

## Micro Financing Products and Business Model of Islamic Micro Finance Institution (Imfis) In Indonesia: Lessons from Baitul Maal Muamalat (BMM)

Euis Amalia

National Islamic University of Syarif Hidayatullah Jakarta Indonesia

E-mail of the corresponding author: [m.iman.sastra@gmail.com](mailto:m.iman.sastra@gmail.com)

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Muhammad Iman Sastra Mihajat

Ph.D Researcher of IRTI-Islamic Development Bank, IIUM

Institute of Islamic Banking and Finance

### Abstract:

This paper attempts to elucidate the micro financing products and business models of micro finance in Baitul Maal Muamalat (subsidiary of Bank Muamalat Indonesia). During 2010 Bank Muamalat has been distributed the social fund through BMM as much as Rp 22.8 billion. The funds are distributed in the form of the micro financing program for economic empowerment through LKMS and KUM3 program. LKMS program is channeling fund to Islamic Micro Finance Institutions (IMFIs) through linkage program. While KUM3 program is channeling micro financing to 24 cities that are consist of 183 mosques and 4647 *Mustahik* (poor recipients). This program encourages *Mustahik* to increase their business line with modern business management. The program mission are to facilitate the micro business community through the utilization of ZIS (*Zakat, Infaq* and *Sadaqah*) funding, to build organization quality of the mosque as a basis of development and strengthening the quality of brotherhood as the basis for the establishment of micro enterprises, encourage the habit of giving, and create awareness of modern business management and ensure the business activity free from *Maysir, Gharar*, and *Ribā*. There are three kinds of financing program of KUM3 which are *Aqh* Model, second, *Qard* model and the third is *Musharakah* model. The KUM3 financing model is Sharīah based model that use a variety of Islamic contract such as profit and loss sharing system between participants. In addition, BMM arranged the curriculum model of financing through the KUM3 program.

**Keywords:** Baitul Maal Muamalat, Micro financing, Business Model.

### 1. Introduction

Bank BRI (Bank Rakyat Indonesia) is the most successful commercial bank in the world. Bank BRI was established in 1970s and has demonstrated the potential growth of microenterprise in the country through the BRI Unit Desa (UD) concept started in 1984 (Bramono et al., n.d.). The BRI Unit Desa (UD) concept was channeling and mobilizing the fund to microfinance clients and Cooperatives in many villages, and in district and sub-district areas. BRI is the first commercial bank in the world to provide commercial financial services such as savings, loans, as well as other products to millions of economically active poor and lower-middle income households, and do so profitably (Robinson, 2005). Moreover, Indonesia is the largest Muslim majority market in the world, has a highly complex micro finance and rural finance sector which has evolved over more than a century (Seibel, 2004).

In Indonesia, IMFIs has been developed a number of successful business model since the last two decades. This shown from the development of quantity of BMT and Islamic cooperative from time to time in all over provinces in Indonesia and development of asset increase significantly. One of IMFIs in Indonesia is Baitul Maal Muamalat (BMM), the subsidiary of Bank Muamalat Indonesia who has been served the micro customer through their unique program by augment the Islamic values such as the applicant for micro financing has to conduct the *Subuh* and *Isya*' prayer in the Masjid, the applicant must be active member of Masjid management and soon.

In addition, in Islamic micro financing, the products has to be in line with Sharīah or any activities of Islamic micro finance institution consonance with Sharīah as what is stated by valid agreeable *Fatwas* (Qattan, 2004) which is Fatwa DSN-MUI. Since the fact shows that IMFIs in Indonesia having best experience in serving the micro and small enterprises. It is valuable to elucidate and to highlight the micro financing product and business model of IMFIs in Indonesia, in particular Baitul Maal Muamalat.

**2. Definition of Micro Financing in Islamic Financial Institution (IFIs)**

Micro finance refers to the small financing provided for the poor and involves financial services such as savings, insurance, pensions, and payment services (Wrenn, 2005). Micro finance is commonly associated with small and micro working capital financing that are channeled to microenterprises or income generating activities (Guntz, 2011).

Microcredit Summit in 1997 defines micro finance as “program that extend small loans to very poor people for self employment projects that generate income in allowing them to take care of themselves and their families” (Rahman, 2007). Antonio (n.d.), and Ascarya and Sanrego (n.d.), define micro finance based on classification over the credit limit given to micro, small, and medium enterprises by Islamic financial institutions. By defining the classification of micro finance the financing might reach the poor and low income society to aid and guide them in the business and make them self reliant as can be seen in see table 2.1 below:

**Table 2.1.** Credit Limit in Micro finance

Class	Credit Limit	Asset	Labor	Business License
Super Micro	< 5 million	< 10 million	1	Not Required
Micro	5-50 million	10-100 million	1-4	Optional
Small	50-500 million	100-1.000 million	5-19	Required
Medium	500-5.000 million	1000-5000 million	20-99	Required

Source: Ascarya and Sanrego (2007)

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While Bank Indonesia defines micro finance as a loan below Rp50 million, and small financing as a loan ranging from Rp50 million to Rp500 million; these products are provided by formal and semi-formal financial institutions in Indonesia for microenterprises (Bank Indonesia, 2010; Ciputra Entrepreneurship, 2013; Bramono et al., n.d.). According to Antonio (2008), micro finance services in Indonesia can be classified according to the size of loan portfolio, Islamic commercial bank has the largest financing portfolio from Rp100 million to Rp500 million, this is followed by Islamic rural bank (BPRS) from Rp5 million to Rp100 million, and BMT and cooperative from Rp100 thousand to Rp10 million; all of this can be seen in table 2.2. The most common micro finance products are the following: income-generating loans, linkage program, emergency and consumption loans, housing loans, leasing, saving, insurance, and payment services.

**Table 2.2.** Islamic Micro finance Institutions According to Financing Portfolio

Group	Financing Limit
Islamic Commercial Bank (BUS and UUS)	Rp 100 - 500 million
Islamic Rural Banks (BPRS)	Rp 5 - 50 million
BMT and Islamic Cooperative	Rp 50 thousands - 500 million

Source: Antonio (2008)

While Islamic micro financing may be defined as the Sharīah compliant equivalents of conventional micro financing facilities using various mode of financing such as *Qard al-Hasan* (interest free loans), which is the only type of loan that permissible under Sharīah; *Murābahah*, mark-up trade finance; *Salam*, forward sale and *Istisna*<sup>c</sup>, project financing, *Ijārah*, financial leases, which is provided for the need of micro enterprises to tie up their scarce capital resources in equipment or buildings (Wilson, 2007). Siddiqui (2001), proposed profit and loss sharing arrangements to be held as an ideal mode of financing in Islamic micro finance. It is expected that this profit and loss sharing will help to significantly remove the inequitable distribution of income and wealth between the rich and the poor.

Compared to the previous definitions of micro finance, micro financing products in Islamic banking merely refers to the products that are offered by an Islamic bank which are managed in accordance to Sharīah principles provided for small, micro and medium enterprises community. Micro finance services in Islamic banks aim to aid developing small and micro businesses to medium-sized enterprises in the form of micro financing facilities managed according to Sharīah where the contract used is based on Sharīah rules and principles such as *Murābahah*, *Mudārabah*, *Mushārahah*, *Ijārah*, and so on. However, in terms of the definition of micro financing products in Islamic banks in Indonesia, it should be noted that each Islamic bank has their own definition, this also happens in conventional banks.

Bank Syariah Mandiri, for instance, has its own definition of the micro financing which is: financing products designed for individual or business entity for the purpose of development of micro and small medium enterprises with financing limit from Rp2 million up to Rp100 million, while for retailers ranging from Rp100 million to Rp500 million where the business of MSE cater to every industry sector which is not contrary to Islamic values (Bank Syariah Mandiri, 2012). Meanwhile, according to Bank of Indonesia micro finance product in an Islamic bank has the same definition with a micro finance product in a conventional bank which is: financing that has a limit not exceeding Rp50 million allocated for the development of small and medium enterprises sector (Bank Indonesia, 2012). From the above definitions, it can be summarized that a micro financing product in Islamic banking is a financing made by Islamic banks to facilitate the development of micro and small enterprises with financial limits ranging from Rp1 million to Rp100 million, where the financing scheme is used in accordance with the the principles of Islamic Sharīah.

### 3. Islamic Micro Finance in Indonesia

It should be noted that, the empirical studies have provided strong evidence that the proportion of the Muslim population using financial services is less than their non-Muslim counterparts in the world (El-Hawary & Grais, 2005). It is also known that Islamic countries at times have large segments of poor Muslim populations who largely lack access to banking services, an example being Indonesia (Imam & Kpodar, 2014). This fact is caused by Muslim lack of access to micro finance services and is the crucial factor in the failure to bring about a broad-based of business and industries and thereby realize the egalitarian objectives of Islam.

Mohieldin et al. (2012), argued that the above issues may be solved by Islamic finance through two approaches. The first is taking the same route as conventional finance by replicating traditional modes of inclusion such as micro finance and micro insurance. The second mode is Islam redistributive mechanism such as *Zakāh*, *Sadaqah* *Qard al-Hasan*, and *Waqf*. This is an area not well-developed in majority Islamic Muslim modern countries. Therefore, the need for IFIs in Indonesia offering micro financing services is urgent to avoid conventional practices of finance.

In Indonesia, the establishment of the first Islamic bank, followed by Islamic rural bank and BMT, came upon due to the awareness of Muslim's to get rid of the practice of charging *ribā* as it is forbidden under Sharīah. Thus, to some extent, it may aid in poverty alleviation and encourage economic development through micro finance which are based on Sharīah principles.

The Indonesian government has now realized the importance of IMFIs (Islamic Micro Finance Institutions) in providing micro finance to MSEs. The three major players of the Indonesian Islamic micro finance are Islamic banks, Islamic rural bank (*Bank Pembiayaan Rakyat Syariah*, BPRS), and Islamic cooperatives or BMT.

Majority of Islamic banks in Indonesia are committed to the empowerment of MSEs as one of the formal objectives. Bank Muamalat Indonesia for instance, stated this in its corporate mission is committed to providing the best services in accordance with Shari'ah in promoting small and medium-scale businesses (BMI 1996, 2013).

One of the most important players of Islamic micro finance in Indonesia is BMT (the house of funds and finance) and Islamic cooperative. The main objective of BMT and Islamic cooperative is to provide an Islamic alternative for micro enterprises. It is seen that BMTs are able to offer employed poor people a real chance at lifting themselves out of poverty. This because BMTs are using Islamic principles of brotherhood and community development in facilitating the fostering of strong personal ties that develop between members and managers, which further aids in building community networks and trust that are essential to the success of BMT (Sakai, 2008).

The key factor of the successful BMTs as an Islamic micro financial service provider for the poor and mobilizing the funds and channelling it to MSEs; is that most BMTs are run by social entrepreneurs who have a strong commitment to establishing social justice based on Islamic principles. There are two reasons why BMTs are defined as social enterprises. The first being that social entrepreneurs and their ventures are capable of finding effective solutions to social problems and offering more flexible financing schemes than banks can do for MSEs. Secondly, BMTs as a social venture necessitate a new framework for evaluating and identifying the capacity-building needs of BMTs. BMT operators, for instance, are strongly concerned with offering entrepreneurial skills, promoting Islamic values, and much needed funds to a larger number of clients in a viable way (Juwaini et al., 2010).

With a large number of MSEs and BMTs, Indonesia is one of the world's leaders in the application of Islamic Micro finance. The contribution of national micro, small, and medium enterprises (MSMEs) has become so important in the economy of the country. MSMEs constitute the dominant business structure, amounting to 98%, and they are able to absorb more than 80% of their workforce, as well as contributing a sizeable GDP of around 40-50% to Indonesia (Sakti, 2011).

The growth of MSEs can be an important means for employment generation and economic development in Indonesia. MSMEs can play a significant role in employing the surplus that exist in the labor force productively and increase the aggregate output, thus enabling efficient use of capital and labor, initiating indigenous enterprise and management skills, bringing a regional balance, and improving the income distribution inequality (Ahmed, 2001).

The development of BMT in Indonesia shows positive number from time to time. PT Permodalan BMT Ventura for example in 2008, the average comparison of financing level with third party funds is 130.32, while in 2009 and 2010 it is respectively 130.49% and 98.67%, and in 2011 amounting to 100.96%. It means the third party funds have been maximally channeled without core deposits in the company (PT Permodalan BMT Ventura, Annual Report 2011). The micro and small scale entrepreneurs receiving funds from Permodalan BMT Ventura in 2011 are situated in Java Island and Lampung with an outstanding finance of Rp80.30 billion (see table 2.3).

Tabel 2.3. Spread of Areas and Amount of Outstanding Finance

No	Area	Outstanding	Total SMEs	Percentage
1	Bandung	Rp 2.616.666.667,00	1.200	3,33%
2	Bekasi	Rp 369.166.666,67	200	0,47%
3	Bogor	Rp 2.285.676.458,33	780	0,91%
4	Boyolali	Rp 3.410.416.666,68	1.050	4,34%
5	Cianjur	Rp 856.592.019,22	253	1,09%
6	Cilacap	Rp 1.395.833.333,33	470	1,78%
7	Jepara	Rp 1.333.333.333,33	334	1,70%
8	Kebumen	Rp 670.138.888,89	280	0,85%
9	Klaten	Rp 3.919.628.239,72	1.307	4,99%
10	Lampung	Rp 4.444.527.494,75	1.745	5,66%
11	Magelang	Rp 5.385.416.666,67	1.498	6,85%
12	Majalengka	Rp 2.520.833.333,33	1.284	3,21%
13	Pati	Rp 2.916.666.666,67	926	3,71%
14	Purworejo	Rp 2.166.666.666,67	909	2,76%
15	Semarang	Rp 13.816.189.385,68	5.041	17,58%
16	Sidogiri	Rp 3.729.166.666,67	1.857	4,75%
17	Karanganyar	Rp 11.194.961.176,03	3.938	12,08%
18	Sragen	Rp 880.555.555,56	524	1,12%
19	Sukabumi	Rp 496.666.666,67	127	0,63%
20	Sumedang	Rp 5.046.112.194,45	1.476	6,42%
21	Surakarta	Rp 833.333.333,33	309	1,06%
22	Tangerang	Rp 141.666.666,67	47	0,18%
23	Wonogiri	Rp 1.083.333.333,33	276	1,38%
24	Wonosobo	Rp 3.166.397.719,01	1.345	4,03%
25	Yogyakarta	Rp 4.613.003.771,34	1.309	5,87%
26	Lasem	Rp 1.000.000.000,00	315	1,27%
<b>Total</b>		<b>Rp 80.292.949.570,00</b>	<b>28.800</b>	<b>100,00%</b>

Source: PBMT Ventura Annual Report 2011

The PBMT Ventura had reached significant achievement by channeling and providing financing in the micro sector for up to 36.960 micro entrepreneurs. On average, an entrepreneur receives three million rupiah with the composition of less than Rp5 million (63.7%), Rp5 million – Rp10 million (23.7%), Rp10 million – Rp25 million (8.8%), Rp25 million – Rp50 million (2.9%), greater than Rp50 million (1%). In 2000, beneficiaries increased quite satisfactorily compared to previous years, in 2010 about 14.316 micro entrepreneurs could be served, and in 2011 it increased to 28.800 micro entrepreneurs. PBMT Ventura predicted that the asset of the company will increase by 73% in 2013, compared to the previous years increase of Rp139 billion to Rp241 billion (PT Permodalan BMT Ventura, Annual Report 2012).

#### 4. The Instruments and Business Model of Micro Financing In IMFIs

Islamic Micro Finance Institution can offer a wide-array of Islamic financial instruments addressing various needs and demands of the client especially among the micro and small enterprises. Among these instruments are *Murābahah* (mark-up sale), this contract can be used for sale and purchase an item, such as motorcycle financing, *Mudhārabah*, this contract that can be used for investment in which Islamic bank act as capital provider and the customer acts as an entrepreneur, such as car financing, house financing and so on where the profit divided in accordance with the stipulated agreements while the loss is borne by the capital provider, *Mushārahah*, this contract that can be used for joint venture where Islamic bank act as financier for some business that need for capital injection, *Istishna'*, this contract that can be used for construction of houses to be ordered by the buyer, *Ijārah*, this contract is used for lease, the lease usually ends with ownership at the end of the period, *Wakālah*, *kaḥālah*, and many more (Dhumale and Sapcanin, 1998; Dusuki, 2008).

In term of business model of micro finance (MF), Guntz (2011) highlights several financing models that may applied by Islamic Financial Institutions (IFIs) as follows:

1. Solidarity group (Group based financing), which consist 4-5 individuals (who are know each other) in group together to get financing facility from IFIs, everyone of them ensures the financing recovery and made payment on time according to a predefined repayment on schedule (peer monitoring and guarantee mechanism). The advantage of this model is to to reduce transaction costs in credit delivery and disbursements (searching, monitoring and enforcement) of the lender by shifting onto the groups (Dusuki, 2008).
2. Village banking, it is a community-based financing and savings association, run by a village itself.
3. Grameen model, this the most famous business model of MF up to date that found by Muhammad Yunus in 1983 on principles of trust and solidarity. Grameen Bank Replication (GBR) program in Indonesia was initially started in Bogor, West Java by Karya Usaha Mandiri (KUM) in 1989. This initiative was followed in 1993 by Mitra Karya East Java (MKEJ) in Malang, East Java. Both organizations have pioneered the GBR story in Indonesia as over 15 GBRs have taken part in different places in the country since 1997. In Sumatra, Grameen Bank model was replicated by Yayasan Pokmas Mandiri (YPM). Now YPM has 2 branches in 2 regencies (Deli Serdang and Asahan) that covers over 60 villages and purely operates as a sustainable micro-credit organization (Sarumpaet, 2005).
4. Individual Model, this model is used by banking institution and other formal financing institution where the financing facility is given directly to the customer and it is his sole duty to pay back the full amount of financing. However, banking will require to pledge some valuable asset as financing security.

Baitulmaal Muamalat uses group based lending in KUM3. The KUM3 financing program is not only encourage the empowerment of society by micro financing through online-based system but also giving religious contain where the group consist of 20 members.

#### 5. Baitul Maal Muamalat: Hystory, Instruments And Business Model

Baitulmaal Muamalat (BMM) is a non profit institution that runs the social role of Islamic Banking, concentrating on community development programs, micro finance, and Islamic social security fund. BMM is a foundation established by the Bank Muamalat on June 16, 2000 as another institution in which carrying out CSR activities and other social events. During the years 2009 and 2010 BMM had distributed 35% from CSR funding allocations which has been set out in the Shareholders' General Meeting (Hayati et al, 2012).

In 1994, Bank Muamalat established management unit of *Zakat Infaq Sadaqah* (ZIS) and social funding namely Baitulmaal. The objective of establishment is responsible to micro-economic empowerment, on June 16, 2000 was inaugurated as amil zakat institutions nationwide by the Ministry of Religious Affairs. Then, as demanded by the public to dependency and professionalism of amil zakat institutions and the Law No.38 of 1999, on December 22, 2000 Baitulmaal entity was formally established by the name of Baitulmaal Muamalat Foundation (Baitul Maal Muamalat, 2012; Hayati et al, 2012).

The vision of BMM is being the motivator of independence economic program towards the realization of characterized society, growing, and caring. While the MISION is to implement the economic empowerment and social society programs in comprehensive manner. Establish and develop with the largest network (Baitul Maal Muamalat, 2012).

There are some capabilities that handled by BMM including management and development of social funds (zakat, infaq, humanitarian funds, and waqaf), development of poor families and business units in the chain of microeconomics. The development of Islamic microfinance institutions nationwide, a disaster post and recovery of social infrastructure after national disaster, and saving the orphans including education, training, developing, and daily living expenses.

5.1 Economic Empowerment Program (Baitulmaal Muamalat Slipi Jakarta, 2012)

1. KJKS (Islamic Cooperative and Financial Services (*Koperasi Jasa Keuangan Syariah*) and KUM3 Muamalat Community for Micro Businesses based in Masjids (*Komunitas Usaha Mikro Muamalat Berbasis Masjid*))

Muamalat Community for Micro Businesses based in Masjids or known as Komunitas Usaha Mikro Muamalat Berbasis Masjid (KUM3) is a formal financial institution that was established through the empowerment of mosque-based micro Muamalat entrepreneurs that aimed to maintain continuity of the program. Both KJKS and KUM3 are the end of program KUM3 in a region that has followed the steps of the program with a maximum of 2 years, then self-directed in the form of legalization and possession of a trust fund. Then formed into KJKS and KUM3 as a good predicated area in mentoring business programs and rate of return. KUM3 program in 2010 successfully established seven KJKS in four areas KUM3 had performed very well in previously, which are:

**Table 5.1.** KJKS (*Koperasi Jasa Keuangan Syariah*, Islamic Cooperative Financial Services ) Program of BMM

Program Area	KJKS
Jakarta	KJKS Al Falah, Mampang – South Jakarta
Semarang	KJKS Kanal Mulia, Ngemplak District
	KJKS Telaga Mulia, Satrio Wibowo Market, Padurungan
Surabaya	KJKS Rahmat, Mangku Negoro
	KJKS Miftahul Jannah, Gubeng Jaya 2
Palembang	KJKS Al Amin, Kp. Cek Syeh
	KJKS An Nur, Betung Sekayu

Source: Baitulmaal Muamalat, 2012.

Working capital channelled to the micro entrepreneurs who came from poor families and are active mosque members in the program’s area. The monitoring will focus on business assistance programs, monitoring of worship, and active participation in the group. The programs are facilitated with business mentoring, coaching routines, active participation groups, monitoring the activities of worship, as well as mosque empowerment.

*Submission Terms and Conditions*

For the mosque program, at least four terms have to be met by the applicants which are; active in the DKM structure (Chairman, Secretary, Treasurer, Youth Mosque), conducting Friday prayers, in the neighborhood of the *Mustahik* who has the micro-business, and lastly recommended by Bank Muamalat and passes the feasibility survey.

The participant also has to conform with the requirements as follows; active mosque member at *Isya* and *Subuh* prayers, has been staying in that area at least 3 years, possessing an identity/family’s certificate, owning a micro-business (capital of Rp5 million, turnover less or equal to 125 thousand Rupiah per day, having labor less or equal to 2 people). The participant must be a head of household or widow who is willing to follow “a weekly guidance program”, and the distance of the mosque from the participant’s house should be no more than 1 km, and pass the scoring board.

After following all the terms and conditions stated above, BMM will disburse a financing facility to the participant, for venture capital Rp750 thousand to 2 million, while for business facilities the investment is up to Rp1 million per person.

There are additional requirements for the participant which are; the participant must be part of *Jama'ah* and mosque activist/mosque youth, a minimum academic qualification of completing Diploma 3, master in computer and internet skills, having a spirit & soul of volunteer and successful completion of the selection tests.

## 2. Lkms

This program assists, grows and strengthens Shari'ah Micro Finance Institutions (LKMS) in Indonesia by providing capital, assistance, training, technology support, and other forms of support. LKMS empowerment and development program has been conducted jointly with partner agencies including the Ministry of Cooperatives and Small and Medium Enterprises. Through this program the people are expected to be more self-reliant economically, creative in working, empowered in their work and become a growing community defined by character and care. LKMS program during 2010 is described in table 5.2.

**Table 5.2.** LKMS Program of BMM

LKMS	2010
Jumlah Portofolio Dana Kelolaan / Amount of Portfolio of funds managed	136.8 miliar / billion
Jumlah BMT/ KJKS (Unit) / No. of BMT/ KJKS (Units)	1.626 Unit / Units
Jumlah Pengguna Dana / No. of funds users	127.445 Anggota / Members
Jumlah Wilayah (Propinsi, Kabupaten/Kota) / No. of area (Province, Regency/Town)	33 Propinsi / Province 273 Kabupaten / Regencies

Source: Baitul Maal Muamalat, 2012.

The contract used in LKMS Program is based on the Islamic principles of *Mudārabah* or *Mushārahah*, while the purpose of this program is to increase the capital and distribute financing to customers or members. The maximum financing period is 5 years, while the financing facility starts from Rp100 million. The repayment before maturity is not subject to fines and may use a revolving or non-revolving scheme (depending on the characteristics of SRB / BMT / Cooperative).

KUM3 (Muamalat Community for Micro Business based in the Masjids) is one of the BMM programs that aims to economically empower the poor, increase their *iman* and *taqwa* and grow their revenues through business development and provision of revolving capital. In this KUM3 program there is no collateral needed.

The implementation of the KUM3 program has been spread to 24 cities that consist of 183 mosques. Until now the recipients of the benefits has reached 4647. This program encourages the poor to increase their business robustness with a touch of modern business management. The program's mission is to facilitate the micro business community through the utilization of ZIS funding, build the organizational quality of the mosque as a base of development and strengthening the quality of brotherhood as the basis for the establishment of micro enterprises, creating awareness of modern business management, operating a businesses free from *maysir*, *gharar*, *ribā*, and encouraging the habit of giving (Hayati et al., 2012).

The KUM3 program focuses on economic financing to finance the society around the mosque that has been held the program. This program has 20 members in each mosque. The financing was done trough an online-based system with a condition that the members would be surveyed first about how they would manage the business, and also surveyed the economic conditions of each members. After the survey, the members input the data, then the funds will be devided among the members based on the financing, each member will get Rp750.000 to Rp2.000.000. In one period there is a 5 month maturity date, the payment is made by installments on a weekly basis. The weekly installment event is not a priority over the payment of financing only, but also the worship

progress of the members. On improving the worship progress, there is companion data collection performed by each mosque (mentoring curriculum). Beside the payment of financing installment there are also savings and *infaq*. There are 3 kinds of financing program from KUM3 which as follows:

1. *Aqh* Model. In this model, the amount of financing given is from Rp750.000 to Rp2.000.000. This financing is held in the first running year. The objective of this financing is to integrate the member with mentoring. The concern of mentoring is more about the worship progress of the member, making sure the 60% targeted worship is done, and encourage the member to pay the installment on time.
2. *Qard* model. In this model the amount of financing given is from 2.5 million to 5 million. This financing is given in the second year with the objective to expand the role of mentoring, the mentoring is concerned with the analysis and development of the participants business, make sure the 80% worship target is met, and augment the capacity of the business participants.
3. The third part is *Mushārahakah* model. The *Mushārahakah* model is where the amount of financing given starts from 6 million to 15 million. This financing is given in year 3. In this model, the role of mentoring is still emphasized with a focus on the supervision of the business participants and ensuring the 100% worship target is met and the scale of the business increases. KUM3 has a program that targets the community around the mosque. In this case, the role of the mosque is prioritized in financing. Besides providing the soft funds, KUM3 also gives curriculum mentoring and also requires saving and *Infaq* (charity) in the payment of installment by integrating the business assistance and worship. The KUM3 financing has a model of financing as good as Grameen Bank model. In addition, this program uses a Sharīah based model that uses a profit and loss sharing system between participants. Not only encouraging the empowerment of society through soft financing, but also inculcating the religious values. BMM has arranged the curriculum model of financing in KUM3 (Agus Khalifatullah, Personal Interview, 2013).

**Table 5.3.** Target of The Year KUM3 of BMM

Year 1	Year 2	Year 3
<i>Aqh</i>	<i>Qard</i>	<i>Mushārahakah</i>
Assist the participants	Improve the quality of guidance	Improve the role of guidance
Focus on the building of the religion mentality of the participants	Focus on the progress of the business of the participants	Focus on the business supervision
Implement of 60% of targeted worship	Implement of 80% of targeted worship	Implement of 100% of targeted worship
Repay the financing received regularly	Increase the business of participants	Increase the scale of business of participants

Source: Hayati et al., (2012); Secondary data processed.

From the above explanation it can be summarized that KUM3 financing model has been integrated the business and the religious element at the same time. The first contract used is *qardhul hasan* which not oriented to generate return, however in the third year, the contract changes to *mushārahakah* model based on profit sharing.

KUM3 Program is very good program with the purpose of realization of the religious community with independent micro-enterprises and improves their quality of life to reach the happiness of living in the world and the hereafter. In term of human resources, KUM3 model has a limit in human resources, there are many program was done only by one people, who sometime has no capability in financing knowledge. KUM3 financing model has been integrated the business and religion curriculum. Yet in the implementation, this program is more focus to the worship activity because of the limited human resource. The main expectation from KUM3 financing model is the poor encourage to become a *muzakki* (giver) who can help the others later on (Agus Khalifatullah, Personal Interview, 2013).

## 6. Conclusion

Baitulmaal Muamalat business model of micro financing is one of the best Sharīah model. The lessons that can be taken from the BMM Program is that how the Islamic financing model can be integrated between business with religious value at the same time. The financing recipients obliged to conduct the *Shalat* in *Jama'ah* in the

Masjid to increase the quality of faith and devotion of the members and train the discipline the members. The model teaches us that Islamic microfinance shall not solely focused on profit maximization, it has to be religious value must be integrated in the program. So as the program not only create an entrepreneur but also the pious and the good believers.

Disbursement of working capital in KUM3 program is by way of rolling between the micro entrepreneurs who came from a poor family and was active as a mosque member in the program's area. The monitoring focuses on business assistance programs, monitoring of worship, and active participation of the group. These programs are supported with the business mentoring, coaching routine, active participation group, monitoring the activities of worship, as well as the empowerment of mosque. In a nutshell, this model aims to empower economy of *Mustahik* and increase the faith and devotion of *Mustahik*. At the same time BMM boost the *Mustahik* revenue through business development and provision of revolving capital. In this KUM3 program there is no collateral needed.

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