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Partnership model of BMT UGT SIDOGIRI : A Microfinance Institution based in the Islamic community

Prima Naomi, Handi Risza, Fatchiah Kertamuda, Kurniaty Yusuf

Abstract

This case study explains how a sharia microfinance institution in the Islamic community has successfully expanded its business by developing a partnership concept between banks, savings and loan cooperatives, real sector cooperatives, *pesantren* (Islamic boarding school) and business units that serve the needs of *pesantren*. The case on BMT Sidogiri is an example of partnership that can create economic empowerment for people in surrounding area, since their needs are fulfilled efficiently and money flows occurred among them. This article provides an overview of how BMT Sidogiri builds BMT and its partnerships. First, explaining the concept of BMT Sidogiri and the surrounding *pesantren* community. Second, explain about the concept of BMT Sidogiri partnership. Third, explains how the partnership of BMT Sidogiri empowers the *pesantren* community and the wider community around it

Introduction

Microfinance operates in rural areas, especially rural areas that are part of territorial development. This territorial development in Indonesia is known as the concept of regional autonomy. The concept of territorial development known as endogenous development is based on the initiation of local development actors in the area. This development aims to find solutions to the problems facing the community. Thus development always comes from the bottom (bottom up), taking into account the economic aspects, social and local culture. (Fare, de Freitas, & Meyer, 2015)

One of the main problems faced by rural communities is the lack of access to financial institutions. So they are not able to overcome the economic and social problems faced in their daily lives. Community leaders in the area are looking for solutions by establishing microfinance institutions in an effort to stimulate economic activity and utilize the wealth they have, so as to encourage sustainable development (Fare, de Freitas, & Meyer, 2015)

Microfinance is an effort to collect savings from low-income households, to provide insurance ("microinsurance"), and, in some places, to help in distributing and marketing clients' output (Armendarize & Morduch, 2010). A microfinance institution is an organization that offers financial services to low-income populations. Almost all give loans to their members, and many offer insurance, deposits and other services (Micro Financial Institutions,

2018). Forms of microfinance institutions include formal institutions such as village banks or cooperatives, semiformal institutions organized by NGOs, and informal institutions. *Baitul Mal wa Tamwil* (BMT) Sidogiri is one example of a formal microfinance institution.

1 BMT, a microfinance institution operating on the basis of profit sharing, develops micro business and small business in order to increase the dignity and defend the interests of the poor. The purpose of the establishment of BMT is to create an economic system, institutions, and living conditions for many people based on the basic values of salvation, justice, peace and prosperity (Ridwan, 2013: 26). BMT is known in Indonesia as a microfinance entity that has multiple roles and functions. As a *Baitul Maal* (*Bait* = House, *Maal* = Treasure), it receives deposit of zakat, infaq and shadaqah funds and optimizes its distribution in accordance with 6 Islamic rules. 1 The role of Baitul Tamwil is to develop productive investment activities to improve the economic quality of micro and small entrepreneurs, especially by encouraging savings activities and supporting the financing of their economic activities.

BMT is growing and developing in the midst of society, founded by a community of people who want change in managing wealth and the wealth of society to be sustainable by using the values of Islam. This article focuses on BMT Sidogiri located in a village of Sidogiri in Pasuruan, East Java province in Indonesia. The BMT is purely built by the community, using simple and easily understood public instruments, as it is developed in other third world countries, such as the Brazilian community development bank (CDF) (Fare, de Freitas, & Meyer, 2015). CDB in Brazil is growing rapidly and successfully building economic solidarity especially in the microfinance sector. BMT Sidogiri's goal is not much different from the CBD in Brazil, which is to build the surrounding area, create more job opportunities and increase revenue for each member.

BMT Sidogiri and its performances

The basic idea of the establishment of BMT Sidogiri is to keep the shariah funding used by food sellers around the pesantren (boarding schools). Previously, the sellers were used money from loan sharks, which for Muslims is *riba* (usury). Food that is associated with usury

will be not *halal*, making it unfit to eat for the pesantren students. Therefore, the boarding school leadership took the initiative to help fund the sellers of food in accordance with the provisions of sharia. In the year 2000, a cooperative was established and incorporated to engage in sharia savings and loan, or Baitul Mal Wattamwil.

The vision of this institution is the realization of the BMT cooperative as a trustworthy, professional and beneficial sharia financial institution for members and society. This vision is further elaborated in its mission of: 1) Developing social awareness; 2) performing intermediation functions by collecting members' funds and channeling funds back to members; 3) establishing partnerships with other BMT cooperatives and financial institutions of both banks and non-banks; 4) fostering *silaturahmi* (hospitality) bonds with members; and 5) empowering member economies and communities.

The number of BMG UGT Sidogiri grew rapidly, the growth of the number of member in the last 6 years has more than 400%. The growth chart can be seen in Figure 1. As of June 2016, BMT UGT Sidogiri already has more than 16 thousand members, with 284 branches and sub-branches, 1,505 employees, and cash offices spread across 10 provinces and 16 districts in Indonesia.

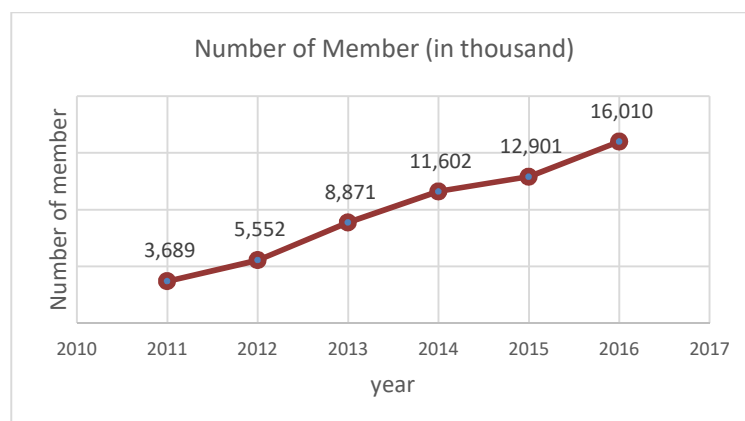


Figure 1. Number of Member

The growth of the amount of capital is quite astonishing. In 6 years, the amount of capital has multiplied by more than 700%, as shown in Figure 2. The amount of capital collected from members as of 2016 amounted to more than 348 trillion rupiahs, consisting of 4.47% of principal savings, 0.67% mandatory savings, and 94.96% of special / voluntary savings. Typically, co-operatives in Indonesian finance are mostly supported by the principal savings and mandatory savings; thus, the funding composition of BMT UGT Sidogiri is quite unique, since the biggest savings are voluntary savings. This indicates that the rate of return earned by members is quite competitive compared to the market rate of return.

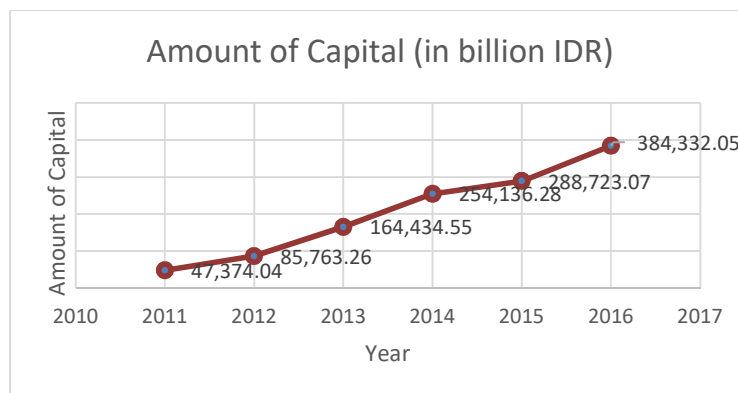


Figure 2. The amount of capital

The rate of return given to investors in the last 6 years ranged from 16.6% to 19.08%. This rate of return is quite high when compared to the average rate of return in the risk free rate (BI rate) at that time ranging from 5,25 up to 7,5%. The rate of return is obtained after deducting with social funds and zakat. The zakat and social funds collected are also quite substantial. In 2016, Its reached 7.6 trillion rupiah of social funds and 9.4 trillion rupiah of zakat. Funds collected in the form of zakat and social funds are 100% devoted to the people and society, including assisting the underprivileged, funding boarding school education, assisting in the development of underdeveloped villages, handling natural disasters, helping people in debt, etc.

The rapid capital growth is due to the optimal use of funds. Almost all members' savings funds can be channeled through financing. Thus, there not many unemployed funds in BMT. This can be seen in Figure 3. However, while the number of depositors increased sharply, the number of borrowers did not increase significantly. This shows that many outsiders were attracted to entrust their funds to this cooperative, but the ones who borrowed the most were preexisting borrowers.

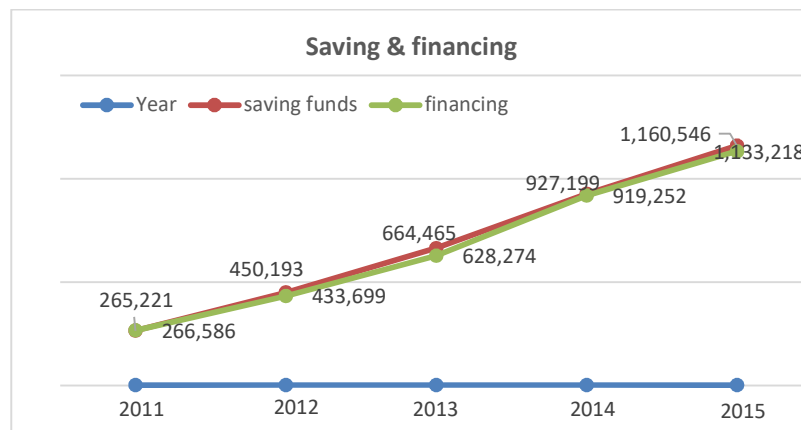


Figure 3. Saving and Financing

The patnership

Behind the amazing performance, there is a process that is also unique in running the business. BMT Sidogiri chooses to build partners and growing with partners together. The notion of partnership as a working together proposed by Hodget and Johson (2001), who suggest that partnerships are directed toward achieving the goals desired by individuals, groups, institutions or organizations to produce a meaningful and sustainable outcome. In partnerships, there are relations between organizations that will create cooperation. The purpose and benefit of the establishment of partnerships is to achieve better results, with mutual benefits among the parties in the partnership (Hafsah, 2000).

BMT Sidogiri's partners are divided into two categories, internal partners and external partners. Its has 29 patners. Internal Partners is an organization formed by BMT Sidogiri to conduct specific activities and has its own legal and management entity. These activities consist

of both profit-oriented business activities and non-profit social activities, while some may also be semi-social. External partners are divided into two major groups, partners of banks and non-bank partners.

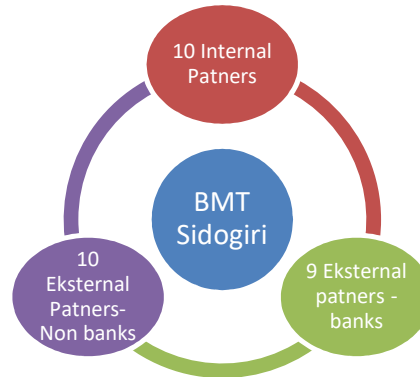


Figure 4. The patners

Internal partners consist of institutions around Sidogiri. Internal partners are the main supporters of BMT UGT Sidogiri's activities. These include Cooperative Pondok Pesantren (Kopontren) Sidogiri, which provides for all the daily needs of the community; BMT Masalahah, which is engaged in syariah-based savings and loans; PT. BPR Syariah UMMU, which provides funding for the agricultural sector; and Agro Cooperative, which provides agricultural equipment, milling and rice production. BMT UGT Sidogiri also has human resource development agency partners: LAZ (Lembaga Zakat) Sidogiri, which serves to distribute zakat, donations, charity and shodakoh; Santri Sidogiri Alumni Association (IASS), which carries out duties to the pesantren and the community in education, *da'wah*, business, society, religion, partners in community development around Sidogiri Village; and Sidogiri Bulletin.

BMT UGT Sidogiri also has an external partner in the sharia banking institutions. Partnerships built with banking institutions are aimed at providing services not owned by BMTs. This partnership creates the sharing of banking facilities by customers of BMT UGT Sidogiri. BMT can do the Host-to-host Co-Branding ATM Card as one of the form of sharing facilities, in which the customers of BMT UGT Sidogiri may use the ATM Co-Branding of

Bank Syariah to withdraw money from their account in BMT UGT Sidogiri through Bank Syariah's ATM machine, ATM Bersama Network and ATM Prima by online in real-time. Virtual Account Online provides access to BMT UGT Sidogiri accounts to be able to receive real-time transactions of all bank funds online. With Remittance Online, online real-time money transfers from domestic and foreign remitters can be delivered to destination money transfer accounts at BMT UGT Sidogiri.

External non-bank partners of BMT UGT Sidogiri can be divided into 3 sectors: 1) non-bank financial institutions such as insurance companies; 2) real sector; and 3) IT development.

Conclusion

The case study on BMT Sidogiri is an example of partnership that can create economic empowerment for people in surrounding area, since their needs are fulfilled efficiently and money flows occurred among them. There is no capitalization between the strongest and the lowest of capital possession. This case study reinforces the belief that partnership is the key to success in achieving sustainability, as Tennyson (2003) notes that partnerships between governments, the private sector and civil society are key to the success of sustainable development in a country. The importance of synergy when these three stakeholders engage in partnership is expected to spearhead the community's economic potential, which will no longer be dependent on programs from the central Government.

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