



IMPROVING SOCIAL CAPITAL OF BMT (BAITUL MAL WATAMWIL): AN EXPERIENCE FROM BMT LATHIFAH, SUMEDANG INDONESIA

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Abstract

Like many other BMTs, BMT Lathifah ever faced financing problems. In the process of overcoming it, there were good opportunities to improve social capital. This paper elaborated the way in detail what BMT Lathifah had done to overcome financing problem and what type of social capital was improved. Descriptive research method was used to analyse data. The result indicated that BMT Lathifah had succeeded overcoming financing problem by rescheduling, restructuring, reconditioning. The management of BMT Lathifah developed internal management especially human resources and accounting management, made good relationship with customer, constructed Progress out Poverty Index as benchmark for decision financing. Qordhu hasan financing and ZIS (zakat, infaq and sodaqoh) which reflected social capital had increased. They are purely on cooperation and mutual help. The management also developed bonding social capital as a means of delivering coaching program for members, hearing complaints about the service, as well as socialization of Islamic Economics.

Key Words: BMT, Financing Problems, Social Capital





I. INTRODUCTION

The term "Baitul Mal" means House of Money and "Baitul Tamwil" means House of Expense or Islamic Bank (Possumah, 2012). Conceptually, BMT is an institution which contain two main activities (Muhamad, 2000:106). First, collecting funds from various sources, such as zakat, infaq, shodaqah, etc, and those will be distributed to an authorized parties in terms of poverty alleviation. That is Baitul Mal. Second, productive activities with a purpose to create or gain additional income for the poor and fostering economic growth. That is Baitul Tamwil. According to the two points, can be concluded that BMT converged two different activities, profit and non-profit oriented. BMT as a micro Shariah financial institution, besides collecting funds from the society also functioning as a funding institution, which lending money for consumptive or productive usage. Here, consumptive means not only *Murabahah* (margin mark-up) for consumptive goods but also means managing funds for infaq, zakat and shadaqah and distribute it in forms of educational scholarship, public facilities, and others. While productive means lending capital to the small and medium enterprises.

Different from other BMTs were founded near the centre of economic activity like traditional market, BMT Lathifah was founded to respond financial access problem of agriculture society in Cibeureumwetan village, Sumedang Distric, Indonesia. Therefore main coverage of services area are Cibeureumwetan village. It means BMT Lathifah operates in very small size market. It was in the end 2009 that BMT Lathifah appeared. Founders who had high awareness to financial access problem save their money in the BMT and hopefully could encourage growth of BMT.

In the early stage, main orientation of BMT Lathifah provided micro finance for local community. In other word, BMT Lathifah focus on Baitul Tamwil activities and Baitul Mal not yet operated. It is very reasonable because most of people in this area are

low income class. In the next period, people save and borrow (see Table 1).

The first time, everyone who borrow could pay installment in an orderly manner so that revenue of BMT is large, even make a profit. According to condition, they were given financing again and more. Besides that, new comer also applied financing. Unfortunately, the management only had high spirit but was not accompanied by good management practices, so that emerged financing problems. Some people who borrowed have low repayment capacities, even some of them could not pay. It brought about financial consequence especially for income decreased significantly in 2011 year, even BMT loss. This fact contrast to research of Koesrindartoto (2010) that business with smaller coverage (province or regency) will have better loan performance than the business with national scale coverage because it is exposed with lower risk and network effect. Of course business of finance different from another businesses, particularly small financial institution, there are determinant certain factors positive as well as negative which shape its performance.

Table 1. Cash Flow of BMT Lathifah, Year Period 2010- 2012

Item	Year		
	2010	2011	2012 (August)
Total saving (IDR)	31,409,952	52,960,606	74,351,456
Financing (IDR)	61,207,232	64,586,706	81,573,103
Asset (IDR)	89,479,521	101,270,218	125,267,853
Income (IDR)	46,127,838	22,529,911	18,656,976
Cost (IDR)	45,876,430	23,893,099	19,127,659
Profit/loss (IDR)	251,408	(1,371,188)	(470,683)

Sources: BMT Lathifah, 2012

In 2011 year, BMT Lathifah faced hard condition. As a newly micro financial institution established, BMT Lathifah faced with the choice, whether





continue to operate or merge with another BMT or shut down? According to suggestion from steering committee, they will continue and identified determinant factors financing problem and proposed action to overcome it. In general, there are several way to overcome financing problem, like rescheduling, restructuring, reconditioning. In addition to these way, BMT Lathifah promoted social capital which increased community capacity. This research elaborated the way in detail what BMT Lathifah had done to overcome financing problem and what type of social capital was improved?

II. LITERATURE REVIEW

2.1. Financing Problem

Financing problems is a condition in which customer couldn't pay in part or entirely their liabilities under the agreement. Following the collectability category of banking, financing problems can be divided into collectibility 1

(pass) i.e 0 day late, collectibility 2 (special mention) i.e 1-3 months late, collectibility 3 (doubtful) i.e 4-6 months late, and collectibility 4 (loss) i.e more than 6 months late. Nurhayati's study (2010) in BMT Pare Kediri, Indonesia found that factors as follows were caused financing problem:

- Debitur side: business failure, lack of good intention.
- Creditur side: controlling by BMT was not yet maximized.
- Other factor: accident, trade and macroeconomic condition

Another study, Erviana (2011) also have similar finding that business failure, bad character of debitur, move or die, lack of precision financing analyze as factors determined financing problem.

Kasmir (2007) pointed out the way to overcome financing problem are rescheduling, restructuring, reconditioning, combination and take guarantee. The same thing from DSN MUI (National Syariah Council – Council of Ulema Indonesia) that financing problem could be adressed by line facility, reduction debt, restructuring, reconditioning, debt forgiveness, backup sharing in Musharaka and mudaraba financing.

In BMT Pare Kediri, controlling to minimize risk were done as follows:

- Classifying customers into customers who willing to and capable, willing to but not capable, capable but not willing to, not capable and not willing to.
- Risk management for financing problems were done by mentoring, extended payback, return of principal only, take guarantee. Inspection on the spot regularly, increasing coaching, mentoring, provide new financing, increasing the role of internal control.

In BMT Bina Ihsanul Fikri Yogyakarta, several efforts had done as follows: make a good communication (silaturahmi), rescheduling, give warning (Inayah, 2009).

2.2. Social Capital

There are numerous definitions of social capital found in the literature. They vary depending on whether their focus is primarily on

- (1) the relations an actor maintains with other actors,
- (2) the structure of relations among actors within a collectivity, or
- (3) both types of linkages (Adler and Kwon 2002 in

<http://www.socialcapitalresearch.com/definition.html>).

A focus on external relations have also been called 'bridging' (Woolcock 1998) or 'communal' (Oh et al. 1999) and a focus on internal relations 'bonding' or 'linking'

(<http://www.socialcapitalresearch.com/definition.html>).

Putnam in Jochum (2003) made a distinction between what he described as bonding social capital and bridging social capital. Bonding social capital involves closed networks and describes strong ties within homogeneous groups, for example amongst family members, close friends and neighbours. Bonding social capital serves to unite groups and is related to common identity with group members sharing one or several factors in common (aspirations, values, experiences, interests, locality etc.) Bridging social capital is connected to diversity and involves overlapping networks where a member of one group accesses the resources of another group through overlapping membership. It describes weaker, more diffuse ties with, for instance, distant friends and colleagues. Bridging social capital relates



to contacts between people of different backgrounds in terms of age, gender, ethnicity, education, socio-economic status and locality. Woolcock (2001) in Jochum (2003) introduced a third type of social capital, linking social capital, which unlike the two others has a vertical dimension. Linking social capital relates to the connections between individuals and groups in hierarchical or power-based relationships. It describes social relations with those in authority and relates specifically to *“the capacity to leverage resources, ideas and information from formal institutions beyond the community”* such as local and national government.

2.3. Social Capital and BMT

Group based lending mechanism is often applied by MFIs to reduce the risk of high non-performing loans. This mechanism is well known introduced by the Grameen Bank and widely applied around the world. This mechanism utilizes the concept of social capital by enforcing the share norm, value and behavior through formation of peer guarantee mechanism to replace the physical collateral in lending practice (Yumna, 2011). Dusuki (2008 in Yumna, 2011) notes that group based lending mechanism is not alien in Islam as it has been known by the concept of *as sabiyah*. He argues that both *as sabiyah* and social capital share the same positive values such as teamwork, sense of belonging, cooperation and trust. If this concept is based on the religion paradigm would be beneficial for the success of the application of group lending mechanism. This idea is supported by Ahmed (2002 in Yumna, 2011) who notes that Islamic MFIs may take advantage from religion perspective as loan repayment are the obligation for Moslem.

Community development is the main purpose of BMT. They came to the traditional market, traditional agriculture sector, grass-roots community in which usurer loan shark are usually operated (Junaidi, 2011). In community development process will be established teamwork, sense of belonging, cooperation and trust.

III. RESEARCH METHOD

This research was explanatory research that used descriptive research method, i.e description a phenomena and from it will not make summary or

generalization (Marzuki, 2001:8). This research focus on specific problem and in specific scope. Therefore can be classified into case study, i.e type of research in which deepen, intensif, detail, comprehensif analyzes on one case (Fasil, 2001:22 in Nurhayati, 2010). This research use primary data from BMT Lathifah and constructed interview with manager as a way to collect data. Analyze method is kualitatif analysis.

IV. RESULT OF RESEARCH

Impact of the funding without clear rules have caused financing problem. In the end of 2010 year, amount of financing problem especially collectibility 4 (loss) i.e more than 6 months late, reached IDR 25,741,022 for 35 person. This was 42 percent of total financing (see Table 2).

Researcher conducted interview with manager. The manager who join BMT Lathifah in midterm 2010 is someone from Centre for Small Business Incubation (PINBUK). Previously, the management asking assistance to PINBUK to send someone for institution improvement. He had knowledge and skill about BMT operation. Stearing committee hope him to work well. It is relevant with result of Adnan research that main factors which have a positive correlation with the performance of BMT such as the education of BMTs' managers and the managerial skill (Adnan, 2003).

Table 2. Realization of Financing Collectibility Level in BMT Lathifah, 2010-2012 Year

Collec tibility	2010		2011		2012 (August)	
	Σ	IDR	Σ	IDR	Σ	IDR
Collec tibility 1	25	30,207,232	29	32,786,543	79	59,442,550
Collec tibility 2			14	7,435,670	20	10,903,075
Collec tibility 3	15	5,258,978	15	5,258,978	15	5,485,400
Collec tibility 4	35	25,741,022	30	19,103,515	24	5,742,078



Sources: BMT Lathifah, 2012

According to result of interview, there were both internal factors and external factors had caused financing problems. For internal factor had two aspects. First, less optimal organizational management. There was no clear job description among employee. This is source of bad communication among them. Sometimes it was conflicted when making decisions who will receive financing. Second, less optimal financial management especially management accounting. Under these condition, control and planning functions were not going well. In 2010, there was still no journal transaction and accountability of financial reporting. While external factors, there were similarity with Adnan's research (2003) which found some external obstacles or barriers in BMT development. These include (1) the lack of knowledge of society toward BMT, as well as (2) a misunderstanding among the society's members about the social and religious role of BMT (3) It is also found that basically there is no leading competitive commodity that can be financed; (4) The BMTs at most are lack of supervision and development assistance.; (5) There is no single institution which can provide guarantee in the case of liquidity problem; and

(6) Most of customers are working in small retail sector, and almost none who work in manufacturing sector. For number 1 and 2, in BMT Lathifah case was reflected with unfavorable habits in terms of debts. These habits were triggered by usurers that exploit people without regard to improvement in the lives and welfare of the community. The existence of usurers generated such as consumerism, destruction of the family arrangements, and individualistic. Sometimes, several customers borrowed money from BMT Lathifah for payment to usurers. While lack of productive economic activities are identical with number 3. Few among customers of BMT Lathifah who worked in sector production of both goods and services. Number 6 also happen, customers activities are mostly small traders, some small wholesalers with distribution that are not orderly. In conditions that were not balanced between the number of sellers

and buyers, in addition people often owed, then the traders tend to loss.

To reduce and anticipate financing problem in the future, the steering committee gave authority to manager of BMT Lathifah to establish rules and manage BMT especially accountability of financial reporting. In the process, he reorganized the structure of employees, there was one employee who was replaced, and then improved the quality of human resources. Some efforts related internal improvement have been made as follows:

- a. Following comparative study and training activities.
- b. Conducting regular monthly meetings management to evaluate performance and deliver the program created the monthly target.
- c. Planning for development programs, especially in the financing and savings, based on the results of comparative studies that have been done.

Besides that, respons to improvement external factors have done the following:

- d. Verifying financing to customers, whether himself financing or for another person? Because there was information that financing upon himself but which uses another person.
- e. Doing Silaturahmi (meet all customers), looked at the financial condition of customers for the prediction of potential payments.
- f. Discussing what the best method for payment. There were several choices such as pay a loan principal only, reschedulling, restructuring, or hiwalah i.e takeover debts to third parties. From hiwalah there were no revenue sharing, but BMT got fee which the amount depends on the ability of customers.
- g. Establishing a database of customers who have loans to microfinance institutions more burdensome.
- h. Making market segmentation base on Progress out Poverty Index (PPI). The PPI is a simple and





accurate tool that measures poverty levels of groups and individuals. Using the PPI, micro financial institutions can better determine their clients' needs, which programs are most effective, how quickly clients leave poverty, and what helps them to move out of poverty faster (<http://progressoutofpoverty.org>). PPI survey conducted every 6 months. If someone was pr-welfare category, he/she was not given murabahah or mudharabah. A more precise is qordhu hasan, i.e soft and benevolent loan, no revenue sharing, the borrower only repays the principal amount. If based on the results of the next survey his/her index increased, then the qordhu hasan can be accompanied by mudharabah but for long time until one year.

- i. Encouraging those who are wealthy category to pay their mal zakat, infaq and shodaqoh. Therefore BMT Lathifah could operate its baitul mal and provide donation for customers who got sick or died.
- j. Forming several groups of customers. Hold regular monthly meetings between managers and customers to tighten the relationship between managers and customers. The meeting was also used as a means of delivering coaching program for members, to hear complaints about the service, as well as socialization of Islamic Economics. In this chance, build awareness of the great risk when lending to loan sharks.

The management of BMT Lathifah did all items above consistently and continuously. The result as see in Table 2, amount of collectibility 4 decreased significantly until October 2012. The management worked hard for two years. More than that, both Qordhu Hasan financing and zakat, infaq and shadaqoh (ZIS) had increased, even though still in limited nominal (see Table. 3).

Table 3. Development of Qordhu Hasan and ZIS in BMT Lathifah, 2010-2012 Year

Year	Qordhu Hasan (IDR)	ZIS (IDR)
2010	312,500	11,500
2011	2,616,000	253,050

2012 (October)	3,077,000	1,207,150
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Sources: BMT Lathifah, 2012

Indirectly, increasing of qordhu hasan and ZIS reflected social capital improvement because they are purely on cooperation and mutual help. Another social capital appeared when customers divided into three group or cluster base on area, so that the close neighbors being in the same group. That is bonding social capital. Among members having same condition and attempting to be good customer.

Base on its experience although BMT Lathifah operates in very small market size, but it have good performance. Not only success overcoming financing problem but also improving social capital and contributing to community development.

V. SUMMARY

Base on research results could be summarized as follows:

1. As a effort to overcome financing problem, the Management of BMT Lathifah did both internal and external improvement. For internal, developed of human resources and accounting management. While for external, built good relationship with customer, constructed Progress out Poverty Index (PPI) as benchmark for decision financing.
2. Good relationship with customer are tied in group base on area, so bonding social capital appeared.
3. PPI has been inspiring to develop Qordhu hasan financing and ZIS (zakat, infaq and sodaqoh). They reflected social capital which purely on cooperation and mutual help.

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