

Synergizing Islamic Microfinance Institution with Village Owned Enterprise Initiative: A Holistic Approach for Village Development

(Sinergi Lembaga Keuangan Mikro Syariah dan Badan Usaha Milik Desa: Pendekatan Komprehensif untuk Pembangunan Desa)

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Abstract:

This study aims at exploring potential synergies between Islamic Microfinance Institution (Baitul Maal wa Tamwil - BMT) and Village Owned Enterprise (BUMDes) as a holistic approach for improving the livelihood of people living in villages. It applies a semi-systematic review of the literature to explore potential synergies between BMT and BUMDes in strategizing and implementing their social and financial roles to improve people's prosperity and well-being. This study finds two potential models for BMT-BUMDes synergies depending on whether BMT and BUMDes already exist in the village. First, a strategic partnership model can be established when both BMT and BUMDes have been established in a village. They can form a strategic alliance as separate entities, where BMT provide social and financial supports for BUMDes based on shariah principles. Second, an integrated BMT-BUMDes can be developed in three situations: 1) when there is BMT but no BUMDes, the BMT can expand its coverage to cover BUMDes businesses; 2) when there is a BUMDes but no BMT, the BUMDes can establish a BMT as its business unit; 3) when there is no BMT or BUMDes in a village, a combination of BUMDes and BMT as an institution can be established. These two models are possible within current government regulations.

Keywords: Baitul Maal wat Tamwil; BMT; BUMDes; Islamic Microfinance Institution; Village-owned Enterprise.

Abstrak:

Penelitian ini bertujuan untuk menggali potensi sinergitas antara Lembaga Keuangan Mikro Islam (Baitul Maal wa Tamwil - BMT) dan Badan Usaha Milik Desa (BUMDes) dengan pendekatan holistik untuk meningkatkan taraf hidup masyarakat yang tinggal di pedesaan. Peneliti menggunakan tinjauan literatur semi sistematis untuk mengeksplorasi potensi sinergi antara BMT dan BUMDes dalam menyusun strategi dan melaksanakan peran sosial serta keuangan mereka dalam meningkatkan kesejahteraan dan kemakmuran masyarakat. Penelitian ini menemukan dua model potensial sinergitas BMT-BUMDes dengan bergantung pada apakah sudah ada BMT dan BUMDes di desa tersebut atau tidak. Pertama, model kemitraan strategis dapat dibangun ketika BMT dan BUMDes telah dibentuk di suatu desa. Mereka dapat membentuk aliansi strategis sebagai entitas terpisah, di mana BMT memberikan dukungan sosial dan finansial kepada BUMDes berdasarkan prinsip syariah. Kedua, BMT-BUMDes yang terintegrasi dapat dikembangkan dalam tiga situasi: 1) ketika ada BMT tetapi tidak ada BUMDes, BMT dapat memperluas cakupannya untuk mencakup bisnis BUMDes; 2) bila ada BUMDes tetapi tidak ada BMT, BUMDes dapat membentuk BMT sebagai unit usahanya; 3) apabila di suatu desa belum ada BMT atau BUMDes maka dapat dibentuk gabungan BUMDes dan BMT sebagai kelembagaan. Kedua model ini dimungkinkan dalam peraturan pemerintah saat ini.

Kata Kunci: Baitul Maal wat Tamwil; BMT; BUMDes; Lembaga Keuangan Mikro Syariah; Badan Usaha Milik Desa.

INTRODUCTION

Members of the United Nations (UN) pledged in the UN assembly on Sept. 25 2015, that they were determined to implement the 17 sustainable development goals (SDGs), including freeing the world from extreme poverty and hunger and healing the world significantly by 2030.¹ In achieving SDGs, countries are expected to achieve a simultaneous performance of environmental sustainability, social inclusion and economic development.² Accordingly, one of the initiatives taken by the Indonesian government to expedite the achievement of SDGs at the village level is by facilitating the establishments of village-owned enterprises (BUMDes). BUMDes was initiated in 2014 to empower local people and village authorities to build their social capital, economic capacities, and self-reliance.³ A BUMDes has both economic and social functions. It has to build social cohesiveness while providing basic needs for villagers, building village infrastructure and facilities, developing local economic potentials and utilizing its environment and natural resources sustainably.⁴

Indeed, village development is a strategic issue for the Indonesian government. Around 46% or more 110 million people of Indonesia live in villages.⁵ Currently, Indonesia has 74,910 villages, where 14% are categorized as developed, 55% as developing, and 31% as underdeveloped villages. Despite some rooms for improvements, BUMDes has been a successful initiative. By 2018, there were 45,459 BUMDes, absorbing more than 1 million workers.⁶ Current research by Widiastuti et al.⁷ Finds that most of BUMDes are still at the start-up phase, and they still struggle with sustainability, governance and accountability. Besides, BUMDes also requires more capital to expand the provision of its social and economic functions.⁸

Meanwhile, in dealing with micro and small businesses and helping Indonesia achieve its SDG targets, Islamic microfinance institutions (IMFI) called Baitul Maal wa Tamwil (BMT) can provide solutions.⁹ BMT is a community based

¹ UN, "Transforming our world: the 2030 agenda for sustainable development," *United Nations*, 2015. <https://sdgs.un.org/2030agenda> (accessed Dec. 30, 2020).

² J. D. Sachs, "From Millennium Development Goals to Sustainable Development Goals," *Lancet*, Vol. 379 (2012), pp. 2206–2211, doi: [https://doi.org/10.1016/S0140-6736\(12\)60685-0](https://doi.org/10.1016/S0140-6736(12)60685-0)

³ D. Dzirkullah and A. Permata, "Sinergitas Baitul Maal Wa Tamwil (BMT) Dengan Badan Usaha Milik Desa (BUMDES) Sebagai Alternatif Penguatan UMKM Masyarakat Pedesaan," *DINAR J. Ekon. dan Keuang. Islam*, Vol. 1 No. 1 (2016), pp. 1–10

⁴ Kemenkumham, *Undang Undang Republik Indonesia No 6 tahun 2014 tentang Desa*. Jakarta, 2014

⁵ M. Z. Wahyudi, "Hampir 54 Persen Penduduk Indonesia Tinggal di Kota," *Kompas*, Jakarta, Aug. 23, 2012.

⁶ Kemendesa, "Indeks Desa Membangun," 2020. <https://idm.kemendesa.go.id/> (accessed Nov. 10, 2020).

⁷ H. Widiastuti, W. M. Putra, E. R. Utami, and R. Suryanto, "Menakar tata kelola badan usaha milik desa di Indonesia," *J. Ekon. dan Bisnis* (2019), doi: 10.24914/jeb.v22i2.2410.

⁸ E. Agunggunanto, F. Arianti, E. W. Kushartono, and Darwanto, "Pengembangan Desa Mandiri Melalui Pengelolaan Badan Usaha Milik Desa (BUMDes)," *J. Din. Ekon. Bisnis*, Vol. 15 No. 1 (2016), pp. 67–81.

⁹ Ascarya, "Mainstreaming Islamic Commercial and Social Finance in Digital Era," 2019. Also read Ascarya, J. A. Husman, and U. Suharto, *Integrasi Keuangan Komersial dan Sosial Islam - Usulan Model*. Jakarta: Bank Indonesia, 2017. And Ascarya, S. Rahmawati, and H. Tanjung, "Design and Determine Holistic Financial Inclusion through Baitul Maal wa Tamwil," Jakarta, 2015. [Online]. Available: <https://www.bi.go.id/id/publikasi/wp/Pages/WR-Ags-2016-1.aspx>.

financial institution that applies Islamic moral values and social capital or group solidarity to ensure repayment.¹⁰ According to Ascarya et al. (2015b), Baitul Maal wa Tamwil (BMT) is a type of Islamic Micro Finance Institution known to be the most suitable micro-enterprise model in Indonesia.

Outside Indonesia, IMFI has also become global phenomena. For instance, an International Fund for Agricultural Development (IFAD) report shows that in Azerbaijan, Sudan, Syria, Bosnia Herzegovina, IMFI become an innovative tool to reduce rural poverty. This is due to sharia terms and conditions of IMFI products, such as risk-sharing, profit sharing, fixed repayment rate, and transparency, social welfare and justice. Those terms and conditions have made IMFI products become affordable and accessible to the people.¹¹ Furthermore, lessons from Pakistan also shows that the clients of IMFI are better off in terms of their monthly income and expenditures and development of their assets.¹²

Recent research by Wediawati confirms that BMT achieve its sustainability by performing a balance of “financial intermediation” through diversified financial services; “social intermediation” through capacity building for its clients; and “spiritual intermediation” through role modeling and compliance to governance”.¹³ Nevertheless, as a growing industry, IMFI also faces some challenges, including limited market outreach, human capital, governance, and management issues.¹⁴ Overall, BUMDes and BMT have similarities in their goals in building the prosperity of Indonesian people, especially the poor. If both types of institutions can be synergized, they can potentially expedite the achievement of SDGs of Indonesia.

From the above discussion, it can be concluded that BUMDes and BMT aim at similar objectives. They both aspire to achieve social and economic performance sustainably by empowering the poor. However, to grow further, both BUMDes and BMT also have similar problems: expansion of the market, additional capital, governance, and human capital. From these similarities, there are potential synergies that can be developed between the two initiatives. Suzuki et al.¹⁵ Suggest that BMT requires a strategic alliance with local organizations to scale up its impact in poverty eradication. Similarly, Wediawati et al. recommend further research on the effect of a holistic approach of BMT in improving the livelihood of the poor. In this matter, preliminary research by Dzikrullah and Permata has found potential synergy between BMT and BUMDes. However, they suggest further elaboration on how much potential can be developed into concepts and

¹⁰ N. Azmi and M. Thaker, “Literature Survey on Islamic Microfinance,” *Glob. Rev. Islam. Econ. Bus.*, Vol. 8 No. 1 (2020), pp. 23–33, doi: <https://doi.org/10.14421/grieb.2020.081-03>.

¹¹ IFAD, “Islamic microfinance: Unlocking new potential to fight rural poverty,” Rome, 2014. [Online]. Available: <https://knowledge4food.net/knowledge-portal-item/islamic-microfinance-unlocking-new-potential-to-fight-rural-poverty/>.

¹² H. Z. Mahmood, “Islamic Microfinance and Poverty Alleviation: An Empirical Assessment from Pakistan,” *J. Islam. Econ. Bank. Financ.*, Vol. 11 No. 2 (2015), pp. 85–105.

¹³ B. Wediawati, N. Effendi, A. Herwany, and D. Masyita, “Sustainability of Islamic microfinance in Indonesia: A holistic approach,” *Acad. Strateg. Manag. J.*, Vol. 17 No. 3 (2018), pp. 12.

¹⁴ N. Azmi and M. Thaker, “Literature Survey on Islamic Microfinance”, 25.

¹⁵ Y. Suzuki, S. Pramono, and Rufaidah, “Islamic Microfinance and Poverty Alleviation Program: Preliminary Research Findings from Indonesia,” *SHARE J. Ekon. dan Keuang. Islam*, Vol. 5 No. 1 (2016) pp. 63–82.

models that be implemented in real life.¹⁶ Furthermore, Bambang¹⁷ has observed the potentials of sharia agreement to applied in BUMDes, whereas Widiastuti et al. suggest further research that can simplify governance and accountability mechanisms for BUMDes. In sum, research needs to investigate potential synergies between BMT and BUMDes to alleviate poverty, enhance the prosperity of people living in the villages, and eventually achieve Indonesia's SDGs.¹⁸

Based on the research gaps, this study explores potential synergies between BMT and BUMDes as a holistic approach for improving the livelihood of people living in villages. This study introduces an overview of BUMDes and BMT in Indonesia, a research gap, and research objectives. Subsequently, a literature review is discussed, followed by a methodology section. Next, in the analysis section, a concept of potential synergies between BUMDes and BMT is discussed. This article ends with a conclusion, implications, limitations, and further research.

LITERATURE REVIEW

BMT as an Inclusive Social and Financial Institution

BMT is a form of an Islamic microfinance institution in Indonesia, which started in the 1980s (Ascarya et al. 2015b). The results of comprehensive literature review by Ascarya et al. show that BMT can provide both social and financial inclusions for the poor. Generally, BMT operates with two divisions. The first division is called Baitul Maal (BM), or the house of wealth to collect funds from Muslims who have compulsory and voluntary charities like zakat, infaq, sadaqah, and waqf, and distribute them to the needy based on shariah principles. The second division is called Baitut Tamwil (BT) or the house of finance or capital, which is in charge of developing productive and profitable business and investment to enhance the livelihood of borrowers who run micro and small businesses (Ascarya et al., 2015b; 2017). BMT clients are the poor, extremely poor, and active poor who would need various financial services at a micro-scale with very affordable price, which can be served by the Islamic social finance scheme.¹⁹ According to Obaidullah,²⁰ the instruments of IMFI can be categorized into three elements: 1) fund mobilization, which can be generated from charity, deposits, and equity; 2) financing instruments based on sharing profit or loss, and based on renting or selling; 3) risk management, insurance, and collateral. Therefore, BMT provides holistic financial inclusion in the Islamic perspective, where there is "no dichotomy between real and financial sectors, as well as between for-profit and not-for profit activities or institutions".²¹

¹⁶ D. Dzikrullah and A. Permata, pp. 1–10

¹⁷ Bambang, "Implementasi Badan Usaha Milik Desa Berbasis Ekonomi Islam : Suatu Kajian Elementer," *J. Iqtisaduna*, Vol. 3 No. 2 (2017), pp. 1–20, [Online]. Available: <http://journal.uin-alauddin.ac.id/index.php/Iqtisaduna/article/view/4042/3737>.

¹⁸ H. Widiastuti, W. M. Putra, E. R. Utami, and R. Suryanto, "Menakar tata kelola badan usaha milik desa di Indonesia,"

¹⁹ Ascarya, S. Rahmawati, and H. Tanjung, "Designing Holistic Financial Inclusion based on Maqasid Shahriah" 2015.

²⁰ M. Obaidullah, *Role of Microfinance in Poverty Alleviation* Title. Jeddah: IRTI-IDB, 2008.

²¹ Ascarya, S. Rahmawati, and H. Tanjung, "Designing Holistic Financial Inclusion based on Maqasid Shahriah".

In sum, the sources of funds, recipients, and programs of BMT can be depicted in Table 1 and Table 2. Table 1 shows that Baitul Maal collects funds from donors including muzzaki for zakat collection, munfiq for infaq/sadaqah, and waqif for wakaf donations. Zakat fund recipients are already specified into eight categories (asnaf), including the indebted (gharimin), freeing slaves (fir-riqaab), the poor (fuqara), the destitute (masakin), the converts (muallaf), the travellers in need (ibn as-sabil), the fighters in the path of Allah (fi sabilillah), and the zakah administrator ('amil). Based on those categories, the donations are being managed to recover, empower, and develop people who have the right to receive donations (Ascarya et al., 2015b, 2017). The funds mobilized by BM can be directly disbursed to the poor for productive activities by giving them grants or as benevolent loans (qard hasan) where the poor does not need to pay any interest for the loans. Meanwhile, for the poorest of the poor, the funds can be used for consumptive purposes such as food, shelter, healthcare, and finding jobs.²²

Table 1
Funding Sources, Recipients, and Programs of Baitul Maal

Source of Funds	Recipients	Programs
Zakat - Gold and silver - Deposit and stock - Industry and commerce - Agriculture and farming	- the indebted (gharimin) - freeing slaves (fir-riqaab) - the poor (fuqara), - the destitute (masakin), - the converts (muallaf), - the travellers in need (ibn as-sabil), - the fighters in the path of Allah (fi sabilillah) - the zakah administrator ('amil).	Recovery, Empowerment, Development - Bail out - Health care - Basic need fulfilment - Education - Skills and entrepreneurship development - Benevolent loans - Charitable project - Shelter - Spreading of Islam
Non Zakat - Infaq and Sadaqa - Waqf - Inheritance and Donations - Others	- Poor people, micro enterprises in general	

Source: adapted from Ascarya et al. (2015b; 2017), Ahmed (2002)

As for the roles of Baitut Tamwil (BT), Table 2 summarizes the source of fund and financing scheme. According to Ascarya et al., like cooperatives, BT generates funding from its members in the forms of initial capital, voluntary deposits and safe keeping. BT can also source its funds from external sources like Islamic banks. The funds are then managed professionally to generate revenue based on profit sharing and margin. The financing scheme of BT can be in the form of equity based Islamic contracts like mudharabah when BT provide 100% financing, or *musharakah* when BT and its client have shared financing agreement. The financing can also managed on debt-based Islamic contracts like *murabahah* or sale of goods on due date or sale of goods on instalments called *bai' bithaman ajil*. Finally, BT can provide non-commercial (benevolent) financing or qardh for needy people. As for the microfinance services, BT provide micro takaful

²² H. Ahmed, "Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions," *Islam. Econ. Stud.*, Vol. 31 No. 2 (2002), pp. 160–182.

(Islamic micro insurance), money transfer, bill payments, ATM, mobile banking and internet banking.

Table 2
Source of Fund, Financing Scheme and Services of Baitut Tamwil

Source of Fund	Financing Scheme	Services
Initial Capital	Equity-based financing	- Micro takaful (Islamic micro insurance)
- Principal deposits	- Mudharabah (full financing by the BT for a promising project or business with agreed profit or loss sharing)	- Money transfer
- Special principal deposits	- Musharakah (shared financing by the BT and partners with agreed profit or loss sharing)	- Bill payments
- Compulsory deposits		- ATM
Voluntary Deposits	Debt-based financing	- Mobile banking
- Mudharabah deposits	- Murabahah (sale of goods on due date)	- Internet Banking
- Educational deposits	- Bai bithaman ajil (sale of goods on deferred payment)	
- Ied ul Fitr deposits	Non-commercial based financing	
- Pilgrimage deposits	- Qardh (benevolence loans)	
- Qurban deposits		
- Time deposits (1-12 months)		
Safe-keeping		
- Wadiah amanah deposit		
- Wadiah dhamanah deposit		

Source: adapted from Ascarya et al. (2015b; 2017)

In fact, the poor can improve their well-being when they are given opportunities to build their asset, enhance their knowledge and skills in managing their asset, or through empowerment rather than making more debts.²³ Accordingly, by combining the social and financial arms within one organization, BMT can achieve social objectives through poverty eradication, and financial objectives through financial sustainability. As the result, BMT can generate both social and economic impacts for the poor (Ascarya et al, 2015b; 2017). The statistics support this assertion. As reported by national conference of BMT in 2015, by 2014, the number of BMTs have increased to 3,900 with a total asset of IDR 15 trillion, employing around 20,000 people with 3.5 million customers (Ascarya et al. 2015b).²⁴

The overall achievement of social and economic objectives of BMT is in line with maqasid syariah as stipulated by Al Ghazali, cited by Ascarya et al. and Wediawati et al. Maqasid syariah is the goal of Islamic faith, which consists of safeguarding the elements of faith, human life, intellect, lineage, and wealth.²⁵ The premise of BMT is to bring welfare with the primary aim to improve the livelihood of the poorest (Tammani and Liu, 2015). Research has shown that BMTs have been able to improve the financial performance of microenterprises and household income of respected entrepreneurs. Therefore, BMT as a type of inclusive microfinance can contribute to poverty alleviation (Hadisumarto and Ismail, 2010). Overall, BMT shows the possibility of synergy between profit and not-for-profit activities within the same institution. This makes it possible for an institution to conduct both social and economic development programs under one roof.

In sum, the poor can move out of poverty if they are given the opportunity to improve their well-being through BMT's social and economic development programs. In this matter, BMT can be considered as a change agent for social inclusion through its

²³ Consultative Group to Assist the Poor, *Good Practice Guidelines for Funders of Microfinance*, 2nd ed. Washington DC: CGAP, 2006.

²⁴ Ascarya, S. Rahmawati, and H. Tanjung, "Designing Holistic Financial Inclusion based on Maqasid Syariah," 2015.

²⁵ Ibid. Also read B. Wediawati, N. Effendi, A. Herwany, and D. Masyita, "Sustainability of Islamic microfinance in Indonesia: A holistic approach," *Acad. Strateg. Manag. J.*, Vol. 17 No. 3 (2018), pp. 1–15.

recovery, empowerment, and development programs; and for financial inclusion by providing Islamic microfinance services and products. The objectives of BMT can be achieved as long as it is consistent with the principles of *maqasid syariah*.

Government Regulations on BMT

The establishment of BMT is closely related to government regulations on zakat and waqf collections and the cooperative establishment. Zakat is stipulated under law no. 23 the year 2011, which is operationalized by government regulation no. 14 the year 2014 (Ascarya et al., 2017). The government regulation stipulates that the national agency conducts zakat collection for *amil zakat* or BAZNAS at the national level. To collect, distribute and manage zakat, BAZNAS can establish *amil zakat* institution (LAZ) at provincial and district or city levels (article 17). Furthermore, BAZNAS can also form zakat management unit (UPZ) in government institutions; in state-owned companies at national, provincial and district levels; in private companies; and in Indonesian embassies overseas. UPZ can also be formed at subdistricts, villages and other places (article 16). Moreover, government regulation no. 14 the year 2014 also opens the opportunities for individuals or group of individuals to be *amil zakat*.²⁶ Therefore, a Baitul Maal established by an Islamic microfinance institution (BMT) can serve as *amil zakat* (UPZ).

As for waqf, it is regulated under the law on waqf no. 41 the year 2004, which is operationalized by government regulation no. 42 the year 2006.²⁷ The law stipulates that waqf can be in the form of money, and it should be channelled through Islamic financial institution appointed by the Minister of Religious Affairs (article 28). Meanwhile, waqf collection institution is called "Islamic financial institution collecting money waqf" (LKS-PWU) which can be in the form of an Islamic financial institution with *wadi'ah* safe keeping facility (article 24 point 3e). Hence, it can be concluded that the Baitul Maat established by Islamic Bank, Islamic Credit Bank, and Baitut Tamwil can serve as LKS-PWU because those financial institutions have *wadi'ah* facilities (Ascarya et al., 2017).

Finally, the regulation on the establishment of BMT is issued by the Ministry of Cooperatives and Small-Medium Businesses no. 16/Per/M.KUKM/IX/2015 on the implementation of Islamic saving and lending cooperatives. The regulation says that "the Islamic saving and lending cooperatives, called KSPPS, is a cooperatives whose activities include savings, lending, and financing based on *syariah* principles, including the management of zakat, *infaq/sadaqah*, and waqf.". That means, BMT in Islamic saving and lending cooperatives can perform both social and commercial functions.²⁸ In sum, although different institutions govern the regulations for the establishment and operation of BMT, it is possible for a BMT to get its legal status.

BUMDes to Expedite Prosperity of Villagers

Village-owned enterprise (BUMDes) is a government initiative to expedite village development by empowering villagers to establish their own business. One of the primary purposes is to safeguard micro and small businesses in villages from unfair competition from large corporations.²⁹ BUMDes is regulated under law no. 32 the year 2004 on local government, and government regulation no. 71 the year 2005 on villages, and is operationalized under the regulation of the Ministry of Village Development No. 4 the year 2015 (Permendes 4/2015). The regulations stipulate that the establishment of BUMDes

²⁶ Ascarya, J. A. Husman, and U. Suharto, *Integrasi Keuangan Komersial dan Sosial Islam - Usulan Model*. Jakarta: Bank Indonesia, 2017.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Universitas Brawijaya, *Buku Panduan Pendirian dan Pengelolaan BUMDes di Indonesia*. Malang: Fakultas Ekonomi Universitas Brawijaya, 2007.

should be accompanied by capacity building, and it should be supported by district or city government facilitation. According to Permendes 4/2015, BUMDes can operate six business types: provision of public services, service points, renting, production and trading, holding, and microfinancing. With the presence of BUMDes, it is expected that villagers can maximize the benefits of trade with end consumers by reducing the roles of intermediaries. BUMDes is also expected to provide financial services for villagers for their productive and consumptive purposes, to enable entrepreneurship in villages, and to facilitate villagers to be the leading distributors of nine staple food.³⁰

BUMDes is expected to function as both social and commercial institutions. As a social institution, BUMDes should serve the community's interest by providing social services like the provision of clean water. While as a commercial institution, BUMDes should grow as an enterprise which can generate village revenue through its business profits [22]. In a longer term, BUMDes is expected to be a backbone of the village in enhancing economic development, increasing village revenue, managing village resources based on the needs of villagers (Apriantono, 2016). By 2018, the number of BUMDes reached 45,459 units with over 1 million workers in 2018. The performance of BUMDes varies, some are successful while others are still struggling as start-up companies.³¹

Governance and Business Types of BUMDes

Universitas Brawijaya³² suggests that the establishment of BUMDes should meet the following criteria, based on government regulations on BUMDes:

1. BUMDes should be owned and managed by villagers
2. The equity should originate from village authority (51%) and villagers (49%) through equity participation.
3. The operations of BUMDes should be based on local wisdom and culture
4. BUMDes' field of business should be based on market needs and local potentials.
5. The profit generated by BUMDes should be distributed to the members (shareholders) and villagers based on village policy.
6. BUMDes should be supported by the government at village, district and provincial levels.
7. The operations of BUMDes should be controlled by joint supervision of village officials, local development bank, and members).

As for BUMDes governance, Universitas Brawijaya³³ also suggests that BUMDes should adopt several principles in its governance, including:

1. The management of BUMDes should embrace the principles of cooperation, participatory, gender equity, transparency, accountability, and sustainability, professionalism, and independence.
2. BUMDes is established based on villagers' initiatives, with most of equity come from the villagers and village government.
3. The objectives of BUMDes establishment is to provide goods and services for villages; to generate productive businesses, especially for the poor in villages; to abolish the practice of loan shark, to provide employment opportunities and to generate revenue for the village and its villagers.
4. The management of BUMDes can be conducted in collaboration with third party to make wider impacts.

³⁰ Ibid.

³¹ H. Widiastuti, W. M. Putra, E. R. Utami, and R. Suryanto, "Menakar tata kelola badan usaha milik desa di Indonesia,".

³² Universitas Brawijaya, *Buku Panduan Pendirian dan Pengelolaan BUMDes di Indonesia*.

³³ Ibid.

Furthermore, according Permendes 4/2015, there are six types of business that can be run by BUMDes, as follows:³⁴

1. Public service provider. In this sector, BUMDes run public services for villagers like drinking water business, village electricity, and storage for harvest (article 19 of Permendes 4/2015).
2. Renting. In this business, BUMDes operates rental business to meet the needs of villagers such as tractor, party equipment, meeting hall, shops, land, etc (article 20 of Permendes 4/2015).
3. Service point. BUMDes as a middleman that bridge the farmers with the market. BUMDes can also serve as a payment point for electricity, water, telephone, etc. (article 21 of Permendes 4/2015).
4. Production and Trading. BUMDes produces and sells goods which are needed by villagers like ice factory, plantation supplies such as fertilizers, etc. (article 22 of Permendes 4/2015).
5. Microfinance. In this area, BUMDes provides financial services for villagers with lower and affordable interest compared to eliminate loan sharks. (article 23 of Permendes 4/2015).
6. Holding. BUMDes serves as a holding company for several business units in the village by having equities in the business units. (article 24 of Permendes 4/2015).

The six types of BUMDes business can be summarized in Table 3.

Table 3
The Roles, Types and Potential Business of BUMDes

Roles of BUMDes	Types of Business	Potential Business
Provider of public utilities and infrastructure for villagers	Public service provider	Drinking water, electricity, harvest/food storage
	Public service point	Electricity, water, telephone payment point
Utilizing village assets	Renting of equipment and facilities	Transportation, party equipment rental, meeting place rental, shops and land rental
Support system of villagers' businesses	Holding company	Upgrading boat for fishermen to increase fish catch; Homestay business in village tourism
	Production and trading	Ice factory, factories for harvest yield, village marketplace (online/offline), distribution point of staple food.
	Microfinance	Saving and lending services for villagers

Adapted from Bambang (2017), Universitas Brawijaya (2007)

Possibilities of Applying Islamic Principles on BUMDes

A recent study by Bambang finds that BUMDes apply conventional business practices in their operations, and that none of them apply Sharia or Islamic principles in their running their businesses. ³⁵ This reality opens opportunities for the application of

³⁴ Bambang, "Implementasi Badan Usaha Milik Desa Berbasis Ekonomi Islam : Suatu Kajian Elementer," *J. Iqtisaduna*, Vol. 3 No. 2 (2017), pp. 1–20, [Online]. Available: <http://journal.uin-alauddin.ac.id/index.php/Iqtisaduna/article/view/4042/3737>.

³⁵ Ibid.

Islamic principles in BUMDes operations as the regulations do not specifically prescribe the legal status of BUMDes. In other words, BUMDes is given the autonomy to govern its business as long as it is not in contrary to government regulations and social norms.³⁶ Looking at the six business types that can be operated by BUMDes, the possibilities to apply Islamic business contracts in BUMDes businesses can be summarized in Table 4.

Table 4
Possible Applications of Shariah Contracts on BUMDes Businesses

Contract	Definitions (Siebel and Agung, 2005)	BUMDes Business (Bambang, 2017)
	Safe keeping or saving	
	<i>Profit Sharing Financing Products</i>	
<i>Mushārahah</i>	Equity participation, investment and management from all partners; profit are shared according to a pre-agreed ratio, losses according to equity contribution	Holding company, public service provider, microfinancing
<i>Muḍārahah</i>	A profit-sharing partnership to which one contributes the capital and the other the entrepreneurship; or the bank provides the capital, the customer manages the project. Profit is shared according the a pre-agreed ratio.	Holding company, public service provider, microfinancing
<i>Qarḍ Ḥasan</i>	Charitable loans free of interest and profit sharing margins, repayment by instalments. A modest service charge is permissible	microfinancing
<i>Wakālah</i>	An authorization to the bank to conduct some business on the customer's behalf	microfinancing
<i>Hawālah</i>	An agreement by the bank to undertake some of the liabilities of the customer for which the bank receives a fee. When the liabilities mature the customer pays as the bank	microfinancing
	<i>Advance purchase financing products</i>	
<i>Murābahah</i>	A sales contract between a bank and its customers, mostly for trade financing. The bank purchases goods ordered by the customer; the customer pays the original price plus a profit margin agreed upon by the two parties. Repayment by installments within a specified period.	production and trading, microfinancing
<i>Istiṣnā'</i>	A sales contract between a bank and its customers where the customer specifies goods to be made or shipped, which the bank then sells to the customer according to a pre-agreed agreement. Prices and instalment schedules are mutually agreed upon in advance.	production and trading, microfinancing
<i>Bai' Bithaman Ajil</i>	Purchase with deferred delivery: a sales contract where the price is paid in advance by the bank and the goods are delivered later by the customer to a designee.	production and trading, microfinancing
<i>Ijārah</i>	Lease and Hire Purchase: A contract under which the bank leases equipment to a customer for a rental fee; at the end of the lease period the customer will buy the equipment at an agreed price minus the rental fees already paid.	Renting, microfinancing
	<i>Deposit products</i>	
<i>Wadi'ah</i>	Sight deposits, including current account (giro wadi'ah)	microfinancing
<i>Muḍārahah</i>	Deposit products based on revenue-sharing between depositor and bank, including savings products withdrawable at any time and time deposit products.	microfinancing
<i>Qarḍ al-Ḥasanah</i>	Unremunerated deposit products, usually for charitable purposes (widespread in Iran, but not found in Indonesia).	microfinancing

³⁶ Ibid.

Contract	Definitions (Siebel and Agung, 2005)	BUMDes Business (Bambang, 2017)
	Safe keeping or saving	
<i>Taḍāmun</i> , <i>Takāful</i>	Islamic insurance with joint risk-sharing	microfinancing

Adapted from Siebel and Agung³⁷ and Bambang³⁸

In sum, the literature review shows that BMT and BUMDes have similar goals to improve social and economic conditions of their beneficiaries. There are overlaps in what BMT can do such as capacity building and financial intermediaries, with the mandate and the business lines of BUMDes. The regulations also allow potential synergies between BMT and BUMDes which will be discussed in analysis section (section 4).

METHODOLOGY

This conceptual paper is an exploratory study where the author seeks to understand potential synergies between BMT and BUMDes in developing social and economic conditions of people at grassroot level. This study applies a semi-systematic review to review specific topic and observe how the topic evolve over time.³⁹ It is usually used to detect specific themes and common issues on certain topic to be observed. Accordingly, the analysis and recommendations are made based on semi-systematic review of the literature to explore potential synergies between BMT and BUMDes in strategizing and implementing their social and financial roles in improving prosperity and well-being of people.⁴⁰

ANALYSIS

As discussed in section 1, Indonesia has 74.910 villages, 45,459 BUMDes, and over 5,000 BMT. It means there are big gaps in the numbers of villages, BUMDes and BMT which offer opportunities for BMT and BUMDes to grow their significance in improving the prosperity of people living in villages. Overall, BMT and BUMDes share the same objectives. BMT is guided by maqasid syariah, which consists of safeguarding the elements of faith, human life, intellect, lineage, and wealth (Ascarya et al., 2015b; Wediawati et al., 2018). BMT aims to bring welfare with the primary aim to improve the livelihood of poorest. Similarly, BUMDes has goals in improving the quality of life of people living in villages, by enhancing skills and job opportunities, utilizing village potential and assets, collaborations with other BUMDes and third parties, expanding market opportunities, and improving overall village infrastructure.⁴¹ With similarities in goals, potential synergies between the two institutions are possible and can be explored.

A preliminary study by Dzikrullah and Permata find possible synergies between BMT and BUMDes where BMT serves as a *Shahibul Maal* (funder) and BUMDes as *Mudharib* (the business owner). The contract can be based on mudharabah (BMT funds 100 per cent of equity) or musharakah (BMT and BUMDes share capital) to run a business or a project with agreed shared profit or loss. They also suggest possible synergies in social

³⁷ H. D. Siebel and W. D. Agung, "Islamic Microfinance in Indonesia," Cologne, 2005.

³⁸ Bambang, "Implementasi Badan Usaha Milik Desa Berbasis Ekonomi Islam : Suatu Kajian Elementer," *J. Iqtisaduna*, vol. 3, no. 2, pp. 1–20, 2017, [Online]. Available: <http://journal.uin-alauddin.ac.id/index.php/Iqtisaduna/article/view/4042/3737>.

³⁹ H. Snyder, "Literature review as a research methodology: An overview and guidelines," *J. Bus. Res.*, Vol. 104 (2019), pp. 333–339, doi: 10.1016/j.jbusres.2019.07.039.

⁴⁰ Ibid, 338

⁴¹ Universitas Brawijaya, *Buku Panduan Pendirian dan Pengelolaan BUMDes di Indonesia*.

development where BMT can empower the poor to become potential employees for BUMDes or as entrepreneurs who can collaborate with BUMDes.⁴²

From the regulations point of view, there are possibilities for a BMT to apply a permit as a BUMDes, or a BUMDes to apply business permits to run a BMT. By combining the operation of BUMDes and BMT under one roof, it is then possible for BMT and BUMDes to provide a more holistic service for the villagers as they combine the strengths of the two institutions. By doing so, the BMT/BUMDes can perform all types of Islamic contracts as described in Table 4 above. The microfinance business can be run as a Baitut Tamwil. The other types of BUMDes business like infrastructure development, renting, production, trading, and service provision can be run in collaborations with micro and small enterprises in the village. Meanwhile, the Baitul Maal division can collect the Islamic social funds which partl can be used for capacity building of human capital to improve villagers' skills and entrepreneurship capabilities. In return, capable human capital will contribute to the success of micro enterprises that collaborate with BUMDes.

In sum, there are two possible synergies between BMT and BUMDes, depending on the current situation in the village. These potential synergies are summarized in Table 5.

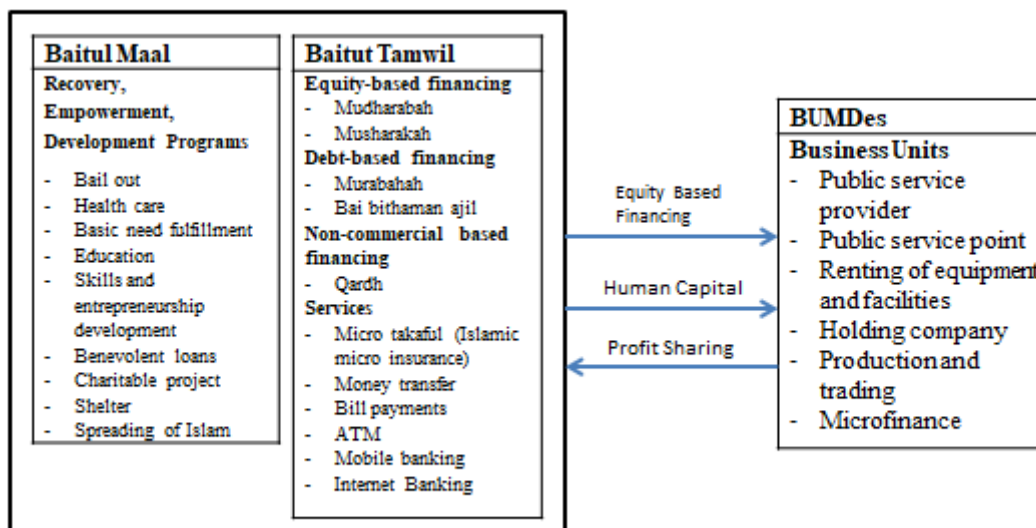
Table 5
Potential Synergies between BMT and BUMDes

Presence of BMT	Presence of BUMDes	Potential Synergies	Business Model
Yes	Yes	Model 1: Strategic Alliance. BMT can provide financing to BUMDes business in the form of Musharakah and Mudharabah	Strategic Alliance BMT-BUMDes
Yes	No	Option 2: Integrated BMT-BUMDes. BMT can apply a permit to operate a BUMDes. As an integrated BMT-BUMDes, the organization will have three arms: Social development division (Baitul Maal), Financial Development Division (Baitut Tamwil), and Business Development Division (BUMDes). By doing so, the microfinance role of BUMDes is managed by Baitut Tamwil. BUMDes can focus on business development, working in partnership with micro and small enterprises (MSE) in the village.	Integrated BMT-BUMDes
No	Yes	Option 2: Integrated BMT-BUMDes. BUMDes can apply for a permit to operate a BMT. A BUMDes-BMT organization can operate a more inclusive business similar as discussed in the above column.	Integrated BMT-BUMDes
No	No	Option 2: Integrated BMT-BUMDes. A holistic institution with BMT and BUMDes under one roof can be established with full inclusive business operations as discussed above.	Integrated BMT-BUMDes

The following Figures illustrate how Model 1 and Model 2 work as conceptual models.

⁴² D. Dzirkullah and A. Permata, pp. 1–10

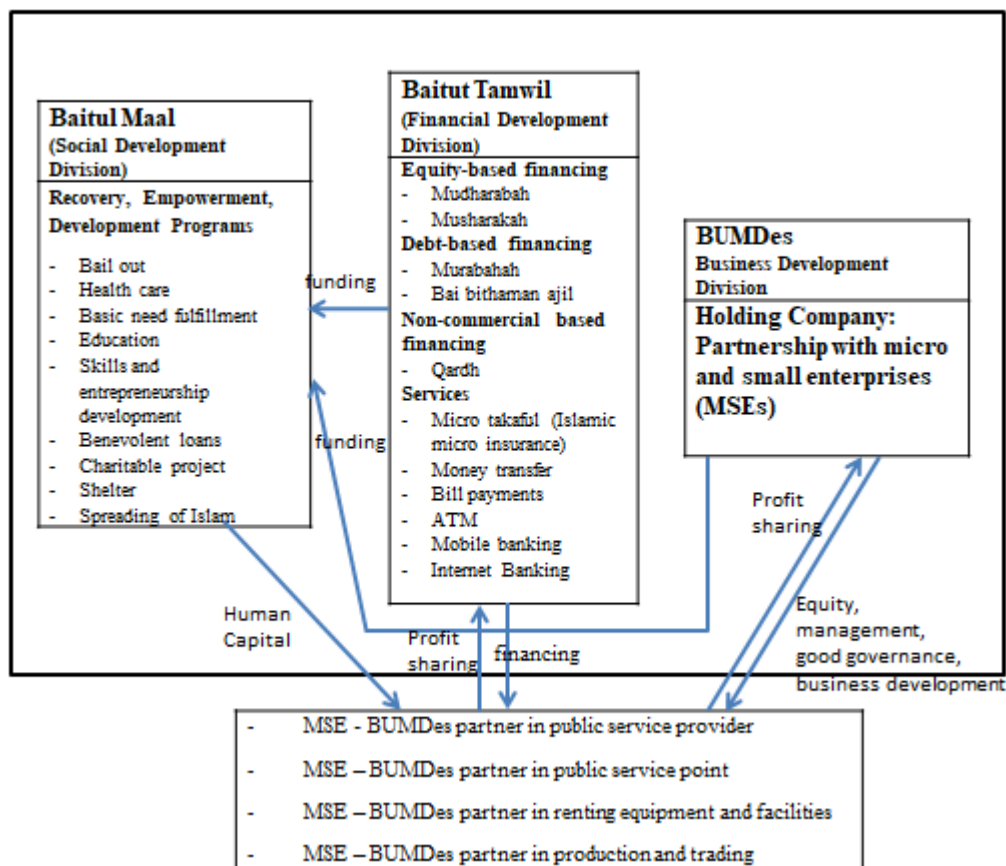
Figure 1
Strategic Alliance BMT-BUMDes (Model 1)



Inspired by Ascarya et al. (2015b, 2017) and Universitas Brawijaya (2007)

Figure 1 shows how Model 1 works. In this model, BMT and BUMDes works as separate entities. BMT serves as BUMDes strategic partner in providing equity-based financing in the form of mudharabah and musharakah. BMT also contributes to human capital of BUMDes by providing skills and entrepreneurship development for the poor, that will enable them to work as BUMDes employees or BUMDes partners in running BUMDes' business units. In return, BUMDes will share its profit or loss with BMT as per agreed contract. Another alternative, which is Model 2, is depicted in Figure 2 below:

Figure 2
Integrated BMT-BUMDes (Model 2)



Inspired by Ascarya et al (2015b, 2017) and Universitas Brawijaya (2007)

In Model 2, BMT and BUMDes work as one entity. Baitul Maal serves as Social Development Division, that can contribute to human capital development for MSEs working in partnership with BUMDes. Baitut Tamwil plays a role as Financial Development Division which contributes to the financing of MSEs working with BUMDes. BUMDes works as a Business Development Division, which functions as a holding company working in partnership with MSEs in the lines of business stipulated by government regulations, including public service provision, public service point, and rental of equipment and facilities well as production and trading. In this role, BUMDes have shares in MSEs and build their management capabilities, business development, as well as coach MSEs in good governance practices. Both Baitut Tamwil and BUMDes generate revenue from profit sharing with MSEs. Both of them will contribute to the funding of Baitul Maal from some of their profits. This integrated model (Model 2) is preferable as it will give a complete portfolio of BMT and BUMDes to improve social and economic conditions of the villagers.

CONCLUSION

This study has achieved its objective in developing a concept for potential synergies between BMT and BUMDes. This study finds two potential models for BMT-BUMDes synergies depending whether there are BMT and BUMDes already exist in the village. First, a strategic partnership model can be established when both BMT and BUMDes have been established in a village. They can form a strategic alliance as separate entities, where

BMT provide social and financial supports for BUMDes based on shariah principles. Second, an integrated BMT-BUMDes can be developed in three situations: 1) when there is BMT but no BUMDes, the BMT can expand its coverage to cover BUMDes businesses; 2) when there is a BUMDes but no BMT, the BUMDes can establish a BMT as its business unit; 3) when there is no BMT or BUMDes in a village, a combination of BUMDes and BMT as an institution can be established. These two models are possible within current government regulations.

The presence of BMT and BUMDes in each village in Indonesia will contribute to the improvement of prosperity in rural areas of the country. There is still a big gap in the number of villages and the numbers of BMT and BUMDes in the country, where there are 74,910 villages; 45,459 BUMDes and around 5,000 BMT respectively. There are large opportunities of BMT and BUMDes to flourish because more than 110 million Indonesian people live in villages, where the majority of them are moslems. This research contributes to the discussion on Islamic microfinance and village development. Research on the synergy between BMT and BUMDes is still at infancy. This study extends the work of previous researchers by adding a matrix of potential synergies between BMT and BUMDes which has not been done before. Regulators, practitioners, and academics in the areas of Islamic economics and village development can take advantage of this study by scrutinizing the possibilities of integrating BMT and BUMDes.

However, the concepts developed from this study are still at a conceptual stage and need to be further developed as a model which can be tested in the real life. It is expected that the research will contribute to the Islamic economics and village development literatures.

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