

## **Implementation of Micro Waqf Bank (BWM) in The Inclusion of Sharia Micro Financing in Indonesia**

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### **ABSTRACT**

The launching of Micro Waqf Bank (BWM) by the Government of Indonesia in this case the Financial Services Authority (OJK) since October 2017, it got positive response from the community. They assume that BWM is considered to be able to overcome community difficulties in accessing the financing needs of the Banking. In Islamic teachings, the function of waqf is to realize the potential of the economic benefits of waqf property for the sake of worship as well as to advance the general welfare. The purpose of this study is to analyze the implementation of BWM in accelerated inclusion of syariah-based micro finance within Pondok Pesantren. The review process is carried out through literature study with normative characteristics in infaq and in community empowerment. The results of the study indicate that the characteristic of BWM in terms of conceptual financing process and implementation in the field does not prioritize the guarantee, but rather prioritizes the approach in facilitation so that the customer's business and the installment can be controlled. In essence of BWM there is an incubator process to prepare customers who previously non-bankable to be bankable, so that in the end will provide convenience to the Micro Small and Medium Enterprises (MSMEs) in obtaining financing facilities that are considered difficult to obtain through commercial banks. The visionary objectives of BWM implementation will be more optimal if both the managerial and operational processes are in synergy involving government institutions such as the Indonesian Waqf Board (BWI) and the National Amil Zakat Agency (BAZNAS) and private institutions such as the Amil Zakat Institute (LAZ), and involving the wider community including entrepreneurs as their donors.

*Keywords : Micro Waqf Bank, OJK, Financing, Empowering, MSMEs.*

### **INTRODUCTION**

Wakaf practices play an important role in Islamic civilization, including in religious service (such as mosque construction, religious activity financing) and social-economic welfare development through social services (such as health services and feeding the poor). According to Siddiqi (1996: 70), the State as the holder of Role of the State is responsible for social problems. The state must ensure basic needs as the main priority for all societies and it is in line with the thoughts of Al-Ghazali and Asy-Syatibi that basic needs are functioned to protect religion, soul, mind, descent, and property. When interpreted, these basic needs can be in the form of religious services, education, health, security and order, as well as adequate clothing, food, and boards. Implementation of wakaf in Indonesia has long been used for several purposes including the establishment of pesantren, mosques, and funeral facilities. However, the other potential of waqf has not been fully utilized, as up to now, the majority of wakaf is in the form of land used as a non-profit social facility. Other potentials can not be

separated from the sustainable benefits of the economic dimensions that are believed to improve the welfare of the community through sharia governance.

Indonesia has a unique sharia governance framework in which the independence of Islamic scholars in making decisions is debated because of possible conflicts of interest. However, Indonesia's sharia financial industry has developed a unique framework commanded by the National Sharia Council of the Indonesian Ulama Council (DSN-MUI). DSN-MUI retains its independence by having no direct connection with the central bank, regulatory body, or any other government agency or department. The institute operates under the Indonesian Council of Ulama and provides all the guidelines concerning Sharia compliance independently.

However, support from the government is urgently needed, in the form of a policy to provide equal opportunity to sharia finance industry with conventional finance industry. Moreover, the sharia financial industry in Indonesia is concentrated in the retail sector, and sharia finance products are still very limited. Most of the customers in this industry come from loyal minority market segments, while the majority market segment of rational customers is difficult to distinguish between conventional finance and sharia finance and it is difficult to understand the value offered by Islamic finance to them. The corporate sector and Micro Small and Medium Enterprises (MSMEs) also have a minimal contribution in sharia finance for the same reason. Various socialization efforts by industry players have been individual and fragmented, so a more concerted approach is needed to improve a more thorough understanding of the Islamic financial literacy.

The performance of religious funds, in which Zakat, infaq, and alms funds and Waqf management have not been optimally identified due to lack of information and other transparency issues led to a lack of public confidence in the agencies managing those funds. Regulations on these funds need to be significantly increased and enforced strictly to improve governance in the fund management structure, shaping transparency and restoring public confidence and trust.

To deal with these negative impacts, strategic strategicization is needed both in research and introducing new techniques. This can be a key area where sharia finance inclusions can contribute through funding new initiatives that have the capacity to accelerate poverty eradication achievement. The optimization and efficiency of the dissemination of religious social funds (ie Zakat, infaq and alms, including wakaf) along with other socio-economic empowerment initiatives, can help communities unable to get out of the poverty cycle and encourage them to enter the formal financial system. The use of a structured microfinance program will promote entrepreneurial culture, improve inclusive finance, and help communities improve their financial capacity (Bappenas 2016: 36)

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## **LITERATURE REVIEW**

### **Basic Concept of Waqf**

According to the word wakaf (al-waqf) synonymous with al-habs in Indonesian means "stop, stay in place, or hold back something". Understanding holding something connected with wealth, so that the meaning of waqf is holding something to take the benefits in accordance with the teachings of Islam. The synonym of al-waqf is al-habs which both means to stop (Muhammad Daud Ali, 80: 1988). The word al-habs means holding back the treasure and making use of the results in the way of Allah, or some others intent on stopping as mentioned above. Its meaning here, stop the benefits of its benefits and be replaced for good deeds in accordance with the purpose of waqf. Stopping all activities that were initially permitted on the property (such items), such as selling, granting, passing, transacting, then after being made wakaf property only for religious purposes solely for the sake of the waqif or other individual. (Abdul Halim, 8: 2005).

In Article 1 Paragraph 1 of Law Number 41 Year 2004 regarding Waqf, that wakaf is a "legal act of waqif to separate and / or hand over some of his property to be exploited forever or for a certain period in accordance with his / her interests for the purposes of worship and / or general welfare according to Sharia ". Meanwhile, in Article 16 paragraph 1-3 of Law No. 41 of 2004 on Waqf explained that:

- (1) Wakaf property consists of:
  - a. immovable object; and
  - b. moving objects.
- (2) The immovable property as referred to in paragraph (1) letter a shall include:
  - a. right to land in accordance with the provisions of existing and non-registered legislation;
  - b. buildings or parts of buildings standing on the ground as referred to in letter a;
  - c. plants and other objects related to the soil;
  - d. ownership rights of apartment units in accordance with prevailing laws and regulations;
  - e. other immovable property in accordance with the provisions of sharia and prevailing laws and regulations.
- (3) Moving objects as referred to in paragraph (1) letter b shall be non-consumable assets because they are consumed, including:
  - a. money;
  - b. precious metal;
  - c. securities;
  - d. vehicle;
  - e. intellectual property rights;
  - f. lease rights; and
  - g. other movable objects in accordance with the provisions of sharia and prevailing laws and regulations.

Thus, wakaf is an action based on legal consequences, and has a function to perpetuate the benefits of waqf objects in accordance with its purpose, namely the interests of worship or other public purposes in accordance with Islamic teachings. Waqf is the holding of the property function of ownership to obtain its benefits for the benefit of the people.

## **Zakah, Infaq and Shadaqa**

In Islam there are two main dimensions of relationship, namely Human relationship with God, and human relationships with human beings. The purpose of these two relationships is the alignment and steadiness of the relationship with Allah SWT, and fellow human beings including himself and the environment. This is *aqidah* or belief and *isilah* (road) to achieve prosperity both in the world and in the Hereafter (Ali, 1988: 29) To achieve the goal of welfare, in Islam in addition to the obligations of prayer, fasting, and pilgrimage, as well as the obligation to issue zakat. Zakat including infak and alms serve to bridge and strengthen human relationships, especially the relationship between strong and weak groups.

Etymologically, the word zakat has many meanings, namely *al-barakatu* (blessing), *an-Nama* '(growth and development), *ath-Thaharatu* (holiness), *ashshalahu* (kesesan). In terminology, zakat is part of the property with certain requirements, which Allah Almighty obliges to its owner, to be submitted to the right to receive it with certain requirements also. (Hafidhuddin, 2002: 7)

In the Qur'an there are several words that are often used for the meaning of zakat, namely (1) *Infak*, because the essence is the surrender of property for the virtue that is commanded by Allah SWT. (2) *Alms*, because one of the aims of zakat is to get closer to Allah SWT. And (3) *Rights*, because zakat is a definite determination of Allah SWT for those who are entitled to receive it (Hafidhuddin, 2002: 9) In the case of development and maintenance of high moral quality for his people, Islam has invested among others the excess wealth by channeling to others. In it there is the suggestion that surplus possessions should be used to provide goodness, truth, public welfare and provide assistance to people who can not get sufficient parts to meet their needs (Rahman 1995: 61). Islam has wide open the door for every Muslim in any situation and condition to issue infaq and alms.

In language, the word *infak* means spending, spending, and means also issuing something (treasure) for the sake of something. While according to the terminology of *Shari'a*, *infak* means removing some treasure for a good which is commanded by Allah SWT (Hafidhuddin, 2003: 86), Or *infak* is the voluntary spending that someone does, whenever we get *rizki*, and the amount as much as he wishes.

The word *alms* comes from the Arabic word *Shadaqa*, meaning true. According to *Sharia* terminology, the meaning of *sharia* is the same as *infak*, including its law and its provisions, the *infak* emphasis is related to matter, whereas *alms* has a broader meaning concerning non-material matter (Hafidhuddin, 2003: 87). So that *alms* can be interpreted as giving someone sincerely, to the right to receive it in the hope of getting reward from God.

## **Pondok Pesantren (Islamic boarding school)**

*Sharia* Economic Development Program lately directed to boarding school. Due to the involvement of scholars are expected to be able to build human resources to the *sharia* economic actors coupled with the involvement of the government in establishing appropriate policies in encouraging the development of *sharia* economy.

*Pesantren* or also known as *Pondok Pesantren*, while the word *hut* comes from Arabic which means hotel, dormitory, house, and simple residence. The word *Pesantren* is derived from the word *santri* who got the prefix of the end and the ending, so that it becomes the word *Pesantrian* or *Pesantren*. So it indicates that culturally *pesantren* from Indonesian culture (BI and CIES, 2017: 6).

*Pesantren* has a function as an institution of *da'wah*, educational institution, and *cadre* scholarship institution as well as center of struggle of *ummah* against invaders and standing since 14th century AD. Furthermore, through the Center for *Pesantren* and

Community Development (P3M), pesantren has additional function that is as Center for Community Empowerment (BI and CIES, 2017: 14). Furthermore BI and CIES (2017: 15) note that there are two main roles of pesantren strategy in sharia economy:

1. The role of Islamic science development and socialization to society, because pesantren is considered as role model and their voice is more heard from the ulama and da'I products of non-pesantren institution. Another advantage they master fiqh muamalah,
2. The role of realizing the laboratory of real practice of sharia economy in economic activity, because society assesses pesantren as an example and role model in daily activities.

### **Micro Sharia Financial Institutions**

Microfinance institutions have the potential to be an inclusive financial system with the provision of facilities in economic development, social empowerment, and poverty alleviation. Meanwhile, the characteristics of the microfinance system are aligned with the objectives of the sharia financial system and together they can provide long-term solutions to support the welfare of the people. (Bappenas, 2016: 94)

Indonesian microfinance institutions according to Bappenas (2016: 94) consist of two types, namely Shariah People's Financing Bank or BPRS and small cooperative institutions called Baitul Maal wat Tamwil or BMT. BPRS was first established in 1991, followed by the first BMT in Jakarta in 1992. The beginning of the establishment of BMT is focused on the management of Zakat, Infak, and Sedekah. However, in 1995 after the establishment of the Small Business Incubation Center or PINBUK and Dompot Dhuafa (the first LAZ in Indonesia) the BMT focus tends to provide financing for the lower classes.

During the period between 2011 and 2015 According to data from Bappenas (2016: 95) the number of BPRS operating in Indonesia grew from 155 in 2011 to 163 in 2015. the number of BPRS is still less than 10% compared to the number of conventional BPRs which reached 1,637 banks in the year 2015. Based on Law no. 1 of 2013 on Micro Finance Institutions, the Financial Services Authority (OJK) has been authorized in the development, regulation and supervision of microfinance institutions (Article 28).

Micro Business in Article 1, Law (UU) Number 20 Year 2008 concerning UMKM, is defined as: productive enterprises that meet the criteria of micro business as regulated in the law. While Small Business is a stand-alone productive economic enterprise, conducted by an individual or a business entity that is not a subsidiary or not a branch of a company owned, controlled, or becomes part of either directly or indirectly from a Medium-Sized Enterprises or a Large Business that meets the criteria Small Businesses as referred to in the law.

Furthermore, Article 6 of Law No. 20 Year 2008 on MSME explains that Micro Business is a business unit with an asset value of at most Rp50 million, or with annual sales of Rp 300 million; Small Businesses with asset value of more than Rp50 million up to a maximum of Rp500 million or having annual sales of more than Rp300 million up to a maximum of Rp2.5 billion. In addition, according to BPS, Micro Enterprises is a business unit with a permanent number of up to 4 people and a small business of 5-19 people. (BI and Islamic Economics Program FEB Unpad, 2016: 4)

### **Micro Waqf Bank**

Various attempts were made to optimize the potential within the waqf instruments such as Saudi Arabia to form a similar institution to increase the role of wakaf banks in their economy. Bangladesh continues to enlarge the role of Wakaf Bank so that economic inequality and inequality can be reduced. The Al-Azhar University campus shows how wakaf plays an important role in the world of education, providing a benevolent outcome for the

entire world. Other western campuses such as Harvard, Oxford, Cambridge and others emerged from economic work patterns such as waqf (Republika.co.id. // Micro Wakaf Bank, New Economic Empowerment / Monday, 20 Ramadhan 1439/04 June 2018)

OJK affirmed that Micro Waqf Bank is not a waqf institution nor a banking institution, but is a Micro Sharia Financial Institution (LKMS) and as part of Non-Bank Financial Industry (IKBN), further explanation of OJK related to naming of wakaf bank, but this institution does not run wakaf function with the reason that the naming of micro wakaf bank because its operation is in pesantren area. The legal entity of the micro waqf bank also emphasized that this financial institution is not a banking institution. Soekro revealed, the legal entity of the micro waqf bank is a cooperative. However, the business license of micro wakaf bank is a micro-finance institution of sharia, so its supervision is under the Financial Services Authority (OJK). With the cooperative business and licensed business LKMS, micro wakaf bank has its own provisions. Soekro revealed that micro-endowment banks can not perform bank functions as recipients of savings, but can channel financing. Other provisions of micro-endowment banks are group-based, low-yield or administrative costs of 3% per annum and without collateral.

The existence of Micro Wakaf Bank according to OJK graphic info (2018) is motivated by:

1. Poverty and inequality have been going on for years. BPS data recorded in 2017 the number of poor people in Indonesia as much as 26.6 million people is equivalent to 10.12%
2. Economic empowerment of the Ummah and also carry out the mentoring function
3. One element of society that has a strategic function is a boarding school
4. Potential of pesantren which amounted to 28,194 units (Ministry of Religious Affairs data) has great potential in eroding economic imbalance so that can reduce poverty
5. OJK facilitates the establishment of Micro Endowments Bank through platform Sharia Micro Financing Institution to bring together the excess fund for donation

to those who need financing with very low returns.

Meanwhile Infographic OJK (2018) also explained that the business model of Micro Wakaf Bank is

1. A legal entity with service cooperative business license Sharia Micro Finance Institution.
2. Providing financing with sharia principles
3. Not collecting funds (non-deposit taking)
4. Low yield is equivalent to 3% per annum.
5. Without collateral
6. Given training and mentoring
7. Supervise OJK and coordinate with cooperative ministries, pesantren, and community leaders.

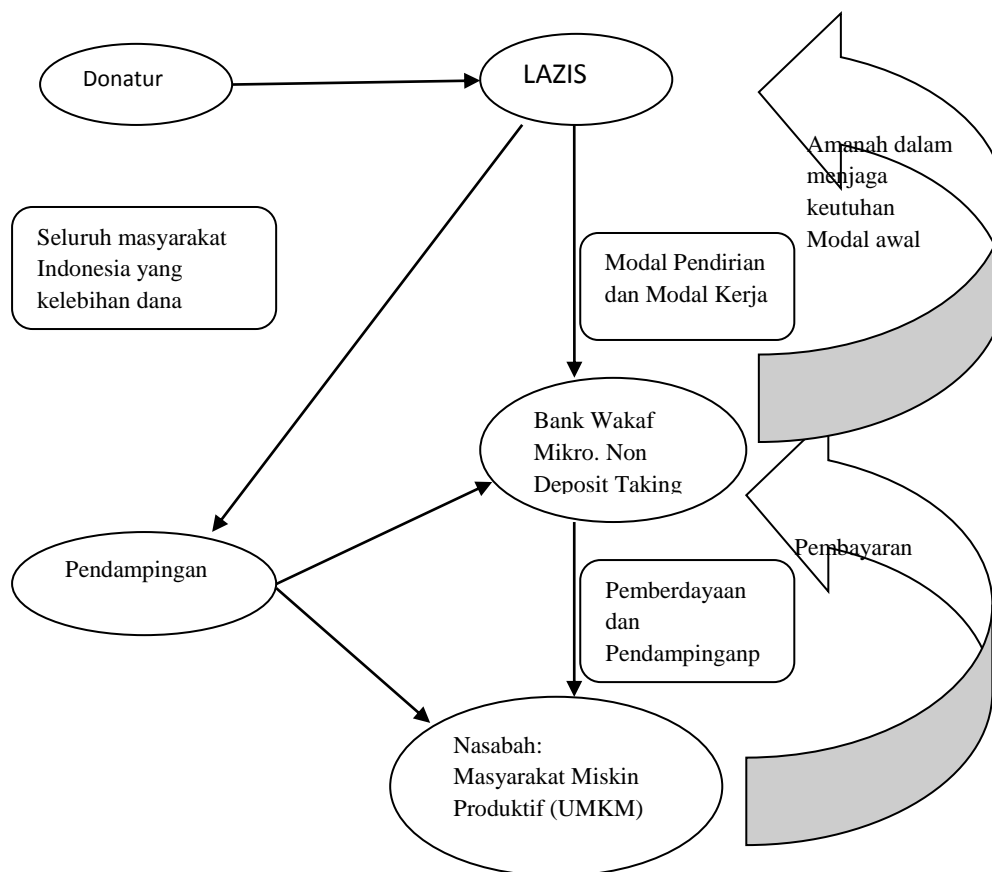
The initial capital held by the micro-endowment bank is channeled entirely to the financing to the customer, as there are also those used for investment. One form of fund management is to have deposits to Islamic banks, so that can be used to reduce profit margin to customers.

The establishment of a micro waqf bank is done by involving caregivers of pesantren as well as assisted donors in the form of special funding through the National Institute of Amil Zakat (LAZNAS) while the Micro Wakaf bank donors are all the people who have excess funds especially businessmen or big companies who have concern for the empowerment program the poor and the eradication of inequality in Indonesia.

## METHODOLOGY

Descriptive method used in this study, which is an assessment that aims to provide a picture related to the implementation of Micro Wakaf Bank in the inclusion of Micro Financing Sharia in Indonesia. According Sugiyono (2009: 147) that Descriptive research aims to describe the data by way of interpreting and describing the data relating to the situation, attitude, and views that occur. So that method of descriptive research is a method related to the description and interpretation something. Data obtained through observation technique and documentation study which then analyzed through qualitative approach which refers to the problem of study related to realization of micro wakaf bank establishment from characteristic point of view attached to infak treasure and company characteristic in form of Sharia Micro Financing Institution. The process of analyzing is done by referring to the stages as illustrated in the following chart.

### Framework



From the above framework, it is known that Micro Endowments Bank is a Sharia Micro Financing Institution established under the license of Financial Services Authority (OJK). The purpose of the establishment of BWM institution is to provide access to capital or financing for small communities that do not yet have access to formal financial institutions. Based on these data then the next process of review of information until it can be drawn conclusions in accordance with the purpose of analysis.

## **EMPIRICAL RESULTS**

The concept of wakaf bank that is being matured by the government in this case OJK is a solution to implement the infak that has been socialized to the community as an alternative waqf instruments. This idea is an innovation in managing philanthropic funds in Indonesia to empower communities to have sustainable impacts. No longer nazhir aatau amil who play a single role in memproduksi donation funds, but the community is the motor that productivity of social funds. The community is fostered and empowered so as to have the ability to be economically independent through the financing program. Productivity is expected to trigger the creation of social justice and prosperity for the wider community.

MSMEs have an important and strategic role in national economic development. In addition to its role in economic growth and employment, MSMEs also play a role in distributing development outcomes. The condition of UMKM with all its dynamic role in micro and macro economic context, has not got the maximum attention from the government. One of the indications is the achievement of government policy in this case OJK through the leverage of Sharia Micro Finance Institution (LKMS) which is incorporated as a cooperative law. Such a situation certainly requires special attention and support from various parties so that open channels of empowerment of other instruments against financing is needed by SMEs.

The presence of Micro Wakaf Bank is important to mobilize the people's economy, especially in the sector of UMKM. Access to business finance for this sector is still low. Based on data from Indonesian banking statistics in 2015, only 17.75% of total bank loans were distributed to the MSME sector. It also shows that this sector still needs greater support from its capital side. In fact, MSMEs have an important role in encouraging the national and regional economy. This sector became the backbone of the Indonesian economy in times of crisis, given that the sector employs 97% of the number of workers who managed to withstand the rate of unemployment. MSMEs also contribute 60% of Gross Domestic Product (GDP). UMKM is a forum for community empowerment as well as driving the dynamics of the economy. The existence of institutions that operate in October 2017 will make it easier for the perpetrators of MSME who want to make a financing proposal. Therefore, this institution is not only vital to encourage national wakaf movement, but also play a role in overcoming the main problem, that is poverty.

The fundamental idea in the concept of wakaf bank is a combination of solutions to two issues in one policy, namely through the provision of capital and business coaching. Efforts made by the government institutionally through initiation of the formation of micro waqf bank is expected to spur the growth of new entrepreneurs and encourage the interest of the community to donate. Thus, wakaf or infak is not only morally beneficial, but also provides long-term benefits in boosting the national economy if managed productively and professionally and applying the principles of good governance.

## **CONCLUSION**

The results of the study indicate that the characteristic of micro Waqf banks in terms of the conceptual financing process does not prioritize guarantees, but rather put forward the business prospects. Thus, the aspect of an endowment of waqf or infaq funds can be covered by a share that is deposited into a Syariah bank. Sekaitan with the role of OJK, in essence there is a process of assistance to the business process customer financed by Micro-endowment banks. This will ultimately provide convenience to the MSMEs in obtaining financing facilities that have been considered difficult to obtain through commercial banks.



The visionary purpose of establishing a Micro Waqf Bank would be more optimal if both the managerial and operational processes synergistically involve the government as Wakaf Board (BWI) and the National Amil Zakat Agency (BAZNAS) as well as private institutions such as the Amil Zakat Institute (LAZ).

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