

# Islamic Business Case *Series*

Baitul Maal Wat Tamwil (BMT): A Faith  
and Community-based Microfinance

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# Baitul Maal Wat Tamwil (BMT): A Faith and Community-based Microfinance

Priyonggo Suseno, Ph.D<sup>a</sup>

To date, the role of microfinance in the Indonesian economy becomes more important. It helps people, especially those financially excluded, to get access to the formal financial system and institutions. While the level of financial inclusion in Indonesia is still lower compared to the global average, i.e. 49 over 55 percent in 2017,<sup>1</sup> various microfinance services and their providers continue to grow. Since the 1990s, in particular, after the “Paket Oktober 1988” monetary policy launched, the microfinance industry has been and transformed into micro banking and cooperative models.<sup>2</sup> Various microcredit programs previously organized by the government or government link companies have to be transformed into rural banks (*Bank Perkreditan Rakyat/BPR*), saving and loan cooperatives, or microfinance institutions models supervised by the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*).

As seen in [Table 1], the number of microfinance service providers in Indonesia has been increasing, especially non-bank institutions. The microcredit units of commercial banks such as the Banking Unit of Bank BRI are growing rapidly. The number of saving and loan cooperatives (*Koperasi Simpan Pinjam/KSP*) and saving-loan units (*Unit Simpan Pinjam/USP*) is increasing sharply, three times more than those in the last two decades. Other microfinance institutions, such as credit unions, pawnshops, and fintech are also increasing. There is a significant change in the microfinance landscape for the last two decades. The first change is microfinance providers. Nowadays, most of the microfinance providers are rural banks (BPR) and saving-loan cooperatives (*Koperasi Simpan Pinjam/KSP*). The role of government agencies, government link companies or non-government organizations (NGOs) declined. New players appear and grow rapidly, such as fintech institutions, such as peer-to-peer lending, crowd funding, and online money lenders.

The second change is on the microfinance approach. The Banking Act 1998 and the Microfinance Institution Act 2013 have the same spirit to institutionalize all financial services. Some poverty alleviation programs that previously established through credit subsidy or developmental approaches have gradually shifted into market-based financial services. More commercial banks, rural banks or cooperatives offer a commercial microfinance service. The microcredit programs before the 2000s, the New Era regime, varied and supervised by different authorities such as the

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central government, regional government, state-owned banks, or government link companies. Some popular microcredit programs are *Kukesra*, P2KP, P4K, PKM, PEMP, LDKP, BK3D, and *Swamitra*, which financed over 18.5 million clients<sup>3</sup>. Recently, however, most of those microcredit programs converted into a rural bank (BPR) model, even though few continue to establish, such as PNM microenterprise program and Ultra Micro Financing program (*Pembangunan Ultra Mikro/UMi*) launched by the Ministry of Finance in 2017.

The resurgence of Islamic finance in the 1990s in Indonesia has chosen Islamic banks and microfinance institutions as preferred models. Islamic microfinance institutions, then known as *Baitul Maal wat Tamwil* (BMT), flourished so that over 3,000 BMTs flourished in less than one decade. This case study aims to reveal that the practice of BMT is beyond the common Islamic finance practiced by Islamic banks. Islamic banking practices are highly regulated industry and, since then, there is no enough room for the industry to innovate and implement a more genuine Islamic finance approach, while BMTs are not merely a financial intermediary and less regulated industry whose business model and approaches may vary. This case study explores the best practices of the most successful BMTs in Indonesia, which spread out in four provinces in Java Island. As seen in [Table 2], most of the five BMTs established in the 1990s cover more than six hundred thousand members and employ over 3,000 workers.

The systematics of this case study is organized as the following. The first section discusses the role of BMT and the landscape of Islamic microfinance in Indonesia. The second section describes the main features of BMT and its latest developments. The third section describes the case study of the five BMTs in Indonesia. This section describes the company profile, the uniqueness or the excellence of the company, and the challenges and strategies pursued by each BMT.

## **BMTs in the Landscape of Microfinance in Indonesia**

It must be first understood that quantitative data regarding microfinance are difficult to get, especially related to financial matters. Since then, the data does not include non-bank or cooperative institutions, such as non-government organizations (NGOs), the government programs in microfinance, or other informal institutions. In fact, there are, at least, seven types of microfinance institutions playing in the markets in Indonesia. Even they are regulated and supervised by a different authority. They may have a similar market segment, even though they apply different financing methods. As seen from [Table 3], in contrast to BPRS that only use the financial intermediation approach, many BMTs use a combined approach of financial and social intermediary in providing services to MSMEs and the poor.

The contribution of Islamic microfinance to the total microfinance in Indonesia is higher than that of the main Islamic finance sectors, i.e. Islamic banks, capital markets, and non-bank financial institutions. As of July 2019, the main Islamic financial sectors contributed 8.71 percent of the total assets of Indonesia's financial assets, with total assets reaching IDR 1,359 trillion.<sup>4</sup> There are two main market players for Islamic microfinance in Indonesia, namely Islamic village banks (*Bank Pembangunan Rakyat Syariah/BPRS*) and Islamic savings and loan cooperatives (*Koperasi*

*Simpan Pinjam Pembiayaan Syariah/KSPPS or also known as BMTs).* Based on the data in 2017,<sup>b</sup> It is estimated that the total amount of financing provided by all microfinance institutions reaches IDR 37.34 trillion. KSPPS or BMTs contributed the biggest share, amounted to 61.88 percent. While the contribution of the Islamic rural banks (BPRS) is slightly above the zakat collections, which are 20.79 percent and 16.67 percent, respectively (Look at [Figure 1]).

Up to December 2018, the number of BPRS has reached 167 institutions or around 10.46 percent of the total BPR at nationwide. The size of the financing of BPRS has also reached 9.25 percent of the total financing of village banks or around IDR 9.08 trillion. In terms of deposit funds, BPRS contributes around IDR 8.13 trillion or 8.84 percent of the total village banks.<sup>5</sup> According to the survey-based estimation conducted by the Central Statistics Bureau in 2018, there is around 19.80 percent of savings and loan cooperatives (*Koperasi Simpan Pinjam/KSP*) apply the sharia principles, known as *Koperasi Simpan Pinjam Pembiayaan Syariah/KSPPS* or *Baitul Maal wat Tamwil/BMTs*.<sup>6</sup> Assuming that the average loan size for each cooperative is IDR 4.09 million,<sup>c</sup> it is estimated that all KSPPS can distribute financing up to IDR 19.07 trillion.<sup>d</sup> Another important thing is that the number of Islamic microfinance providers and their outreach is increasing. The number of BPRS has increased slightly in the last 5 years, but the financing size has increased sharply, from IDR 3.55 trillion in 2012 to IDR 9.08 trillion with a CAGR of 26.46 percent. The number of institutions of BMTs increased much higher, although there is no precise data from 1,522 institutions in 2013 to 5,648 in 2017. It is estimated, the financing and deposit size also increased sharply, with a CAGR of 32.83 percent and 42.27 percent respectively. Likewise, MFIs supervised by OJK also increased from seven institutions in 2015 to 61 institutions in 2018, with a CAGR of financing and saving sizes of 43.18 percent and 121.70 percent respectively. All the above figure shows that Islamic microfinance in Indonesia has a huge potential growth under the recent regulatory framework. The detailed figure could be seen in [Table 4].

## Overview and the Main Features of BMT

Since its inception in the 1990s, the BMT sector has developed significantly in terms of the number of institutions and their geographical outreach. However, it is difficult to get accurate nationwide statistics for this sector. Several sources provide only a partial picture or a sample-based survey and this is understandable, because most BMT institutions operate in the local community or district, beyond the supervision of the Ministry of Cooperative and SMEs as the central authority. Initially, the BMT system enjoyed strong political support from the New Order regime because of the high economic growth at the time that encouraged the development of Islamic finance.<sup>7</sup> However, the current stage of BMT development is not dependent on government support; it is

<sup>b</sup> The calculation is based on 2017 data because the latest reliable data for nationwide KSPPS are only available for 2017. Therefore, the calculation for the contribution of each institution on microfinance industry use 2017-year basis.

<sup>c</sup>This assumption is based on the results of a survey conducted by the Central Bureau of Statistics (BPS) 2018, Saving and Loan Cooperative Statistics.

<sup>d</sup> There are some data on the total asset of BMTs based on predictive value, such as BAPPENAS estimated IDR 7.2 trillion ([www.kontan.co.id](http://www.kontan.co.id), date accessed: October 19, 2019). However, some accurate data available for group of BMTs, such as the total asset of 561 BMTs registered in PBMTI in 2015 is IDR 11.9 trillion and served more than 3.69 million of people ([www.republika.co.id](http://www.republika.co.id), date accessed: October 7, 2015). It is also estimated that the asset grows to IDR 15 trillion on May 2017 ([www.republika.co.id](http://www.republika.co.id), 5 May 2017).

substantially influenced and driven by influential Muslim scholars, clerics, and entrepreneurs, Islamic organizations and NGOs.

Islamic microfinance has historically been an embryo of the emergence of Islamic finance in Indonesia. The term BMT in several studies first appeared in the 1980s, when Muslim scholars of the Salman Mosque, Bandung Institute of Technology (ITB) at Bandung City established the Expertise Services Cooperative (*Koperasi Jasa Keahlian*) “Teknosa”, which applied the principle of profit sharing. The cooperative then became a BMT that established in 1984.<sup>8</sup> It began the initial concept of BMT with efforts to combine the concepts of *Maal* and *Tamwil* in one institution. *Maal*, which means public wealth, is any wealth belong to the society, collected from *zakat*, *infaq*, *sadaqah*, or *wakaf* which should be managed for the public prosperity. Whereas *Tamwil* means wealth creation, the use of wealth for commercial purposes. The official name used by the government for cooperatives engaged in Islamic finance is a Savings and Credit Cooperatives and Sharia Financing (*Koperasi Simpan Pinjam Pembiayaan Syariah*), abbreviated as KSPPS. However, the term BMT is still popular among practitioners and the society or community in Indonesia. To understand the business model of BMT, we could refer to the various available models of microfinance institutions. Robinson (2001) explains that there are various categories of microfinance institutions, such as joint-liability groups (JLG), self-help groups (SHG), village banks, credit union or saving-loan cooperative, rotating savings and credit association (ROSCA) or well known in Indonesia as “*arisan*” and pawnshops.<sup>9</sup> Most BMTs operate as a credit union, but in complying with *sharia* principles, recently also known as KSPPS or Islamic saving and financing cooperative.

As institutions regulated by the Cooperative Act, most BMTs operate based on the membership who own and control the cooperative, accumulate savings and provide financing to members, and it has a double bottom line mission: business function and social function. They are likely to be like self-help groups with minimal support from the government. Most of them are community-based institutions, as most of BMTs established by community-initiated projects based on community Organizations, Islamic boarding schools, mosques or professional associations. Even though the business practices of each BMT may vary, but they share common features:

- i) The main mission of BMT is to empower the poor under *shariah* principles. As a result, they have to be financially sustainable and focus to balance between social and financial missions,
- ii) The Organizational structure of BMTs is similar to credit unions or cooperatives. The Annual Members’ Meeting occupies the highest position in the structure and acts as the main decision-maker in terms of general policy. The general manager is the person in charge of managing the BMT in its day-to-day operations; while managers and members of staff provide direct services to members. The unique institutional features of BMT are two: it is supervised by a Sharia Supervisory Board appointed by the Annual Members’ Meeting; and it has a wider scope of the business, i.e. social finance. The regulation allows BMT to collect *zakat*, alms and other social funds to be managed for economic or social empowerment. The typical organizational structure of a BMT could be seen at [Figure 2].

- iii) The financial structure of BMTs is dominated by members' savings, followed by capital and funding generated from linkage programs with other institutions of government agencies
- iv) Most BMTs are managed by social entrepreneurs with a strong dedication to applying Islamic values in social justice. Many BMTs provide training, consulting to microenterprises to achieve a higher impact
- v) BMTs mostly offer three services: saving, financing, and social welfare programs. Most of the saving products offer a profit-sharing based contract, while most financing schemes used *murabahah* contract which charges a fixed return.
- vi) Despite lack of regulation and supervision support, BMTs are linked to several institutions to provide organizational support, consulting and supporting programs for capacity-building. Several institutions operated independently, such as the Centre of Micro Enterprise Incubation (PINBUK) and *Dompet Duafa* Foundation. Some are established by BMTs' associations, such as the Association of *Shari'ah* Cooperatives (INKOPSYAH), BMT Venture Capital (PBMTI), *Microfin*, the Association of Indonesian BMTs (ABSINDO and Regional Centre for Sharia Cooperatives (PUSKOPSYAH).

To understand the conceptual and operational features of BMT or KSPPS, we summarize the comparison between BMT and conventional saving and loan cooperative (KSP). There are three main features of a BMT: (1) it has three bottom lines: commercial, social and religious mission which implies to its modus operandi, governance and regulatory framework, (2) it has a wider scope of business: microfinance and social finance, and (3) it is supervised by *sharia* supervisory boards. [Table 5] explains the detailed comparison between the two.

Many studies have evaluated performance and the success keys of BMTs, however, no nationwide evaluation or reports are available. These institutions have shown their ability to survive during the harsh financial crisis in 1997 and later crises.<sup>10</sup> Sakti (2013) points out that the number of newly established BMTs was significantly higher during the economic crises in 1998, 2004 and 2009, which is a sign that micro and small enterprises have a good capacity to survive during crises.<sup>11</sup> Even though some studies reported that the BMTs' profitability and efficiency are relatively low since most BMTs have to make a profit but they could provide viable Islamic and social finance services. Some studies have revealed the success keys of BMTs. In 1998, PINBUK conducted a study in three provinces in Java, which shows that there are three external factors influencing the success of BMTs in the 1990s (i) Muslims support the development of BMTs and by utilizing their services; (ii) BMTs achieve customer satisfaction by providing good products and services and better collection methods; (iii) They offer customers an easy procedure to get financing. In 2003, Adnan et al. observed that BMT managers' performances are affected by education, salary and product attributes.<sup>12</sup> Sakai and Marijan (2018) also reported their survey that the success of BMTs in Central Java as compared to East Java because Central Java has a better cultural meeting society, a more unemployed university graduates who are interested in working in social enterprises such as BMTs and high support of the second-biggest Muslim organization namely Muhammadiyah.<sup>13</sup> Moreover, Sakti (2013) concluded that the better performance of BMTs in Central Java relates to the more educated BMTs' employees and large scale BMTs available in Central Java.<sup>14</sup>

## KSPPS BMT Al-Falah: *Cost Rationalization to Maintain Business Sustainability*

### *Company Overview*

KSPPS BMT Al-Falah established on 10 November 1995 (17 Jumadi Al Tsani 1416) and started operations on 14 December 1995 (22 Rajab 1416 H). The founders of this BMT are local Moslems, such as Tb. Hisni, Oman Sahroman, Syurip A.M., Kusaeri, Didi Karsidi, Masrana, Hilda, Susi, Misro, Budiman Mahfudh, Ida Widiahastuti, Tarjodipuro, Ahmad Hamdan and Marini. It was initiated by the Indonesian Muslim Scholars Association (*Ikatan Cendekiawan Muslim Indonesia/ICMI*). Initially, it was a self-help group society (*Kelompok Swadaya Masyarakat/KSM*) supervised by the Centre for Business and SME Incubation (*Pusat Inkubasi Bisnis Usaha Kecil/PINBUK*) in collaboration with Bank Indonesia.

According to Ida Widiahastuti, the general manager of Al-Falah, the initial aim of the establishment was the concern over the high dependence of small-scale traders in the traditional market on moneylenders who charged high interest, about 30 to 40 percent per month at a flat rate.<sup>15</sup> Even though the interest charged was too high, but most of the small-scale traders still borrow money from them because of the simplicity and speed of loan disbursement. The moneylenders will provide services as fast as possible even at night or early morning. BMT Al-Falah saw the opportunity to help the small-scale traders to get out of the moneylenders by offering them the much cheaper loan, although unable to provide service as fast as them.

Because of the limited opportunities for the right legal entity for Islamic microfinance institutions, BMT Al-Falah has chosen a legal entity as a cooperative since its establishment until now. Its legal entity has changed several times to comply with the regulations of the Ministry of Cooperatives and SMEs, such as a multi-business cooperative (KSU) since 1998, Islamic financial service cooperative (KJKS) since 2010, and finally Islamic saving and loan cooperative (KSPPS) since 2015. Currently, BMT Al-Falah is headquartered in Cirebon and has nine branches spread across the regency of Cirebon, Majalengka, Kuningan, and Indramayu in West Java.

As one of the oldest BMTs in Indonesia, BMT Al-Falah continues to grow to be the largest BMT in West Java. Some founding fathers still directly control the business, as they take a part of about thirty percent on the top management, boards of directors and supervisory boards. They play a very important role to control the BMT to remain consistent with its mission and be able to make it happen. Their mission is to become a trusted and blessed Islamic cooperative. This mission is very relevant to the context of market competition because BMT does not have a deposit guarantee policy as has been practiced by micro banking which also has the same segment.

This mission has proven successful, as shown by the high interest of the society to deposit their funds into BMT Al-Falah, even though the rewards offered are not as high as their competitors. For example, in the last five years, the ratio of deposits to financing in BMT is above 100 percent. This ratio shows the low dependence of BMT on funding sources from other financial institutions. Starting with small-scale trade financing, *murabahah*-based financing, BMT Al-Falah gradually grow and expand its *tamwil* (commercial) division as the backbone of their business. As reflected in the organizational structure [Figure 2], the *Tamwil* division has been supported by many

relevant divisions, such as the division of finance, marketing, human resource development, internal control, and financial remedies, while the *maal* (philanthropic) division only manages social funds. As an Islamic cooperative, BMT Al-Falah has a sharia supervisory board and a management supervisory board, both of which are elected by the annual general meeting.

As the largest BMT in West Java Province, BMT Al-Falah's assets have reached IDR 83.4 billion in June 2019, with 79 staffs, 10 offices, and 12,000 active members. BMT Al-Falah also has good financial and social performance. As seen in [Table 6], risk management and financial management indicators of Al-Falah BMT are better than those of BPRS on average, while the NPF and FDR of BPRS in June 2019 is 8.8 percent and 120.08 percent respectively.<sup>16</sup> Even though the level of efficiency, productivity, and profitability of Al-Falah BMT are not as high as those of BPRS, Al-Falah has high financial sustainability, as shown by the Operational Self-Sufficiency (OSS) ratio above 100 percent and no subsidy or donated equity at its SDI ratio is zero. This shows that, in the long run, BMT Al-Falah has financial sustainability in carrying out its mission.

As an Islamic microfinance institution, BMT Al-Falah also provides social contributions (Look at [Table 7] detail figures). Social performance is generally measured by two variables, namely breadth of outreach and depth of outreach. The breadth of outreach measures how many members of an institution can serve, while the depth of outreach measures how deep the service is. When compared with microfinance institutions in East Asia reported by the Mix Market, BMT Al-Falah has provided much higher financing for microenterprises, which is about 75 percent compared to 27 percent. Al-Falah also empowers women, both in terms of the number of employees and members. The average financing per borrower is about IDR 4.54 million or US\$325. BMT Al-Falah also cares about the poorest of the poor, as it can distribute zakat and alms funds around IDR 1.56 billion per year or around 2.87 percent of the total financing.

### ***Key Products and Services***

BMT Al-Falah is one of the BMTs that applies the most widely applied business model of BMTs in Indonesia. There are three main features of BMT's business model: product and service design, the target markets and financial management. The main products of BMT Al-Falah are Islamic micro saving and loans. The most widely used mode of financing is trade-based financing, using *murabahah* contracts. This is in line with their main target market, small-scale traders in the traditional market who need funds to expand their business. To keep the business running well, BMT Al-Falah has been conducting a microfinance intermediation approach through mobilizing micro-savings from the local society (members) and distributing the pool of funds into micro-financing.

In terms of saving products, Al-Falah prefers to offer a non-financial return to the members, such as product simplicity, customer need-based products, and personal relationship-based services. Because most clients are young family women, Al-Falah designs products to meet their needs, such as a deposit for education, deposit for pilgrimage, and deposit for *Eid Fitri* celebration. It

makes savings minimum balance requirements very low to encourage anyone to take part, i.e. IDR 25,000 (US\$1.80). It also adjusts the method of saving withdrawal according to the consumer need, even the staff often deliver the withdrawal's funds directly to members who want with no charge. To provide returns on saving under sharia principles, Al-Falah uses *wadi'ah* (trusteeship) or *mudharabah* (profit sharing) contracts. Although Al-Falah prioritizes their service quality over financial returns to savers, the most favorite savings product is "Si-Berkah", a time deposit that offers the highest potential return.

In terms of financing products, most of them are short-term individual financing for working capital and investment. Since most members, about 75 percent, are small-scale traders in traditional markets, Al-Falah offers simple and short-term financing, even one month. The tenor of financing is six months on average and the longest term is three years. Again, Al-Falah customizes its financing products. For business financing, Al-Falah offers three products, namely a charge-free (*qard*) financing, individual financing, and a group-based financing scheme. The first product is usually prioritized for trusted customers, with a financing ceiling of IDR 10 million. Whereas the second and third products use *murabahah* contract under fixed margins (charge) with rates ranging from 1.5 percent to 2.5 percent per month.

### *Advantages*

Based on the above performance and field observation, BMT Al-Falah is one of the oldest, largest and well performed in West Java province. They have several advantages compared with other BMTs as follows.

#### *(1) Attractive and user-friendly services*

To survive or winning the fierce microfinance market competition, Al-Falah adopts a local wisdom approach. Al-Falah does not offer a much cheaper loan or higher return saving products, because they recognized that their competitors are superior in terms of both capital and technological capabilities. In terms of savings mobilization, for example, Al-Falah cannot offer a deposit guarantee as it is offered by micro banks such as Bank BRI. Since then, to get cheaper funds, Al-Falah builds personal relationships with its members to create trust. The service model of "picking up and delivering funds to members" at no cost has brought Al-Falah to have many loyal members.

#### *(2) Simple products but sharia compliance impression*

One of the main characters of Al-Falah BMT members is the small-scale traders who are very busy with their daily operations and are mostly Muslim. Therefore, they have an emotional relationship with the religion of Islam but in simple ways. The selection of *murabahah bil wakalah* contracts, which is very similar to the conventional loan contracts, brings Al-Falah easy to be closer to its members. According to the field survey, most members do not understand Shariah principles or the detail contracts they signed. But the religious spirit, product simplicity, and local wisdom services are enough to build the trust. To ensure the implementation of Shariah compliance, Al-Falah regularly employs two Sharia supervisory board (DPS) members. They have to spend more effort to implement the sharia principles, for example by collecting

evidence of purchases of goods financed in the first two or three weeks after the *murabahah bil wakalah* agreement signed.

### ***Business strategy***

There are, at least, four competitive strategies implemented by BMT AL-Falah: member's need approach, operational cost rationalization, personal relationship, cost and service focus.<sup>17</sup>

#### **(i) Strategy 1. *Offers services suits to members' needs***

Some products and services are relevant to this principle. First, short-term financing is tailored to the business and income stream pattern of the members. The financing tenure could be very short, one month only, or medium-term financing up to three years. Second, repeated financing. Al-Falah will give a repeated financing scheme for loyal clients with easier and varied schemes. For example, there are members who get financing up to six times for fifteen years -2000 to 2015, ranging from one hundred thousand rupiah to twenty million rupiah. Third, small-scale financing to meet the daily needs of the poor and micro-enterprises. The financing ceiling is ranging from one million rupiah, which could be financed using social funds (Zakat and almsgiving). Fourth, non-collateral financing. In general, the financing schemes require collateral, but for some loyal customers (repeated financing), BMT Al-Falah does not require collateral except social collateral such as personal relationships. Some members received financing hundreds of millions of rupiah with no collateral, even cash collateral. Fifth, social financing schemes. To serve the members under the poverty line, Al-Falah offers charge-free financing, using *Hasan Qard* contract, to assist the poor to meet their consumption or starting their business. Sixth, customer-friendly approach. Most Al-Falah staff have a very close relationship with the members. Several tactics may indicate a close relationship, such as (a) Direct pick-up service to members, both for the saving or financing installment services. Al-Falah already has an 'ATM' strategy, but it does not mean an Automatic Teller Machine, but rather '*Asal Telepon Mampir*' which means 'You Call We Come' (b) the use of Android-based applications to facilitate booking and record every transaction, (c) the utilizing local employees to build and maintain the public image that Al-Falah keeps close to the members.

#### **(ii) Strategy 2. *Operational cost rationalization***

Because of limited resources, Al-Falah rationalizes its operational costs to improve its competitiveness. Some strategic tips have been carried out, such as a half-day working hours policy on Saturdays, using official vehicles with low operational costs (although it is not a comfortable vehicle), using offices with low rental costs, getting cheaper price for purchasing offices from members, employing local people including those with lower educational level than formal banking employees. To reduce operational costs, Al-Falah under limited resources try to minimize its operational cost.

#### **(iii) Strategy 3. *Motivate members to pay their debts***

In addition, Al-Falah provides spiritual motivation training for their members and conduct several strategies to motivate financing payments. First, the establishment of groups of members. Each marketing staff is responsible to maintain a daily relationship with the group members. Second, the group-based financing scheme. Al-Falah offers a group-based financing

scheme, known as *Saudara Mikro Keluarga/SMK*, (which means the little brother of the family) with the financing ceiling of ten million rupiah.

(iv) Strategy 4. *Financing cost Advantage*

Even though service quality is the main priority, but Al-Falah also applies financing cost advantages. They offer a much lower financing cost (conventionally known as interest charged) compared to their main competitors, moneylenders. On average, the loan interest of moneylenders ranges from 15 percent to 30 percent per month, while the Al-Falah only charge financing margin (costs) equivalent to 1.5 percent to three percent per month. However, compared to the micro-banking interest rate, it is still more expensive, where the bank offers loan interest lower than one percent per month.

### ***Competition and Challenges***

Most of the microfinance markets are better grown in the urban areas as the money velocity is higher. Al-Falah had decided to enter the urban microfinance markets, especially in the Regency of Cirebon. Cirebon City and Regency have ten urban markets and over 40 village markets. Al-Falah is concentrating on capturing urban markets with nine offices reaching over nine thousand traders in the urban market.

As a deposit-taking institution, Al-Falah is facing competitors from two sides: saving and loan sides. In terms of the funding side, the main competitors are the micro banking industry and other credit unions. However, Al-Falah has success to mobilize stable funding through the ‘Customer-friendly approach’ strategy, so their financing to deposit ratio is higher than 100 percent. In terms of financing sides, Al-Falah has to compete also with the micro banking industry and moneylenders. The greater pressure is the presence of subsidized microcredit programs such as *Kredit Usaha Rakyat - KUR* (the loan for small scale business) which offers much cheaper interest with longer tenure and higher credit ceiling. Only microbanks have the authority to channel and execute this credit program. The main advantage of moneylenders is the speed of services, especially in debt disbursement which takes only a few hours. Up to now, Al-Falah has not found the right strategy to provide financing services as fast as moneylenders do but in accordance with good governance and sharia principles. Learning from BMT Al-Falah above, some challenges for BMT have to be our concern. First, the potential utilization of consumer-friendly and inexpensive technology. The application of financial technology (fintech) in microfinance has been conducted by many institutions, while BMT has not involved in consideration that it does not meet the needs of the members. But, the rapid change in fintech development does not close the possibility of changing the preferences of people to switch from low-tech products to high-tech products, such as payment of bills through Android applications. Second, as a deposit-taking institution, BMT should be aware of the potential new entry or strategy on funding or financing. Increasing efficiency, productivity, and profitability could be the success keys, as the current efficiency and profitability of BMTs are lower than their competitors. Third, BMTs could exploit their philanthropic (*Baitul maal*) division to strengthen their competitiveness. Instead of expanding the potential number of active members, the *baitul maal* programs could reduce the overall cost by increasing people’s trust and reducing indirect costs

## KSPPS BMT TAMZIS: *Personal Relationship to Satisfy Each Member*

### *Company Overview*

KSPPS TAMZIS Bina Utama, as previously known as *Baitut Tamwil* TAMZIS, established in 1992 by a group of young Muslim scholars at Kertek district, Wonosobo Regency, Central Java. The pioneer of KSPPS Tamzis is Saat Suharto Amjad, a former Muslim student activist born from a small trader family. Initially, Saat Suharto was an activist in an Islamic organization, the Muhammadiyah, around Wonosobo Regency. As a trader family, he observed and found the fact that many traders in the traditional market at Kertek Wonosobo do not have financial access to the banking system, but they relied on moneylenders. He believed that the religion of Islam must have a principle and a practical solution to the problem. The concern for the poverty of the surrounding society and the negative impact of money lenders motivates Saat Suharto and his group to take a part to improve their prosperity through economic empowerment with limited capital and experience.

The term TAMZIS is an abbreviation of the words “*Tugas Amil Zakat Infaq dan Sadaqah*”, which means “the duty of zakat, *infaq* and alms organization”. Saat Suharto and his group started their mission informally in 1992 to distribute zakat, *infaq* and alms fund based on the interest-free loan, known as qard contract, to small-scale traders to attract more members. Gradually, the business has grown and the demands for financial services are more complicated. Not only poor traders willing to borrow but also various traders also were interested to join. This lead TAMZIS to diversify its services into two divisions: social finance or *baitul maal* (ZIS) and commercial finance or *baitut tamwil*. They started to operate as financial intermediation, i.e. collecting the deposit and distributing financing, under the legal entity on a saving and loan cooperative (KSP) in 1994.

In a short time, TAMZIS has expanded its business and requires more professional governance on social (*maal*) and commercial (*tamwil*) division. Since 1996, it has delegated the management of *maal* to Baperlurzam, a zakat management institution controlled by the Muhammadiyah organization. Whereas TAMZIS focused on managing *Tamwil* or commercial financing, so the brand popularized was *Baitut Tamwil* TAMZIS.

In the next ten years, 2006, *Baitut Tamwil* TAMZIS was succeeded to be one of the largest BMTs in Indonesia, with total assets of around IDR 21.78 billion (Rizqi, 2007), and the potential for social funds was even greater.<sup>18</sup> Since then, the management of *maal* (*social fund*) has been a spin-off institution. They established an autonomous institution to manage zakat and other social funds, known as LAZIS *Bina Dhuafa Tamaddun*. They implement such governance for a decade until a new policy applied. Based on their evaluation of many BMTs’ practices, the top management of TAMZIS concluded that the *maal* function of most BMTs does not manage their *maal* division properly. Finally, in 2016, TAMZIS changed again their governance model by integrating the *maal* and *tamwil* functions into a single organization, so they do not use term BMT on their brand, rather than term TAMZIS only. According to the Regulation of the Ministry of Cooperative and SMEs no 16/2015, TAMZIS has changed its legal entity to be KSPPS TAMZIS. Recently, TAMZIS has

been the third largest BMTs in Indonesia, serving over 146 thousand members and 40 thousand borrowers across the country.

As a large and growing organization, the organizational structure of TAMZIS has changed several times throughout history. At present, the organizational structure of TAMZIS reflects a combination of cooperative and banking institutions, where the CEO is held directly by the chairman of the cooperative, while the top management is divided into two, i.e. business managers and operational managers. TAMZIS also posits human resource development and internal control in a very important position, in line with the top management. In addition, TAMZIS also has a special division controlled directly by the Chairman of the cooperative, i.e. the Pension Fund and Assurance division.

Overall, the asset and capital of KSPPS TAMZIS show an increasing growth during the crises the 2010s and getting steady growth recently. Its assets grow from IDR 121.63 billion in 2009 to IDR 610.79 billion in 2018 with a CAGR of 19.64%. As seen at [Figure 3], TAMZIS's assets are mainly contributed by financing extended, which grows faster from IDR 83.27 billion in 2009 to IDR 570.92 billion in 2018 with a CAGR of 23.85%. On the other side, its saving mobilization also grows from IDR 98.13 billion in 2009 to IDR 335.37 billion, which CAGR of 16.63%. An interesting part is that the capital also grows steadily, so it could maintain the capital to asset ratio (CAR) stable above nine percent. One of the unique features of a cooperative is that the main source of capital is generated from the membership funds, i.e. *simpanan pokok* (members' paid-up capital) and *simpanan wajib* (members' share capital), instead of capital reserves.

In the last five years, KSPPS TAMZIS received some best performance awards, such as Islamic Microfinance Standard warded by PBMTI in 2013, the 2nd best of Islamic Microfinance awarded by Karim Business Consulting in 2013, and 'The Most Compliance in Recording Membership' awarded by the Ministry of Cooperative and SMEs in 2014. Currently, KSPPS TAMZIS continue to maintain their financial and social performance simultaneously. As seen in [Table 8], all financial ratios reflect good financial performance. In terms of portfolio quality, for example, overall TAMZIS have a good financing qualify as their non-performing financing is very low, about 2.72 percent. TAMZIS also has financial sustainability, whereas most of the funding is generated from members and no subsidized funding, so that its OSS is over 100 percent. However, as other BMTs, TAMZIS's efficiency and productivity are lower than the banking industry, as they are more labor-intensive and provide higher returns to depositors. For example, the number of borrowers per staff is 281.27, lower than that of Islamic commercial banks, 536.09 (December 2018). This is in line with microfinance business, whereas they require more personal relationships and the cost of funds is commonly much higher than that of more labor-intensive rather than Islamic commercial banks (BUS and UUS), whereas each staff handles 281.27 members.

Another interesting feature of TAMZIS's performance is its social performance. Its geographical coverage includes some provinces in Java Island, such as Central Java, Special Region of Yogyakarta, West Java, and Special Capital of Jakarta. Its financial intermediation works very well as its number of active members (depositors) is much higher (three times) than the number of borrowers. TAMZIS also concern about female prosperity as 44.64 percent of its members are

female. However, the average financing per borrowers is about 13 million rupiahs, higher than small BMTs, but it provides small-scale financing up to one million rupiahs. [Table 9] explains the detail social performance of KSPPS TAMZIS.

### ***Key Products and Services***

KPPS TAMZIS provides the common products of microfinance intermediaries, which are micro saving and micro-financing. There are three main financing products, i.e. micro enterprise financing (*Pembayaan Mikro Syariah*), consumer financing for pilgrimage and umrah (*Pembayaan Haji dan Umroh*), and general business financing (*Ikhtiyar Utama Syariah*). They adjust the credit ceiling and contract used to the members' needs. For example, some contracts used in business financing could be *mudharabah-musharakah*, *murabahah*, *kafalah* or *ijarah* which is adjusted to meet the underlying transaction.

Savings products can be categorized into three types, i.e. general savings such as savings accounts (*Simpanan Mutiara*), special deposits, such as saving for the education (*Simpanan Pendidikan*), and time deposits (*Simpanan Berjangka*). In fact, the most popular saving product is the savings account (e.g. *Simpanan Mutiara*) that implements a *wadi'ah* (trusteeship) contract. This product allows depositors to manage his or her financial planning such as for education, pilgrimage, or *Qurban*. Its minimum deposit balance is very affordable for the poor, only as low as ten thousand rupiahs (USD 0.72) and its top up a deposit of fifty thousand rupiahs (USD 3.60).

While for the financing side, the most desirable product is *Mudharobah*-based financing, as recorded increased in the last five years from 26,487 accounts (88.20%) increased to 28,234 accounts (70.23%). Currently, there are four types of sharia financing, not only *mudharabah*-based financing but also *Murabahah*, *Ijarah*, and *Kafalah* based financing. The interesting questions to discuss are why and how does TAMZIS has a very high *mudharabah* financing portfolio, for example, as it is compared to portfolios in Islamic rural banks (BPRS) or commercial banks (BUS and UUS) that are only 29.55 percent and 11.22 percent respectively.

The answer to the first question, why did TAMZIS choose the *mudharabah* contract is ideological. The main vision of TAMZIS is to apply the principles of Islam in the trading partnership or financing, as previously practiced by the Prophet Muhammad (*PBUH*) with his coming wife, Khadija. At that time, Khadija, as a capital owner, gave a trust to Muhammad (*PBUH*) as an entrepreneur to run her business under a profit-sharing or *mudharabah* agreement. Khadija shared the profit to Muhammad and did not hire with a fixed salary or asked Muhammad to be a reseller. Therefore, the founding father of TAMZIS believes that *mudharabah* is the most appropriate contract that could be applied for trade financing. They do not choose *murabahah* as the main contract for financing as so far applied by most BMTs.

The second question is how does TAMZIS apply *mudharabah* contracts to market traders, who rarely have a good financial report and a stable income stream? TAMZIS has a different view, which believes that the condition of the *mudharabah* contract is trust, not the availability of reports. Therefore, TAMZIS employees help and educate market traders to calculate and estimate their income streams. Both parties finally agreed on the profit-sharing portion, based on the estimated

nominal value that had already been explained. A *mudharabah* contract is then arranged and signed. To anticipate the fluctuation (increase or decrease) in traders' income, TAMZIS offers an option in the *mudharabah* contract, states that "the member has a right (option) to report an income downturn of his/her business to KSPPS" and "the member has a right (option) not to report an income increase of his/her business to KSPPS". They write the option in the contract to ensure that all income installments paid to KSPPS are lawful or halal, because if the installments paid by members are not exactly the same as the portion of the real income and members do not want to report it to KSPPS, then both parties have agreed to be happy with each other for the share of income been paid in the installments.

To sustain the competitiveness of microfinance, TAMZIS has conducted a direct pick-up system to mobilize micro-savings and distribute micro-financing among market traders. In terms of product selection, TAMZIS conduct personal interview and observation to choose the most appropriate contrasts. For example, if a member needs money to buy a refrigerator to add the storage of his/her wares, then TAMZIS chooses the *murabahah* contract. Therefore, each marketing staff has a responsibility to create and maintain a good relationship with the members to get accurate and updated information. There is a daily duty for a marketer to say hello, keep smiling or building an informal communication to the members so that the trust could be improved.

### ***Advantages***

There are several advantages of TAMZIS, based on both financial or social performance.

#### **1) *Knowing Your Member Principle***

In the banking principle, well known as KYC (Know Your Customer), the verification process carried out by the bank to all consumers regarding everything related to banks and customers is legal and some banks may require extreme to conduct their due diligence. TAMZIS has applied this principle to develop the right products and services to each member, instead of minimizing fraud and default risk. They use a personal approach to know each member more intimately, known as '*Pendekatan kekeluargaan*' (which means family-based approach). They expect to build an emotional relationship between members and KSPPS and finally, they could identify any collaboration with each member, such as financing or savings relationships.

#### **2) *Two Tier Mudharabah Approach***

The low proportion of profit-sharing based financing portfolios in an Islamic financial institution is partly because of the irrelevant company financial structure. *Mudharabah* financing schemes should not be enforced to predominate each microfinance institution if their liabilities are still dominated by fixed-return deposits. KSPPS TAMZIS has a *mudharabah* financing portfolio of over 70 percent and it is supported by the funding side which is also dominated by *mudharabah*-based deposits, around 60% to 80%. Although *mudharabah* deposits do not always mean cheap funds, the implementation of a two-tier *mudharabah* model can make financial performance more stable. It can be seen from the high operational self-sustainability (OSS) of TAMZIS, although the profitability and efficiency of the company are not so high.

### 3) Personal Relationship to Members

The product selection for members begins with a close relationship where TAMZIS employees are helping to solve problems faced by members. Usually, employees introduce sharia contracts by asking in advance what problems are needed. For example, a member requires additional capital for expanding his or her business. Then TAMZIS suggested choosing a *mudharabah* contract rather than others, such as *murabahah* or *ijarah*. If the member has been well known and agreed upon the proposed contract, then TAMZIS immediately execute the financing disbursements. In fact, few members understand well about their business venture and their needs. Therefore, TAMZIS has to conduct an on-field feasibility study to know its characteristics. It could be done by interviewing the neighbors or close relatives of prospective members (borrowers). Another approach commonly used to identify the members' characteristics is maintaining social relationships with members such as visiting members during celebration days.

## ***Business Strategy***

As the oldest BMT in Indonesia, TAMZIS has a long experience in business competitions on microfinance. Recently, TAMZIS is the third-largest BMT in terms of the assets and financing size, which 43 branches across provinces in Java Island. Based on the interview with managers and the observation, TAMZIS recently choose some business strategies as the following.

### (i) Strategy 1: *Raising equity capital through compulsory saving mobilization*.

The capital structure of KSPPS TAMZIS is currently dominated by capital reserves and a few shares of members' capital. There is no debt capital nor donated capital, including borrowing from banks, however, the capital adequacy ratio is still low, between nine to eleven percent. Therefore, to manage the solvency risk, TAMZIS will expand its equity through mobilizing compulsory savings from members. Recently, each member has to pay annual compulsory saving of IDR 50,000 (the US \$3.60) only, but not many are willing to pay. For example, the compulsory savings balance in 2018 equal to IDR 7.6 billion, which is equivalent to the value of compulsory savings for one year only. However, if all members want to pay their compulsory savings continuously, e.g. for five years, then it can raise the total equity significantly. To realize this strategy, TAMZIS prefer to use a personal approach to their members, such as improving the informal relationship to members.

### (ii) Strategy 2: *Mobilizing cheaper funding sources through deposit fund*

To minimize the cost of funding, especially the cost of the deposit, TAMZIS offers a short-term deposit with the lower cost of fund or lower returns. For example, members who have money IDR 100 million but only for a month's maturity, so it is advisable to put on a savings account (e.g. *Simpanan Mutiara*) with a bonus, return determined unilaterally by the financial institution.

### (iii) Strategy 3: *Implementing technology for improving services and generating income*

Information and communication technology are continually being applied and updated to facilitate the service to all members, depositors or borrowers, as well as to increase the transparency of all transactions. Most wireless technologies have been applied to support

back-office operation, such as installment recording, billing payment, and other applications. This can minimize the workload, such as logging and auditing, so it can easily increase the revenue.

(iv) *Strategy 4: Human resources development and leadership program.*

Improvement of quality of human resources is done by providing training both from internal through on-the-job training, and externally through comparative study or off-the-job training by employment internship program in other institutions. The leadership training program is set to step by step. Each employee will follow the selection and carrier process, starting from internship workers, then to be prospective workers, temporary workers and finally to be permanent workers. It needs a set of processes for one year to be a permanent worker and been evaluated annually.

(v) *Strategy 5: Integrating maal and tamwil under a single management*

TAMZIS has a long experience in managing commercial and social funds in different organizational governance. Have focused on commercial finance for over two decades, TAMZIS realized the need for integrating social and commercial finance for a few years ago. Social fund-raising is needed to empower the poor as they are the main members. TAMZIS need to collaborate with other institutions to mobilize social funds, such as mosques societies, Muslim organizations, Islamic school or Moslem preachers (*Da'i*).

### ***Competition and Challenges***

Most of TAMZIS's microfinance market grows better in traditional markets as a nice market. Like the other BMTs, the main competitors of TAMZIS are money lenders and micro banking. In terms of competition on financing or loan services, TAMZIS compete for head to head with moneylenders. TAMZIS prefers conducting a non-price competition, such as promoting a cheaper loan, but they compete through financial literacy strategy. For example, in approaching prospective borrowers, TAMZIS explains to prospective members about the risks and dangers of being indebted to moneylenders, such as the risk of collateral being seized. They educate about Islamic loans free of exportation and collateral seizing without owner permission.

In terms of funding competition, the main competitor is micro banking with its complete facilities and deposit guarantees. For this reason, TAMZIS prefers to use non-price competition again: through an emotional or personal approach such as pick-up service to customers. This service has attracted people to save their money to TAMZIS, even though profit sharing is not higher than the interest offered by microbanks.

## KSPPS BMT FASTABIQ: *Baitul Maal will create its own Baitul Tamwil*

### *Company Overview*

BMT Fastabiq established in Pati Regency in 1998 and initiated by the youth leaders of the Muslim organization, Muhammadiyah. With the spirit of *da'wah*, they choose the word “Fastabiq”, a word taken from the Holy Quran (Surah Al-Baqarah verse 148) “*fastabiqul khoirot*” (which means “compete in doing good deeds”). Some pioneers of BMT Fastabiq, Muhammad Ridwan, Muhammad Sapuan, Abdul Hadi, Ahmad Mubasyirin, and Abdul Wahid.

BMT Fastabiq officially operated since November 1998 under the legal entity of a multipurpose cooperative (KSU). Socio-economic problems, especially the 1997/1998 monetary crisis, mainly motivated the establishment of the BMT Fastabiq. The increase of educated unemployment rate and the practice of moneylenders which have spread widely in the urban society has pushed this youth group to take part in overcoming societal problems.

At its inception, BMT Fastabiq employed four people in a small room, using an initial capital of only IDR 3.25 million (USD 203). This initial capital was obtained from the foundation funds (*Pemuda Muhammadiyah*, Pati) of IDR 1,075 million members' principal savings (*simpanan pokok*) of IDR 0.175 million and funds from one founder of IDR 2 million. They use all these funds not only for working capital but also for building refurbishment, office equipment, and all operational expenses.

The initial operation of the Fastabiq BMT began with managing social funds (*maal*), including zakat, *infaq*, *shodaqoh* and *wakaf* funds (ZISWAF) collected from the local community leaders. Gradually, Fastabiq success in collecting a lot of *maal* funds which then used for community development programs and provide financing to small traders. They have collected *maal* funds and then invested through the *Baitul Tamwil*. They use their return for community economic development.

According to the general manager, Muhammad Ridwan, the community empowerment program uses the *maqasid shariah* approach, i.e. prioritizing the fulfillment of five main human needs. The five human needs are physical needs (*al-nafs*), intellectual needs(*al-'aql*), religious needs (*al-dien*), family and social needs (*al-nasl*), and material needs (*al-maal*). Initially, the allocation of *maal* funds aimed to empower the welfare of the poor through the fulfillment of nine basic needs and building some mini markets for the poor (*bedah kios* or store restoration program). For example, the initial step of BMT Fastabiq starts from the internal aspect of strengthening the quality of human resources or employees. This step was chosen because they believed that they can only carry the empowerment for the poor through the optimization of managing social funds such as zakat, alms, and endowments fund, not through commercial loans. So that the first thing required is to provide individuals who are willing and able to manage ZIS (zakat, *infaq* and *shadaqah*) funds with a *socio-entrepreneurship* skill (i.e. combination of economic and social entrepreneurship). Therefore, the first step is providing reliable human resources (later called as “Fastabiq Institute”), which aims to prepare reliable and *socio-entrepreneurs*. They prepared Fastabiq employees to be preachers or *da'i*, not as workers only. In the second step, after BMT

Fastabiq runs its business normally, a new need arose, i.e. the low quality of life of poor families, especially the children of the employees. Therefore, Fastabiq then established a children's education program, called *Fastabiq Ceria*, to improve the mental quality of the employee's family. Again, many programs gradually would have solved the real problem of society. Recently, there are about seven established different programs such as human resource development program (*Fastabiq Institute*), basic health services (*Fastabiq Pratama*), public hospitals (*Fastabiq Sehat* PKU Muhammadiyah Hospital), local retailers (*Fastabiq Mart*), small-scale retailers (*Bedah Kios*) and Islamic residence (*Fastabiq Residence*).

To carry out this valuable vision, Fastabiq made a rigorous employee recruitment process. Employees are 'forced' to work as preachers, so every employee must meet the qualifications as a preacher known as a *da'i*. Through in-house training and on-the-job training for one month, they expect each employee to have a similar vision, spirit, and ability to be a preacher who can also work professionally as a socio-entrepreneur.

The main marketing target of BMT Fastabiq is poor traders in traditional markets in Pati Regency, Central Java. As commonly occurred in almost every traditional market, traders in Pati Regency have also relied on moneylenders for decades. The presence of BMT Fastabiq with its social program provides a 'new pleasure' for traders in the markets even though Fastabiq has to engage in head-to-head competition with the moneylenders. However, because of Fastabiq's closeness to the traders, which are not merely a transactional relationship basis, many traders in the market prefer to be the members of BMT Fastabiq. Since then, BMT Fastabiq focused on targeting traders in the markets as the main members.

Over time, Fastabiq can be one of the best BMTs in Indonesia; several awards being achieved. In 2016, for example, Fastabiq achieved an award from the Ministry of Cooperatives and SMEs as one of the successful cooperatives. They got a similar award in 2019. Fastabiq provides *maal* and *tamwil* service for 23 thousand members and operates in four regencies in Central Java (Pati, Kudus, Blora, and Jepara) with 23 branch offices. According to Muhammad Ridwan, the identity of Fastabiq is a *da'wah* institution managed by human beings who have righteous faith, true worship, noble morality, physical strength, and professional work. The focus of corporate governance is human resources development.

In general, the financial and social performance of Fastabiq is both very excellent. The non-performing financing (PAR-30) is very low, even as compared to rural banks or commercial banks. The financing extended always growing rapidly, as the financing balance increase from IDR 134 billion in 2017 to IDR 160 billion in 2018. In terms of productivity, each staff (*da'i*) is responsible for 116.39 members or 27.81 borrowers on average. Fastabiq also succeeds in conducting its financial intermediary function, as 90.95 percent of deposits have been utilized for financing activities.

Fastabiq's social performance also appears to be superior to its financial performance. For example, Fastabiq provides financing for 5,479 active borrowers and 22,928 members spread out of four regencies. Many staffs and members are female as Fastabiq operates mainly in traditional markets with most of the female traders. They still provide tiny financing, IDR 250 thousand for

each borrower, however, the average financing per borrowers is IDR 29.28 million, higher compared to other BMTs. The detail figures for these performance could be seen in [Table 10] and [Table 11]. Because of the concern about poverty, alleviation, and empowerment, Fastabiq combined its social and commercial mission into a single organizational structure. As a cooperative, Fastabiq has to comply with the general organizational structure of a cooperative with some modification. The ultimate decision belongs to the Annual General Meeting (*Rapat Anggota Tahunan/RAT*) which has the authority to appoint the cooperative chairman, the general manager and sharia supervisory boards (DPS). There are two main differences in the organizational structure of Fastabiq compared to BMTs in general:

- 1) Shariah supervisory board (*Dewan Pengawas Syariah/DPS*) has a higher authority than the management supervisory board. The DPS is responsible for the RAT, while the management supervisor is part of the manager.
- 2) There is no special division that deals with *maal* or social finance. *Maal* and *Tamwil* divisions are merged into one, which means that in each section (managers, directors, divisions, branch heads or staff) carry a dual mission of *maal* and *tamwil*. For example, the job responsibility of marketing staff is not only to market *Tamwil* products such as funding and financing but also at the same time he or she has to promote *maal* products, such as promoting *zakat* and *sadaqah* payment

As a saving and loan cooperative, Fastabiq has success to serve around 22,928 members, comprising 11,968 (55.22%) male members and 10,960 (47.78%) female members, and employs 224 staffs. Currently, its assets continue to increase around IDR 64 billion in 2010 and increase over five times in 2019, around IDR 340 billion. BMT Fastabiq has gained international recognition, such as an ISO 9001: 2008 on the quality management certificate. This recognition supported Fastabiq in maintaining public trust.

The company policy on *maal* division is very attractive, where each employee is required to spend five percent of his gross income for social funds (2.5 percent for *zakat/infaq* and 2.5 percent for *wakaf* fund). The leading-by-example principle (*uswatun hasanah*) is applied to spread up their business mission. For example, each staff has to pay *zakat*, *infaq* or *wakaf* before he or she persuades or asks others to pay *zakat* or *wakaf*. During the *Iedul Adha* holidays in 2019, Fastabiq issued a policy to encourage each staff, especially the branch manager, to sacrifice a goat or a cow in the place where he or she has been living now. Another example, when there are borrowers who want to give gifts - a kind of bribe -, to the staff, the staff does not reject directly but explains that they should channel the funds for alms.

Some programs that have been successfully developed through building socio-entrepreneurship orientation for each staff. For example, *Da'wah* and Islamic economic practices are carried out by BMT Fastabiq to the community routinely. To maintain the solidarity and loyalty of members, the Fastabiq management once a month holds regular recitation to members. In addition, they also prioritize *zakat* and alms distribution to the neighborhood of the members.

### **Main Products and Services**

Like other BMTs, Fastabiq BMT has two types of *tamwil* products comprising savings and financing products and *maal* services. But because Fastabiq's initial mission was community empowerment, there were several products in the form of empowerment programs. Some superior products are the following:

- 1) There are two types of savings products, namely saving accounts, time deposit accounts. There is one product saving account, namely a general saving account (SIRELA), which offers a profit-sharing based on a daily average balance system. The time deposit consists of two products, namely time deposit for health services (*Sisuka Fastabiq Sehat*) and time deposit for sacrificial worship (SUQUR).
- 2) Financing products are packaged in accordance with the contract used and adjusted to the needs and character of members. In general, there are three contracts that are often used, namely *mudharabah*, *ijarah*, and *murabahah* contracts.
- 3) Baitul *maal* products can be categorized into two, namely social activities and real sector *maal* programs. Social programs include food distribution, provision of clean water, free health services, and disaster response. The real sector *maal* program is the establishment of businesses with initial capital from the collection of *zakat*, *infaq* and *wakaf* funds. Fastabiq also has established some productive projects based on social funds rising, such as the refurbishment of the members' stall (known as *Bedah Kios Program*), mini markets (known as *Fastabiq Mart Program*), and hospitals (known as *RS Sehat Fastabiq PKU Muhammadiyah Pati*). Fastabiq raises *zakat*, *infaq* and *wakaf* funds from staff, members and local society as the initial capital for those programs. Because those programs are funded by *wakaf* and other social funds, so its ownership belongs to a *wakaf* property. Furthermore, BMT Fastabiq prepared a reliable management and human resources development system to manage these businesses, such as hospitals, mini markets, and other businesses. After the business is running and workable, BMT Fastabiq could offer to finance through its *tamwil* division, under suitable Islamic contracts.

The *Bedah Kios* (store restoration) Program aims to empower members who have businesses as small retailers. There are three benefits provided by Fastabiq: (1) renovating the kiosk to ascertain that it is feasible for retail business; (2) supply of goods sold, so that the goods sold are complete to meet consumers' needs, and (3) business managerial assistance to ensure that members' businesses will be profitable and sustainable, More than 150 members accepted the small retailer's *maal* program. The health service program is provided through establishing a general hospital, called *Rumah Sakit PKU Muhammadiyah Pati*, in collaboration with the Muhammadiyah organization. The initial investment was financed by *zakat* and *wakaf* funds collected by BMT Fastabiq, In the next stage, BMT Fastabiq provided the governance system and human resource development planning. BMT Fastabiq also provides commercial financing for this program if needed.

### **Advantages**

#### **(1) Social Finance (*baitul maal*) as the Backbone BMT's business**

Although most BMTs have social missions, such as poverty alleviation or fighting moneylenders, gradually they tend (read ‘shift’) to prioritize their commercial finance. The founders of Fastabiq believe that *maal* (social finance) could create its own *tamwil* (commercial finance). Beginning with the empowerment of the poor bringing up the have people who usually need commercial finance and zakat and other charity distribution. It means that social (*maal*) and commercial (*tamwil*) finance have to be delivered in one package. It implies that each staff (*da'i*) has to have a social and commercial blended mission reflected in the key performance indicator (KPI). Further, the development of new products has to follow the hierarchy of the needs of the poor or *maqasid sharia*. Currently, Fastabiq has empowered over 150 micro-retail shops (kiosks) in five regencies around Pati, six mini markets (Fastabiq Mart), 92-bed general hospital (*Rumah Sakit Fastabiq Sehat PKU Muhammadiyah Pati*), and HR development services (Fastabiq Institute).

#### **(2) Socio-entrepreneurship Development**

Each product and service of BMT Fastabiq is not-for-profit motive only, rather than for *da'wah* or social development mission. Therefore, Fastabiq develops all products to meet the social needs of members, starting from the fulfillment of the human basic needs such as food and basic health services, business start-up financing and working capital financing. Each staff has to be a trendsetter of their surrounding society. Each staff is selected, educated and trained to be responsible for Islamic missionary work or *da'wah*. They call themselves as *da'i* because they are responsible to conduct *da'wah* while working.

#### **(3) Maqasid Shariah-based Approach**

To overcome the solution of the poor traders, Fastabiq does not only aware of their demand but aware of their basic needs according to sharia principles, i.e. *maqasid sharia*. Therefore, the design and development of the product follow *maqasid sharia* principles, i.e. the order of human basic needs. For example, at the start of establishment, Fastabiq concentrated on the fulfillment of three basic needs (food, clothing, and shelter) through charity programs (*Fastabiq Peduli*), while at the next step Fastabiq expands to the fulfillment of healthy need through health service program (*Fastabiq Sehat*). Step by step finally, Fastabiq serves almost all *maqasid shariah* needs, such as wealth needs (*Bedah Kios* program), education needs (Fastabiq Institutes) and family-social needs (Islamic School, and maternity hospital).

### **Business Strategies**

Throughout history, BMT Fastabiq has a consistent strategy, empowering *baitul maal* as the backbone of the business. The main strategies currently being carried out are the following.

- 1) Human resource development emphasized integrity towards the full application of Islam (faith, worship, and morality), physical and mental resilience, and professional work. Since the recruitment process, each employee candidate has to join intensive training for one month and since then regular education and training are carried out.

- 2) Implementation of international quality standards. Fastabiq has implemented the international quality management standard system such as (ISO) 9001: 2008. ISO 9001: 2008 specifies requirements for a quality management system where an organization needs to show its ability to provide products that meet customer needs and comply with regulatory requirements. The strategy aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.
- 3) Application of sharia principles in every transaction, organizational governance, and research and development. The establishment of the Fastabiq Institute aimed primarily to provide leadership training for employees and conducting research and development on the application of sharia principles into *muamalah*.
- 4) Improved service quality to get closer to the economic activities of the members and reducing poverty. Fastabiq improvises service quality based on the approach of sincerity, “leading by example” approach (*uswah hasanah*) and increasing customer satisfaction.

### ***Market Competition and Challenges***

BMT Fastabiq realizes that the main competitors of BMTs are money lenders rather than the banking system. Moneylenders have similar market segments, either in terms of funding or financing markets. Most money lenders emphasized on service quality rather than lowering the pricing. The success of moneylenders in prospecting traders is simplicity and ease of service, for example, retention of willingness to serve customers at three o'clock in the morning just before trading begins, the readiness of liquid loan funds within a few hours, and free of collateral. Therefore, BMT Fastabiq grows its business through social services so far not provided by moneylenders or banks. With this approach, Fastabiq considers that they need not compete directly with moneylenders or the banking industry. In terms of funding, for example, Fastabiq does not promise high returns, even floating returns, but public trust is still established. Even in terms of financing, recently, Fastabiq does not see banks as significant competitors, because they have different market segment and they apply the inappropriate approach for the poor and microenterprises.

## **BMT UGT SIDOGIRI: Optimizing Technology for Community Based Microfinance**

### **Company Overview**

The establishment of BMT UGT Sidogiri is a historical series of BMT MMU (*Baitul Mal wa Tamwil Maslahah Mursalal lil Ummah*). BMT MMU established in 1997 and initiated by some teachers of *Madrasah Miftahul Ulum* (MMU) *Pondok Pesantren* Sidogiri (Sidogiri Islamic Boarding School) at Pasuruan Regency, East Java. The early history of BMT UGT Sidogiri has absolutely nothing to do with business motives. According to Abdul Majid, the CEO of UGT Sidogiri, the main reason for the BMT establishment was a concern of some Sidogiri boarding school teachers (called *kyai*) to purify their students' wealth from usury. The *kyai* believes that the unlawful wealth, even food, will influent the effectiveness and blessing of the study. They observed that many students got difficulties to focus on the study and difficult to understand the lesson. Have observed and surveyed, they finally realized that most students often buy food and various needs to the small shops around the school. Apparently, most shops or traders are indebted to moneylenders who charge high interest or usury. Led by H Mahmud Ali Zein, with an initial capital of IDR 13.5 million, some *ustadz* established a sharia cooperative or BMT to provide interest-free financing to release the society from moneylenders.<sup>e</sup> They plan a loan scheme accompanied by savings so that at the end of the debt full payment, the borrower will have a saving fund that can sustain their business. For example, a resident borrows IDR 400,000 for 60 days (eight weeks) with weekly installments of IDR 5,000 and savings of IDR 2,000 so that at the end of repayment, the borrower has savings of IDR 80,000. This program finally success to release society from money lenders and feel comfortable with the BMT system. Gradually, BMT MMU was growing and initiate some alumni of the school to replicate and establish other BMT which is recently well known as BMT UGT Sidogiri.

BMT UGT Sidogiri was founded by alumni of *Pesantren* Sidogiri members of Internship Teachers Affair, or well known as *Urusan Guru Tugas* (UGT)<sup>f</sup>. Recently, the term UGT has been transformed into *Usaha Gabungan Terpadu* (UGT), which means an integrated joint venture. BMT UGT Sidogiri was established as an independent, separated from and does not have a legal relationship with *Pondok Pesantren* Sidogiri, even though it was founded by their alumni and used the name of Sidogiri.

Officially, BMT UGT Sidogiri operated on June 6, 2000, in Surabaya with the legal entity of a credit cooperative. The initial capital of IDR 146 million collected from the BMT members which mainly comprise teachers, Islamic school leaders and alumni of *Pesantren Sidogiri*. Recently, BMT UGT Sidogiri has 280 offices spread out in ten provinces, covering East Java, West Java, DKI Jakarta, Lampung, Riau, West Kalimantan, Central Kalimantan, East Kalimantan, South Kalimantan, and Bali.

<sup>e</sup> There are some teachers at *Pondok Pesantren* Sidogiri known as Kyai and some others known as Ustadz. The title of Kyai refers to who are both a teacher and a leader of the *Pondok Pesantren*, while other teachers are known as ustadz.

<sup>f</sup> *Urusan Guru Tugas* (UGT) is an institution that handles internship teachers and preachers (*da'i*) from *Pondok Pesantren* Sidogiri, who are usually assigned to various boarding schools or branch madrasah affiliated with *Pondok Peantren* Sidogiri.

As the largest cooperative in Indonesia, BMT UGT Sidogiri has proven its best performance as it has achieved many awards for years. BMT UGT Sidogiri has received international recognition on the quality management system, i.e. ISO 9001/2015. They also received an award as the Best Islamic Microfinance from Karim Consulting (2013), the Best Business model BMT from Karim Consulting (2015), the First Largest Sharia Cooperative from the Ministry of Cooperative and SMEs (2015), the Best Product Innovation from Karim Consulting (2016), the Largest Assets and Turnover Cooperative from the Ministry of Cooperative and SMEs (2017).

Recently BMT UGT Sidogiri has been serving over 478,000 active members, comprises 19,000 common members, and 459,000 special members.<sup>g</sup> The total asset in 2018 was IDR 2.254 trillion, more than double compared to five years ago, IDR 1.069 trillion in 2013. They employ 1,600 workers comprise 1,000 alumni of *Pondok Pesantren Sidogiri* (PPS) and 600 non-PPS alumni. Most of the members, about 65%, are located in the East Java region, precisely in Madura and Probolinggo, Banyuwangi, Bondowoso, Jember, Lumajang, Pasuruan, and Situbondo areas. Why the members are so flourished in such areas is because of many PPS alumni living in the area.

Until now, PPS alumni still control the management of BMT UGT Sidogiri. BMT UGT Sidogiri considers the involvement of the PPS alumni to ensure the implementation of the Cooperative's vision. Their vision is to be to a trustful, resilient and dignified cooperative (*amanah tangguh dan bermartabat* abbreviated as MANTAB). In order to realize their vision, they plan seven pillars of mission: (1) managing cooperatives in accordance with *santris'* identity,<sup>h</sup> (2) implementing the sharia principles under the standards of the *Salaf* books<sup>i</sup> and the fatwa of the National Sharia Council (DSN), (3) achieving sustainable liquidity, (4) Empowering economic synergy among members, (5) strengthening the members' concern and support for BMT UGT, (6) Delivering quality services to members and society and (7) improving the welfare of members and society.

Lately, besides micro saving and financing, BMT UGT Sidogiri has expanded their business, such as insurance brokerage, establishing an Islamic rural bank (PT BPRS UMMU), ICT business (PT UGT System Integrator Development and PT UGT Sidogiri Arsen Telekomunikasi, property (PT UGT Sinergi Barokah), tour and travel (PT UGTMAS Tour and Travel), transportation (PT Angkut Berkah UGT), human resource training (LDP SBC Sidogiri) and Palm plantation (PT UGT *Perkebunan Kelapa Sawit*). Because the regulation does not allow a KSPPS to own a business outside the sharia-based financial services and insurance business sectors, they are looking for a solution so it can continue to manage its subsidiaries companies because these subsidiaries have been one of the important sources income.

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<sup>g</sup> Special members are members with limited right compared to common members. Usually they contribute the principal savings only, while normal members also have to pay regular compulsory saving.

<sup>h</sup> *Santri* is a term from Javanese (Cantrik) to refer to someone who is studying Islam in a *pesantren*, usually staying there until his education is completed (Geertz, 1971, 65). The head of the santri community is known as a *kyai*. However, there are also santri who do not live in a *pesantren*, but they continue to study with the *kyai*, obey and follow the teachings of the *kyai*.

<sup>i</sup> *Salaf* refers to the Arabic term "*salafush-sholih*", which means three generations of the early Islam: *shahabat* (the Prophet companions), *tabi'in* (first generation after *shahabat*) and *tabi'ut tabi'in* (second generation after *shahabat*). Then the term *salaf* is used as one of the methods in learning and implementing Islam, which obey and follow them, namely *Salafiyah*. There are some recognized madzhab (method) by *salafiah* such as Imam Malik, Imam Hanafi, Imam Syafi'i, and Imam Ahmad and others. The books of their work and their followers are called the *Salaf*'s books.

At a glance, we will see the financial and social performance of UGT BMT Sidogiri, excluding the performance of its subsidiaries such as property, tour and travel, and so on. During the last five years, financially UGT BMT Sidogiri has shown its profitability with a declining trend [Figure 4]. In 2018, its return on asset is 3.5 percent, higher than commercial Islamic bank (BUS) or Islamic rural bank (BPRS) of 1.28 percent and 1.87 percent respectively. UGT BMT Sidogiri's return on equity in 2018 is 19.1 percent, even much higher than the Islamic rural bank (BPRS) of 12.86. Even though they have a large scale, BMT UGT Sidogiri shows its good financial performance, either in terms of portfolio quality, efficiency, and productivity, financial management, and profitability.

Some interesting features of financial performance are (1) BMT is very efficient with an efficiency ratio of 70.10% and this can be seen from the relatively cheap funding sources (4.91%) (2) Although large-scale, but this BMT employs a lot of jobs, and with high worker productivity, where one employee serves around 199 customers. (3) the level of profitability is quite high although this is supported by the existence of a little debt capital and grants. We also expect that BMT UGT will be financially sustainable to run their business in the long-term, as its OSS ratio is 141.12 percent, very sound for a microfinance institution and its subsidy dependence index (SDI) is very low.

In terms of social performance, BMT UGT Sidogiri has played an important role since its beginning but not all of it can be measured quantitatively. From the aspect of outreach, this BMT has the widest range among BMT even rural banks, i.e. ten provinces on many islands in Indonesia with a total membership of more than 400 thousand. The number of members is far greater than the average number of BPRS clients in 2018 which is 9.3 thousand. Look at [Table 12] and [Table 13] for the detail performance.

### ***Products and Services***

Like other BMTs, BMG UGT Sidogiri plays as a financial intermediary. BMT UGT Sidogiri provides a range of savings, financing products, and social funds (*zakat, infaq, and sadaqa*) management. In terms of the saving products, they offer a general saving account (*tabungan masa depan TAMPAN*), and time deposit account (such as saving for education, and saving for pilgrimage purpose). All saving products offer a floating return based on profit-loss sharing contract, i.e *mudharabah mushtarakah*. The profit-sharing ratio will be adjusted to the feature of saving products, ranging from 25 percent to 50 percent share for the depositors.

The financing products offered are diverse and designed according to customers' needs, including in the selection of the lawful and appropriate contract, the tenure of the financing and the financing ceiling. In fact, they can design each financing product into various alternatives of contracts, tailored to the customer needs. For example, property financing (*Multi Griya Barokah*) aims to finance any property need. If a customer wants to buy a complete house, then a *murabahah* contract will be applied, but if he or she wants to renovate his/her house, they will apply then a hybrid contract of *murabahah* and parallel *ijarah*.

There are at least nine financing products, ranging from the shortest tenure of four months (i.e. gold pawning products) to the longest tenure of ten years (i.e. property financing). BMT UGT Sidogiri also serves collateral-free financing with a maximum value of one million rupiahs. The financing ceiling is 500 million rupiahs, such as property or working capital financing. In addition, there are also agricultural financing, multi-service financing, financing for the pilgrimage, motorcycle, and electronics. However, the average financing per borrower is below ten million rupiahs with contributing about 74 percent of the total financing outstanding. In terms of social fund management (*Baitul maal*), BMT UGT Sidogiri collects *zakat* and other social funds from the members, society and other institutions. They distribute these funds for empowering the poor, supporting Islamic education such as *Tugas Mengajar Tugas Belajar dan Da'i* (TMTB & Da'i) and Sidogiri alumni.

### ***Advantages***

#### ***(1) Easy transactions using Mobile UGT***

BMT UGT Sidogiri has developed the Mobile UGT service so that members can more easily and comfortably transact using their mobile phones without having to come to the office. Mobile UGT can be downloaded at the Android system and this application can also be used to transferring money throughout Indonesia. Members can also use this application for billing payment of electricity, water (PDAM), telephone and phone credit, as well as payment of donations to zakat organization (LAZ Sidogiri and Lkaf Sidogiri). For members who frequently make transactions through Mobile UGT and the greater the savings, the greater will be to win a total prize of 50 million rupiahs. BMT UGT Sidogiri also provides SMS Notification for members who make transactions both in addition to savings and withdrawals.

#### ***(2) Mobile cashier service***

To facilitate members who are scattered in various traditional markets, BMT UGT Sidogiri provides mobile cashier services. Members need not come to the office to conduct transactions. The cashier team will tour the traditional markets to serve members willing to withdraw, save or pay installments. They limit withdrawals through mobile cashiers to a maximum of five million rupiah and members must order in advance.

#### ***(3) More equitable profit sharing***

Profit-sharing provided by BMT UGT Sidogiri is fairer and clearer. BMT provides 75% profit sharing for new members (depositors), the percentage will continue to increase every year. The percentage of revenue sharing determined by BMT UGT Sidogiri is still higher than the others. For investment products, profit sharing is set at 18% per year.

#### ***(4) Cooperative with the best product innovation***

BMT UGT Sidogiri is known as a cooperative with a myriad of product innovations. In 2016 the Cooperative of BMT UGT Sidogiri received an award from Karim Consulting (2016) as a Cooperative with the Best Product Innovation. The Cooperative recently launched its newest funding product, the *Si-Mantab* savings. With this term savings, the BMT UGT

Sidogiri wants to provide various benefits for depositors such as the opportunity to get 100 free pilgrimages, insurance benefits, and attractive donation (alms payment to LAZ Sigodiri).

(5) *Community empowerment through the distribution of zakat, infaq, and shadaqah (ZIS)*

BMT UGT Sidogiri in 2018 has distributed its *zakat*, *infaq*, and *shadaqah* through LAZ Sidogiri, *Pondok Pesantren* Sidogiri, and PPS Alumni Network. Since the last 5 years, ZIS funds distributed by LAZ Sidogiri have increased sharply, around seven to eight billion rupiahs per year, as compared to 2012 was still around 2.7 billion rupiahs.

### ***Business Strategies***

Based on interviews and information collected from official sources, there are at least four key success factors for BMT UGT Sidogiri. First, *Sidogiri's great-name* factor, *Pondok Pesantren* Sidogiri which has been established for a long time since 1745 has gained very high trust from the people in Indonesia. Everything related to *Pondok Pesantren* Sidogiri either directly or indirectly will easily gain the support and trust of the community, especially from students, alumni, and parents of students. BMT which uses the name Sidogiri quickly develops in PPS alumni bases.

Second, *the public figure and leadership*. The management of BMT UGT Sidogiri has a closed relationship with the *Pondok Pesantren* Sidogiri. Most of the management board and top managers are senior *ustadz* of *Pondok Pesantren* Sidogiri, so they are highly respected by the community, alumni, students, and parents of students. The various issues and problems can be easily solved without significant dispute.

Third, networking of *Pondok Pesantren Sidogiri* Alumni factor, the existence of *Pondok Pesantren Sidogiri* alumni scattered throughout Indonesia, which accommodates the *Ikatan Alumni Santri Sidogiri* (IASS) to be the members of staff. The existence of *Pondok Pesantren Sidogiri* alumni, which is under the auspices of IASS, is the main consideration for the management before opening branches in the area. PPS Alumni is very effective in forming new branches in 10 provinces and other cities and can develop and advance these branches so they can contribute to the SHU (*Surplus Hasil Usaha*). Many PPS alumni are employees and managers of the Cooperative of BMT UGT Sidogiri in the region. Therefore, if the management of the Cooperative of BMT UGT Sidogiri wants to open a branch in one area, they will not find it difficult to find human resources with high levels of trust and loyalty. Fourth, Prophetic human resource development. Each staff, at all levels, has to implement the leadership principles of the Prophet Muhammad: *Siddiq*, *Tabligh*, *Amanah*, and *Fathanah* (STAF). These four leadership principles are developed and in turn, greatly supported the success of the Cooperative of BMT UGT Sidogiri.

### ***Competition and Challenges***

The target market of BMT UGT Sidogiri is more for ultra-micro, micro and small businesses in traditional and rural markets. The Cooperative chooses this market segment because it is not reached by formal financial institutions such as banks and rural banks. In addition, ultra-micro, micro, and small businesses are still vulnerable to usurers. In this market, the non-performing financing (NPF) is very low because the poor or ultra-micro enterprises have a better commitment to pay their loan on-time.

Like other BMTs, the Management of the Cooperative of BMT UGT Sidogiri does not deny the existence of competition in the Islamic financial services business. The main competitors of BMT are almost all micro banks that have reached rural areas. Most times, small entrepreneurs who have not been bankable yet, so after borrowing money at the BMT UGT Sidogiri and their business are growing then they shifted to the bank to get a cheaper loan.

### ***Challenges Ahead***

- In the digital era of industry 4.0 microfinance institutions like BMT should have been prepared to enter that era. Microfinance institutions must have international standard management such as ISO 9001/2015 owned by BMT UGT Sidogiri. Besides, microfinance institutions must have IT services that have Global standards, although BMT is classified as a microfinance institution, BMT UGT Sidogiri can provide services through IT as well as banking. So that BMT members are facilitated in making transactions through their own cell phones.
- IT collaboration with banking financial institutions, in welcoming the era of industry 4.0, BMT UGT Sidogiri collaborates with Islamic bank namely BRI Syariah which their IT system has become an international standard. So that there is a host to host (H2H) related to money transfers and remittances. UGT Sidogiri also collaborates with some Islamic banks to manage their liquidity. Besides, BMT UGT Sidogiri is experimenting on other H2H collaboration models, namely the use of the BRIS ATM and some of its networks so that later BMT members can still save at BMT UGT Sidogiri but can withdraw their money through the BRIS ATM and its network. BMT UGT Sidogiri also collaborates with Bank Mandiri Syariah in terms of e-toll charging through UGT Mobile.

## KSPPS BMT BERINGHARJO: *Fighting Money Lenders through Financial Literacy*

### *Company Overview*

KSPPS BMT *Bina Dhu'afa Beringharjo*, known as BMT Beringharjo, was established at 31 December 1994, in the Special Region of Yogyakarta (DIY), especially at the Beringharjo market. Its emergence is motivated by the concern against the massive impact of money lenders to small traders in traditional markets. With an initial capital of one million rupiahs only donated by *Dompet Dhuafa* foundation, the founders of BMT Beringharjo –Mursida Rambe and Ninawati- began to build an institution (BMT) to empower small traders and release them from money lenders trap. At first, they borrowed a room in the Al-Muttaqin Mosque for the office, located at the center of Beringharjo Market in Yogyakarta City. BMT Beringharjo was formally launched on April 21, 1995, together with the other seventeen BMTs across the country by B.J. Habibie, the head of the Indonesian Muslim Scholars Association (ICMI). Recently, BMT Beringharjo headquartered in Ringroad Barat street Banyuraden, Yogyakarta.

Starting with a loan of IDR 25,000 per borrower, now after 25 years, BMT Beringharjo has 19 branch offices across provinces in Indonesia with assets of IDR 173 billion in June 2018. In terms of financing extended, they distributed IDR 163 billion of loans to around twelve thousand members. Like other BMTs, the founders still have direct control over the BMT's management. For example, three out of four (75%) board managers are the founders. The vision of BMT Beringharjo is to be a leading BMT for trusted Shariah-based business partners, based on a holy spirit: Islamic education, community empowerment, and releasing the poor from moneylenders.

One interesting feature is that BMT Beringharjo has now integrated the microfinance function with the social function into a single organization, *Baitul Maal Wat Tamwil* (BMT). BMT Beringharjo has a social and micro-business empowerment program managed by the *maal* division. Some *maal* programs that have a high social impact are the empowerment programs for the food kiosk traders, called *angkringan*.<sup>j</sup> Until now, the number of *angkringan* traders who join BMT Beringharjo's program has reached over 200 traders, called as *Angkringan Simbah Harjo*. In addition, BMT Beringharjo also has several empowerment programs, such health service (*Bering Sehat*), freshwater supply program for the poor (*Bering Tirta*), micro-business incubation for the poor (*Sahabat Ikhtiar Mandiri*), mentoring of the pedicab community (*Kompak Harjo*) and spiritual assistance for market porters (*Buruh Gendong Mengaji*).

To realize their double bottom line mission, *maal*, and *tamwil*, BMT Beringharjo places the management of *maal* (social funds) directly controlled by the managing director. Even though they concentrated to develop *tamwil* for years, but gradually they succeed to empower *maal* division and make it financially sustainable.

<sup>j</sup>Angkringan (derived from the Javanese language "angkring") means tools and places to sell food in a wheelbarrow to sell various types of food and drinks, usually located on the side of the road, which is popular in Central Java, Klaten, and Yogyakarta. Usually *angkringan* operates from late afternoon, relying on traditional lighting namely "senthir" (traditional oil lamps without a glass cover). Foods sold include cat rice (small chili rice), fried foods, chicken innards satay, quail egg satay, fried peanuts and others. The drinks sold are various kinds such as tea, orange, coffee, tape, ginger and milk. All are sold at very cheap prices.

Until the end of 2018, BMT Beringharjo success to manage over 15 thousand active members, increased 30, 2% compared to the previous year. On average, the annual growth of the number of active members (CAGR) is 49.59 percent for the last five years. It can be concluded that BMT Beringharjo has succeeded to maintain the relationship with its members (Look at [Figure 5]).

### ***Key Products and Services***

BMT Beringharjo is one of the most developed BMT models in Indonesia, where its main business is microfinance intermediation, dominated by *tamwil* or commercial finance. Its main products are micro-savings and micro-financing under Sharia principles, as follows.

- (1) Savings products are could be divided into two types: saving accounts and time deposit accounts. Most savings products are time deposits and all use profit-sharing contracts, i.e. *mudharabah muqayyadah*. Some popular time deposit products are deposits for retirement, deposits for education (*Simpanan Iqro*), deposits for Hajj and Umrah, deposits for purchasing goats or cattle for *Qurban* worship, deposits for tours and travel (*Simpanan Rihlah*), deposits for a wedding party (*Simpanan Walimahan*), and investment time deposits. There is one interesting deposit product, namely *Simpanan Bering Prize*. They set this deposit account based on a profit-sharing contract, but the depositors will get benefits at the beginning of the contract, in the form of certain goods, such as electronic equipment. The customer (depositor) will pay the ‘prize’ by installment deducted from the depositors’ profit share
- (2) Financing products at BMT Beringharjo vary and using various contracts designed according to customers’ needs. Some contracts applied in financing products are *murabahah*, *musharakah*, *ijarah*, *ijarah mumtahia bit tamlik*, *bai’ takjiri* and *qard hasan*.<sup>k</sup> Baitul Tamwil will issue and manage all these financing schemes, except the *qard hasan* contract managed by *Baitul Maal*. As of June 2018, as much as 90 percent of the portion of financing distributed was between IDR 500 thousand to IDR 50 million. But the average outstanding financing under IDR 50 million is around 50 percent. A dominant financing contract is a *musharaka* contract of around 55 percent, and the remaining 45 percent use the *ijarah* and *murabahah* contracts (sale and purchase agreement).

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<sup>k</sup> All these types of Islamic contracts have been approved by National Sharia Board (DSN) of Indonesia Moslem Scholar Council (MUI). Refer to DSN website for detail fatwa which is available at <https://dsnmui.or.id/kategori/fatwa/>

## ***Advantages***

BMT Beringharjo has several policies to ensure that its social function can work, but it has sound financial and business performance. Some features that distinguish Beringharjo BMT from other BMTs are the following.

***(1) Focus on serving small traders in traditional markets.***

Since its establishment to date, BMT Beringharjo has consistently worked on the market segments of small traders in traditional markets. BMT Beringharjo has to compete with micro banks, village banks, and conventional credit unions. More importantly, BMT Beringharjo has to compete with moneylenders able to offer simple loan services. However, BMT Beringharjo has been survived for decades. They apply a customer pickup approach (both for depositors and borrowers), based on daily pickup. In fact, this method has a great impact on building a good reputation and relationship between BMT and the members. This approach can outperform competitors, especially micro banks. Meanwhile, to win the competition with moneylenders, BMT Beringharjo applied a low-cost financing policy.

***(2) Productive Revolving Financing to empower Social Finance***

The initial dream for the establishment of the BMT Beringharjo was to combat the capitalistic economy, which supports the moneylender model, by introducing Islamic economics. BMT Beringharjo introduces and provides a set of the sharia-compliant scheme that is simple and implementable for the poor and low educated customers. Since its first inception, BMT Beringharjo has involved in poverty alleviation programs, but most of them used to be charity-based models, such as food transfer, free-charged health services, sanitation and freshwater supply for the poor, and scholarship program for orphans. Gradually, BMT Beringharjo has shifted the social financing to the more productive scheme, especially since 2010. One of the most demanding programs is *Angkringan Simbah Harjo* program. this program target *angkringan* traders as they were identical to poverty and the number of *angkringan* in Yogyakarta is abundant.<sup>1</sup> At present BMT Beringharjo has five specialized employees in *Baitul Maal* division. The financing model for *angkringan* is like a revolving fund, where BMT Beringharjo provides in-kind and working capital accompanied by training and mentoring valued at around five million rupiahs each *angkringan*. They need not pay any interest or charge, rather just pay his/her loan in installments basis for two years. In its development, BMT Beringharjo not only cares about the business of the poor but also guarantees its sustainability according to sharia principles. Therefore, BMT Beringharjo plans to prepare to support the entire supply chain of *angkringan* businesses to make a halal business.

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<sup>1</sup> Recently many *angkringan* businesses are owned by the wealthier businessman as this business to be more profitable. However, there are still many *angkringan* are owned and managed by the poor, especially those located in sub urban or village areas.

## ***Business Strategy***

Although having a similar market to common BMTs, but BMT Beringharjo can grow faster and has a sound financial performance. This performance could relate to some strategies and policies they implemented. For example, BMT Beringharjo has achieved an award as the best cooperative in 2017 from the Ministry of Cooperative and SMEs.

### *Strategy 1. Financial Service and Education*

It is not enough for BMT to simply provide services to meet customer demand. This is because most competitors also doing the same thing. Therefore, besides providing services as customers need, BMT Beringharjo also conducts financial education for its members. This education aims to bring the members to better manage their financial assets, for example by minimizing the consumptive lifestyle and learning to save their income. Through add-on training program known as Binar program (*Bina Anggota*) comprises six times classical training and field studies; regional member summits, internet, and social media education, public lectures, religious preaching at Al-Mustaqim mosque and personal communication to members, BMT Beringharjo has attracted many traders to be its members, although the return on deposit or financial services provided is not necessarily superior to its competitors.

### *Strategy 2. Keep close to the members*

Not only conducting routine religious preaching to motivate the spiritual commitment but also the presence of marketing personnel able to conduct and maintain good relations with members besides collecting installments daily also can establish a good relationship.

### *Strategy 3. Cost Advantage and Service Excellence.*

In terms of financing, BMT Beringharjo charges a cost or margin of financing far below its main competitors, moneylenders. In terms of savings products or fundraising, BMT Beringharjo prioritizes improving service quality rather than financial incentives, and in fact, this method is successful to improve reputation brand of BMT Beringharjo. Because most depositors are also borrowers, then the close relationship and BMT Beringharjo prioritized service quality.

## ***Competitive and Challenges***

The last five years' growth of the BMT Beringharjo's membership shows that BMT Beringharjo can manage, even won the competition on microfinance. Like other players of microfinance in urban markets, BMT Beringharjo has been competing with moneylenders and other credit cooperatives. Even often BMT Beringharjo collaborates with Islamic commercial banks in providing financial services to its members.

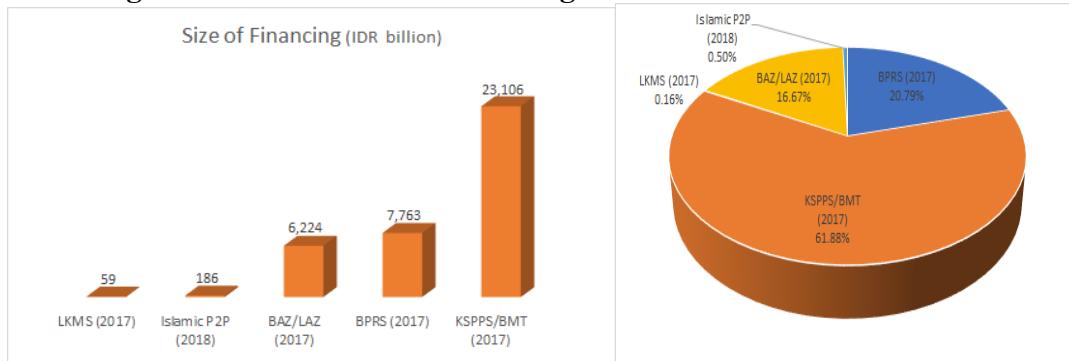
To date, financial technology (fintech) is not a major challenge for BMT Beringharjo as most of the members have not felt comfortable to utilize advanced technology. The personal and direct relationships with the members still predominate its strategy to maintain membership loyalty. In the long term, however, BMT Beringharjo has to allocate its capital for technological development. Fintech will be one of a good strategy for the future. Lately, BMT Beringharjo initiated a technology-based service since last year and will update its system to the relevant services.

Learning from BMT Beringharjo's experience, there are at least two challenges ahead for BMTs' development.

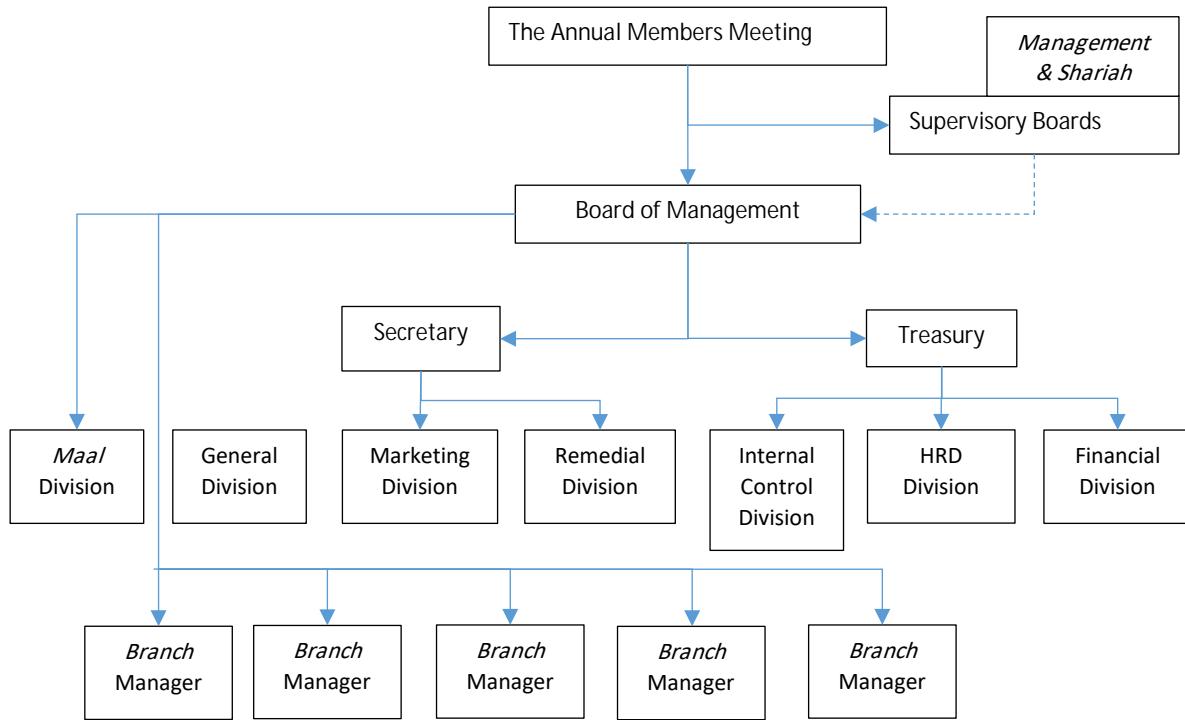
- (1) The potential use of consumer-friendly and inexpensive technology. The application of financial technology (fintech) in microfinance has been carried out by many institutions, while BMTs have not prepared for it with the consideration that it does not meet the members' needs. But the rapid development of fintech does not rule out the possibility of changing people's preferences to switch to high-tech products, such as paying bills through the android application, getting online loans quickly, and so on.
- (2) As a deposit-taking institution, BMT must be aware of the potential entry of new players or new strategies on two sides, funding or financing sides. Increasing efficiency and productivity could drive to the solution, as the current efficiency and productivity of most BMTs are slightly low. The increased efficiency or profitability could release the obstacle to generate a cheaper system.

## Appendix

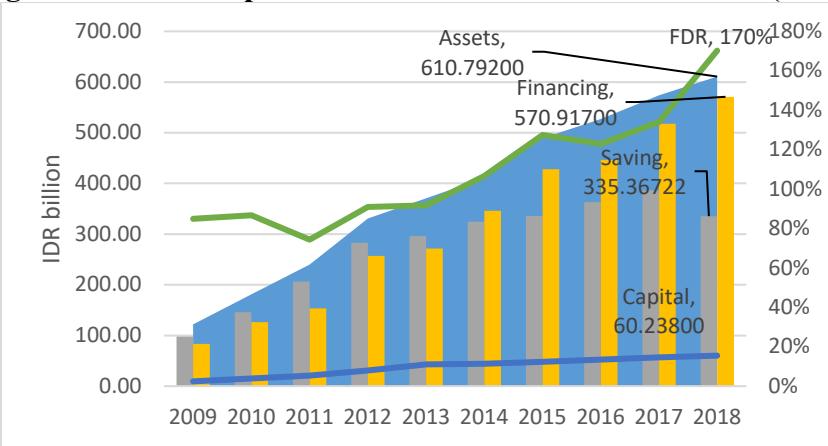
**Figure 1. Distribution of Financing for Islamic MFIs in Indonesia**



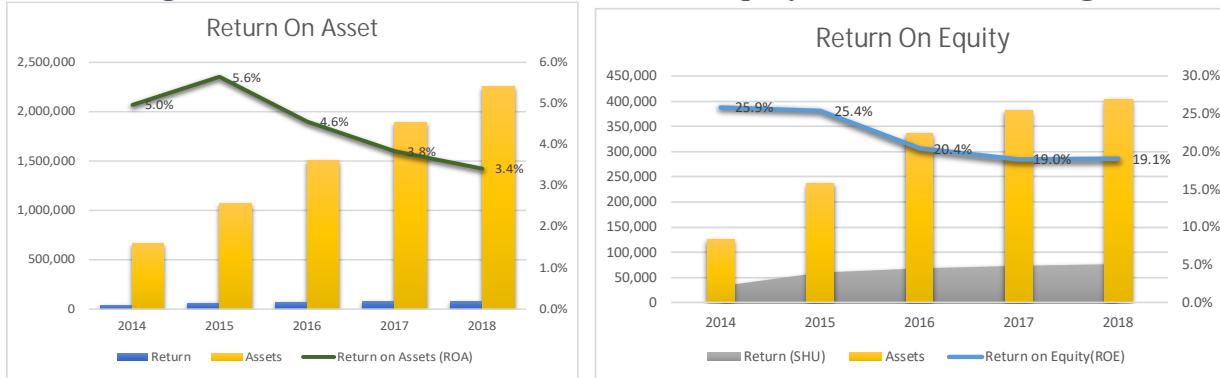
**Figure 2. Typical Organizational Structure of BMT (KSPPS)**



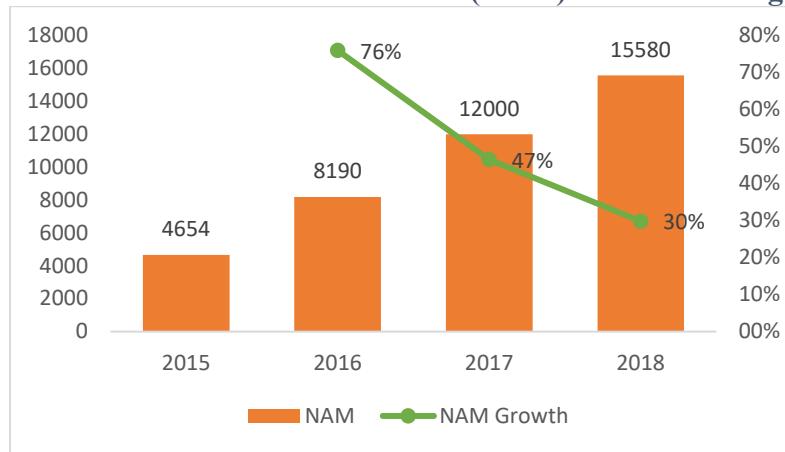
**Figure 3. Financial performance trend of KPPS TAMZIS (2009 to 2018)**



**Figure 4. Return on Assets and Return on Equity for UGT BMT Sidogiri**



**Figure 5. Number of Active Members (NUM) of BMT Beringharjo**



**Table 1. Market Players for Microfinance in Indonesia**

Financial Institutions	The 2000s	2017/2018
Bank		
• Rural bank:		
○ Village Credit Bank (BKD)	5.345 (June 2003)	n.a.
○ Conventional rural bank (BPR)	2.148 (March 2004)	1.430 (Dec. 2018)
○ Islamic rural bank (BPRS)	-	167 (Dec. 2018)
• Micro unit of Commercial bank (BRI)	4.049 (July 2004)	5.382 (Dec. 2018)
Cooperatives		
• Saving and loan cooperative (KSP)	1.097 (April 2000)	23.551 (Sept. 2018)
• Saving and loan unit/office (USP)	35.218 (Oct. 2004)	55.992 (Sept. 2018)
Other microfinance institutions (LKM)		
• Cooperatives supervised by OJK	-	160 (Dec. 2018)
• Limited liabilities MFIs supervised by OJK	-	23 (Dec. 2018)
• BMTs (Islamic microfinance institutions)	3.038 (Oct. 2004)	4.500 (Sept. 2018) <sup>m</sup>
• Credit Union and NGO	1.146 (Oct. 2004)	832 (Dec. 2017)
• Pawnshop	774 (Dec. 2004)	4.311 (Dec 2018)
• Fintech (Peer to peer lending)	-	113 (June 2018)
Micro Credit and poverty alleviation programs	21,088 (2002/2003) <sup>n</sup>	1,770(Dec. 2018) <sup>o</sup>
Informal providers:		
• money lenders	n.a.	Online: 404 (Dec. 2018)
• ROSCAs	n.a.	n.a.

Source: Mainly collected from Ashari (2006), Financial Service authorities (OJK) and Statistical Central Bureau (BPS).<sup>p</sup>

<sup>m</sup> Mursyid, (2018) mentioned that the number of BMT in 2014 was 3,136 institutions, (Nurani, Vol. 18, NO. 2, Desember 2018: 9 -30). However, most BMTs are cooperatives unless few still operate informally <https://pipnews.co.id/nasional/5563>

<sup>n</sup> This program includes credit program launched by central government, local government and other institutions, such as LDKP, LPD, BKK, LPK, LPN, B3KD, Swamitra, PPK, P4K, P2KP, PKM, PEMP, and PMS. Most of these programs have been converted into rural banks or cooperative due to the regulation compliance known as the *Paket Oktober* 1988.

<sup>o</sup> This includes micro credit programs disbursed by *Permodalan Nasional Madani* PNM (1840 offices in April 2019), a state-owned company and Ultra-Micro credit (*Pembangunan ultra mikro*) launched by the ministry of finance.

<sup>p</sup> Data is collected from many sources, so it is possible some are overlap. For example, most BMTs are credit cooperative, but some are multipurpose cooperative or other legal entities. Most of cooperative supervised by OJK

**Table 2. List of KSPPS/BMTs in the Study and Their Outreach**

No	Legal Entity	Establishment , Headquarter	Geographical Outreach	Number of Members	Asset (IDR billion)	Number of Employees
1	BMT AL FALAH	1995, Cirebon	West Java	12,000	83	84
2	BMT FASTABIQ	1998, Pati	Central Java	22,298	340	224
3	TAMZIS BINA UTAMA	1992, Wonosobo	Regional (Java Island)	146,337	610	520
5	BMT UGT Sidogiri	2000, Pasuruan	National	432,223	2,255	2,130
4	BMT BERINGHARJO	1995, Yogyakarta	Regional (Java Island)	15,580	173	136

Source: primary data

**Table 3. The Landscape of Islamic Microfinance in Indonesia**

Legal entity	Microfinance Approaches	Regulator or Supervisors	Main markets / segments
Islamic micro bank (Commercial bank & BPRS)	Financial intermediary	Financial service authority (OJK)	Formal small and micro enterprises
Islamic saving and loan cooperatives (KSPPS or BMTs)	Financial and social intermediary	The Ministry of Cooperative and MSMEs	Formal and informal micro-enterprises
Limited liability MFIs (LKM)	Financial intermediary	Financial service authority & Regional Government	Small and micro enterprises
Islamic fintech (P2P)	peer-to-peer financing or crowdfunding	Financial service authority (OJK)	Small and micro enterprises
Zakat organizer (BAZ and LAZ)	Financial and social inclusion	The National Zakat Board (BAZNAS)	The poor and the poorest of the poor
Wakaf organizer	Economic and social empowerment	The National Wakaf Board (BWI)	The poor and the poorest of the poor

Source: Banking Act 1998, Cooperative Act 2012, Microfinance Act 2013, Zakat Governance Act 2011, Wakaf Act. 2004. POJK No.77/POJK.01/2016.

are also supervised by the Ministry of cooperative. All data in 2003 are collected from Ashari (2006). Banking data in 2017/2018 are collected from Financial Service Authority (OJK), while data on cooperative are collected from Statistical Central Bureau and online media <http://www.ekonomi.bisnis.com>; [pipnews.co.id](https://pipnews.co.id). Other sources are collected from several website such as ([https://ir-bri.com/newsroom/676273-PublicExpose2018-Final\(1\).pdf](https://ir-bri.com/newsroom/676273-PublicExpose2018-Final(1).pdf)), <https://ekonomi.bisnis.com>; <https://pipnews.co.id/nasional/aset-koperasi-kredit-cu-se-indonesia-rp-30645-triliun>

**Table 4. The Share of Islamic Microfinance to the total microfinance in Indonesia<sup>q</sup>**

Institutions	Number of Institutions	Loan extended (IDR billion)	Saving (IDR billion)
Islamic Rural Bank (BPRS)	2012: 158 (9.56%) 2018: 167 (10.46%)	2012: 3,553 (5.49%) 2018: 9,080 (9.25%)	2012: 2,937 (5.31%) 2018: 8,130 (8.28%)
Saving and loan cooperatives (KSPPS/BMTs)	2013: 1,522 (17.37%) 2017: 5,648(23.98%) <sup>19</sup>	2013: 7,423 (17.37%) 2017: 23,106 (23.98%)	2013: 3,726 (17.37%) 2017: 15,267 (23.98%)
Islamic Limited liabilities MFIs (LKMS)	2015 : 7 (21.87%) 2018: 61 (30.00%)	2015: 20.94 (19.10%) 2018: 100.82 (24.23%)	2015: 5.94 (6.97%) 2018: 143.49 (39.48%)
Zakat Operators (LAZ and BAZ)	2018: 40 (100%)	2012: collected ZIS fund = IDR 2,120 billion 2017: collected ZIS fund = IDR 6.224 billion CAGR = 37.43%	
Islamic fintech (P2P)	2017: n.a. of 85 2018: 7 of 113 (6.19%)	2017: total lending = IDR 3,002 billion 2018: total lending = IDR 22,666 billion	

Source: Otoritas Jasa Keuangan (Statistik Perbankan Indonesia Desember 2018), Biro Pusat Statistik (Statistik Koperasi Simpan Pinjam 2018).

**Table 5. Comparison Between BMT (KSPPS) and KSP**

Features	Conventional Saving & Loan Cooperative (KSP)	Islamic Saving & Loan Cooperative (KSPPS or BMT)
Mission	Double bottom line (Commercial and Social mission)	Triple bottom line (commercial, social, and spiritual mission)
Supervisory Board	Management Supervisory Board	<ul style="list-style-type: none"> <li>• Management Supervisory Board</li> <li>• <b>Sharia Supervisory Board</b></li> </ul>
Scope of Business	Micro saving and microloan	<ul style="list-style-type: none"> <li>• Micro saving and micro-financing</li> <li>• <b>Social finance (Zakat &amp; alms) management</b></li> </ul>
Modus operandi	Interest and fee-based transaction	Sharia-compliant transactions (e.g. sale, lease, partnership, trusteeship, or fee-based transaction)

<sup>q</sup> This data does not include Islamic commercial banks. Although these banks have a portfolio of financing for MSMEs (for example, 19.4% or IDR 62.2 trillion in 2018), they do not work on the micro enterprises or informal sectors as cooperatives do.

Features	Conventional Saving & Loan Cooperative (KSP)	Islamic Saving & Loan Cooperative (KSPPS or BMT)
Source of funds	<ul style="list-style-type: none"> <li>• Equity members' equity; Capital reserve; Donated equity; Saving from the members; and Interest-based debt capital</li> </ul>	<ul style="list-style-type: none"> <li>• Equity members' equity; Capital reserve; Donated equity; Saving from the members; and Islamic debt capital</li> <li>• <b>Zakat, infaq, alms (ZIS) and endowment funds (wakaf)</b></li> </ul>
Allocation of funds	<ul style="list-style-type: none"> <li>• Interest-based loan</li> </ul>	<ul style="list-style-type: none"> <li>• Shariah compliance financing</li> <li>• ZIS and wakaf allocation and programs</li> </ul>
Regulatory framework	<ul style="list-style-type: none"> <li>• Cooperative Act (2012)</li> <li>• Microfinance Institution Act (2012)</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperative Act (2012)</li> <li>• Microfinance Institution Act (2012)</li> <li>• Zakat Management Act (2011)</li> <li>• Wakaf Act (2004)</li> </ul>
Self Regulatory Institution	<ul style="list-style-type: none"> <li>• KSP Association (ASKOPINDO)</li> </ul>	<ul style="list-style-type: none"> <li>• KSPPS Association (ABSINDO)</li> <li>• Centre of Micro Enterprise Incubation (PINBUK),</li> <li>• Shari'ah Cooperatives Association (INKOPSYAH &amp; PUSKOPSYAH),</li> <li>• BMT Venture Capital (PBMT-Indonesia),</li> <li>• MICROFIN</li> </ul>
Governance framework	<ul style="list-style-type: none"> <li>• Cooperative governance</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperative governance</li> <li>• Sharia governance (Sharia Ruling of Sharia Nation Board DSN-MUI)</li> <li>• Islamic Financial Accounting Standard</li> <li>• Zakat governance</li> <li>• Wakaf governance</li> </ul>

Source: Nazirwan (2014)<sup>20</sup> pp. 104 and some related acts, government and ministry regulation.

**Table 6. Financial Performance of KSPPS BMT Al-Falah**

Variables	Indicators	Value
Portfolio Quality	PAR-30 (Non-performance financing)	9.03%
Efficiency & productivity	Expenses to revenue ratio	94.76%
	Cost per financing	8.77%
	Number of members per staff	144,58
Financial management	Financing to Deposit Ratio (FDR)	89.13%
	Cost of fund (funding expenses to total deposit ratio)	3,18%
Profitability	Return on Asset (ROA)	0,67%
	Return on Equity (ROE)	5,24%
	Operational Self-Sufficiency (OSS)	105,53%
	Subsidy Dependence Index (SDI)	0%

Source: BMT Al Falah's unpublished financial report and interview

**Table 7. Social Performance of KSPPS BMT Al-Falah**

Variables	Indicators	value
Breadth of Outreach	Number of active members (borrowers)	12,000
	Microenterprise financing (traders)	75.00%
Depth of outreach	Female members	70,00%
	Female staff	41.77%
	Female managers	71.43%
	Average financing per borrower (IDR million)	4.54
	Very poor financing (zakat) to total financing	2.87%

source: BMT Al Falah's unpublished financial report and interview

**Table 8. Financial Performance of KSPPS TAMZIS**

Variables	Indicators	Value
Portfolio Quality	PAR-30	2.72%
Efficiency & productivity	Operational expenses to revenue ratio	96.80%
	Cost per borrowers (IDR million)	2.271
	Cost per financing	17.10%
	Number of members per staff	281.417
Financial management	Number of borrowers per AO	293.438
	Financing to Deposit Ratio (FDR)	172.55%
	Cost of fund (funding expenses to total deposit ratio)	15.93%
	Return on Asset (ROA)	0.49%
Profitability	Return on Equity (ROE)	5.28%
	Operational Self-Sufficiency (OSS)	103.31%
	Subsidy Dependence Index (SDI)	0%

source: unpublished financial report and interview

**Table 9. Social Performance of KSPPS TAMZIS**

Variables	Indicators	Value
Breadth of Outreach	Number of active members (depositors)	146,337
	Number of active borrowers	40,201
Depth of outreach	Female members	44.64%
	Female staff	21.54%
	Female managers	19.23%
	Average financing per borrower (IDR million)	13.29

Source: calculated based on primary data

**Table 10. Financial Performance of KSPPS BMT Fastabiq**

Financial Performance	Value
PAR-30	2.70%
Growth of financing	119%
Number of borrowers per staff	27.81
Number of members per staff	116.39
Financing to Deposit Ratio (FDR)	90.95%
Deposit to funding ratio	100.00%
Subsidy Dependence Index	0%

Source: primary data, unpublished

**Table 11. Social Performance of KSPPS BMT Fastabiq**

Indicators	Value
Number of active members	22,928
Number of active borrowers	5,479
Female members	34.55%
Female staff	42.13%
Average financing per borrower (IDR million)	29.28
Very poor financing (zakat) to total financing	2.82%

**Zakat and wakaf based assets:**

General hospital, Fastabiq Marts, Fastabiq Residence, Klinik Pratama, Bedah Kios.

*Source:* primary data, unpublished

**Table 12. Financial Performance of BMT UGT Sidogiri (2018)**

Variables	Indicators	Value
Portfolio Quality	PAR-30	2.52%
	Total expenses to revenue ratio	70.10%
Efficiency & productivity	Cost per borrowers (IDR million)	1.69
	Cost per financing	19.32%
	Number of members per staff	198.70
	Number of borrowers per staff	55.39
	Financing to Deposit Ratio (FDR)	69.91%
Financial management	Deposit to funding ratio	66.93%
	Cost of fund (funding expenses to total deposit ratio)	4.91%
Profitability	Return on Asset (ROA)	3.41%
	Return on Equity (ROE)	19.05%
	Operational Self-Sufficiency (OSS)	141.12%
	Subsidy Dependence Index (SDI)	0.37%

*Source:* calculated based on primary data, unpublished

**Table 13. Social Performance of BMT UGT Sidogiri, 2018**

Variables	Indicators	Value
Breadth of Outreach	Number of active members	432,223
	Number of active borrowers	117,982
	Geographical outreach	10 provinces
Depth of outreach	Very poor financing (zakat) to total financing = IDR 8.5 billion	0.82%
	Average loan per borrowers (IDR million)	10
Non-financial assets	Insurance, property, information communication technology, HRD training, transportation, tour and travel, palm plantation.	

*Source:* calculated based on primary data, unpublished

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Diterbitkan oleh:

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