

Islamic Commercial and Social Finance Integration: Experience of *Baitul Maal Wa Tamwil* in Riau

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Abstract: In the Islamic economic system, Islamic economic and finance is not only focus in commercial aspects, but also care about social aspects. Both aspects must not be dichotomized. The research discusses Islamic commercial and social finance integration in *Baitul Maal Wa Tamwil* (BMT), Riau Province. This research is development from previous research that used qualitative to determine model for integrating Islamic commercial and social finance in BMT, also included survey, in-depth discussion, Delphi method and Analytic Network Process (ANP). The result of the research shows that Islamic commercial and social finance integration in a BMT is the best model implemented.

1 INTRODUCTION

Financial institution in Islamic history for the first time was introduced by Prophet Muhammad p.b.u.h then continued by His companion. The institution was called Baitul Maal. In the present context, *Baitul Maal* is not only considered as a religious and social institution, it is also a financial department, the taxation department, public works and has other related functions. However, the practice of *Baitul Maal* in Indonesia is known as a *Baitul Maal Wat Tamwil* (BMT), and it has a very different role to play in society (Hamzah *et al.*, 2013).

BMT is an Islamic micro-finance institution, established by individual or group initiatives to help micro-entrepreneurs as a strategy for eradicating rural poverty, especially in villages or traditional markets, operationally based on Shariah principles and cooperation (Masyithoh, 2014). It is the most simplified form of Islamic financial Institutions. Most of BMT enterprises are small and run in the form of cooperative type of business and some others operated in non-formal way (Hasanah and Arif, 2013).

BMT is a small financing institution which operates using mixed concepts of “Baitul Maal” and “Baitul Tamwil” with its target focused on the small business sector (Andriani, 2005).

The concept of *Baitul Maal* in a BMT institution is that of the role as a religious and social institution which collects funds from *Zakat*, *Sadaqah*, and *Inffaq*,

and distributes these funds to beneficiaries (e.g., Asnaf of *Zakah*, and other recipients). By this concept, BMT also acts as *Zakah* institutions (Amil). The concept of Baitul Tamwil in a BMT institution has a role as a business institution which conducts its business activity involved in trading (sale and purchase of commodities), and as a financial institution which provides savings facilities and financial products (Hamzah *et al.*, 2013).

Baitul Maal Wat Tamwil sometimes is called *Baitul Maal Wa Tamwil*. BMT has been in existence in Indonesia since 1992 initiated by Aries Mufti by establishing BMT Bina Insan Kamil in Central Jakarta. However, BMT was formally established in 1995 soon after the establishment of Bank Muamalat Indonesia (BMI) as the first Islamic Bank in Indonesia. The establishment of BMT was initiated by Indonesian Muslim Intellectual Association (ICMI), Indonesia Ulama Council (MUI) and Bank Muamalat Indonesia (BMI) (Hamzah *et al.*, 2013).

It has been proved by the data taken from Incubation Center of Small Business (PINBUK) on 12 February 1998, that there were around 2000 units of BMTs established in Indonesia, but only 384 units of BMT registered in PINBUK, within a total number of investors being 79,325 people, and a total number who receive financing being 28,430 people, with the total amount of financing being IDR 11 billion (\pm MYR 31 million) (Adiwarman, 2009).

Data from BMT Associations throughout Indonesia (ABSINDO) in December 2006, there were 3,500 units of BMT be operating in Indonesia, with

total assets reaching up to IDR 2 trillion. in 2010, there have been 4,000 units of BMT in Indonesia achieving assets of IDR 3 trillion (\pm MYR 315 million) (Hamzah *et al.*, 2013).

Indonesia has 4.500 BMT in 2015 with 3.7 million members, asset IDR 16 trillion and human capital 20 thousand people (Puspayoga, 2016). Since June 2017, there are 19 active BMT. In table 1, active BMT in Riau is shown:

Table 1: Active BMT in Riau.

No	Name of BMT	Location
1	BMT Islam Abdurrah	Pekanbaru
2	BMT Al-Ittihad	Pekanbaru
3	BMT Mitra Arta	Pekanbaru
4	BMT Bumi Melayu	Pekanbaru
5	BMT Tuanku Tambusai	Pekanbaru
6	BMT Septa Bina Usaha	Pekanbaru
7	BMT Al Amin	Pekanbaru
8	BMT Permata	Pekanbaru
9	BMT Fasih	Pekanbaru
10	BMT Bina Insan Mulia	Pekanbaru
11	BMT Amanah	Pekanbaru
12	BMT Al Kiffah	Pekanbaru
13	BMT Al-Barokah	Kampar
14	BMT Marwah	Kampar
15	BMT Jamius Shogir	Kampar
16	BMT Al-Hijrah	Kampar
17	BMT Islamic Siak	Siak
18	BMT Bina Swadaya	Duri
19	BMT DJami'	Rengat

Source: Various Resources

BMT has been identically promoting success in Islamic commercial finance as well as Islamic social finance. This paper attempts to determine model for integrating Islamic commercial and social finance in BMT, especially in Riau Province, Indonesia.

2 LITERATURE REVIEW

2.1 Baitul Maal of BMT

According to Ascarya *et al.* (2017), in BMT, *Baitul Maal* collects *zakat*, *infaq*, *shadaqah*, and *waqf* funds from their respective donor, i.e., muzakki (*Zakah*), munfiq (*infaq/shadaqah*) and wakif (*waqf*). These funds subsequently are distributed to their respective recipients. *Zakah* can only be distributed to 8 groups of people (*asnaf*), including indebted (*gharimin*), to free slave (*fir-riqaab*), the poor or needy (*fuqara*), the destitute (*masakin*), converts (*muallaf*), the wayfarers (*ibn as-sabil*), in the path of Allah (*fi sabilillah*), and *Zakah* administrator (*'amil*). *Zakah* could be used for recovery, empowerment and development programs of the recipients. Meanwhile, non-*zakah* funds should be managed and utilized as they are intended according to Shariah for general *ummah*.

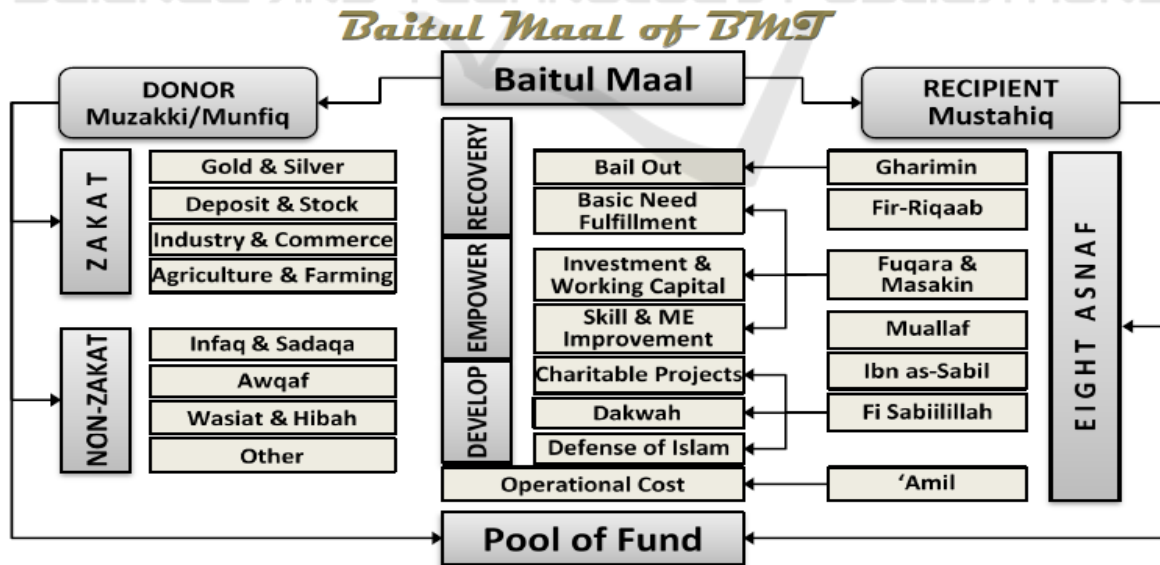


Figure 1: Baitul Maal of BMT (Sarif, 2013).

2.2 Baitut Tamwil of BMT

Baitut Tamwil (BT) collects fund from its members. Initial capital comes from its members, just like cooperatives. Meanwhile, voluntary deposits and safe keeping could come from members and non-members. When funding is short, BT could find it from external sources, such as Apex institutions,

Islamic banks or foreign sources. Subsequently, BT could extend financing to its members customers mainly for productive purposes using various equity-based and debt-based Islamic contracts. Moreover, BT also provide non-commercial financing (*Qardh*) for emergency or those in need. In addition, BT also offers various Islamic microfinance services, such as micro takaful, transfer, bill payments, ATM, mobile banking and internet banking (Ascarya et al., 2017)

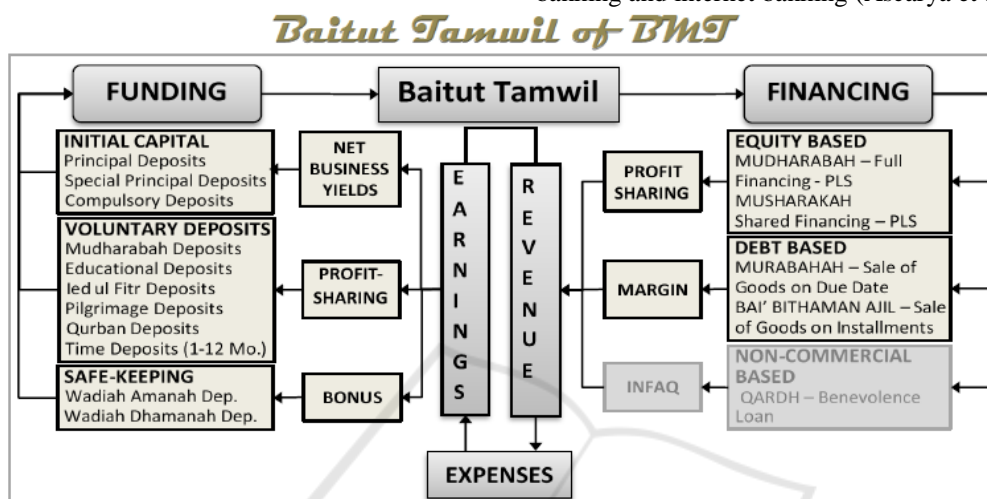


Figure 2: Baitut Tamwil of BMT (Ascarya et al., 2017).

2.3 BMT in Practice

According to Ascarya et al. (2017), some of BMT have been integrating Islamic commercial and social finance such as:

2.3.1 BMT Bina Insan Fikri (BIF)

BMT Bina Insan Fikri (BIF) located in Yogyakarta, established in 1996, dedicated to free the community from “ignorance” and from loan shark. BIF has total assets of Rp. 69 billion (in 2015) and Rp. 76 billion (in Sept 2016), 12 branches and 32,632 members.

Branch Manager of BIF as Nazhir collects and receives cash waqf from Wakif. The funds collected are deposited in Baitul Tamwil of BIF, to be used to extend micro-financing (max Rp. 2.5 Million) to foster MEs who has graduated from Qardh financing (78 members). Total cash waqf collected Rp. 19 million (in 2014), Rp. 94 million (in 2015) and Rp.155 million (in Sep 2016). There is also Rp.287.5 million restricted project-based cash waqf for building Orphanage House.

Cash waqf is placed in Waqf Equity, where yearly return will be used to help cover operational cost of the Orphanage House.

Baitul Maal of BIF also owns and manages Entrepreneur Pesantren of Al-Maun, where the santri (students) are poor college students who eager to change their fate.

2.3.2 BMT ITQAN

BMT ITQAN located in Bandung, established in 2007, intended to implement Islamic values in the area of economy, social, education and health. ITQAN total assets of Rp35 billion (in Sept 2016), 8 branches and 12,000 members, implementing Islamic Grameen model.

Branch Manager of ITQAN as Nazhir collects and receives cash waqf from Wakif. The funds collected are deposited in BT of ITQAN, to be used to extend micro-financing (average Rp. 2 Million, max Rp. 10 Million) to regular MEs.

Total cash waqf collected Rp51 million (in 2014), Rp110 million (in 2015) and Rp260 (in Sep 2016), with the tag line “Amal Abadi Pahala Lestari” (eternal charity and sustained reward).

Cash waqf is placed in Waqf Equity, where return will be used to finance social programs of Baitul Maal.

Baitul Maal of ITQAN has several featured social programs, including disaster relieve, education (TPA – Garden of Al-Qur’an, TKA – Kindergarten Al-Qur’an, Majelis Taklim – Islamic Studies, etc.), Rumah Bina Yatim Dhuafa – Foster Home for Orphans and Poors, Mosque development, Sembako Murah – Cheap Staple Food, free health services, free Ambulance services, etc.

2.3.3 BMT L-RISMA

BMT L-RISMA located in Metro - Lampung, established by “Lingkar Remaja Islam Masjid” in 2009, intended to combat usurious transaction and loan sharks. L-RISMA has total assets of Rp100 billion (in Sept 2016), 21 branches and 16,000 members.

Branch Manager of L-RISMA as Nazhir collects and receives cash waqf from Wakif. The funds collected are deposited in BT of L-RISMA, to be used to extend micro-financing and to be invested in the real sector, such as cassava and rubber plantations.

Total cash waqf collected Rp28 million (in 2014), Rp277 million (in 2015) and Rp345 million (in Sep 2016), while restricted project-based cash waqf amounted to Rp1.5 billion to be invested in cassava (Si Abad Keong) and rubber plantation (Si Abad Kekar).

Cash waqf is placed in Waqf Short-term Investment Deposits (3, 6 and 12-month) and Waqf Equity, where monthly and yearly return will be used to finance social programs.

Baitul Maal of L-RISMA has several featured social programs, including 3-stage financing (Maal phase financing to three 15-member groups: 1) Sahabat Ikhtiar Mandiri Rp100-500 thousand; 2) Sahabat Mudharabah Kebaikan Rp600-1500 thousand; and 3) Mentas Unggul Rp1.6-2.5 million), consumptive program, productive program, health program and education program.

Baitul Tamwil of L-RISMA also has 3-type financing, namely: 1) L-Risma Loyal; 2) L-Risma Prioritas; and 3) L-Risma Family, averaging Rp. 10-40 million and max Rp. 50 million. Among 45 members of Majelis Keluarga Utama, 5 members have graduated from Maal phase to Tamwil phase in 2 years.

3 RESEARCH METHODS

These researches used qualitative to determine various model for integrating Islamic commercial and social finance applied in BMT. The research also

included survey, in-depth discussion, Delphi method and Analytic Network Process (ANP).

3.1 Data and Sample

Primary data obtained from survey and interviews (in-depth discussion) with academicians and BMT practitioners. All of them understand about BMT in Riau. Respondents were selected or contacted using purposive sampling, and the data obtained was analyzed in order to realize its usefulness in decision making and evaluating BMT in Riau. The number of respondents consisted of seven people as they were found to be quite competent in representing the whole population. The respondents are:

- Manager of BMT Al Ittihad (Practitioner A);
- Chief of BMT Al Hijrah (Practitioner B);
- Manager of BMT Permata (Practitioner C);
- Manager of BMT Islam Abdurrab (Practitioner D);
- Lecture of STEI Iqra Annisa (Academician A);
- Lecture of STEI Iqra Annisa (Academician B);
- Lecture of STEI Iqra Annisa (Academician C).

3.2 Method Framework

According to Ascarya et al. (2017), for evaluating model alternative for integrating Islamic commercial and social finance applied in BMT, these researches used Delphi method and ANP with based on some of criteria: Strategic Criteria, Islamic Commercial Finance Criteria and Islamic Social Finance Criteria.

Each of sub-criteria has some of element which it has identified by Delphi method.

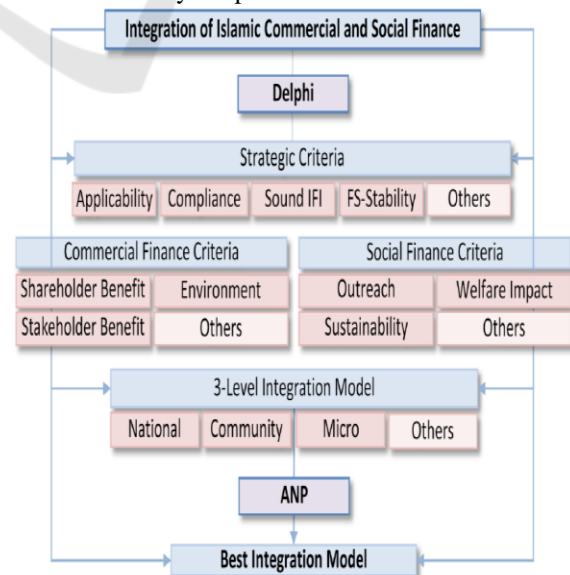


Figure 3: Conceptual Framework (Ascarya et al., 2017).

4 FINDING AND RESULTS

It found that various model for integrating Islamic commercial and social finance applied in BMT, Riau Province as follows:

- Applied commercial finance (Baitut Tamwil) without social finance (Baitul Maal);
- Applied commercial finance (Baitut Tamwil) but social finance (Baitul Maal) only from BMT itself without including members or society;
- Applied integrating commercial finance (Baitut Tamwil) as well as social finance (Baitul Maal) together.

The last model was suggested for practitioner and academicians to be implemented due to when Islamic social finance was implemented more than before, it increased the profit of BMT as well as their assets for the whole. It is the best model applied in BMT, Riau Province.

5 CONCLUSIONS

The integration between Islamic commercial and social sector in BMT, Riau Province for the long term could give positive effects such as Alleviate poverty, Develop socio-economic, Increase Islamic financial inclusion, Increase financial system stability, Optimize balancing commercial and social finance in Islamic financial system.

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