



# INSIGHT

Islamic Economy Bulletin



**MICRO  
SMALL AND  
MEDIUM  
ENTERPRISES**



**MSMEs**



**ISLAMIC COOPERATIVES (BMT)**

## Enhancement of Micro, Small and Medium Enterprises (MSMEs) through **ISLAMIC COOPERATIVES (BMT)**

The role of the Ministry of Cooperatives and Small Medium Enterprise in fostering the Islamic Cooperatives in Indonesia

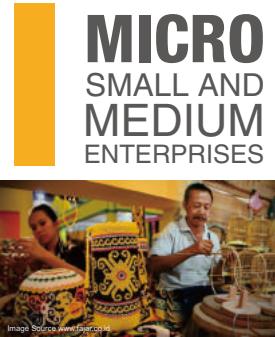
**Rini Megawarti**

(Deputy Assistant, Directorate of Islamic Financing, Ministry of Cooperatives and SMEs)

Towards an Effective Legal and Regulatory Framework for Islamic Cooperatives (Baitul Maal wat-Tamwil/BMT) in Indonesia

**Dr. Ali Sakti**

(Economist of Bank Indonesia Institute, Central Bank of Indonesia)



# 1

## MAIN FOCUS

Enhancement of Micro, Small and Medium Enterprises (MSMEs) through **Islamic Cooperatives (Baitul Maal wat-Tamwil)**

Image Source: www.klikpajak.id

Image Source: www.usaha2017.com



# 5

## IN PERSON

Saat Suharto  
(Founder of BMT Tamzis Wonosobo)

# 9

## IN PERSON

Mursida Rambe (Founder of BMT Beringharjo)

# 12

## PERSPECTIVE

Dr. Ali Sakti  
(Economist of Bank Indonesia Institute, Central Bank of Indonesia)

# 17

## RESONANCE

Rini Megawarti  
(Director of Islamic Financing, Ministry of Cooperatives and SMEs)

# 19

## ACADEMIA COLUMN

Murniati Mukhlisin  
Rector, STEI Tazkia



*Assalamu'alaikum Warahmatullahi Wabarakatuh  
Bismillahirrahmanirrahim*

First of all, let us praise to the Almighty Allah SWT, because of His blessing for us, we are able to complete the compilation of this Bulletin very well. May peace be upon the Prophet Muhammad SAW, which is the greatest role model of all time for the humankind.

As the 16th biggest economy in the world and the biggest economy in the world and in ASEAN by GDP (World Bank, 2016), Indonesia is mainly sustained by Micro, Small, and Medium Enterprises (MSMEs), with over 50% of its GDP coming from MSMEs—a fact that is not so widely known. The number of SME players reached 99.9 percent of the total 57.89 million business units, which employed 89.17 percent of total labor force and contributed 60.34% of GDP (Bank Indonesia, 2018). The MSME sector has also played a key role in the national economy. In the 1998 and 2008 economic crises, when large corporations collapsed, MSMEs played an important role by keeping the economy pulsing. However, even though MSMEs are the backbone of Indonesia's economy, they get only small portions of financing from a formal financial institution such as commercial bank or rural bank. While loans from formal financial institutions certainly exist, the amounts that micro and small business are able to borrow are not enough to cover the total amount needed to support growth. Oftentimes, the lending process is prolonged and inhibits the ability of MSMEs to rapidly tap on funds in maximizing business opportunities. Alternatives include borrowing from non-formal financial institutions such as moneylenders, which come with high interest. Since majority of Indonesia's population are Muslim, then most of the micro and small players are also Muslim. Thus, many of them who wish to avoid any form of fixed interest seek a non-formal Islamic financial institution such as Islamic Cooperative.

The Islamic Cooperatives or also known in Indonesia as *Baitul Maal wat Tamwil* (BMT) can be an alternative solution to provide financing access and capacity building to MSMEs. Under the regulation of Ministry of Cooperatives and Small-Medium Enterprises, BMT is acknowledged as an institution in the form of cooperatives that is influenced by and operated in accordance with Islamic principles. As an Islamic microfinance institution, the BMT may provide better outreach as it is a community-based financial institution hence more accessible to un-bankable people such as micro and small entrepreneurs. Nevertheless, Islamic Cooperatives in Indonesia needs full support from the government in order to optimize its sustainability and outreach to attract more participations especially in the rural areas where most of the unbanked people are concentrated.

*Wabillahitaufik Walhidayah  
Wassalamualaikum Warahmatullahi Wabarakatuh*

## EDITORIAL BOARD

### BOARD OF DIRECTORS KNKS & EXECUTIVE MANAGEMENT

#### DIRECTOR

Sutan Emir Hidayat

#### EDITOR IN CHIEF

Ginanjar Dewandaru

#### MANAGING EDITOR

M. Quraisy

#### EXECUTIVE EDITOR

Mohamad Soleh Nurzaman

Sudarmawan Samidi

Umar Adityawarman

Luqyan Tamanni

Ni Putu Desinthyia

Jamil Abbas

Bagus Aryo

Urip Budiarto

Intan Natasha Putri

Yosita Nur Wirdayanti

#### EDITOR

Citra Atrina Sari

Annissa Permata

Published by:

**Komite Nasional Keuangan Syariah (KNKS)**

Permata Kuningan Building, PH Floor

Kuningan Mulia Street No. 9C, Jakarta,

12980, Indonesia

E-mail: redaksi-knksinsight@knks.go.id

Website: [www.knks.go.id](http://www.knks.go.id)

## Synergizing **ISLAMIC COOPERATIVES (BMT)** and **MSMEs** in Advancing Indonesia's Economy



**M**icro, Small and Medium Enterprises (MSMEs) play a strategic role in the development of Indonesian Economy. MSMEs also play a role in wealth distribution because of its network which is spread throughout the country, and it could incorporate and improve the potential of the wide community (MEKSI, 2019). MSMEs sector is the biggest economic sector in Indonesia in terms of quantity, which is around 98.7% and absorbs around 89.17% domestic workforce (Kemenkop, 2018). Additionally, the realization of MSMEs contribution to the nation's Gross Domestic Product (GDP) in 2018 has reached about 60,34%. Thus, the role of the MSME sector is very significant to the development of Indonesia's economy. Besides, several empirical studies have revealed the correlation between MSMEs to poverty reduction (ADB, 2009; Islam, 2003; Servon and Bates,

1998, Sackleton, et al., 2008; Riwijanti, 2013; Quraisy, 2017). The fact that 87.18% of Indonesian society are Moslem, gives conclusion that the MSMEs sector has a substantial power on strengthening *halal* value chain, hence the reinforcement in the MSMEs sector will directly strengthen the *halal* industry and boost the accomplishment of indicator or main achievement, which are the welfare effect, the independence, and the equality of the nation's economy. According to The Law No. 20/2008 on Micro, Small, and Medium Enterprises, the definitions of MSMEs are:

- Micro business is a productive business owned by individuals and or company which (a) owns net profit maximum IDR 50.000.000 (USD 5,000) excluding land and business building, or (b) owns annual sales maximum IDR 300.000.000 (USD 30,000)

- Small business is a productive business owned by individual or company but not part of large business either in terms of shares or ownership which: (a) own net profit between IDR 50.000.000 (USD 5,000) and IDR 500.000.000 (USD 50,000) excluding land and business building, or (b) own annual sales between IDR 300.000.000 (USD 30,000) and IDR 2.500.000.000 (USD 250,000)
- Medium Business is a productive business owned by individuals or a company but is not part of medium/large business either in terms of shares or ownership which: (a) own net profit between IDR 500.000.000 (USD 50,000) and IDR 10.000.000.000 (USD 1,000,000) excluding land and business building, or (b) own annual sales IDR 2.500.000.000 (USD 250,000) and IDR 50.000.000.000 (USD 5,000,000,000)

Apart from its role to the Indonesian economy, in reality, around 72.47% of MSMEs face many challenges (Kemenkop, 2011). One of the most important issues facing MSMEs is their difficulty accessing finance from a formal financial institution. Majority of MSMEs have tried to acquire capital from commercial or rural banks and many of them could not get the capital because they could not provide collateral and could not fulfill the administrative standards needed to get financing from the bank (Ascarya & Yumanita, 2007).

Therefore, it is important for MSMEs to be given access for capital acquisition which is not only provided by a formal financial institution like banks but also the non-bank financial institutions such as a cooperative. Besides of the availability of financing services, MSMEs also expect a business mentoring for them so they could be self-sustained. (Riwajanti, 2013). Formal financial institutions like commercial banks usually provide access only for financing without giving any periodic empowerment or mentoring to their customers. Hence, the role of Islamic financial institutions such as Islamic cooperative or BMT is very crucial because it is not provide access for financing but also to boost the empowerment and business mentoring to its member (Quraisy, 2017).

The objective of Indonesian economy development is to achieve the prosperity of society in accordance to Article 33 of the 1945 Constitution Verse No.1 which stated "*Production activity is done by all, for all, under the lead or ownership of society members*". The prosperity of a society is the main priority, not a personal priority. Therefore, the economy is developed by a joint venture based on the family principle. Hence, according to the explanation in Article 33 of the 1945 Constitution

Verse No.1, cooperatives is the institution which is very appropriate with the objectives and the definition mentioned.

According to the father of Indonesian cooperatives, Muhammad Hatta (1971), cooperative holds a very important role as the pillar or the backbone of the Indonesian economy because:

- ↳ Cooperatives develops a self-helping attitude.
- ↳ Cooperatives has the social nature, where the public interest should be prioritized over the personal or particular group's interest.
- ↳ Cooperatives is developed based on the nation's own culture.
- ↳ Cooperatives is against any concept which relates to individualism or capitalism

According to the Constitution No. 25/1992, cooperatives is a business entity which has members of people or cooperatives legal entity, and it is also a people economic movement which based on the principles of family. Cooperatives itself has some principles, which are:

- ↳ The membership is voluntary and open for all.
- ↳ The management is done in a democratic way.
- ↳ The margin distribution is done fairly according to the personal effort of the members.
- ↳ The retribution for capital is minimum.
- ↳ Independence.
- ↳ The education of cooperatives.

Nevertheless, the establishment of Islamic Cooperatives or *Baitul Maal wat-Tamwil* (BMT) in Indonesia cannot be separated from the emergence of the conventional cooperatives movement in Indonesia since the early 1940s. This is not the result of spontaneous efforts by people who belong to the high level of social strata. Cooperatives grew from the marginalized people, who were suffering from the socio-economic impact of the capitalist system.

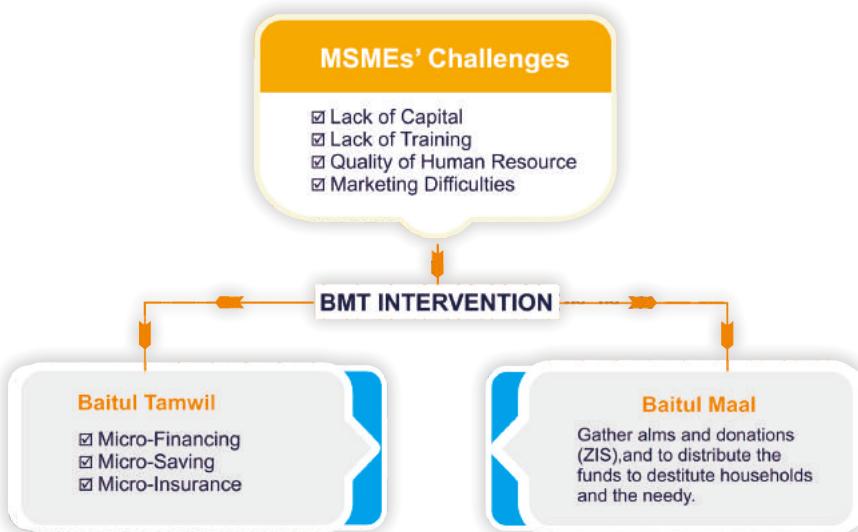


Table 1: BMT's Role in Developing MSME

Those whose livelihood was severely affected by the limited economic capacity, and consequently suffering from the burden of such limitations, spontaneously united to help themselves and other fellow human beings. The period of the early 1980s marked the establishment of the Islamic cooperatives in Indonesia. The movement cannot be separated from the role of Muslim students' activist in some Indonesian universities.

The first experimental, Islamic cooperatives was established in Jakarta and Bandung city namely *Baitut Tamwil Ridho Gusti* and *Baitut Tamwil Teknosa Salman*. However, at that time those Islamic cooperatives only focused on the commercial side (*Baitul Tamwil*). Then in the early 1990s, the first pioneer of BMT called BMT *Bina Insan Kamil* was established in Jakarta city. It was the first Islamic cooperatives that combined the commercial motive (*Baitul Tamwil*) and social motive (*Baitul Maal*). At the beginning of its establishment, the BMT was still in the form of Self-Help Group (*Kelompok Swadaya Masyarakat*) that gave some micro-

credit financing to micro and small entrepreneurs around Jakarta city.

However, due to the regulation from the Central Bank of Indonesia, BMTs must have a legal entity to operate. At that time, both conventional microfinance and Islamic microfinance institutions did not have any legal entity under any law. Likewise, to avoid a legal consequence, BMT *Bina Insan Kamil* was established as a legal entity of Cooperatives in accordance to the Law No.25/1992 on Cooperatives. Thousands of members (*usually from the Islamic Community in Jakarta region*) joined and conducted financial transactions in this BMT, as an alternative to conventional finance through a commercial bank or even conventional cooperatives.

The Islamic savants and Muslim activist in Jakarta were very effective as a funnel for remarkable growth and successful development of the BMT. Thus by looking at this fact, the birth and growth of BMTs were sustained by the foundation of routine and systematic Islamic propaganda. The concept of an Islamic Financial Cooperatives is known

in Indonesia as *Baitul Maal wat Tamwil* (BMT) or *Koperasi Simpan Pinjam dan Pembiayaan Syariah* (KSPPS).

Conceptually BMT has two functions, namely *Baitul Maal* which literally means 'house of wealth or treasury' and *Baitul Tamwil* which literally means 'house of trade or property development'. *Baitul Maal* is a social unit which focuses on collecting and managing ZISWAF (*zakah, infaq, and shadaqah*) funds from their members and non-members. Later the funds can be distributed to the eligible receiver (*mustahik*) or channeled to the beneficiaries for consumptive and/or productive purpose. On the other hand, *Baitul Tamwil* serves as a commercial unit that manages the funds from the members' savings deposit and channels it to the member who is in need, in the form of commercial contracts such as *Murabahah, Mudharabah, Musyarakah, Ijarah*, etc. According to BMT Center (2015), there are around 4,500 BMTs in 2015 serving approximately 3.7 million people with assets of around Rp1 trillion managed by around 20,000 people.

BAITUL TAMWIL	BAITUL MAAL
Mobilize savings and deposits from members.	Mobilize charitable funds (ZISWAF) from members and communities/ societies.
Allocate the funds to finance profitable businesses run by the members.	Distribute ZISWAF funds to particular beneficiaries. A benevolent loan (interest-free credit) is also provided for productive and/ or consumptive purpose.
Provide other financial product and services.	Organize socio-religious programs and non-financial programs e.g.: business mentoring, management and marketing consultation for SME, etc.
Objectives – to improve the economic welfare of members and community.	Objectives – to alleviate poverty, empower and enhance the religious lives of poor people and the whole community

Table 2: Distinctive Attributes of BMT

The establishment of Islamic microfinance institution such as Islamic Cooperatives is basically using the concept of *shirkah* (partnership) in which all parties are involved in contributing the fund in the same portion as well as equally participate in managing the organization and the profit and loss are shared among the members. In the practice of cooperatives, no one is allowed to inject a bigger amount of fund and receive a bigger portion of the profit as compared to the others (Kospin Jasa Syariah, 2009). The basic principle of Islamic cooperatives is on strong cooperation among its members. Meanwhile, the main philosophy of BMT is “*catering to its members, by its members, and for its members*”. Other basic philosophy of BMT such as:

- An Islamic microfinance institution that propagates the Shari'ah economic system in the society, in particular, the marginalized society at the bottom of the pyramid.
- To foster self-reliance and self-contained attitude on the poor and marginalized people in society.
- To give a new color to the economy as the Islamic microfinance institution that helps the marginalized people to grow from the bottom of the pyramid to the top level of socio-economy.

Members' annual meeting is the highest 'shuratic' forum in which all strategic decisions are made. Each member has an equal vote and opportunity to express idea and opinion (Irfan Beik & Indah Purnamasari, 2011). Nowadays many BMTs choose cooperatives as their legal entities (Sakai and Marijan, 2008). Thus, in terms of the legal framework, BMT must comply under the Law No.25/1992 on Cooperatives as well as the Government Regulation No.9/1995 concerning the implementation of savings and loans by cooperatives.



Image source : [www.banjarmasingtourism.com](http://www.banjarmasingtourism.com)

However, after the issuance of Law Act No.1/2013 about Microfinance Institutions, BMT can choose whether they want to be under the Ministry of Cooperatives and SMEs regulatory or under the supervisory of Financial Services Authority (*Otoritas Jasa Keuangan/ OJK*). If BMT wants to be under the Ministry of Cooperative's regulatory, then they must obtain a license from them. Additionally, they must change their legal name to *Koperasi Simpan Pinjam Pembiayaan Syariah (KSPPS)*.

At the same time, if they want to be regulated under the Financial Services Authority then they must obtain a license from them and change their legal name to *Lembaga Keuangan Mikro Syariah (LKMS)*. The main difference between them is BMT under the Ministry of Cooperatives and MSMEs is fully owned by the members whereas BMT under the Financial Services Authority at least 60 % of the share must be owned by local government district/ city or village-owned enterprises/ wards. Due to this ownership issue, majority of BMTs choose to be under the supervision and regulation of

the Ministry of Cooperatives because they want to maintain the spirit and philosophy of BMT which is “*catering to its members, by its members, and for its members*”.

There are many empirical studies that showed BMTs' good performance and positive contribution to the Indonesian society such as enhance the MSME (Adnan et al.,2003; Amalia, 2008; Chokro and Ismail, 2008; Sakai 2008; Riwijanti 2013), poverty alleviation (Beik and Purnamasari, 2011; Ajija and Adnan, 2011; Quraisy, 2017). Therefore, based on the provided empirical evidence, BMT could play a substantial role for the development of the MSMEs in Indonesia in order to achieve a noble objective of poverty alleviation through entrepreneurship and to enhance the economic development in Indonesia.



**Saat Suharto**

(Founder of BMT Tamzis Wonosobo)



## Building and Improving Members' Welfare is The Objective of Bmt Tamzis

The discourse on economic growth enhancement and poverty alleviation through Islamic microfinance have become a compelling topic that was frequently discussed back then in the early days. BMT Tamzis as one of the pioneers of Islamic Cooperatives has shown that with the economic participation from the community, it can boost the local and national economic growth. Mr. Saat Suharto, the founder of BMT Tamzis was interviewed by M.Quraisy, Ph.D. from KNKS on March 21, 2019 during his visit in Jakarta.

### 1.What underlies the establishment of BMT Tamzis in Wonosobo, Central Java?

BMT Tamzis established since 1992 in Muhammadiyah youth community organization in Wonosobo district, Central Java. Which had a concern regarding *dakwah bil hal* (*Islamic preaching in the form of real action*) in the real economic sector. Initially, our *Baitul Maal* unit was established with a sole function to collect *zakat*, however, at that time the *zakat* collection cannot be used for

a productive purpose in the society. The establishment of an Islamic financial institution in a form of Islamic cooperatives or *Baitul Maal wat Tamwil* (BMT) had become an urgent issue especially when many micro, small and medium business traders in Wonosobo are still entangled with moneylender due to the difficulty in securing initial or additional capital from the formal financial institutions. These reasons had convinced us to establish an Islamic microfinance institution in the form of an Islamic cooperatives.

As one of the founder, I was inspired by the establishment of the first Islamic cooperatives in Indonesia such as *Baitul Tamwil* Teknosa Syariah in Bandung city and BMT Ridho Gusti Syariah in Jakarta city. The initial investment in forming BMT Tamzis is came from the usage of cash-waqf which was based on our family funds. Currently, BMT Tamzis members consist around 200,000 people and have 42 branches of BMT Tamzis throughout Indonesia. The assets of BMT Tamzis itself has amounted to Rp. 700 Billion.

### 2. Nowadays, with many microfinance institutions flourished in society, people have an issue in differentiating between Islamic Cooperatives and other microfinance institutions (MFIs). Could you please point out the distinctive feature of BMT Tamzis compare to others MFIs?

BMT Tamzis is a microfinance institution which is based on Islamic cooperatives, not a microcredit institution which only focuses on providing credit for poor people. Thus our way of thinking is based on a jointly-owned and democratically-controlled because the capital is formed from the participation of the BMT members. We try to construct society by developing their habit of savings in order to abolish a '*fragile and helpless*' mentality.

Generally, the belief of people in our region is that if they do not possess savings they would feel as if they were poor or unfortunate people. This kind of mentality is the one that we want to abolish in order to increase their confidence and mentality.

The availability of their savings funds will also prevent them from vulnerability because they will have an emergency reserved fund as a buffer against economic shocks such as an accident or if their family member passed away. BMT Tamzis is also targeting poor people who are economically productive which corresponds to our motto “*building and improving our members' prosperity*”. Therefore, by joining BMT, we believe that it will assist people in building financial assets, connect to social services, and access new markets. Hopefully, this will give a positive impact on Indonesia's economy and achieve a range of sustainable development goals.

### **3. The distinctive features of Islamic cooperative compared to the conventional cooperatives is the existence of both commercial unit (*Baitul Tamwil*) and social unit (*Baitul Maal*)? How about the management of the commercial unit (*Baitul Tamwil*) and the social unit (*Baitul Maal*) in BMT Tamzis?**

As I have mentioned earlier, the initiation of BMT Tamzis was actually from a breed of the *Baitul Maal*. Throughout the period, we merge the function of *Baitul Tamwil* and *Baitul Maal* into one management (inherent). In BMT Tamzis we implement 'Behavioral Change' methods whereby the *Baitul Maal* comes first to improve the prosperity of the individual or family member, including their basic necessities and also to familiarize the concept of saving in order to strengthen their mentality in the future.

Once their prosperity or their economic level has reached to a sustainable level, then the *Baitul Tamwil* comes in to give commercial financing service such as *murabahah* (cost plus margin sale), *musyarakah* (joint venture), *mudarabah* (partnership) and *ijarah* (operating lease), etc.

In our annual financial report, *Baitul Maal* funds are segregated with *Baitul Tamwil* funds hence there will be no issue of the mingle funds.

### **4. Period of the early 1990s until early of 2000s is marked as the rapid growth of Islamic Cooperatives in Indonesia. However, many BMT's were also discontinued because they could not cope with both external and internal challenges. What are the major challenges that BMT Tamzis encounter so far?**

During every phase of BMT Tamzis development, we encounter some internal issues related to human resource quality and good governance. Whereas, for the external challenges like government support and regulatory problem, even though it is the issue faced by the Islamic cooperatives, we develop an entrepreneurial mindset. The mindset is that we must always be ready to face every challenge to be a creative and innovative in solving any problems in any situation. Nowadays, BMT Tamzis is trying to find a good benchmark to develop the internal human resource and good governance standard.

Alhamdulillah, BMT Center Association (PBMT) will always strive its BMT members. For instance, PBMT will conduct specialized training for account officer and competency training for administrator and supervisor of the BMT.

### **5. The rapid implementation of technology in some microfinance institutions inevitably forces Islamic cooperatives to adaptively respond to the changes that occur. How BMT Tamzis prepares in the age of industrial revolution 4.0 particularly the collaboration of BMT with Islamic financial technology (fintech)?**

**“ We must always be ready to face every challenge to be a creative and innovative in solving any problems in any situation. Nowadays, BMT Tamzis is trying to find a good benchmark in developing the internal human resource and good governance standard ”**

In the industrial revolution 4.0 era, we are not only talking about the advancement of technology itself, but also the ecosystem readiness. From the technological aspect, BMT Tamzis has the capability of developing technology for future development. Nonetheless the ecosystem where we can implement the technology is not ready yet. For instance, the mechanism process in recognizing prospective members for financing. If we only rely on technology, then it will become vulnerable especially in identifying the customer's personal characters (*Know Your Customer/KYC*). The reason is that the regulation on mobile phone SIM card ownership is still not fully enforced, e.g.: a person could have 2 or 3 SIM cards. Thus, if Islamic microfinance institution like BMT wants to adopt the latest digital technology then it would obviously have an implication on rising the capital expenditure cost. The collaboration with financial technology (fintech) itself is a breakthrough idea.

Moreover, we need to understand that in reality, the BMTs that got the funds from the fintech company is normally a low tier BMT that has inferior assets quality. The reason is based on the fact that BMT with good quality of assets does not really need additional capital from a third party such as Islamic banks or Islamic fintech. BMT that got channeling funds from Islamic fintech has higher chance to collapse due to internal and external problem.

Thus, there is a risk that it might ruin the reputation of both the Islamic cooperatives industry and Islamic fintech industry in the future.

#### **6. Moneylender or loan shark has created an economic problem in the society and also facilitates public to be consumptive. What about the role of BMT on eliminating the moneylender in your area?**

Moneylenders will always exist among the people because they are informal lender thus they can operate without restriction from a regulator or invest in a fixed asset. In BMT Tamzis, we try to strategize in competing with them such as expanding our operational area in a traditional market where most of the moneylenders operate. In terms of operational hours, we try to counterbalance the moneylenders even though their operational hours are not bound by normal office hours like BMT. Additionally, we always educate the society through a daily visit by the help of our account officer or

through a religious meeting in a mosque so people could avoid the activity that relates to *riba* (interest) such as engaging with the loan from moneylenders.

#### **7. In your opinion, what is the ideal concept or model of BMT?**

The principle of BMT is based on a cooperative principle whereby its primary activity is based on a joint venture among the people (*gotong royong*) and also based on the family principle (*asas kekeluargaan*). Hence, the concept of cooperative is actually aligned with the values that are taught in Islam whereby the family is the smallest unit in the society.

The role of family is very important in producing great individuals so that it can shape noble character on individuals (*akhhlakul karimah*) in order to build a civilized society. Therefore, in my opinion, the ideal concept of BMT is to build the *Baitul Maal* first with an honorable mission to improve members' prosperity. Normally, the BMT's member is a father or a mother who is the breadwinner in a family thus if

we enhance their prosperity, then it will automatically improve their family prosperity as well. After reaching a certain level of the economy, the *Baitul Tamwil* could intervene by offering a financing scheme to the member.

#### **8. What do you think that BMT should do in terms of the sustainability of their operation and business?**

Every BMT has its own identity in accordance with the local wisdom, the BMT's business model should also follow the local wisdom in that area. For instance, BMT Tamzis branch in Lombok, Nusa Tenggara Barat, whereby most of the people work as a farmer, hence most of the BMT members are farmers. Thus, the monthly installment payment in February (after the completion of harvesting period) is bigger than the next following monthly payment installment so that it can ease the farmers. In terms of sustainability, BMT is mentoring its members to make a future financial plan and start saving money. The existence of savings will increase





“

In BMT Tamzis, we focus on people that are unbankable or marginalized from a formal financial institution to become our member. As an Islamic microfinance institution, we aim at the empowerment of our members e.g.: basic necessities fulfillment, provide initial capital and also provide mentoring/training in order to survive in micro and small business. Therefore, our mindset is that we try to improve their quality of life standard from both the economic aspect and their spiritual aspect.

”

the independence of BMT's members and also accelerate their prosperity level.

Therefore, BMT could intervene from the *Baitul Tamwil* side and not just relying on the *Baitul Maal*. It is expected that there should be a balance between the *Baitul Maal* and *Baitul Tamwil* in BMT. If there is a newly established BMT whereby it only focuses on the *Baitul Tamwil* unit only then there is a potential to cause some troubles in terms of its sustainability.

**9. Besides providing Islamic financial services products to the member especially those who engaged in micro, small and medium business, do BMT Tamzis provide capacity building such as training or mentoring for them?**

We provide capacity building such as mentoring and training for our members who engaged in the micro and small business so that they can be a good role model for other BMTs' members. Besides conducting training, BMT Tamzis conducts a regular weekly or

monthly *pengajian* (religious meeting) to shape the spiritual character of the members. In BMT Tamzis, we focus on people that are unbankable or marginalized from a formal financial institution to become our member.

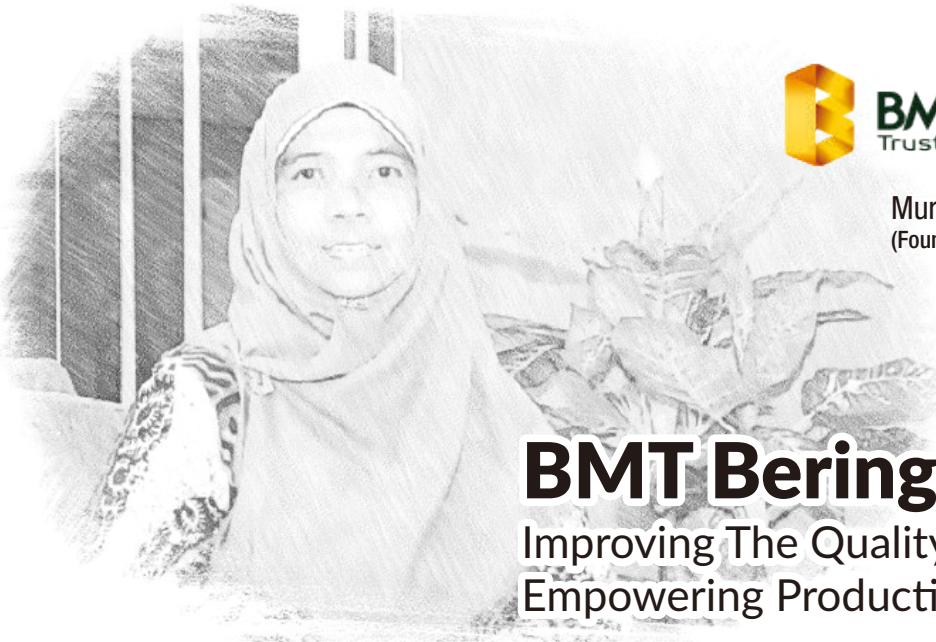
As an Islamic microfinance institution, we aim at the empowerment of our members e.g.: basic necessities fulfillment, provide initial capital and also provide mentoring/training in order to survive in micro and small business. Therefore, our mindset is that we try to improve their quality of life standard from both the economic aspect and their spiritual aspect.

**10. The role of the government is highly expected in the advancement of an Islamic microfinance ecosystem. Thus, what would be your suggestion for the government or regulator in terms of Islamic cooperatives industry development?**

We really hope that the government could give full support

to the BMT movement so that BMT can be a role model of a modern and progressive Islamic microfinance institution in terms of its standard and management quality.

Besides that, the Cooperatives Supervisory Institution (LPK) in every region should be more active in their supervisory role to the Islamic cooperatives/BMT. The staff in LPK should come from competent people that know with the operational concept of Islamic Cooperatives/BMT so that the knowledge gap about Islamic cooperatives in the regulatory and practitioner level can be minimized.



**BMT Beringharjo**  
Trust Together

Mursida Rambe  
(Founder of BMT Beringharjo)

## BMT Beringharjo: Improving The Quality of Life and Empowering Productive People.

The enthusiasm to eradicate moneylenders is still blazing in Mrs. Mursida Rambe's heart just like when she established BMT Beringharjo 25 years ago. Known by his close friend as a firm but friendly figure, Mrs. Mursida gained her recognition after she received "2016 Inspiring Change Leadership" award from a reputable media. However, she pointed out that the award is meaningless if moneylenders and poor people still exist in her surroundings. Interviewed during her bustling activity in BMT Beringharjo Headquarter, Mrs. Mursida received M.Quraisy, Ph.D. from KNKS on 29 June 2019.

### 1. Could you share the story behind the BMT Beringharjo establishment?

BMT Beringharjo is established since December 31, 1994, where our movement was born from a belief that there is an alternative economic system which is based on justice and solidarity besides of the capitalist economy. In the Holy Quran Surah Al-Baqarah verse 275-279, there is a prohibition

from Allah SWT about the economic activities which relate to *riba*, so we believe that Islamic economic system is the answer and the solution for every economic problem that happens in the society. Moreover, the main motive to establish BMT Beringharjo was caused by our anxiety due to many traders that are entangled with the loan sharks in Yogyakarta, especially in Beringharjo market. Even one of my mother's friend who was a small business trader and only borrowed Rp. 100.000, should give up her house to a moneylender to settle the debt. I was moved because of that condition so I built the Islamic financial institution in the form of cooperative. With a capital of Rp. 1.000.000 from Dompet Dhuafa (private zakat institution), my friends and I were slowly developing the foundation of

**“The main motive to establish BMT Beringharjo was caused by our anxiety due to many traders that are entangled with the loan sharks in Yogyakarta, especially in Beringharjo market”**

small traders' empowerment from the porch of Al-Muttaqin mosque in Beringharjo market, Yogyakarta. Most of the office equipment and motorcycle for operational use were loaned items. During that time, I gave financing to the micro and small trader for Rp. 25.000. *Alhamdulillah*, several years later around 65% of micro, small and medium business traders in Beringharjo market have become a member of BMT Beringharjo.

### 2. Currently, microfinance institutions flourish in society. What distinguishes BMT Beringharjo with other microfinance institutions in Yogyakarta?

As an Islamic cooperatives or BMT which its first name is *Baitul Maal*, so our main focus on the empowerment of the *fuqara* (the extreme poor), the *masakin* (the poor) and the poor but productive people. Unfortunately, most microfinance institutions only focus on financing or profit-oriented but forget how to improve the quality and empower their economic life. In BMT Beringharjo, we try to educate the BMT members

to not become consumptive behaviour and also build the vision and mission of their lives so that quality of life can be increased. The mentality of the poor people is consumptive behavior, so we try to change it. After qualified of being able to get financing from the *Baitul Tamwil* unit, our expectation is that they can engage with more productive economic activities so their family could be 'sustainable' in the future.

### **3. The sustainability of a BMT can be seen from the balance of function between the *Baitul Maal* unit and the *Baitul Tamwil* unit. How does BMT Beringharjo manage the function of its *Baitul Maal* unit and its *Baitul Tamwil* unit?**

We separate the management of the *Baitul Maal* and the *Baitul Tamwil* unit so each division/unit can focus on its own function. We manage the inherent connection in both unit because the *Baitul Tamwil* unit could not grow without the support of the *Baitul Maal* and vice versa. It needs a big intention and strong idealism in managing *Baitul Maal* since the unit needs to focus on empowering poor people in order to increase their welfare. If a BMT only focus on its *Baitul Tamwil* function, there is a tendency to overlook the marginalized people. Furthermore, in utilizing the funds of *zakat*, *infag*, *shadaqah*, and *waqf* (ZISWAF), we have some programs that lead to productive economic activities. Nowadays, around 70% of ZISWAF fund in the *Baitul Maal* unit is channeling for productive economic activities and only 30% used for a consumptive purpose. We use this approach so the BMT members could be independent in the future and not always depend on the support from other parties.

### **4. What are the internal and external challenges that BMT Beringharjo encounter?**

The internal challenge that we face is related to human resource. Our human resource quality still needs to be improved, for instance, their skills, professionalism, and attitude as well as other compulsory traits such as honesty, diligent, discipline, and *Amanah* (trustable).

**“ In BMT Beringharjo, employee must also possess good spiritual traits. Every morning, part of our Standard Operating Procedure is reciting Al-Quran in order to maintain the spirituality aspect of our staffs. ”**

In BMT Beringharjo, possessing the hard skill and soft skill is not enough, the employees must also possess good spiritual traits. Every morning, part of our Standard Operating Procedure is reciting Al-Quran in order to maintain the spirituality aspect of our staffs. *Alhamdulillah* in the last few years our staffs' turn-over rate has been decreasing. From the technology aspect, we use the internal IT network among BMT Beringharjo branch. We are also planning to integrate our IT system with other BMT system, in order to strengthen the Islamic cooperatives ecosystem in Indonesia. The external challenge is related to the support from the Ministry of Cooperatives and MSME (Kemenkop) that still needs to be improved, such as the quality of staff which should be appropriate with the competency needed, such as having the good knowledge of Islamic cooperative.

The treatment of BMT is different from the conventional cooperatives because there are some obvious differences such as the '*aqad*' (contract). Another external challenge is on how to increase the awareness and literacy of people about Islamic economy whereby there is a positive relationship for instance with the increase of awareness on Islamic

economy, there will be many people use the Islamic financial service product including Islamic cooperatives savings and financing products.

### **5. In your opinion, how can BMT play their role in eliminating the moneylenders activity in society?**

Since the beginning of the BMT Beringharjo establishment, we are committed to wipe out the moneylender activities because in our opinion, they snatch the rights of people's economic life in a cruel way. Many of micro and small business traders that were impoverished by the moneylenders activity. They generally operate in underground activity as well as use a personal and quick process on the financing approval such as only requiring ID cards for administrative purpose. Their operations are also very flexible, for instance, they operate in traditional markets since 3 AM in the morning. We are still striving to compete with their early morning activity because our Account Officer has limited working hours. Nevertheless, we are actively striving to improve the society's understanding in a *majelis pengajian* (religious meeting in a mosque) such as the prohibition of *riba* (interest) in Al Quran and Hadith especially improving their awareness to avoid the loan from the moneylenders.

### **6. Nowadays technology has been revolutionizing the business operation, How BMT Beringharjo prepares to face the era of digital economy 4.0?**

We are very serious in following the trend of technology development. We realize that if BMT Beringharjo does not follow the innovation in technology, hence our operations will not be efficient and there is a risk that customer will shift to other financial institution such as Islamic fintech. In terms of IT system, we have

implemented the intranet system among the BMT Beringharjo branches. Currently, we cooperate with the BMT Center Association (PBMT) to integrate the PBMT Row-Asia system so that it can integrate the operational IT system among 362 members of PBMT.

Moreover, we also made a partnership with one of the Islamic banks so our member can withdraw by using BMT ATM card in the Islamic bank for any purpose such as transfer and withdraw money. In recent times we are still developing a marketplace e-commerce system which is a platform for the members who are micro and small business traders so they can sell their business products on the platform. In our opinion, the marketing aspect a remaining challenge for the micro and small traders so we think it is important for all member of BMT Beringharjo especially the micro and small business traders in selling their products in both real and digital market.

## 7. In your opinion what should be the ideal model of Islamic cooperatives?

Islamic cooperative or BMT carries a huge responsibility because it contains the "Islamic" word inside, thus BMT must pay attention to the poor and unfortunate people. Furthermore, from my perspective, the ideal model of BMT should not only focus on the profit function (*Baitul Tamwil*) but also focus on the social development or the empowerment poor people through *Baitul Maal* unit. However, the *Baitul Maal* unit should not only give ZISWAF funds for the consumptive purpose to the poor people but also providing funds for productive purposes. For instance, providing an initial business capital so it could generate income for them, hence they could get economic independence. In BMT Beringharjo, we have a program called

**" Islamic cooperative or BMT carries a huge responsibility because it contains the "Islamic" word inside thus BMT must pay attention to the poor and unfortunate people "**

'*Sabahat Ikhtiar Mandiri*' (SIM) already implemented in 14 sub-districts of Yogyakarta. There are 5-10 persons that will be incorporated as a group in SIM program. We keep trying to build our participant's character through capacity building because most of the participant does not own business on the early stage, with e.g.: mentoring and early-stage business training. From that training hopefully, they could start a micro business and later we will provide capital and weekly mentorship. Every two weeks, we will monitor the progress, whether their business is still on track or not. Usually, the people who join the SIM program have a strong will to get out from poverty circle, hence the role of BMT Beringharjo is to provide access for initial capital and capacity building such as training and mentoring program.

## 8. Besides providing Islamic microfinance product, does BMT Beringharjo actively give business mentoring and training for its members?

In BMT Beringharjo, we do not only offer Islamic financial service to our members especially the micro and small business traders, but we also provide training and mentoring program. As an example, we have a program called *Bina Mitra* (BINAR) where we organize business training on several aspects such as a basic accounting reporting method for micro and small business and marketing product strategy so that they can survive in their business operation. The BINAR is organized in a 6 months period and every participant who joins the program needs to sign a letter which states

their willingness to join the full program during the 6 months periods.

## 9. What do you expect from the government or the regulator so that the development of Islamic microfinance can thrive?

We hope that the government could pay more attention to Islamic cooperatives especially BMT because the cooperative itself is one of the alternatives for advancing the national economy. The cooperatives movement is proposed by our founding fathers to be the foundation in strengthening the nation economics which based on the principle of a family and solidarity. The spirit of cooperatives is reflected in Indonesian Constitution of 1945, Article No. 33, and it also exists in the national economy structure as one of the main tools in developing independence of economy, hence the role of cooperatives is crucial on the development of economic independence.

In the future, we also expect a stronger synergy and collaboration between Ministry of Cooperatives and MSMEs, and Islamic Cooperatives (BMT). BMT must be considered as a government partner in providing access to financial inclusion to the unbankable people who are marginalized by the formal financial institutions. From the real evidence, BMT has shown the real efforts to reach poor and unfortunate people from the provision of financial access to the empowerment program. In the future, the government should improve their collaboration with BMT especially in the programs that is related to poverty alleviation and economic empowerment in Indonesia, because BMT is an Islamic microfinance institution which directly interacts with poor people as well as the micro, small and medium business traders in the suburbs.



## TOWARDS AN EFFECTIVE LEGAL AND REGULATORY FRAMEWORK FOR ISLAMIC COOPERATIVES (BAITUL MAAL WAT-TAMWIL/BMT) IN INDONESIA

Dr. Ali Sakti (Economist of Bank Indonesia Institute, Central Bank of Indonesia)

The structure of business players in the Indonesian economy was dominated by micro and small business units which reached 62.8 million units or reaching 99.91% of business actors in Indonesia. Thus, it is not surprising that microfinance institutions have developed rapidly during the last few decades. In the Islamic microfinance sector, the Islamic Savings and Financing Cooperatives (*Koperasi Simpan Pinjam Pembiayaan Syariah/KSPPS*) or previously known as the Islamic Financial Services Cooperative (*Koperasi Jasa Keuangan Syariah/KJKS*). Meanwhile, KSPPS that is rooted from the local community movement which better known as *Baitul Mal wat-Tamwil* (BMT), currently play an important role in strengthening national Islamic financial inclusion.

However, there is no accurate data regarding the number of BMTs and their distribution in several provinces or municipalities until now. Based on estimation from the associations, KSPPS or BMTs are

estimated around more than 7000 BMTs (registered and unregistered in the Ministry of Cooperatives or Authority of Financial Service). BMT or also called Integrated Independent Business Chamber (*Balai Usaha Mandiri Terpadu/BUMT*), is a legal financial institution incorporated as a cooperatives that operates based on Islamic principles with the aim of providing capital for the micro and the small business community.

As a microfinance institution whose operations become an intermediary agent for small economic community groups, both commercially and socially, the scope for BMT seems to be limited by the several laws related to its operations. Even if BMT's scope is not limited, it will be highly regulated and relatively vulnerable to disputes given that there are many legal foundations that must be referred to. Consequently, due to that issue, the potential for the dispute can be relatively high. Laws related to the existence of BMT include Law No. 25/1992 on

cooperatives (previously Law No. 17/2012 on Cooperatives had been issued, unfortunately, it was canceled by the Constitutional Court); Law No. 1/2013 on Microfinance Institutions (MFIs), the Law No. 23/2011 on Zakat Management and the Law No. 41/2004 on *waqf* (endowments). Besides that, in relation to all of the above laws, Law No. 21/2011 on the Financial Services Authority (OJK) also needs to be considered by BMT because the Law of Microfinance Institution (*Lembaga Keuangan Mikro/LKM*) relates MFIs with the BMTs which are under the supervision of OJK. Until now, BMT operation is regulated based on KUKM Regulation Number 11/2017 on the Implementation of Islamic Savings and Financing Cooperatives (KSPPS) by Cooperatives.

In reference to the above laws, it is necessary to know the position of the BMT in regards to regulatory, institutional and operational based on positive law. Thus, the relevance of the laws and



Image source : [www.baznas.go.id](http://www.baznas.go.id)

the analysis of one law to the others need to be done. This article wants to give a general description of what BMT's position is based on the positive law in Indonesia. Thus we will begin the discussion based on the order of the law above in time (the Law issuance).

#### **BMT and Law No. 23 of 2011 on Zakat Management**

Besides operating as a financial institution that provides financial services in the form of safekeeping, investment and financing, based on Ministerial Decree no. 91 of 2004 on Implementation Guidelines for BMT/ KSPPS/ KJKS Business Activities (article 24), BMT activities can also be in the form of *Zakah, Infqaq, Shadaqah, and Waqf* funds (manages in *Baitul Maal* division).

In addition to that, the funds' management activity refers to the Law of Zakah Management (article 25). With this provision, hence BMTs must refer to their social activities (in *Baitul Maal*) in accordance with the Law of zakat management. Meanwhile, based on the Law No. 23 of 2011 regarding the zakat management (replaces the Law 38 of 1999),

the management of *zakat* in national level is under the authority of Indonesia National Zakat Board (*Badan Amil Zakat Nasional/BAZNAS*) (articles 6-7).

Thus, the *zakat* management performed by BMT seems to be contradicted with Law No. 23 of 2011. However, based on the Law No. 23 of 2011, BMT can position itself as a Zakat Collection Unit of BAZNAS (*Unit Pengelola Zakat/UPZ*) to help the role and function of BAZNAS (article 16). However attention should be given to this step is that the scope of BMT operations as the *Zakat Collection Unit (UPZ)* must be adjusted to other laws, especially the Law of Microfinance Institution (*Lembaga Keuangan Mikro/LKM*).

#### **BMT and Law No. 25 of 1992 on Cooperatives as well as Ministry of Cooperative and MSME regulation No. 11 of 2017 on the implementation of Islamic Savings and Financing Cooperatives (KSPPS) by Cooperatives.**

The law which regulates the existence of BMT's legal entities is the Law No. 25 of 1992 on Cooperatives and the implementation of Islamic financial activities by BMT or KSPPS

in detail regulated by Government Regulation (*Peraturan Pemerintah/Permen*) Ministry of Cooperatives and MSME No. 11 of 2017 on implementation of Islamic Savings and Financing Cooperatives (KSPPS) by Cooperatives. Without more specific explanations on BMT's operational and technical matters, the Law seems to provide a maneuver space for Islamic cooperatives (including BMTs) hence it tends to leave restrictions on government regulations clause. Some interpretations arising from the Law regarding the position of Islamic cooperatives (BMT), includes:

Cooperatives based on Islamic economics principles will be regulated in a more detail government regulation. Thus, it will open a space for an interpretation that the government regulations will regulate sharia guidelines for all types of cooperatives. Some provisions in the Law of Cooperative which is not in accordance with the philosophy and principles of Islamic economics will be regulated in a more detail point inside the government regulations. Some points that are not in accordance with the Islamic economic nature such as:

- a) The use of the term 'savings and loans' as identification of cooperatives that engaged in a shariah-compliant activity, will tend to be misleading, consider that savings and loans will be connotated in the economic practice of interest/usury which is prohibited by sharia. The term 'Savings and Loans Cooperative' is contained in Government Regulation (*Peraturan Pemerintah/Permen*) Ministry of Cooperatives and MSME No. 11 of 2017 on Implementation of Islamic Savings and Financing Cooperatives (KSPPS).

b) The limitation could arise from the phrase 'savings and loan' activities since it is interpreted as KSPPS/BMT is only offering savings and financing services to the members. Thus, it will limit KSPPS/BMT from providing other types of activities such as buying and selling (investment activities). Unless there is a further explanation that the term "savings and loans" is interpreted to include all funding and financing activities carried out by Islamic cooperatives. Nevertheless, in general, for other cooperatives (both conventional and Islamic) this limitation makes additional services in KSPPS/BMT such as electricity bill, water, telephones, and others payments services will be prohibited.

Moreover, if those points are stipulated in government regulations, then some aspects related to savings and loan cooperatives which regulated by the Law of Cooperatives are explained in government

regulations. This certainly will apply to other aspects. Consequently, it will affect the scope of the discussion about government regulation that will become a wide aspect.

**BMT and The Law No. 1/2013 on Microfinance Institutions (MFIs)**  
 The Law No.1/2013 on Microfinance Institutions stipulates that BMT (*Lembaga Keuangan Mikro/LKM*), BMT (*including Baitul Tamwil Muhammadiyah/BTM*) as microfinance institutions will be regulated and supervised by the Financial Service Authority (*Otoritas Jasa Keuangan/OJK*). Therefore, the full contents of the Law No.1/2013 are intended for *Baitul Maal wat-Tamwil* (BMT). The crucial point of concern for the law which related to BMT is the regulation about the scope of BMT business operation areas which is limited to a regency/city where the BMT operates (article 16). Therefore, if BMT as a microfinance institutions conducts operational activities

outside a regency/city where the BMT operates, then the BMT must change into a rural bank (article 27).

#### **BMT and the Law No.21/2011 on the Financial Services Authority (Otoritas Jasa Keuangan/OJK)**

Law 21/2011 regulates the existence and scope of the Financial Service Authority (*Otoritas Jasa Keuangan/OJK*). The transitional provisions in the Law No.1/2013 on Microfinance Institution (MFIs) are explicitly stated that BMTs will be under the supervision of the OJK thus BMT should understand the institutions, authorities, and scope of OJK's supervision as a whole. The Law No.21/2011 does not explicitly mention about microfinance institutions particularly BMTs.

However, this does not mean that the Law is not important for the BMT community. The direct implication of the law is the existence of Secondary BMT whereby the members are



Image source : [www.baznas.go.id](http://www.baznas.go.id)

the Primary BMT. The Law of MFIs tends to accommodate only microfinance institutions including BMTs that have individual members non-entity. Furthermore, even the Law does not have direct implication and direct consequences, but still, the existence of the law will be a limitation for BMT at certain levels of interaction. Thus, how far the scope of the boundaries needs to be explored and reviewed more deeply.

The existence of the law about cooperative (Law No. 25/1992) and the law of microfinance institution (Law No. 1/2013) raises several interpretations, especially in the differentiation between *Koperasi Jasa Keuangan Syariah (KJKS)* and *Baitul Mal wat-Tamwil (BMT)* although both entities are the same. This cause some implications due to a difference in authority institutions which can lead to the arbitration risk. KSPPS or BMT will adapt and prefer to be under an authority that is flexible. This is actually a wrong approach in an effort in advancing and stabilizing the Islamic microfinance industry in Indonesia. As a result, the community will probably not obtain the best

microfinance services from the MFIs.

Therefore, in addressing the above conditions, my recommendations that are considered important and urgent are:

There is a need for coordination among the authorities such as the Ministry of Cooperatives & SMEs: Financial Service Authority (*Otoritas Jasa Keuangan/OJK*) and The National Zakah Board (*Badan Amil Zakat Nasional/BAZNAS*) in formulating government regulations or similar regulations as a technical provision for BMT business activities. The formulation of the technical regulation should not be carried out partially by each authority without coordination since it will increase the risk of overlapping regulations that caused the KSPPS/BMT regulation to become unclear. Consequently, the lack of clarity in the regulation will also harm members of the KSPPS/BMT in a society.

In order to achieve good coordination, a task force (*working group*) is needed in order to establish effective industrial governance for national

microfinance field. The task force (*working group*) should include relevant government institutions such as the Ministry of Cooperatives and SME, the Financial Services Authority, the Ministry of National Development Planning/National Development Planning Agency, the Ministry of Home Affairs, the National Zakat Board, and the Fiscal Policy Agency.

Open intellectual discourse and in-depth discussion about the importance of a sole authority of microfinance institutions including those MFIs that operates under shariah principles. This aspect is substantial because microfinance institutions have different characteristics than other formal established financial institutions.

The existence of the sole authority will provide more flexibility in an effort to develop the microfinance sector particularly the Islamic microfinance sector. Microfinance is recognized as a new genre in the national financial system, thus it has a unique operational service for a different segment of society which has not been touched by formal financial institutions.



“

**The existence of the sole authority will provide more flexibility in an effort to develop the Islamic microfinance sector. Microfinance is recognized as a new genre in the national financial system, thus it has a unique operational service for a different segment of society which has not been touched by formal financial institutions.**

”



## The role of the Ministry of Cooperatives and Small Medium Enterprise in fostering the **ISLAMIC COOPERATIVES** in Indonesia

**Rini Megawarti**

(Director of Islamic Financing, Ministry of Cooperatives and SMEs)

The role of the Ministry of Cooperatives and Small Medium Enterprise to coach and guide both Conventional and Islamic cooperatives at the provincial and regional levels is very significant. Besides coordinate and monitoring the Cooperatives stakeholders, the ministry must strive to increase community participation in the fields of cooperatives as well as small and medium enterprises. Moreover, the challenge is also high especially when the autonomy and decentralization took place in 2000. As a regulator, what roles can the Ministry of Cooperatives and SMEs play in fostering the Islamic cooperatives in Indonesia? Rini Megawarti (Deputy Assistant, Directorate of Islamic Financing, Ministry of Cooperatives and SMEs) was interviewed by M.Quraisy, Ph.D. from KNKS on March 8, 2019.

### 1. In your opinion, how is the development of Islamic Cooperatives today?

Islamic Cooperatives or BMT has grown rapidly since the 1990s. BMT is unique because the product and service offered are more varied than the conventional cooperatives hence the BMT members can meet their actual needs with the products offered by BMT. Additionally, BMT's financial contracts are quite unique because they involve directly with their members business for instance in the partnership-based contract such as *musharakah* and *mudarabah* contract. In contrast, conventional cooperatives only lend money to their members without being concerned with the development of the member's business. The existence of *Baitul Maal* units in Islamic Cooperatives/BMT is also a distinguishing feature because of its functions in empowering the members. Unfortunately, most of the microfinance institutions that exist in the society today operated as intermediary institutions that only provide savings and loan products to the customer but do not provide training assistance

to the customer/members such as how to start a micro business or how to maintain business sustainability. Therefore, the objective of Islamic Cooperatives is to improve the local community economic empowerment which is quite different from other microfinance institutions' mission.

### 2. The stakeholder of Cooperatives has high expectations about the long-awaited new cooperatives law. How do you see the urgency of the new law that will regulate cooperatives particularly Islamic Cooperatives?

After the Supreme Court abort Cooperatives Act, Law No. 17/2012 and re-using Law No. 25/1992 we realize that it is important for Islamic Cooperatives to be regulated in a new legal law that designed with the current times.

Currently, the government and parliament form a technical team to complete the new cooperatives law draft so that it can be

The Directorate of Islamic Financing, Ministry of Cooperatives, is actively proposing the entry of around 20 clauses related to Islamic Cooperatives inside the draft of the new law. After the new law enactment is implemented, we hope that it will not only protect both conventional and Islamic cooperatives but also protect the interests of the community because the cooperatives collects funds from its members. In the new law draft, the BMT funds' can only be raised from members, otherwise, there will be a sanction from the ministry of cooperatives. Furthermore, the Islamic cooperatives must possess clear legal permission from the Ministry of Law and the Provincial/Municipal government. Thus, if BMT could not obtain a legal permit from respective authorities, then sanction will be given in the form of criminal sanctions and the operational licenses will also be revoked.

### **3. As a regulator, what support do the Ministry of Cooperatives and Small and Medium Enterprises are given particularly to Islamic Cooperatives/BMT and their members?**

The Ministry of Cooperatives and SMEs give support from the regulatory side so that it will create conducive climate conditions for Islamic Cooperatives operational activities. Additionally, we also seek to improve access of financing from the government to a BMT or the BMT Association, for example: the fund in *Lembaga Pengelola Dana Bergulir* (revolving fund management institution) and also to the BMT members who is willing to venture into micro or small business such as the "*Wirausaha Pemula*" (Beginner Entrepreneurial) program. To increase the quality of BMTs' human resources we also organize training for the manager so that will have a required competency

such as how to manage the *Baitul Maal* and *Baitul Tamwil* or even training for the low-level staff such as Account Officer.

Furthermore, from the guidance aspect, the Ministry of Cooperatives has a responsibility to supervise, inspect and monitor Islamic Cooperatives/BMTs (primary cooperatives) and the Associations of BMT at the central level and province/district levels (secondary cooperatives) to be more advanced and developing. We have implemented checks and balances mechanism to BMTs through coordination and communication with the Association of BMTs (such as PBMT, INKOPSYAH, PINBUK, *Baitul Tamwil* Muhammadiyah, etc.). The reason why we conduct this process is to identify which Islamic Cooperative has implemented the real concept of Sharia-compliant cooperative and which one is only imitating it.

### **4. Nowadays, we can see a few Islamic Cooperatives or BMTs are collapses due to several reasons. How the Ministry of Cooperatives see this phenomenon and what would be a pre-emptive action that could be taken?**

BMTs that are collapsed are most often those who imitate the Islamic Cooperatives hence they are normally a microfinance institution that operates under "money-game" model. Normally they accumulate funds not in the form of deposits (such as mandatory, principal, voluntary deposits like in Islamic Cooperatives) but in the form of investment. This is certainly different from "real" Islamic Cooperatives/BMT which source of funds come from the members' savings. Initially when Islamic Cooperatives operates after a certain period of time the members' amount of deposits will increase thus the funds will be accumulated a become "*idle*". Sometimes there are those culprits who try to use the savings funds of the members to invest in certain financial instruments such as stocks. Thus, if the stream of revenue from the investment decrease, then the liquidity problems exist and this is the situation where cooperatives will not be able to pay its members' deposits.

In some cases, the collapse of few BMTs is also caused by mismanagement, for instance, sometimes BMT only focuses more on infrastructure or facilities e.g.: good buildings, buy many operational cars, etc) and also due



Image source : [www.depkop.go.id](http://www.depkop.go.id)

to their inability to understand the current economic conditions. For example, they got linkage funds from Islamic banking to build facilities such as buildings.

Consequently, if they are not able to get a regular stream of payment from their customers hence this will result in a mismatch of funds that will cause BMT to collapse. Thus the Ministry of Cooperatives and SMEs continue to supervise and monitor the BMT by conducting an "Islamic Cooperatives Health Assessment" which is categorized as healthy, fairly healthy, unhealthy and very unhealthy (by using CAMEL method such as Capital, Assets, Management, Earning and Liquidity). Therefore, we can predict which Islamic Cooperatives is in an unstable condition hence the ministry of cooperative can help to find a solution. Additionally, we also always coordinate with the Financial Services Authority (OJK) because currently there are around 10 *Lembaga Keuangan Mikro Syariah/LKMS* (Islamic Micro Finance Institutions) that are under the regulation of Financial Authority Services which is also the domain of Ministry of Cooperatives as well.

## **5. In your opinion, what should the Islamic Cooperatives/BMT do to be sustainable?**

A sustained BMT is a BMT that actively serve the local community and applies local wisdom according to each custom and the one that has a noble mission to empower its members. Hence, understanding the needs of members is very important because BMT relationship with their member is in the form of a partnership and not like a creditor-debtor relationship in a conventional microfinance institution. For instance, in one of the BMT located in Nusa Tenggara Barat province, a profit share of 80:20 (Members: BMT) is applied

in the *Musyarakah* mechanism. Thus with such a mechanism, BMT has a priority to build the member's business without thinking about profit maximization like in some microfinance institutions. Consequently, BMT is able to generate BMT members who have a successful business. If the member's business is a sustainable and strong business then it will also support the financial performance of BMT because later members will certainly need more financial products such as financing, etc.

Therefore, BMT should have a paradigm to build partnership and grow together with its members because the progress of BMTs is determined not only on quantity aspect i.e.: the number of BMT member but also on the quality aspect of the member e.g.: the sustainability of the members' micro/small business.

## **6. As a regulator, what would Ministry of Cooperatives and MSEs suggestion for the development of Islamic cooperatives in the future?**

Below are some of our inputs so that Islamic Microfinance field particularly Islamic Cooperatives can be a play a significant role in Indonesia development in the future:

- We expect that there should be an equal level of playing fields between Islamic Cooperatives and other formal Islamic financial institutions such as Islamic Banking. The treatment given should be different since in practice Islamic microfinance requires great effort because they do not only provide Islamic financial product and service to the members but also have an economic empowerment mission to the community, especially those who are qualified as economically weaker and un-bankable.

- Hopefully, in the future the Cooperatives Deposit Insurance Agency (CDIA) can be established by the government hence it can guarantee the Deposits of the Cooperatives Members. We do not expect all of the members' savings in an Islamic cooperatives to be guaranteed under the CDIA. We hope if the "Business Savings Deposit" or "Voluntary Deposits" can be guaranteed then it would be enough. The establishment of CDIA is to create trust in a society so that they won't have a doubt to use the financial products and services from Islamic Cooperatives/BMT.

- A good collaboration is between Islamic Banks and Islamic Cooperatives is very important since in the past it proves to be a good move. The Linkage funds (during periods 2008-2009) is proven to run well but throughout the process, Islamic banks preferred to channel their funds to Employee Cooperatives rather than to Islamic cooperatives/BMT because the risk is very low on the former.

- We also expect that the Ministry of Cooperatives, as well as the Provincial/Municipal/Local Administrator that supervise local cooperative, should improve their synergy, particularly in providing assistance or guidance to Islamic cooperatives. The organize training syllabus between the Ministry of Cooperatives and Provincial/Municipal/Local Administrator should be updated in a periodic way because the Islamic Cooperatives stakeholder has different needs to anticipate the dynamics of the business environment in their respective region/area.

## ECONOMIC EMPOWERMENT & POVERTY REDUCTION THROUGH ISLAMIC COOPERATIVES:

*A Story from  
Baitut Tamkin Tazkia Madani,  
Bogor, Indonesia*

**Murniati Mukhlisin**  
Rector, STEI Tazkia



Poverty remains a highly visible phenomenon where the United Nation reported that one in eight people worldwide remains hungry (UN, 2013). According to the Board of National Statistics Indonesia per 2018, the rate of poverty stood at 9.8% or affecting about 26 million people (BPS, 2018). However, according to the World Bank, people who fell into poverty in 2018 is measured with income less than USD 1.9 per day or USD 87 per month, which means there are nearly 40% or 100 million of Indonesians are poor. Furthermore, CGAP report discloses that there are more than 600 million of Muslims in the world who live with less than USD 2 a day, of whom nearly half are not even bankable from interest-based institutions (El-Zoghbi & Tarezi, 2013).

In the Islamic world, “poverty is enemy” as impliedly by Ali bin Abu Thalib in his complete saying “if poverty was a man, I would have killed him!” Islam offers a solution to combat poverty through a sharing mechanism as stated in the Qur'an Surah At-Taubah (9): 60 where God emphasizes the fortunate to share a part of their

wealth as *zakat* with the poor, the needy, for those employed to collect [zakah], for bringing hearts together [for Islam], for freeing captives [or slaves], for those in debt, and for the cause of Allah, and for the [stranded] traveller. In At-Taubah (9): 103, God enforces to clutch the wealth of the haves. However, the potential collection of the *zakat* has not reached its maximum. According to Firdaus, Beik, Irawan, & Juanda (2012), potential *zakat* collection in Indonesia in 2009 reached to Rp.216.99 trillion but zakat collected was recorded only Rp.1.8 trillion or 0.7 % from potential *zakat* fund. Several poverty eradication programs such as Islamic microfinance models were introduced but high poverty rate remains. Often, the Islamic microfinance models use *zakat*, *infaq* and other forms of charity to support the programs.

**“In the Islamic world,  
“poverty is enemy”  
as impliedly by Ali bin Abu Thalib  
in his complete saying  
if poverty was a man,  
I would have killed him!”**

Although microfinance, in general, has been developed since the 17th-century involvement of women in microfinance has just started a few decades ago, when Muhammad Yunus started Grameen Bank in Bangladesh in the 1970s. Since its emergence, microfinance has risen to become one of the most high-profile policies to address poverty in developing and transition countries (Bateman, 2017).

Indonesia started its first microfinance since the establishment of Bank Rakyat Indonesia in 1895, but group-based lending that involved women participants was developed in the late 1980s under the umbrella of Karya Usaha Mandiri (LPPI, 2013). However, according to Darsono et al. (2017), Grameen Bank model actually already existed in Indonesia when Mursia Zaafril Ilyas established *Setia Budi Wanita* Cooperatives in Malang (1955) and *Setia Bhakti Wanita* Cooperative in Surabaya (1978). Both of them carried the system of tanggung renteng (joint responsibility) among members. This system was studied by Muhammad Yunus in 1983-1984. He came directly to the two cooperatives to study, adapt, and

modify this system into Grameen Bank. Since the booming of Islamic financial institution in Indonesia in the 1990s, Islamic microfinance with a group of women approaches also follows the stream with legal status as an Islamic rural bank or cooperatives. As per March 2015, Islamic rural banks in Java have reached 1603 (OJK, 2103) while Islamic cooperatives have made a total of nearly 4500 institutions (DepKop, 2016). As for group lending model/community-based Islamic microfinance, there is no official number of groups as they are organized under various institutions such as zakat, NGOs, and Islamic cooperatives but the participants of each institution can reach 10,000 households with participants of mostly women.

One successful story of Islamic community-based microfinance with *tanggung renteng* practice is Baitut Tamkin Tazkia Madani

(BTTM). It is a cooperatives that was established in 2008 under the initiative of Tazkia, the institutions that are concerned on the empowerment of the poor. BTTM received funding, donation, zakat, infaq and other types of charity from NGOs, Islamic banks, companies, and individuals.

The initial purpose of this institution encouraged the fulfillment of the economic, social and cultural rights of low-income families through the entry point of microfinance so that they would be able to follow the current economic cycle. By 2018, BTTM has 2,007 members in Bogor area with their profiles as farmers as well as micro and small entrepreneurs such as cake sellers, craft makers (BTTM, 2018). As per July 2018, BTTM has distributed Rp. 35 billion (USD 2.4 million) and has an outstanding financing portfolio of Rp. 1.6 billion (USD 100,000).

After more than a decade,

the majority of BTTM participants show encouraging results in terms of their characters and financial stability. Nonetheless, there are several gaps that need to be addressed such as capacity building, business strategy, and financial discipline in order to expedite them to lift from poverty.

STEI Tazkia recently conducted a community program in order to upgrade their financial discipline through simple accounting practice. The participants were taught how to record their assets, draw financial dreams and how to achieve them, write daily financial activities and business cash flow. It is expected that the exercise would become their habit and lead them to be more disciplined in the future. After three months of training, the participants realized that the program is very insightful, and they would like to continue the practice.

“

**As per July 2018, BTTM has distributed Rp. 35 billion (USD 2.4 million) and has an outstanding financing portfolio of Rp. 1.6 billion (USD 100,000). After more than a decade, the majority of BTTM participants show encouraging results in terms of their characters and financial stability.**

”



# *Synergizing Effort, Advancing the Nation*



KEMENTERIAN KOORDINATOR  
BIDANG PEREKONOMIAN  
REPUBLIK INDONESIA  
REPUBLIK INDONESIA



KEMENTERIAN KEUANGAN  
REPUBLIK INDONESIA



KEMENTERIAN AGAMA  
REPUBLIK INDONESIA



KEMENTERIAN  
BADAN USAHA MILIK NEGARA  
REPUBLIK INDONESIA



KEMENTERIAN KOPERASI DAN UKM  
REPUBLIK INDONESIA



Kementerian PPN/  
Bappenas



Published by:

KOMITE NASIONAL KEUANGAN SYARIAH  
Permata Kuningan Building, PH Floor  
Kuningan Mulia Street No. 9C, Jakarta, Indonesia.