

## Research Article

# Optimization Of Ummah Economic Empowerment Through Institutional Strengthening of Waqf Micro Banks

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The objective of this article is to provide an overview of the performance of Waqf Micro Banks in terms of economic empowerment for the people. The research method employed is descriptive quantitative, utilizing the literature survey approach. The analysis of data published by the OJK (Financial Services Authority) on the distribution of financing by Waqf Micro Banks reveals significant development. In 2009, the recorded compulsory data on Waqf Micro Banks financing in Indonesia amounted to 37,326.8 billion Rupiah. By 2022, this figure increased to 82,491.8 billion Rupiah, marking a substantial growth of 120.9% over a span of four years. Considering the number of customers served by Waqf Micro Banks across 18 provinces in Indonesia, there were 21,469 individuals in 2019. However, in 2022, this number rose to 36,639 individuals, indicating a 70.66% increase within the same period.

These findings demonstrate the effectiveness of empowering productive waqf through non-bank financial institutions via the provision of financing for microentrepreneurs in various regions.

**Keywords:** productive Waqf, boarding, empowerment, Waqf micro banksCorresponding Author: Ima  
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## 1. INTRODUCTION

Financial institutions have a very strategic role in mobilizing funds from the surplus party to the deficit party. This strategic role can be optimized by the government as a party that has the authority in the economy to solve economic problems, namely poverty [1]. Although poverty will always accompany development, does not mean that poverty should be allowed to exist following fluctuations in economic activity. Poverty must be minimized so as not to cause other social problems such as theft, robbery, murder, street children and others.

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Financial institutions have been proven to be able to manage public funds efficiently. With very clear regulations from the government and management that is principled on prudence, financial institutions can minimize moral hazard actions carried out by their customers. Therefore, it is very important for the government to empower productive waqf funds through financial institutions that have proven to be resilient in the economy. Data from the Indonesian Waqf Agency (BWI), Indonesia's waqf potential per year reaches 2,000 trillion IDR, with land assets reaching 420,000 hectares, while the potential waqf of money reaches around 188 trillion IDR per year. However, currently the realized waqf potential has only reached 400 billion IDR. Furthermore, 337 land waqf assets are still uncertified and only 168 land plots already have certificates. The low realization of waqf indicates that waqf management has not been optimal. Waqf is a product whose core business is trusted. Therefore, waqf management must be carried out in a professional, transparent, accountable and credible manner [2]. For this reason, the presence of waqf through Waqf Micro Bank is one of the government's efforts to provide confidence to the community as waqf fund stakeholders [3]. Through Waqf Micro Bank, waqf funds are managed professionally following the procedures applicable to other commercial banks. In this article, strategies for optimizing community economic empowerment will be presented through institutional strengthening of Waqf Micro Bank in Indonesia.

## 2. PROFILE Waqf Micro Bank

Waqf Micro Bank is a Sharia Microfinance Institution established with the permission of the Financial Services Authority (OJK). Waqf Micro Bank only conducts financing (finance) without raising funds (funding). This institution aims to provide access to capital or financing for small communities who do not yet have access to formal financial institutions. Waqf Micro Bank is expected to improve people's living standards, as well as be able to reduce inequality and poverty. Waqf Micro Bank is a manifestation of the government's seriousness in increasing financial inclusion for the public by providing access to formal financial services which is part of the implementation of the Presidential Regulation of the Republic of Indonesia Number 82 of 2016 concerning the "National Strategy for Financial Inclusion". The Legal Basis of Waqf Micro Bank is Law No.1 of 2013 concerning MFIs article 5 paragraph 1 and POJK No.12 of 2014, STDD POJK No.62 concerning "Institutional" The form of legal entity Waqf Micro Bank can be in the form of a limited liability company or cooperative

Waqf Micro Bank is a form of non-bank financial institution based on Islamic boarding schools and has seven program principles that are values in the implementation of its programs, namely: a) Empowerment of the poor; b) Assistance in accordance with sharia principles; c) Group financing cooperation (*ta'awun*); d) Convenience (*sahl*); e) Mandate; f) Sustainability of the program; and g) Blessedness. Based on the characteristics of the program and the ease of fulfilling the business licensing requirements, a legal entity was chosen for the Waqf Micro Bank program is a Cooperative, with the choice of an MFI system that uses sharia principles to be subsequently created the Sharia MFI Cooperative[1].

According to Law No. 1 of 2013, there are restrictions on waqf Micro Bank's operations, namely that it is not allowed to collect funds from the public directly either in the form of savings or deposits except for principal deposits and mandatory deposits sourced from founding members (non-deposit talking). Another restriction is in the form of financing returns that cannot exceed or be equivalent to a margin of 3% a year. Meanwhile, for capital needs both for the establishment, development of human resources, assistance, working capital and operational cost needs using funding sources in the form of conditional grants sourced from donor funds authorized by management to LAZNAS-BSM. With the restrictions that have been described above, waqf Micro Bank's in their operations are different from MFIs according to Law No. 1 of 2013. This makes Waqf Micro Bank MFIs have their own characteristics, including: a) It is not allowed to collect (funding) and manage funds, either savings or deposits from the public (non-deposit talking); b) Using the source of funds from the management of the Waqf Fund to support its operations; c) Providing assistance with financing in accordance with Sharia principles; d) The main market segment of the poor is potentially productive around boarding; e) Lending or financing using a group approach with a joint responsibility system; Prospective customers will receive basic training first before being given financing; g) Customers will be provided periodically regarding business development, household economic management accompanied by religious education; h) Financing yield equivalent to a margin of – 3% per annum; and i) Financing or loans are provided without grace.

## 2.1. Waqf Micro Bank Business Model

A business model is a frame of a business plan by thinking about how the company will get a profit or income with the calculation of all components of the business. The following is the Business Model of Waqf Micro Bank in Indonesia.

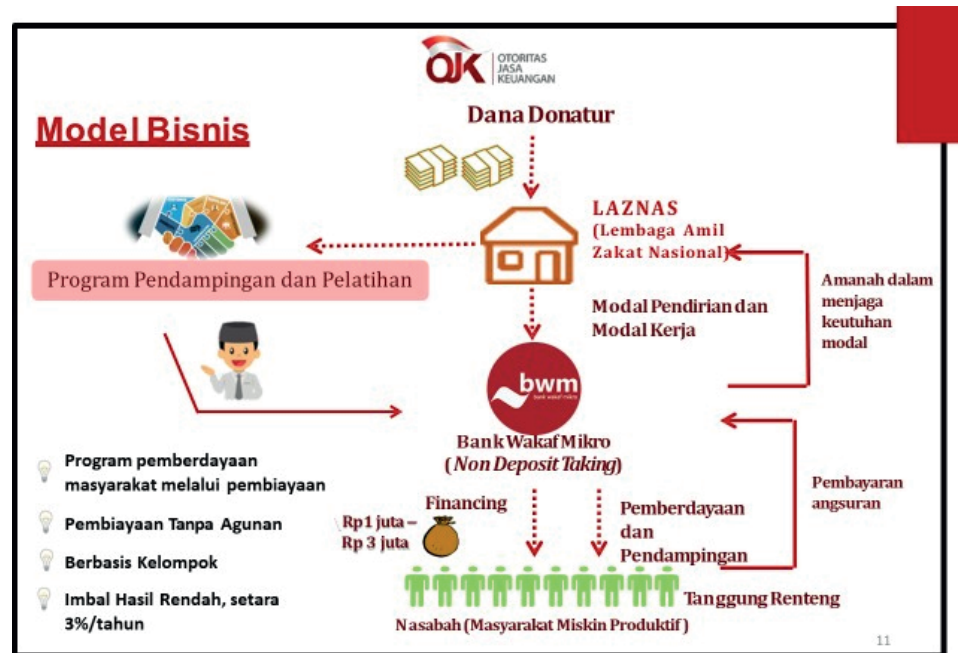


Figure 1: Waqf Micro Bank Business Model.

Waqf Micro Bank carries out its activities as a financing institution for the community around the Islamic boarding school derived from the virtues of the donors who are entrusted through LAZNAS-BSM. In addition to providing capital support to Waqf Micro Bank, LAZNAS BSM also provides business assistance to its customers. The assistance is carried out periodically through business assistance, household economic management assistance, and religious assistance[3]. The funds derived from LAZNAS-BSM were used by Waqf Micro Bank to distribute financing to the community in the environment around the Islamic boarding school in the form of cash of IDR 1,000,000.00. – (one million IDR) first period, IDR 2,000,000 (two million IDR) second period, IDR 3,000,000 (three million IDR) third period, IDR 4,000,000 (four million IDR) fourth period, IDR 5,000,000 (five million IDR) fifth period and so on for each customer with a financing yield with a margin of 2.5-3% per year. In the financing mechanism, the nature of joint responsibility between members is a must. Prospective customers who are determined to be customers will create a group association called "Kumpi". Kumpi is a short of the Community Business Group around boarding. In one kumpi there are 5 members who are financing customers from Waqf Micro Bank. Kumpi is formed when a prospective customer applies for financing and is approved by Waqf Micro Bank. The kumpi that had been formed, then held a weekly halaqoh called "Halmi"

Halmi is a meeting between kumpi (3-5 people). In this case, disbursement of financing funds is carried out to each member of the kumpi. Halmi can be done at the home of one of the members where the accompanying officer provides assistance in the form of business assistance, assistance in family economic management, and religious education assistance. Halmi is conducted every week for one year with a total of 50 Halmi meetings. In this Case, disbursements and installments are also carried out on financing provided by sharia MFIs- Waqf Micro Bank. Waqf Micro Bank as an institution trusted to distribute financing must maintain the mandate in the management of benevolent funds provided by LAZNAS-BSM. In carrying out its business activities, MFI's Syariah- Waqf Micro Bank is supervised by the OJK in coordination with Islamic boarding schools, village officials, and local governments. The criteria for boarding as the place where the Sharia MFI was established- Waqf Micro Bank are: 1) Have a position close to the productive poor; 2) Leaders of Islamic boarding schools who have an understanding of Islamic finance; 3) Prospective officers have integrity, morals, and a good financial reputation; and 4) Prospective administrators have good competence in microfinance development and community empowerment.

## 2.2. Waqf Micro Bank Performance Development

Waqf Micro Bank was established in 2018 by OJK. The performance of Waqf Micro Bank as measured by the number of commutative finance distributed to customers around boarding in 2019 amounted to 37,326.8 billion IDR and in 2022 it has increased to 84,491.8 billion IDR or has increased by 120% over a span of 4 years.

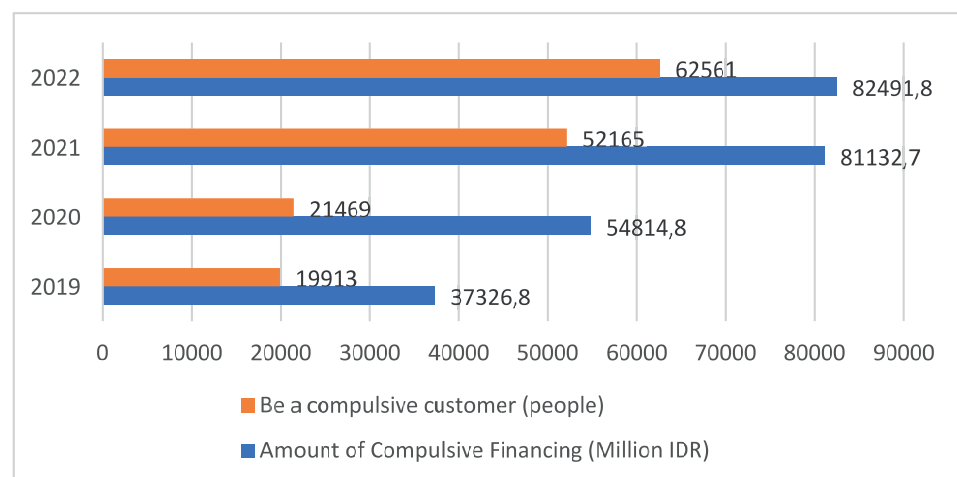
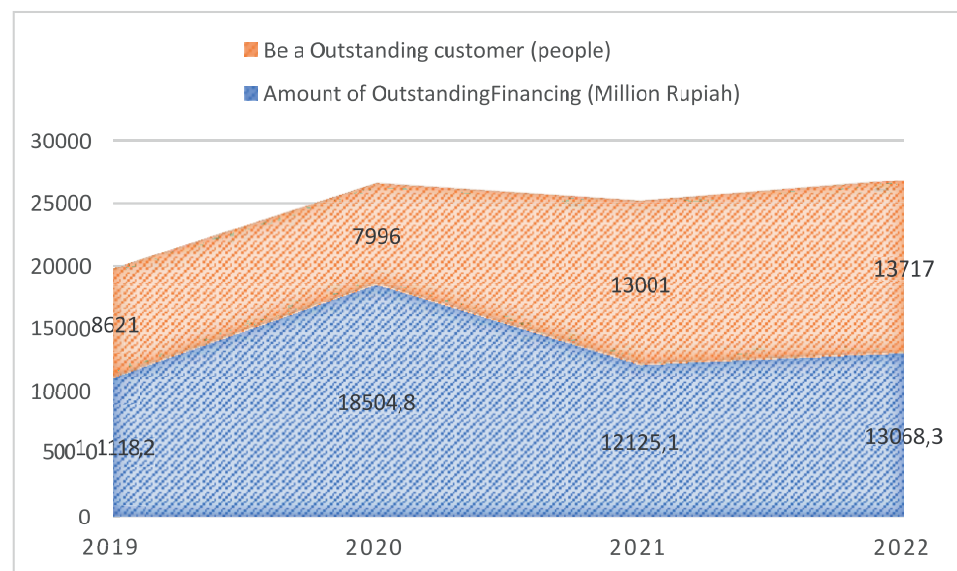


Figure 2: Financing Development and Number of Compulsive Customers on Waqf Micro Bank.

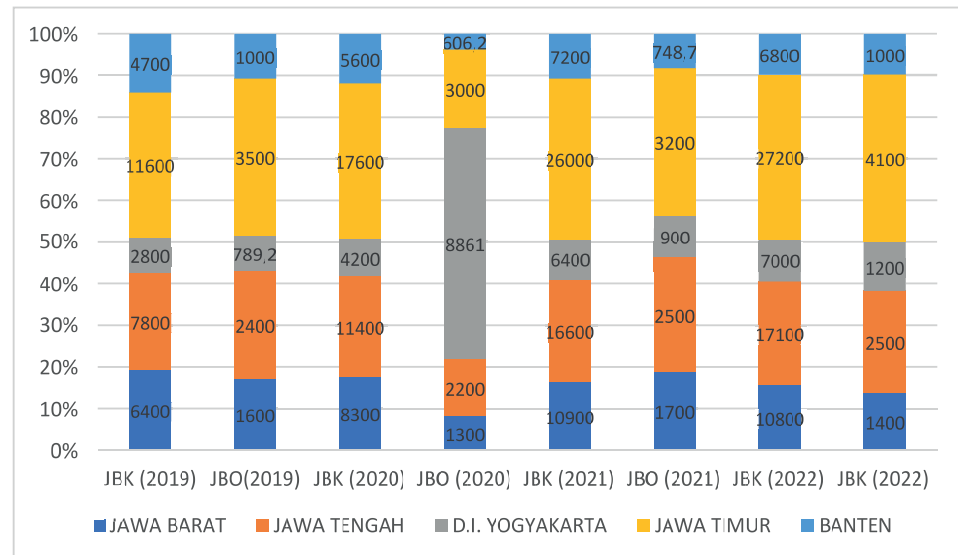
The development of the number of compulsive financing that continues to increase indicates that the distribution of financing carried out by Waqf Micro Bank is getting bigger[4]. Although the financing ceiling is not large, which is between 3 million Rupiah to 5 million IDR, it is very adequate for additional capital for home business actors[5]. In addition to customers getting additional capital, customers also get knowledge on how to manage their business correctly and increase religious knowledge provided in their group once a month. Here, it can be seen that there is a balance between economic strengthening and spiritual strengthening from members of Waqf Micro Bank which has the status of a Sharia cooperative. In financing distribution activities, a joint responsibility fine applies, which is a social responsibility to minimize moral hazard problems carried out by group members. Group members have a shared responsibility to supervise each other so that it can stay rolling within the cooperative [5].

The increasing number of compulsive finance in each year indicates an increase in the amount of outstanding financing carried out by each Waqf Micro Bank spread across 18 provinces in Indonesia, starting from Aceh Province to Papua Province. In its 4 years of development, there was only one addition to the Waqf Micro Banks, namely DKI Jakarta Province, which began to establish a Waqf Micro Bank in 2021 with a total financing of 95 million IDR.



**Figure 3:** Financing Development and Number of Outstanding Customers at the Waqf Micro Banks.

In 2019, the amount of outstanding financing amounted to 11,18.2 billion Rupiah and in 2022 the number of outstanding finance increased to 13,068.3 billion rupiah with the largest number of contributors being East Java, Central Java, West Java and Banten. These four provinces have the most outstanding financing trend.



**Figure 4:** Compulsive Development and Outstanding Financing at Waqf Micro Banks Indonesia.  
 Note: JBK (Amount of Compulsive Financing (Billion IDR)  
 JBO (Outstanding Financing Amount (Billion IDR)

The development of the outstanding financing amount is closely related to the amount of KUMPI. This happens because when a customer is going to apply for financing, it must

be joined by 5 other members. This means that if there are 1200 KUMPI then there are as many as 60,000 customers who apply for financing at Waqf Micro Bank in East Java. The second most KUMPI is in Waqf Micro Bank, Central Java, West Java and Banten.

The highest Outstanding Financing of Waqf Micro Banks in East Java, Central Java, West Java and Banten is supported by the large number of Waqf Micro Banks in these four provinces. With more Waqf Micro Banks, the reach of micro-businesses that can be served by Waqf Micro Bank is more [6]. For this reason, in order to make the poverty alleviation program through productive waqf more optimal, increasing the number of Waqf Micro Banks in each province is very urgently carried out by the OJK [7].

### 2.3. Ummah Economic Empowerment Strategy through Strengthening Waqf Micro Banks

To optimize the function of Waqf Micro Banks in empowering the community economy, several strategies can be prepared as follows:

From the table above, several strategies can be recommended to strengthen Waqf Micro Banks in empowering the ummah economy, namely:



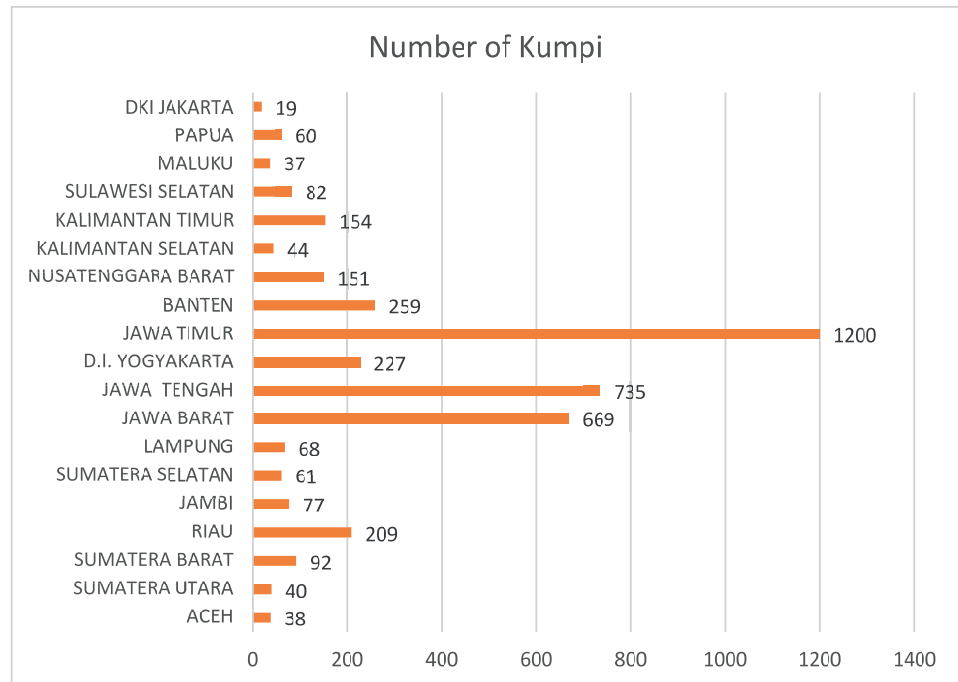


Figure 5: Distribution of Kumpi Waqf Micro Bank in Various Provinces in Indonesia Year 2022 (Unit).

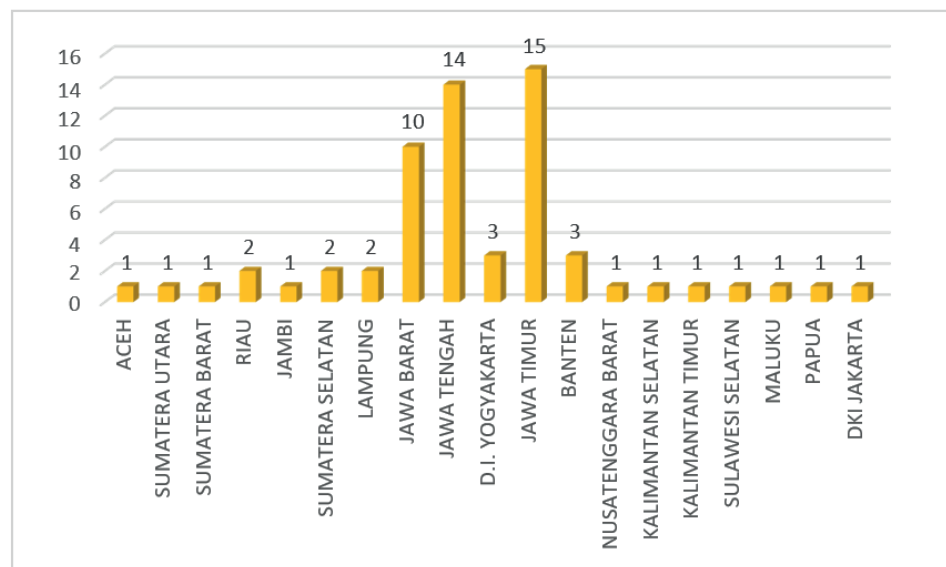


Figure 6: Distribution of Waqf Micro Banks Offices in Various Provinces in Indonesia, 2022.

- i. The number of Waqf Micro Banks Offices must be established more in various other provinces so that the reach of home micro-enterprises that can be served by Waqf Micro Banks is more
- ii. Ongoing education about Waqf Micro Banks so that more waqf donors are collected so that funds are raised for the empowerment of ummah more



TABLE 1

Strenght	Weakness
Have Clear Regulations Managed by the Government here are Many Islamic Boarding Schools in Indonesia The number of waqf donors is Very Large Accompanied by PINBUK in its management Customers who are members are required to take part in training and recitation activities organized by KUMPI The number of Microenterprises is very large Has a large captive market, namely students	Less known to the Public The number of Waqf Micro Banks is still very limited
9. There is a commitment to mutual responsibility to minimize moral hazard problems from customers	
Opportunity	Threat
Intensified Government Regulation for the development of productive waqf Opening up online market opportunities for products from home micro-enterprises There are many parties who pay attention to the development of home micro- enterprises	The lively online loans in the economy that offer many conveniences for home micro- entrepreneurs Limited knowledge of students in managing Waqf Micro Bank

- iii. In addition to management assistance for home micro entrepreneurs, it is very important to be provided with entrepreneurship assistance and technology-based business management so that the development of the business scale from home micro- enterprises increases in scale [5].
- iv. Managerial assistance for the management of Waqf Micro Banks must be carried out in a sustainable manner so that the managers of Waqf Micro Banks can manage the bank more professionally, have high leadership abilities and are innovative

### 3. Conclusion dan Rekomendation

Waqf Micro Banks has shown its work in empowering the ummah economy around boarding. This is indicated by the continued increase in the amount of financing both compulsively and outstanding. In addition, the number of KUMPI at Waqf Micro Banks continues to increase. This indicates that the number of customers who become Colleagues of Waqf Micro Banks continues to show very positive developments. KUMPI is an indicator of Waqf Micro Banks

partner customers because customers who will apply for financing at Waqf Micro Banks must join forces with four other people to become a group. This group will be the social watchdog among the other members of the group. This KUMPI group will bear the consequences made by one of the members of the group. This is one of the operational

strengths of Waqf Micro Banks in mitigating the moral hazard actions of its members. In its development, the distribution of Waqf Micro Banks is still concentrated in four provinces, namely in East Java, Central Java, West Java and Banten. For this reason, it is necessary to build a more massive Waqf Micro Banks so that the distribution of waqf financing is more optimal in the economic empowerment of ummah and ongoing socialization to educate more qualified potential donors.

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