Abadi, 2003), p. 158-159.

Business Model of BMT

BMT is an Islamic microfinance institution that integrate all economic and social activities in the nearest society. The activity of BMT as *baitut tammil* is to develop productive business by promoting saving activity and helping the members by providing many financing scheme to many business activities based on syariah principle and cooperation. BMT as *baitul mal* has social function by supporting social fund such as *zakat*, *infaq*, *sodaqoh* and distributed with the principle of society empowerment to those who are deserve it (*mustabiq*).

To establish a BMT is not a complicated process, even it is easy enough. A group of people who are interested to establish a BMT in their society need find support from their community leader and prominent member of the society. With the approval and support of the community leader, this group can make founding committee consist of 5 people. The main job of the committee is to get 20-40 people as first founder who would like to invest in BMT (pay initial shares). Then BMT issues share certificate for the investor. Once BMT has initial capital of IDR 20-30 million, they can have first general meeting to establish BMT formally. In the first general meeting they can form BMT management board. The management board then will be responsible in attaining the business permit from PINBUK and DEPKOP (Department of Cooperation) and prepare the operational and infrastructure. BMT manager need to have 2 weeks training from PINBUK before they can officially run the business.

BMT operation is based on syariah principle. BMT avoid interest or *riba*. BMT product can be classified into three: purchase form, profit sharing form and borrowing form. For the purchase form, the major instrument in BMT, there are *mubabah*, *istisna*, *bay' al-salam*, and *ijarah*. Most of transaction between BMT and the it member based on purchase form, especially *murabahab*.²⁴ Some BMT has started to have *mudharabah*

²⁴ Muhammad Akhyar Adnan *et al.*, *Study on Factors Influencing Performance of The Best BMT in Indonesia* (Jakarta: PT Redecon dan USAID, 2001), p. 56.

and *musyarakah* although the share of it is limited. The obstacle for profit sharing form is most micro entrepreneur don't have neat transaction record or accounting process, whereas accounting record is a mandatory requirement for profit sharing scheme.

There are many development agent for developing BMT in Indonesia. The Ministry of Cooperative and SME (Small and Micro Enterprises) is the formal agent for developing BMT in Indonesia. Beside it, there are many (Non Government Organization (NGO) currently working side by side with the government to develop BMT. They are:

Pinbuk

Pusat Inkubasi Usaha Kecil (PINBUK) was established at 1995. PINBUK is the biggest agent for developing BMT. Since it established, PINBUK established about 3000 BMT all over Indonesia. The focus of PINBUK is developing microfinance institution (not always BMT) to support small and micro industries in one area. PINBUK provide software based on IT for BMT operation. The provider of BMT software under PINBUK foundation is USSI online.²⁵ Although PINBUK also have training program for BMT's officer, it main focus is to facilitate the first establishment of BMT.

BMT Center

BMT center was established at 2005. The main focus of BMT Center is networking and channeling. BMT Center as a coordinating body aims to develop network among members and develop BMT potencial. The institution tries to stay as non government, professional, transparent and managed by independent people who are not BMT manager. BMT Center initiator is Dompot Dhuafa. Currently BMT Center established cooperation with PT PNM (PT Permodalan Nasional Madani), a state owned enterprise to distribute channeling funding to eligible BMT. Members of BMT Center needs to submit their financial statement as

²⁵ Amin Aziz, *Tata Cara Pendirian....*, p. 25.

one of eligibility criteria to become member or to receive such as capital funding from PT PNM.

Microfin Indonesia

Microfin Indonesia was established at November 30, 2001 with the objective to participate in empowering micro and medium sized enterprises by strengthening islamic microfinance institution. Microfinance Indonesia has more than 700 BMT partners who they have build cooperation so far. The cooperation varied from channelling fund, trainings, establishment and legal assistance and management consultancy. Currently, Microfin Indonesia has 7 branches and it's representative spreaded over 20 provinces in Indonesia.²⁶

Microfin Indonesia have strong relation with *Baitul Mal Muamalat* (BMM) as many of the founder also come from BMM. Many BMT development program of BMM are executed by Microfin Indonesia. Microfin Indonesia also build cooperation with Ministry of Cooperative and Small Medium Enterprise. One of cooperative configuration between Microfin Indonesia and Ministry of Cooperatives and Small Medium Enterprise is ditributing funding grant from Ministry to BMT. In this program, Microfin Indonesia has duties to monitor the progress of funding recipient.

Product and Services of BMT

Mobilization of funds from saving-surplus units in the economy is an important task of a financial intermediary for BMT. As an Islamic microfinance institution that had many constrain in nature, BMT in general attempt to achieve this goal by creating and selling a variety of financial product that match the needs of the saving-surplus unit. BMT is engaged in mobilizing saving from the society by offering syariah compliant product that also vary with respect to other dimension

²⁶ <http://www.microfin-center.com/web>, accessed August 1, 2011.

of return, risk, liquidity, maturity, safety, stability and the like. Some BMT expand their service based on IT service, for example BMT al Munawwarah (Pamulang Banten) make collaboration with BSM to provide ATM Card for customer transaction. BMT al Munawwarah (Pamulang Banten) also make collaboration with Bank OCBC NISP to provide on line service for payment.²⁷ Product and service of saving mobilization (deposit) provided by BMTs are similar. Most product and service of saving mobilization (deposit) offered by BMT operated by application of *mudharabah* and *wadi'ah* instrument. They are listed below:²⁸

Table 1:

Deposit Products in BMT (in general)

| No. | Name of Products |
|-----|---|
| 1. | <i>Mudharabah</i> Saving Account |
| 2. | Pendidikan Saving Account |
| 3. | Haji Saving Account |
| 4. | Qurban / Aqiqah Saving Account |
| 5. | Time Deposit Account 1, 3, 6, 12 months |
| 6. | Amanah Saving Account |
| 7. | <i>Wadi'ah Daman'ah</i> Saving |
| 8. | General and institution Saving Account |

Source: *Company Profil BMT*

While the product of financing provided by BMT also are similar each other. They are explained below:

Table 2:

The product of financing provided by BMT (in general)

| No. | Names of Products |
|-----|--|
| 1. | <i>Mudharabah</i> Financing |
| 2. | <i>Musarakah</i> Financing |
| 3. | <i>Murabahah</i> Financing |
| 4. | <i>Bay' Bi Ithaman A'jal</i> Financing |
| 5. | <i>Qardul Hasan</i> Financing |
| 6. | <i>Rahn</i> Financing |
| 7. | <i>Ijarah</i> Financing |
| 8. | <i>Wakalah</i> Financing |

Source: *Company Profil BMT*

Challenges and Problem Faced by BMT As An Islamic

²⁷ "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 26 Year III, February 2009, p. 22-23.

²⁸ "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 10 Year I, August 2007, p. 22.

Microfinance Institution in Indonesia

From the previous explanation, it is understood that the noble aims of BMT's establishment are helping micro and medium entrepreneur by providing many Islamic financing schemes for them based on syariah principle and cooperation. Opportunities for enhancing contribution of BMT for human prosperity are available for instance: the acceleration of IT development, the number of Moslem population, the number of micro and medium entrepreneur, good reputation of micro enterprise as a robust institution from any crisis, etc.

On the journey of bringing the goal into reality, there are many "blind passengers" that hijacked the noble aims to their own interest like wealth accumulation, getting higher benefit, misappropriating depositor fund for their own business, etc. The blind passengers operated micro finance institution named by BMT but in the fact they operated their BMT biased from Islamic principle and the philosophy of BMT's establishment. Finally, many problems occurred for instance BMT collapse because of mismatch in fund allocation, practise fraud of depositor fund, liquidity problem, moral hazard done by employee and other. Problems and challenges faced by BMT and their proposed solution can be described below: first, regulation and Standardization for BMT's Establishment and Operation. Until now, there is no specific act and regulation on BMT in Indonesia. The existence of BMT in Indonesia is based on Act of Cooperation and Ministerial Decree about KJKS (Koperasi Jasa Keuangan Syariah/Cooperation for syariah finance services), it's means that the regulation of BMT is still on the conventional system.²⁹ The Act of Cooperation only regulate cooperation in conventional configuration. Lack of regulation implies the existence of BMT in Indonesia is not robust and also implies the trust of society to BMT is less than their trust to Islamic bank that regulated by specific act (Act.

²⁹ "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 47 Year V, November 2010, p. 24

No. 21 Year 2008), because there is no formal standarization regulated for BMT.³⁰ This problem effect the stability of BMT existence, because it give chance for many “blind passangers” that hijacked the noble aims of BMT for their own interest like wealth accumulation, getting higher benefit, misappropriating depositor fund for their own business, etc. They conduct the business of BMT unethical and opposite to syariah principle and prudential principle. Because there is no act and regulation and standarization for BMT’s establishment and operation, their fraud and deviation from the nature of BMT can not be sanctioned properly. The consquence of their activity, the reputation of BMT in the society is damaged and depraved.

Proposed solution for this problem is encouraging the government of Indonesia to arrange spesific regulation for Islamic micro institution such as BMT³¹ and also standarization for BMT’s establishment and operation. According to Jularso (Chief of BMT Center), now the concept of regulation for Islamic microfinance institution discussed in DPR (People Representative Assembly) Republic of Indonesia. BMT Center asked to give opinion about it, in order to the act about Islamic micro finance institution will not impinged with the act of cooperation.³² If the act and regulation for Islamic microfinance institution regulated, it must be accompanied by derived regulation that make easy implemented.

Second, supervisory Board and Standarization for BMT’s Health in CAMELS Aspects. Until now, there is no definite supervisory board that supervised the operation of BMT. Ministry of Cooperatives and Small Medium Enterprise only give BMT status as legal entity but do not closely supervised and monitored the operation of BMT. It is very different with syariah rural banks (BPRS) that are supervised and monitored by Central bank (Bank Indonesia). Non government organization such as BMT Center, PINBUK, Microfin Indonesia played an important

³⁰ *Magazine Sharing...*, edition 10 Year I, August 2007, p. 19

³¹ Dadan Muttaqien, “Urgency of Legality...”, p. 534

³² *Magazine Sharing...*, edition 47 Year V, November 2010, p. 25.

role set up the benchmark and monitor their members. It's mean that non member BMT of those organization have no benchmarking and monitoring proces from any organization.³³

The absence of formal supervisory board who supervise all BMT operation in Indonesia impose a great inherent risk for BMT.³⁴ Currently, there are some cases where the treasurer or manager of BMT committed fraudulent action by stealing customer's money of BMT and left the cash vault empty. Other cases occur because of mismatch or mismanagement done by manager or treasurer of BMT in allocating money of BMT's customer. This condition bringing on BMT to unable to pay the deposit of BMT's customer when they withdraw their money. Usually the case will be spreaded quickly among customer, furthermore will be a rush of money. What will be happen for the next? BMT will be collap. There are some BMT in Yogyakarta fallen up this case,³⁵ for example BMT Isra in Bantul, BMT Amratani in Sleman, BMT Falah in Sleman, and BMT Jim in Prambanan.³⁶

Proposed solution for this problem is encouraging the government of Indonesia to set up a formal supervisory board that supervise and monitor all BMT operation and arrange standarization for health of BMT in CAMELS aspect.³⁷ Ministry of Cooperative and SME represent government should not only give legal status for BMT but also supervise and monitor the performance of BMT and give BMT's grade in health of BMT in CAMELS aspect like the role of central bank in supervising and monitoring Islamic banks and Islamic rural bank. On Ministry of

³³ Ersya tri Wahyuni, "The Accountability of Islamic Microfinance Institution: Evidence from Indonesia", *Prosiding International Conference on Inclusive Islamic Financial Sector Development*, organized by IRTI and CIBFM, 17-19 April 2007.

³⁴ Magazine Sharing, "Islamic Economic and Business Magazine", edition 47 Year V, November 2010, p. 25

³⁵ Dadan Muttaqien, "Urgency of Legality...", p. 534

³⁶ Interview with Nasrudin SEI, manager of PUSKOPSYAH DIY and interview with Yazid, M.Ag, a member of Yogyakarta Ombusment Institution.

³⁷ See interview with Amin Azis (founder of PINBUK), "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 10 Year I, August 2007, p. 19

Cooperative and SME request, BMT must give the opportunity for the auditing of book and files maintained by them, and must provide assistance needed related to obtain the truth of all statement, document, and elucidation reported by BMT in Rapat Anggota (RAT). BMT must maintain soundness level which include at least capital adequacy, asset liquidity, rentability, solvability, managerial integrity showing the capability in financial aspect, compliance to syariah principle and Islamic managerial aspect of the syariah principle or other aspect related to BMT business.

Human Resources

BMT need human resources/personnel who have special characteristic, capable in finance and business skill and capable in Fikih Muamalah. In fact, we find most of administrator and management of BMT have no background in finance and economic. According to the research conducted by Magister Studi Islam UII (MSI UII) showed that majority of administrator of BMT have a bit of knowledge and experience about managing Islamic finance institution.³⁸

Proposed solution for this problem is encouraging the government of Indonesia represented by Ministry of Cooperative and SME to set up a minimum criteria of human resources capability for BMT establishment. Legal status will not be given for those that not fulfill the requirement. All human resources that will manage the BMT must be possessed of background in Islamic finance education or training. In the other side, the quality of personnel serving customer in BMT can lead to major problems. BMT as an Islamic microfinance institution sometimes may need to explain Islamic product. Therefore, for personnel, time at work should not only relate to BMT operatio but also to socialisation of Islamic microfinance product and service. The Absence of Lembaga Penjamin Simpanan (LPS/Guarantor Institution for Customer Saving) for BMT.

³⁸ Magister Studi Islam Universiti Islam Indonesia (MSI UII) (2004), *Profesionalisme Praktisi BMT di Kota Yogyakarta dan Kabupaten Sleman* (Yogyakarta: MSI UII), p. 50-51.

Since 2004, Government of Indonesia established Lembaga Penjamin Simpanan (Guarantor Institution for Customer Saving) for bringing about previous customer saving guarantee regulation. This institution was established to realize stability and healthy of banking industry in Indonesia. But LPS only covers all banks and rural banks in Indonesia that being it member. BMT is not covered by this institution.

Proposed solution for this problem is encouraging the government of Indonesia to provide such as institution (Guarantor Institution for Customer Saving) that appropriate with the nature of BMT to cover BMT's customer saving.³⁹

Cost of Fund and Perception of Interest

Cost of fund in BMT usually is higher than cost of fund in Islamic bank and conventional bank. It is caused by effort of BMT to invite willingness of customers to save and deposit their fund in BMT by giving higher benefit to depositor in consonance higher risk of placing money in BMT because of the absence of guarantor institution for customer saving. It implies to the pricing of financing product operated by BMT is higher than the pricing of financing product in Islamic bank and the pricing of credit in conventional bank. This condition influence perception of people that BMT is conducted financing scheme based on *riba* although BMT claimed that they operated their product and service based on syariah principle, because the the pricing of financing product operated by BMT is higher than credit in conventional bank.

It is note that the basic of Islamic finance is the avoidance of *riba*. Interest is assumed to be *riba*. However, the perception of Indonesian Moslems on banking interest is still divided, although MUI produced fatwa No. 1 Year 2004 about interest is forbidden.⁴⁰ It is important to note that the perception of Indonesian Moslems on interest is not uniform. It

³⁹ "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 10 Year I, August 2007, p. 19

⁴⁰ Fatwa Majelis Ulama Indonesia No. 1 Tahun 2004 about interest.

can be classified into three groups: a) interest is *riba*, thus it is *haram*, b) interest is *halal* as long as there is no Islamic bank, c) interest is *halal*.⁴¹ Of course this position restrict the opportunity of Islamic finance institution to make ordinary Moslems as a target market.

Proposed solution for this problem is encouraging the government of Indonesia represented by Ministry of Cooperative and SME to establish guarantor institution for customer saving in order to the trusty of society to BMT is increased, BMT will promote their service easier than before, without any effort by giving higher benefit to depositor. This condition will influence the cost of fund and pricing of financing product provided by BMT more competitive with other finance institution. The final effect of this condition is the micro traders and enterpriser can access financing scheme from BMT with less in price, so they can develop their business and increase their economic capability to be free from poverty.

*Less in Service Based on IT*⁴²

Some BMT (little in number) expand their service based on IT service, for example BMT al Munawwarah (Pamulang Banten) make collaboration with BSM to provide ATM Card for customer transaction. BMT al Munawwarah (Pamulang Banten) also make collaboration with Bank OCBC NISP to provide on line service for payment.⁴³ But most of BMT left behind in IT utilization. It apperas that with advances in banking technology, product and service, BMT face a very big challenge, especially from the shifting of customer behaviour in banking and managing their money.

Proposed solution for this problem is encouraging management

⁴¹ Sofyan S. Harahap and Yuswar Z. Basri (2004), "The History and Development of Islamic Banking in Indonesia, 1990-2002", in Bala Shanmugan (ed.), *Islamic Banking: An International Perspective* (Serdang: Universti Putra Malaysia Press, 2004), p. 35-36.

⁴² "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 47 Year V, November 2010, p. 14

⁴³ "Islamic Economic and Business Magazine", in *Magazine Sharing*, edition 26 Year III, February 2009, p. 22-23.

of BMT overall Indonesia to expand their service based on IT and benefitted the development of banking technology for adapting the shifting of customers behaviour in banking and managing their money.

Conclusion

From above explanation, it is concluded that the noble aims of BMT establishment are helping micro and medium entrepreneurs by providing many islamic financing schemes for them based on Syariah principles and cooperation. Evidence about the role of BMT in helping micro and medium entrepreneurs was proofed by the previous research resulted that the financing activities done by a BMT in Yogyakarta generate positive economic effects include income growth and reducing poverty, self employment, asset ownership, food security, and capability to make their children educated. It's mean that there is no doubt that BMT as one Islamic microfinance institution has played an important role in the provision of micro-financing for micro enterprises and, thus, the reduction of poverty although the outcome is not as impressive yet.

But on the journey of bringing the goals into reality, there are many "blind passangers" that hijacked the noble aims to their own interest like wealth accumulation, getting higher benefit, misappropriating depositor fund for their own business, etc. The blind passangers operated microfinance institution named by BMT but in the fact they operated their BMT biased from Islamic principle and the philosophy of BMT's establishment.

Finally, many problems occurred in BMT. Problems and challenges faced by BMT are (1) Regulations and Standarization for BMT Establishment and Operation (2) Supervisory Board and Standarization for BMT's Health in CAMELS Aspects (3) Human Resources (4) The Absence of BMT's Guarantor Institution for Customer Saving (5) Cost of Fund and Perception of Interest and (6) Less in service based on IT. In this research, after identifieng all problems faced by BMT, researcher

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elaborated and suggested their proposed solution as described at the end of problem identification above.

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