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DEVELOPING INTEGRATED CASH WAQF MODEL IN BAITUL MAL WA TAMWIL (BMT)

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Developing Integrated Cash Waqf Model in Baitul Mal Wa Tamwil (BMT)

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Abstract

There are more than 3,900 units of *baitul mal wa tamwil* (BMT) in Indonesia, a type of Islamic microfinance institutions (IMFIs) and these institutions have been playing an important role in the poverty alleviation process in the country. Amid the competitive pressure to sustain their operations, the issue of source of funding is highly critical for sustainability and survival of the IMFIs. This study attempts to explore and investigate the viability of integrating cash waqf in IMFIs by taking BMT as a case study. Indeed, this effort is in line with the Strategic Programs and Activities' Blueprint from the Ministry of Cooperative and SMEs which was issued in 2014 to synergize between *waqf* and BMT to enlarge the financing for microenterprises. The study adopts a qualitative research method by conducting semi-structured in-depth interview with the BMT's chairman and managers. The result shows that the management of cash *waqf* in BMT has multiplier effects for human development. The cash *waqf* collected has been managed as productive waqf asset such as learning courses for students and agricultural development for farmers. The income generated from productive waqf then utilize as micro-loan for microenterprises. Findings of this study would contribute positively in terms of: (i) for practitioners of BMT to manage the cash *waqf* in BMT and get diversified source of fund for BMT; (ii) for policy makers as guidelines to improve the industry; and (iii) to enrich the literature about cash *waqf* management in Islamic microfinance which is currently still lacking.

Keywords: cash waqf, financial inclusion, Islamic microfinance, micro-entrepreneurs

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I. Introduction

Cash *waqf* in Indonesia was first introduced in 2001, when Muslim scholars faced problems to optimize an enormous amount of unproductive *waqf* assets (Indonesian Waqf Board, 2012). Currently, cash *waqf* has become one of the main options of *waqf* development to maximize the role of *waqf* and improve the *Ummah*'s economy. Cash *waqf* has facilitated the intention of people for *waqf* without having to have a substantial wealth of the form of real estates (houses and lands). Cash *waqf* is able to be managed under Islamic financial products because of its flexibility. Furthermore, the Ministry of Religious Affairs also stated that in 2016, the cash *waqf* asset has the potential to reach about 7.2 trillion IDR annually if there are 20 million Indonesian Muslims carrying-out an average *waqf* of 30,000 IDR per month. This vast amount of collection has the potential to be used for poverty alleviation such as by establishing hospitals to improve the quality of health and providing financing for farming in various parts of Indonesia (Antara News, 2016).

According to Badan Pusat Statistik (BPS-Central Bureau Statistics of Indonesia), approximately 27.7 million people are living under the poverty line. BPS also reported that unemployment rate in Indonesia per 2017 are about 1 million people. To alleviate poverty, the unemployment rate must be reduced by increasing the productivity of the workforce (Agénor, 1996). In view of this, the Government of Indonesia needs to take the efforts to improve the economic development in the country with focus being given towards increasing the productivity of micro, small, and medium enterprises (MSMEs). However, 70 percent of 56.4 million of MSMEs in Indonesia do not have access to financing through banks due to their financial risk.

In this regard, BMT has a high potential to fulfil the financial needs of MSMEs by providing financing facilities for microenterprises at all stages as their source of funds. In 2014, the Ministry of Cooperatives and MSMEs, which regulates Islamic microfinance in Indonesia, and Indonesian *Waqf* Board (BWI) issued the *Strategic Programs and Activities Blueprint*, with 11 intensive programs, one of them is the utilization of *zakat* and *waqf* for the empowerment of MSMEs and cooperative institutions.

The purpose of collaboration between the Ministry of Cooperatives and MSMEs and BWI in 2014 is to enlarge the financing support for microenterprises through *waqf* empowerment. In 2021, the issuance of Law No. 7 Year 2021 gives opportunity, protection and regulation for BMT in managing Islamic social finance such as *zakat*, *infaq*, *waqf*, and *sadaqa*. Until 2020, the National Committee for Economic and Islamic Finance (KNEKS)

reported that there are 154 Islamic cooperation and BMT that already registered as *nadzir* of cash *waqf*. KNEKS also expected that total of cash *waqf* collection until 2020 in Indonesia is about IDR 33,37 billion.

Based on the facts above, BMT as Islamic microfinance has a big potential resource for cash *waqf* collection. In order to achieve the potential and utilize the cash *waqf*, this program is urgently needed to be assessed for further improvement to enhance management of cash *waqf* in BMT.

II. Literature Review

2. 1. Cash Waqf in Indonesia

Cash *waqf* in Indonesia began after issuance of Law No. 41 Year 2004. However, the awareness about cash *waqf* is still lacking due to people's mindset about *waqf* land and also other immovable *waqf* assets are not easy to change.

After the issuance of Law and Fatwa about cash *waqf*, the Government of Indonesia developed an integration of *waqf* institution with Islamic Financial Institution to increase the collection and utilization of cash *waqf*. In the 2010s, Islamic Banks in Indonesia started to manage and collect cash *waqf*. There are 15 Islamic Banks which actively participated as cash *waqf nadzir*. Following this, in 2014 Ministry of Cooperative and MSMEs, National Board of *Waqf*, and Ministry of Religious Affairs initiate cash *waqf* in Islamic Microfinance through issuing of Strategic Program and Activities Blueprint.

2.2. Islamic Microfinance in Indonesia

Islamic microfinance has a long tradition in Indonesia, mostly in rural areas. The country is believed to have the largest Islamic microfinance sector in the world as part of its cooperative banking ecosystem which comprises of 5,500 mostly rural financial entities with assets of about USD590 million. The cooperative banking sector is institutionalized within the country's financial industry, alongside banking, the insurance sector and capital markets. According to forecasts, there is potential for its asset volume to reach up to USD735 million over the coming years and, Islamic microfinance would be an essential driver for that (Maierbrugger, 2017). Besides, the development of Islamic finance in Indonesia cannot be separated from the role of Islamic microfinance in alleviating poverty. This is because Islamic microfinance helps un-bankable society in Indonesia to access financial facilities.

Islamic microfinance in Indonesia is classified into various categories such as, based on the capital and credit amount, source of funds, legal entity, and its clients. There are three categories of Islamic microfinance providers in Indonesia which contribute greatly to socio-economic development in both urban and rural areas, despite being different in nature. Those institutions are BMT, Islamic Cooperative, and BPRS (*Shariah* Rural Bank).

BMT is a microfinance institution that supports economic activities based on Islamic principles to empower society. This institution was established to facilitate the moderate and un-bankable populations with Islamic principles. For its operation, BMT has two main roles, *Baitul Mal* as a charity-based unit for collecting Islamic social funds, and *Baitul Tamwil* as a profit-based unit to commercial fund distribution such as *murabahah*, *mudharabah*, etc.

III. Methodology

This study is adopting a qualitative research methodology. This research was conducted using semi-structural interview with selected managers of BMT in East Java, with the aim of exploring the management of cash *waqf* in BMT and investigating the effects and prospects of BMT in managing cash *waqf*. In addition, this study also uses secondary data from books, journals, and specific website on the internet to conclude and predict the prospect of cash *waqf* management in BMT.

IV. Finding and Discussion

Some studies about cash *waqf* in Indonesia frequently focus on empowerment of cash *waqf* in poverty alleviation. However, there is still a lack of study about *baitul mal* management especially cash *waqf*, which has just implemented in 2014. This study aims to identify the management of cash *waqf* in BMT, its effects, and its prospect of BMT in Indonesia. In this respect, this study focused specifically on the five BMTs in East Java, Indonesia.

A proposed model for integrated cash *waqf* and Islamic microfinance is shown in Figure 1 below. The integrated model of cash *waqf* in BMT consists of four parts. It is started from collection of cash *waqf* (pre-completion and fundraising), management of cash *waqf*, utilization, and result.

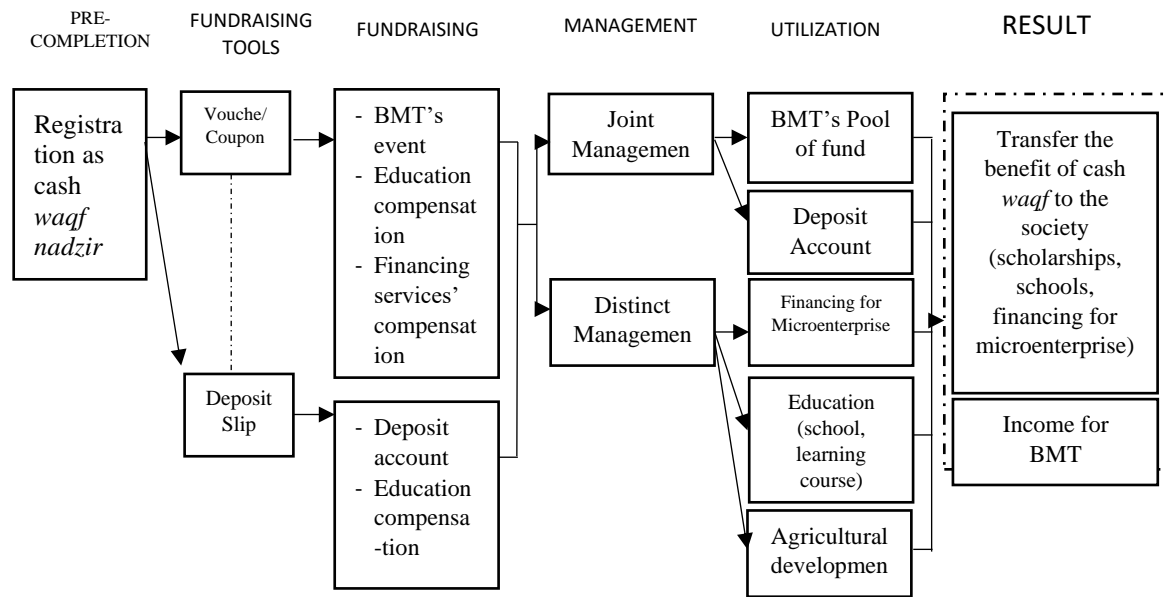


Figure 1. A Model of Integration of Cash Waqf in BMT

4.1. Collection of Cash Waqf

Most of BMTs in Indonesia uses direct cash *waqf* as their method to collect and manage the fund. The important step before BMT start to collect cash *waqf* is pre-completion. In this step, BMTs should register as cash *waqf nadzir* in BWI for its legality for collecting and managing cash *waqf*. After registered as cash *waqf nadzir*, some BMTs begin to collect and manage cash *waqf* in a few months later. They need time before they implement the cash *waqf* program to socialize it among its members and society about cash *waqf*, since cash *waqf* has not been familiarized yet amongst Indonesian community.

Next part in cash *waqf* collection is fundraising. In the fundraising of cash *waqf* in BMT, there are two tools to raise cash *waqf* fund namely using cash *waqf* voucher and cash *waqf* deposit slip. By providing coupon or voucher for cash *waqf* will help them in socializing and introducing cash *waqf* in the community, that performing *waqf*, a person does not have to be by the rich. Anyone can perform *waqf* even though with the small amount of cash as low as 5,000 IDR. In the specific method, the coupon is also convenient to bring along and utilise it in some situation, such as BMT's event and education matters. For instance, the cash *waqf* coupon also can be used as the internship *waqf* fund (education). The intern student has the important task to spend the coupon by asking their friends or relatives to perform cash *waqf* through the coupon. Besides, BMT is also able to utilise the cash *waqf* coupon or voucher as a requirement for liquidity financing services to the member of BMT. The BMT's member who applies financing from BMT is required to perform cash *waqf* as well.

Another tool to raise the cash *waqf* fund is by using the deposit slip. This technique is cheaper than vouchers, because there is no need for additional cost to print the voucher. It can use ordinary slip deposits for daily financial activities in BMT. This slip deposit also has flexible amount of cash *waqf* depends on the willingness of the *waqif*. This method has many functions such as a channel to cash *waqf* deposit account and cash *waqf* fund for education.

4.2. Cash Waqf Management

As *nadzir* of cash *waqf*, BMTs are required to be trustworthy, thorough, and professionals in choosing the form of investment and business partnerships to avoid possible loss of the *waqf* assets. Overall, there are two ways of managing cash *waqf* in BMT namely joint management and distinct management. Joint management is combining the cash *waqf*'s pool of fund with *baitul tamwil* activities then generating the return from this method. The return generated are channelled to *waqf* activities.

The distinct management is a separation between the management of cash *waqf* in *baitul mal* (charity-based) and *baitul tamwil*. The pool of cash *waqf* is only being managed in *baitul mal* without mixing it into *baitul tamwil* activities. The BMTs believed that the term of *waqf* cannot be mixing with *baitul tamwil* activities which have profit orientation.

4.2.1. Cash Waqf Utilization

Cash *waqf* can be utilized in many ways as long as it can keep the value of cash *waqf*. There are two main techniques to optimize the cash *waqf* funds that have been applied by BMT namely, (1) By investing it into the capital market (current account, sukuk, and etc) and (2) Utilising cash *waqf* in real sectors, such as financing for microenterprises and as investment in productive *waqf*. In this study, data that collected from five participants shows that all cash *waqf* funds are channelled into real sectors.

The utilization of cash *waqf* by BMT in real sectors has four types, namely, channel it into the deposit account and adjust the BMT's pool of fund mechanism, financing for microenterprises, education (school and learning course), and agricultural development for farmers.

In the joint management, the cash *waqf* funds collected are channelled into *baitul tamwil* or BMT's pool of funds in order to optimize the benefits of the funds. *Baitul tamwil* then manage the funds as same as other deposit funds to generate income from its usage. Once, cash *waqf* funds are mixed with *baitul tamwil* activities, all the mechanism from empowerment to credit risk mitigation are adjusted to the rules of *baitul tamwil*. Micro-loan or financing

facility for microenterprises are the common methods of utilizing cash *waqf* funds. Mostly, BMTs channelled their *waqf* fund as financing facility for microenterprises.

By utilizing cash *waqf* into financing facility for microenterprises, the principal can be preserved. However, it is too risky for BMT to manage cash *waqf* as financing for microenterprises. BMT must face many microenterprises with different behaviour which could arise the debt. To mitigate the credit risk in cash *waqf* fund, some BMTs are putting cash *waqf* management in the same pool of *baitul tamwil* (profit based) for make it easier to be managed. Meanwhile, BMT which manages their cash *waqf* in *baitul mal* applies group financing with joint responsibility (*tanggung renteng*) for distributing their cash *waqf* to microenterprises directly.

Another method in cash *waqf* utilization is by investing it as productive *waqf* such as school, learning course of the student, and agricultural sector. This method is less risky rather than channel the cash *waqf* funds to microenterprises directly.

4.2.2. Result from Utilization of Cash Waqf

The principal of cash *waqf* which has been paid by microenterprises can be used as financing facilities for other microenterprises. While, the income generated from productive *waqf* then being channelled as profit for BMT and financing for microenterprises. Cash *waqf nadzir* is not only receives the fund but also managing the fund like a fund manager who understands and able to choose the form of investment which is suitable for the term of *waqf* funds. The reason why BMTs channel the cash funds to productive *waqf* is to preserve the *manfa'ah* (benefit) and principal.

Cash *waqf* can be utilized as school and learning courses for the student as well. Students who study in the school and subscribe to the learning courses are the new *waqf* generation. When, they have enjoyed the facilities from *waqf* fund, they will perform *waqf* and advertise it to others.

4.3. The Prospects of Integration Cash Waqf in BMT

The development of cash *waqf* management in BMT has been running for about three years. This policy can be categorized as a recent innovation to enlarge and socialize Islamic finance in Indonesia. Within this period, the implementation of cash *waqf* management in BMT has proven that it has positive effects on human development and Islamic finance. Based on the above explanation, there are some prospect of cash *waqf* management in BMT.

1. Fundraising

Based on the findings of this study, it reveals that currently, BMTs applied direct cash waqf with vouchers and deposit slips in fundraising. In the future, BMT may add some innovative techniques such as compulsory cash waqf with the auto debit cash *waqf* and balance donation to increase the cash *waqf* collection.

- *Auto debit cash waqf*

Auto debit cash *waqf* can be applied for BMT member's deposit accounts annually after the agreement. BMT has many deposit accounts from their members and clients from various background and job. This could be member's fixed deposit without printing fees of vouchers and deposit slips. This method has been applied in Singapore which collects the *waqf* funds of auto debit from *waqif* account.

- *Balance Donation*

Some supermarkets and restaurants applied balance donation as a charity for their program. Unfortunately, funds collected by their balance donation is allocated to improve their religious facilities without any financial report on the customers. BMTs able to fill the gap by implementing cash *waqf* rather than alms as balance donation to some restaurant or supermarket.

2. Fintech innovation

Fintech and, *waqf* are not incompatible. In fact, they are aligned in function and benefits. Fintech can optimize the BMT program, especially *waqf*, in management and fundraising.

- *Blockchain*

The blockchain is a new technology that digitized and decentralized, public ledger of all economic transactions that can be programmed to record not just financial transactions but also virtually everything of value. It allows the market participant to keep track of digital currency transactions without central record keeping. This method can be a solution in some of society pressing issues such as poverty, lack of transparency, allocation and mismanagement of charitable funds in Islamic financial institution.

- *Fintech for waqf marketplace application (Amanna)*

Marketplace can be utilised not only as a virtual place to buy and sell the goods and services but also to advertise the Islamic social project such as cash *waqf* project to clients and members of BMTs. Amanna, for instance, is first Islamic fintech application to invest P2P lending based on BMTs community. This virtual marketplace then linked with the

virtual account of BMT which make is easy for BMTs member to participate in *waqf* projects from marketplace application.

3. Joint project of cash *waqf* amongst BMTs

The cash *waqf* management in BMT today depending on the performance of BMT in organizing cash *waqf* collection of *waqif*. If, the amount of cash *waqf* collected is relatively small, the contribution to cash *waqf* in the community will also be limited. It is good if some BMTs can create the join program in distributing cash *waqf*. For instance, health is one of the main problems of the poor in East Java. Poor health services that are provided by the Government still give a barrier for the poor to get access to hospital. Therefore, optimizing *waqf* asset as a health centre on the poor needs a big support to be established. However, the funds collected from a BMT initiative is not adequate to run the health centre. Therefore, the supports and synergizing of BMTs collection of cash *waqf* are also needed. It does not have to channel all the cash *waqf* collected, just a proper amount is enough.

4. Support from Government

Lack of support from Government determined the slow development of cash *waqf* in Islamic economy today. Assistance and government policy after the issuance of the blueprint needs to be improved. The government can start the cash *waqf* collection by performing it from the level of government's officers as well. So that, the implementation of cash *waqf* by the Government becomes a real example to the community regarding cash *waqf* performance. The support from government can also be an easy permit to utilize cash *waqf* for society welfare such as opening health centre or permissibility to reduce the tax after performing cash *waqf* or *zakah*.

V. Conclusion

The cash *waqf* management in BMT is an initial strategic program between the Ministry of Cooperatives and MSMEs, the Ministry of Religious Affairs, and Indonesian *Waqf* Board (BWI). BMT and Government of Indonesia hold the important position to the further enhancement of the cash *waqf* management in Indonesia The BMTs as *nadzir* of cash *waqf* has an essential role to improve the cash *waqf* collection of the community. There are two recommendations for the BMT. First, the BMT must strengthen the quality of BMT's staff in

order to increase professionalism in managing cash *waqf*. Second is to keep educating the communities with creative campaign to increase *waqf* awareness.

The policy recommendation to the government consists of two recommendations. First, as additional state revenue for country development, Government of Indonesia can apply cash *waqf* to optimize it. Second, the Government of Indonesia should create clear legal form and regulation regarding cash *waqf* management in BMT. This is necessary as it may increase the risk of fraud and unprofessionalism of BMT in managing cash *waqf*. Moreover, this guideline can be used as a legal framework for all BMTs in Indonesia.

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