

CHALLENGES IN OPTIMIZING SOCIAL FUNCTION AT *BAITUL MAAL WA TAMWIL*

Faricha Mafula¹, Alifatus Zahroh²

¹Undergraduate Program of Islamic Economics, Universitas Muhammadiyah Lamongan

²Undergraduate Program of Islamic Economics, Universitas Muhammadiyah Lamongan

Email: faricha_mafula@umla.ac.id

Abstract

BMT is an Islamic microfinance institution based on Islamic principles, integrating the concepts of business (*tamwil*) and social (*maal*). These two concepts automatically become unique aspects of BMT. Nowadays, there are issues regarding imbalanced functions in BMT. This phenomenon needs to be studied, considering the role of BMT in mobilizing funds for the poor and small and medium enterprises and reflecting the Islamic economic system in upholding justice. This study uses a qualitative research method with direct field studies. Data collection techniques use in-depth interviews. The results of this study indicate that the imbalance in dual functions in BMT occurs due to internal and external factors. The internal factors include inadequate and unstructured division of tasks between the employees, limited supervision by the Sharia Supervisory Board, the educational background of the employees not directly related to Islamic finance, and the BMT's orientation being more toward business functions. Meanwhile, the external factor is caused by a lack of public knowledge of the existence of BMT, both in terms of services provided and the form of BMT as an Islamic financial institution.

Keyword: *baitul-maal; baitul-tamwil; BMT; islamic-microfinance*

A. INTRODUCTION

BMT (*Baitul Maal wa Tamwil*) is a unique Islamic microfinance institution in Indonesia. In practice, BMT combines the concepts of business (*tamwil*) and social (*maal*). These two concepts automatically become two functions of the BMT itself. The *baitut tamwil*, or business function, means that BMT carries out the function of an intermediary institution that runs in Sharia compliance with economic goals on a small scale. Then, the *Baitul Maal*, or social function, means that BMT is an institution that collects ZISWAF funds (*Zakah, Infaq, Sadaqah, Waqf*) and distributes them to those entitled. The combination of *Baitul Maal* and *baitut tamwil* potentially leverages the economic conditions. Islamic socio finance, such as *zakah*, helps to overcome daily needs, and then the Islamic microfinance funds help to boost economic productivity (Abdul Rahman & Dean, 2013). Almost thirty decades later, BMT has shown prominent and significant growth since the establishment of PINBUK (Small Business Incubation Center), which popularized the term BMT, accompanied by technical assistance in managing BMT functions (Azizah & Suprayogi, 2015). Regarding the supervision of BMT, there are two types of BMT based on the regulator that supervises. The majority of the BMTs are under the supervision of the Ministry of Cooperatives and small micro-enterprises (SME) through Law Number 25 of 1992 concerning cooperatives. The business entity for the BMT, which is under the regulation of the Ministry of Cooperatives and SMEs, is a cooperative business entity. Meanwhile, the other BMTs are overseen by the Financial Services Authority (OJK) through Law Number 1 of 2013 and categorized as a microfinance institution. In addition, the law also states that BMT must be in the form of a cooperative or limited liability company. Figure 1 represents 4,283 BMTs scattered over twenty-three areas in Indonesia as of 2021 (Azizah, 2022). Most of the BMT (73%) is distributed in Java Island. The three areas with the most BMTs are East Java, West Java, and Central Java. It concluded that the distribution of BMTs is almost even throughout Indonesia.

The fundamental purpose of BMT is to boost small and medium communities' economies through Sharia-compliant practices. The goal of BMT may be split into two categories, based on their function in economic and social empowerment. The emergence of BMT supports poor people to access financial institutions, while they have limited access to formal institutions, such as Islamic banks (Wulandari et al., 2016). BMT plays an important part in Indonesia's financial inclusion. BMT demonstrated a strong relationship with income, education, and business progress (Rokhman, 2013). BMT not only offers financing products, but also provides assistance and training to underprivileged communities. BMT provides capacity building for finance to customers who get financing as part of the risk management process (Wulandari & Kassim, 2016). BMT also provides loans without additional repayment agreements

using the *qard* contract. ZISWAF fund management can be carried out independently or in collaboration with *zakah* management organizations.

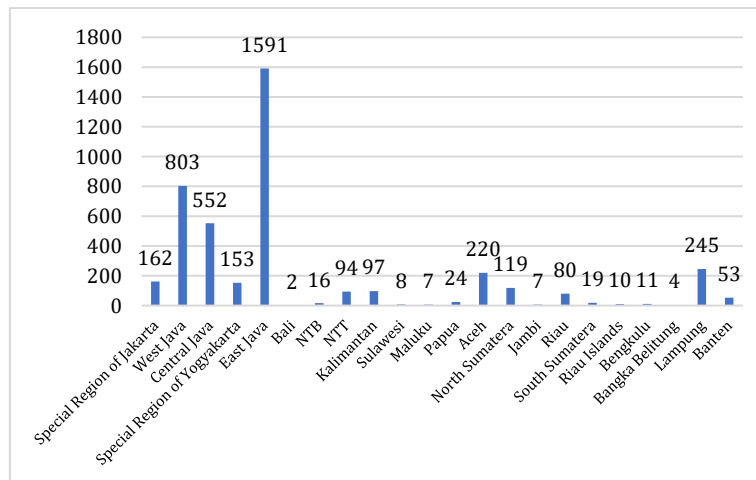


Figure 1. The Distribution of BMT in Indonesia in 2021

As previously stated, BMT performs two roles that cannot be separated. BMT has unique characteristics when compared to other existing financial institutions. This is because BMT has a dual function, a commercial mission (*baitut tamwil*) and a social mission (*baitul maal*). The fundraising activities by BMT are not only limited to savings, which is distributed in the form of financing, but BMT also has the opportunity to collect philanthropic funds (social generosity) from the *muzaki*, which can be channeled to the *eight asnaf* groups and other underprivileged communities that have not been served by commercial financing contracts. The management of philanthropic funds in the form of *zakah*, *infaq*, *sadaqah*, *waqf*, and others. In addition, the ZIS funds also be channeled to productive activities for the community to improve. Therefore, a financial institution is called BMT if a de facto has ZIS management and financial intermediation. If either one of the functions does not exist, then it is not called BMT but Baitul Mal or Baitul Tamwil solely.

In facts that, several BMTs have carried out social functions that are balanced with commercial functions. Firstly, BMT Amanah Ummah Sukoharjo practices ZIS (*zakah*, *infaq*, and *sadaqah*) collection and distributions. The ZIS distribution by BMT Amanah Ummah Sukoharjo has a program that includes long-term and short-term activities (Sumarni, 2018). The short-term programs at BMT Amanah Ummah Sukoharjo include empowerment, education, health, and charity programs; while the long-term activities, ZIS utilization is allocated for existing empowerment programs. Moreover, the funds are also distributed to education, health, and charity programs. Similarly, BMT Fajar Metro has taken out the function of *baitul maal* through the collection and distribution of ZIS (Darajat et al., 2021). The source of funds comes from *infaq* and its distribution for consumptive activities. The technique of collecting ZIS money is carried out by planning and leveraging BMT's network, including socialization via social media and collaboration with other agencies, organizations, and communities.

However, some BMTs have not carried out their social role as *baitul maal*. The Baitul Maal's social role at BMT is not optimal. There are still 33% who do not carry out their social function (Sakti, 2013). The problem is most of the BMTs rarely carry out the *baitul maal* function due to a limited supply of social funds (Rusydiana & Devi, 2013; Siraj, 2021). In Indonesia, it occurs because only a tiny number of wealthy individuals come to pay *zakah*, *infaq*, and *sadaqah*. Some of the BMTs do not have a continuous *baitul maal* program because BMTs of this type usually have more focus on *baitul tamwil* activity and only conduct *baitul maal* activity as a formality (Wulandari, 2019). It is obvious that the BMT faces several issues and challenges in their operation, especially in managing the *baitul maal*. There is an urgent need to re-assess these issues and provides practical solutions so that the role of BMT in alleviating poverty in Indonesia can be enhanced.

The main challenge to BMT is to create a microfinance which is engaging the poor people's characteristics since the people at the bottom of the pyramid have unique socio-economic characteristics to be considered. Empirical facts state that many BMTs carry out their social functions in percentages that are not as large as their business functions, and some do not even carry out their social functions. This phenomenon occurs in several BMTs which could not take their *Baitul Maal* functions optimally. Several

researchers have examined the inequality function in BMTs, but to the best of our knowledge, none have focused on the specifics of the Islamic microfinance model in Lamongan with different characteristics of poor communities. This literature gap motivates this study. This study aims to determine the causes of the suboptimal function of *Baitul Maal* in BMTs. The subjects of this study were KSSPS BMT Surya Raharja Paciran Branch.

B. LITERATURE REVIEW

BMT is an Indonesia Islamic microfinance institution that combines elements of the profit and non-profit. BMT is derived from two words *bait al-maal* which means the socially-religious oriented financial institution whose main activities are accommodating and distributing community wealth in the form of *zakah*, *infaq*, and *sadaqah* (ZIS) based on the terms defined in the Quran and Sunnah (Rusydiaana & Devi, 2013). *Baitul Maal* in BMT plays a role in several things, namely: 1) Management of ZIS funds from institutions, members, and the surrounding community; 2) Assisting *baitul tamwil* in providing cash funds for the distribution of non-commercial *qardul hasan* financing; 3) Providing reserve funds for the elimination of bad financing due to the bankruptcy of *baitul tamwil* customers with ghorimin status; 4) improving community welfare through the provision of scholarships, health benefits, donations for the construction of public facilities and worship (Saifuddin, 2016). The word *tamwil* means wealth development. Thus the term *baitut tamwil* means an institution that has a wealth development business, or in contemporary terms, a business institution that carries out activities to develop productive enterprises and investments in improving the economic quality of micro and small entrepreneurs, especially by encouraging savings activities and supporting financing for their financial activities (Yaqin, 2021).

There have been prior studies regarding inequality functions in BMT. The fundamental challenge with this issue is a shortage of BMT practitioners and a governance mechanism. Yet, the problem of limited human resource capabilities is a classic problem in Islamic Financial Institutions and is not limited to Indonesia. In India, there is an issue regarding Islamic microfinance, a scarcity of human resources compatible with both business and sharia aspects (Abdul Samad, 2014). Meanwhile, there are four primary obstacles to BMT's development in Indonesia concerning human resources: 1) BMT practitioners' ignorance of Islamic principles; 2) practitioners' ability to explain what they know but not address issues that the public addresses; 3) a lack of professional and educated human resources, particularly in the area of managerial skills; and 4) BMT's human resources are comparatively less professional than those of other financial institutions like banks (Rusydiaana & Devi, 2013). Similarly, there are several challenges to overcome the social and business functions of BMT in Makassar, including human resources (HR), management, methods, capital, and environment (Ridha, 2020). Then the main factor contributing to the issues is the quality of human resources; BMT practitioners still lack training, coaching, or provision for BMT administrators and managers. Similar research findings were found in Lampung, indicating that BMT has not performed its social duty adequately and may even have abandoned it in favor of profit-oriented commercial functions. The primary causes are management, human resources, operational procedure limitations, a lack of sources of funds, and external environmental variables (Saifuddin, 2016).

The insufficient function of *baitul maal* at BMT Nurul Jannah Gresik and BMT Muda Surabaya because both BMTs have profit-oriented motivations, so the focus of work on the *baitul tamwil* sector is more significant than the focus on the *baitul maal* side (Azizah & Suprayogi, 2015). According to a case study on BMT Bina Umat Terpadu East Java, the main causes of the unequal function of *baitul maal* in BMT are the absence of muzaki to contribute *zakah* or *sadaqah* in the BMT, poor management governance, and a lack of training for BMT staff (Hamdan, 2022). On the contrary, BMT Artha Amanah Bantu is one of the BMTs that successfully carries out its social function through *waqf* management. BMT has implemented the management and development of cash *waqf* and reported the sources and use of *waqf* funds separately from the *baitut tamwil* funds; however, there is still some cash *waqf* management that is not following the rules, including no guarantor for *cash waqf* investment, investing all *cash waqf* in time deposit products, and the provision of *nazir* salaries is taken from BMT operations rather than *cash waqf* (Salim, 2022).

C. METHODS

This research is qualitative research which focuses on understanding the subjective experiences, perspectives, and behaviors of BMT practitioners. Qualitative research is used to understand social problems and focus on natural phenomena based on holistic, complex, and detailed conditions (Anggito & Setiawan, 2018). This study employs primary data gathered through in-depth interviews and constructed interviews with practitioners to comprehend the problem thoroughly. To preserve flexibility in topic

investigation, interview collecting procedures include in-depth interviews and semi-structured interviews. The collected data was analyzed using the data transcription, data organization, and data interpretation process.

D. RESULT AND DISCUSSION

BMT Surya Raharja Paciran Branch is one of the branches of BMT Surya Raharja, which is located in Tuban, East Java. The issues surrounding the lack of *Baitul Maal* function at BMT Surya Raharja Paciran Branch are classified into two categories: internal and external causes.

1. Internal Factors

In general BMT Surya Raharja Paciran Branch's operational practices do not follow BMT's nature. BMT is an Islamic microfinance institution that aims for not only profit-oriented but also non-profit. The fundraising activities by BMT are not only limited to commercial funds that are channeled in the form of financing, but BMT also has the opportunity to collect philanthropic funds. Due to the phenomenon of the establishment and development of BMT which is relatively easy, there are also quite a few BMT institutions that are unable to develop and only survive at a certain point or stagnate (Ridha, 2020). There are some issues regarding internal factors that support the lack of *baitul maal* function in BMT Surya Raharja Paciran Branch.

Regarding Human Resource Management, BMT Surya Raharja Paciran lacks defined duties and authority, causing employees to lose focus on their particular jobs and, as a result, the company's goals cannot be met adequately. According to the Branch Manager, multiple workers, including area supervisors and field tellers, were responsible for collecting deposits, supervising customers, and conducting feasibility studies at one time. Furthermore, if any job remains unfinished, one employee and another must collaborate. Of course, this is ineffective and will hinder the company's progress toward its goals, because organizational effectiveness happens when each individual effectively completes their work.

Furthermore, oversight by the Sharia Supervisory Board (DPS), which should take place once a month, occurs only during Ramadan. It supports the suboptimality of BMT because there is no supervision from DPS. DPS should actively encourage management to drag out its functions, which should perform two duties: economic functions and social functions. BMT should be able to perform both duties, with the business function relating to BMT's attempts to manage the money gathered using sharia business and investment principles, as well as using sharia contracts to generate profits. While its social mission is to maximize the advantages of ZISWAF monies for those who are eligible to receive them.

The educational background of the employees in Paciran Branch is not directly related to Islamic economics. However, the educational background is still related to the scope of the economic field of study, such as Bachelor of Economics and Accounting. Employees of BMT Surya Raharja Paciran Branch have never attended training or assistance. The employee also never experienced training about Sharia rules and aspects of Islamic products. The policy of the BMT Surya Raharja Head Office is limited to the Branch Manager and certain employees appointed to be able to participate in the training. It indicates that the employees of BMT Surya Raharja Paciran do not have a comprehensive understanding of business and sharia aspects. This issue is similar with other BMTs in Indonesia, that human resources still lack understanding, both from BMT business operation and sharia implementation (Ridha, 2020; Rusydiana & Devi, 2013; Saifuddin, 2016).

The most importantly, the focus of BMT Surya Raharja Paciran is more on the business aspect as a profit-oriented financial intermediary institution. This means that BMT Surya Raharja Paciran does not focus on pursuing the *baitul maal* target, because the target given by the Head Office is only limited to carrying out the function of *baitul tamwil*. Finally, the promotional actions made are limited to certain products. The Branch Manager also highlighted that the condition of BMT which is not developing rapidly is because all its activities are still centralized, so all the products and contracts offered to the community are also limited to those instructed by the Head Office. The employees of BMT Surya Raharja Paciran have a specific target, each month they must earn an income of approximately IDR 50,000,000. This policy is considered very burdensome for employees due to their limited ability to manage BMT. This branch experiences obstacles in attracting customers. The competition of BMT Surya Raharja Paciran is very tight. In the Paciran sub-district area, there are more than five BMTs, including BMT Ar-Raudloh, BMT Bina Ummat Sejahtera, BMT Sunan Drajat, BMT Al-Fitroh, and even other branches of BMT Surya Raharja. BMT Surya Raharja employees do not have specific expertise in marketing and have never attended marketing training. BMT Surya Raharja employees only focus on products that generate profits that are in demand by

the community, such as Tabungan Berhadiah. So far, BMT has solely conducted business-related operations, such as Regular Savings (SIMASA), Prize Savings, Time Deposits (SIMJAKA), Education Savings, and Hajj and Umrah Advances. Only a few of these goods are in great demand, while the most remain stagnant. BMT Surya Raharja Paciran carries direct selling (single-level direct sales) to compete with other BMTs to reach the target.

2. External Factors

Examining the external environment of BMT Surya Raharja Paciran identifies that public has low awareness regarding BMT products. The most people know BMT as an institution that only provides savings and financing activities. Moreover, BMT Surya Raharja Paciran Branch is not recognized as a Sharia financial institution. There are no initiative steps to introduce social missions or social functions to the Paciran community. People are also accustomed to paying zakat, infaq, and sadaqah to zakat collection institutions.

E. CONCLUSION

Based on the results of the discussion that has been delivered, the problems in the development of *Baitul Maal* in BMT in Indonesia, a case study from the BMT Surya Raharja Paciran Branch, can be divided into two factors, namely internal and external factors. The internal factors include inadequate and unstructured division of tasks between employees, limited supervision by the DPS, the educational background of the employees is not directly related to Islamic economics, and it tends to be oriented toward business functions. Meanwhile, the external factor is caused by a lack of public knowledge of the existence of BMT, both in terms of services provided and the form of BMT as an Islamic financial institution. It can be concluded that BMT Surya Raharja Paciran Branch has not carried out its social function optimally.

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