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**SHARIAH-BASED MICROFINANCE FOR
LIMITED-RESOURCE FARMERS:
THE PRACTICE OF BAITUL MAAL WAL
TAMWIL-TAMZIS IN WONOSOBO,
CENTRAL JAVA, INDONESIA**

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Conference on Cooperatives (ICOOP2015)

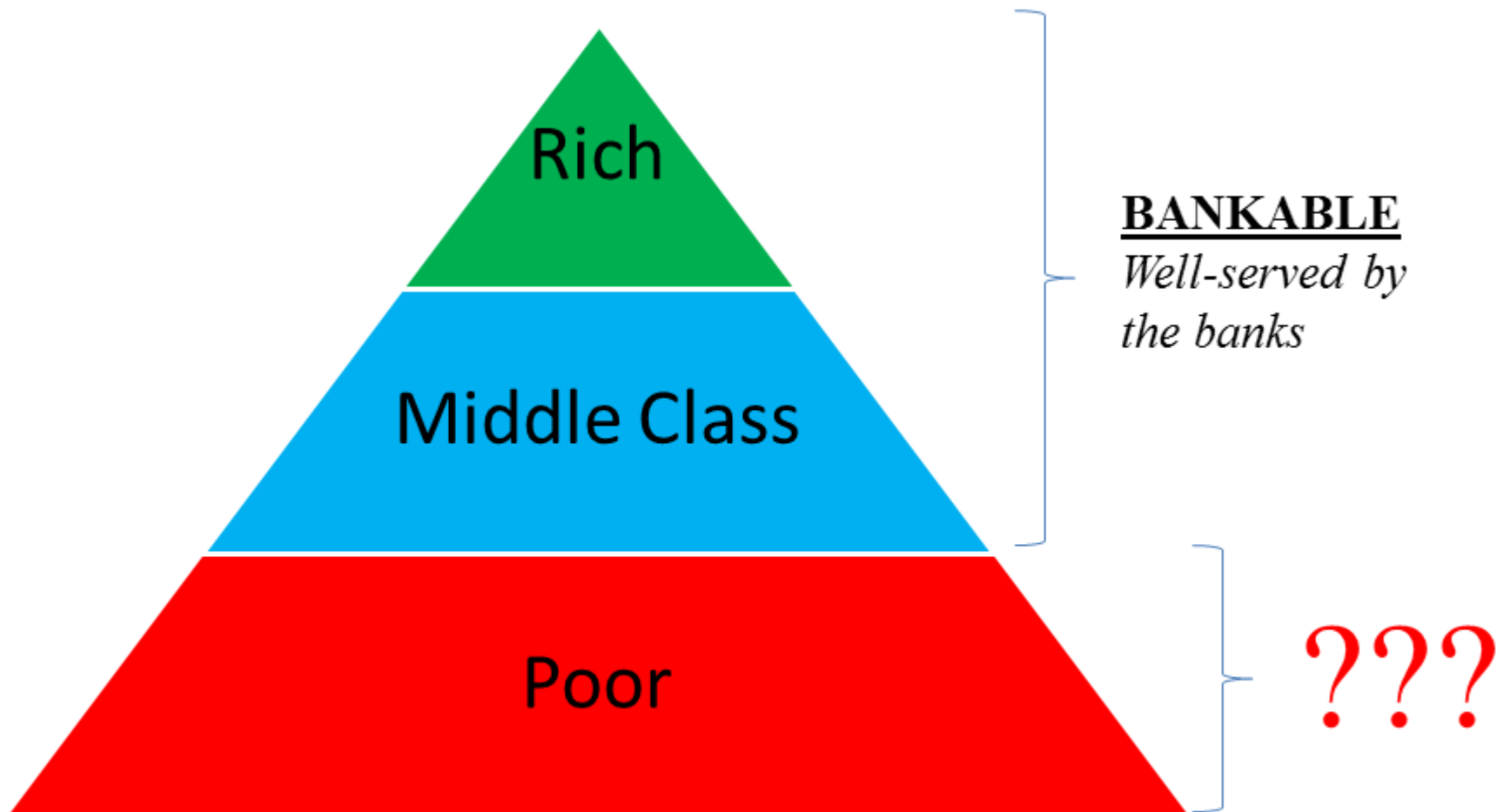
on October 14-16, 2015

Waterfront Insular Hotel, Davao City, Philippines

OUTLINE OF PRESENTATION

- The Need for Microfinance
- The Islamic Microfinance
- The Shariah as Filter of Transactions
- The BMTs in Indonesia
- Conceptual Framework
- The Sharia-microfinance Practice
- Good Practices
- The existing local informal microfinance
- Concluding statements

THE NEED FOR MICROFINANCE

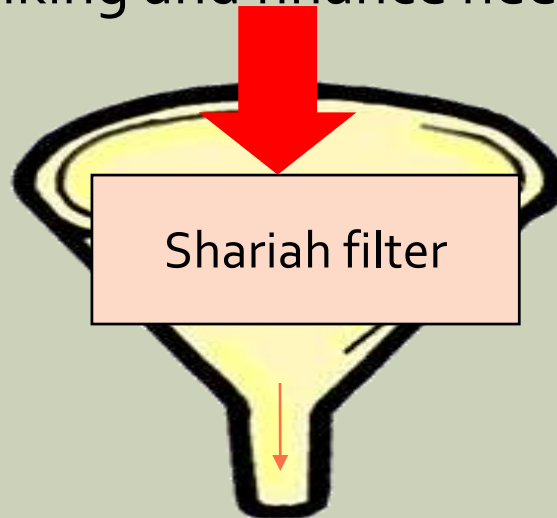


THE ISLAMIC MICROFINANCE

- Based primarily on the profit-sharing principles
- If a business fails, nothing is paid;
- If a business succeeds, profits are shared.
- Risks and rewards are always proportionate to equity shares.
- Any return on capital in the form of interest is completely prohibited

THE SHARIAH AS FILTER OF TRANSACTIONS

Banking and finance needs



Islamic banking and finance
characteristics

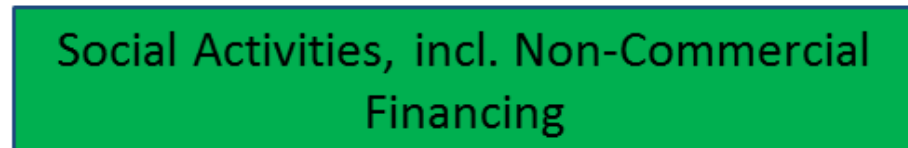
- Prohibition on:
 - Interest
 - Speculation
 - Gambling
- Prohibition of certain investments:
 - Sectors (e.g.: alcohol, armaments, financial services, gambling, pork, pornography, tobacco)
 - Instruments (e.g. no forward transactions, no derivatives,)
- Asset-backed transactions with investments in real, durable assets
- Credit and debt products are not encouraged

THE BMTs IN INDONESIA

Flow of Funds

DONORS

Zakat
Infaq
Shadaqah
Wakaf
Donation



MEMBERS

Saving



BANKS

Mudharabah
Musharakah

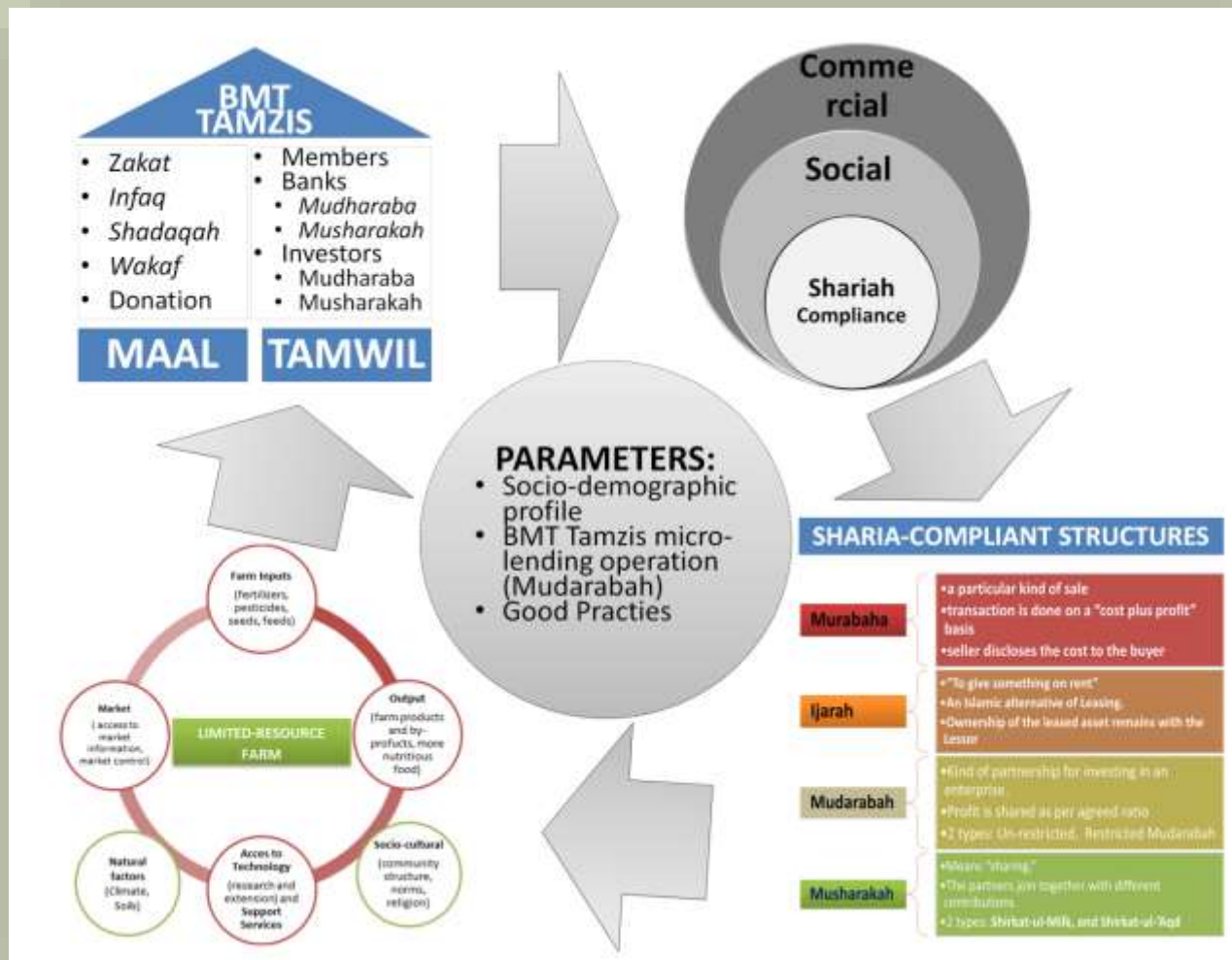


INVESTORS

Mudharabah
Musharakah



CONCEPTUAL FRAMEWORK

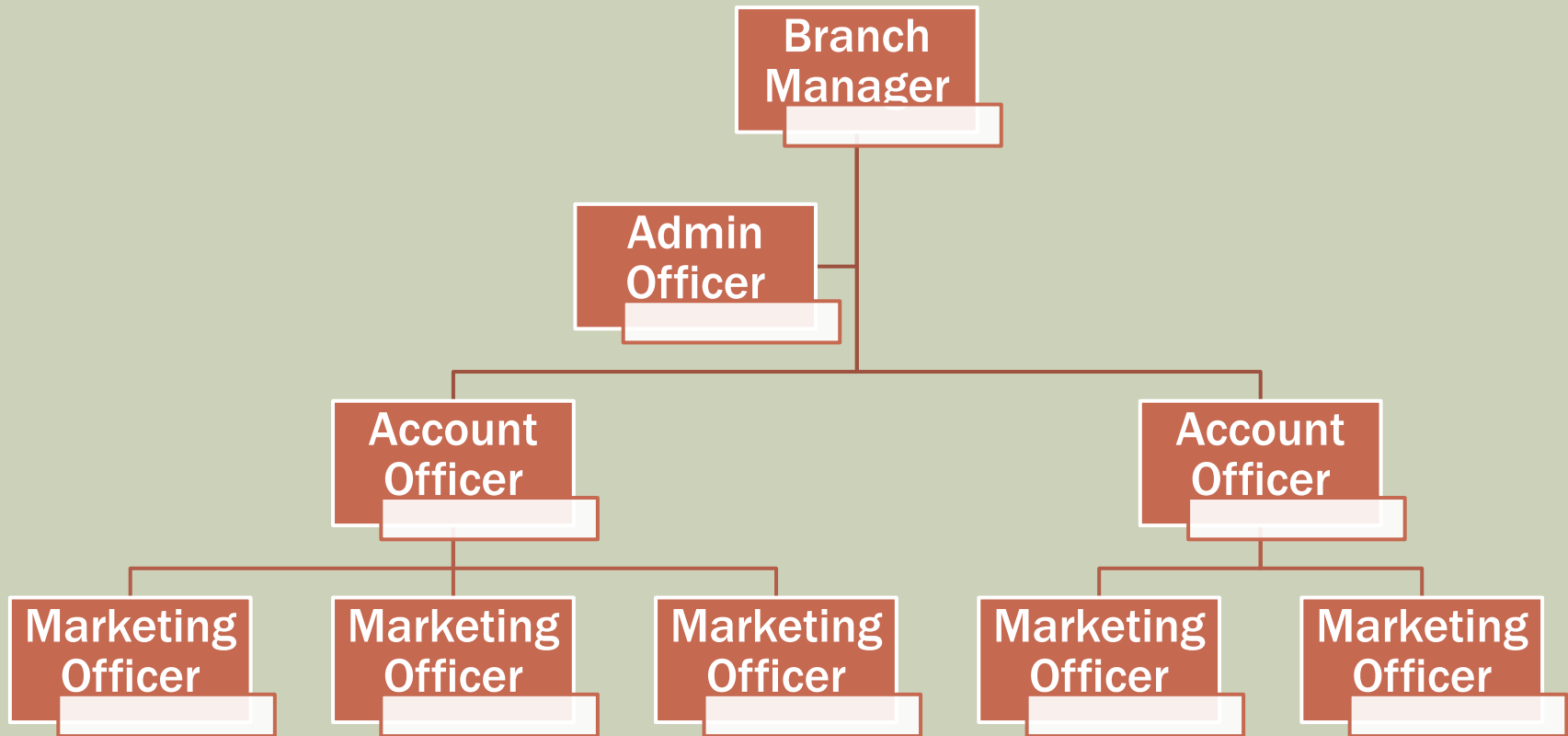


HISTORY OF BMT-TAMZIS

- formed by a group of well-educated young people in 1992 in Wonosobo, Central Java.
- Got the status of legal entity from the Ministry of Cooperation in 1994
- In 2003, it received permission to establish branches nationwide in various cities in Indonesia
- As of 2014, 91,000+ members



MANAGEMENT STRUCTURE (IN KEJAJAR BRANCH)



One marketing officer is monitoring 100-120 farmers, daily

FARMING IN KEJAJAR, WONOSOBO

Characteristics:

- Dieng Plateau is very fertile hilly land
- They used fertilizer too much
- There is a decline in the fertility of soil
- Raining season is 7-8 months a year
- Farmers has less access to government programs



BMT TAMZIS OPERATION

- Most of the clients are native in the area
- Most are for production, some are trading
- Average loan is P68,000
- Paid after harvest although they can pay in instalment
- Usually four months



BMT TAMZIS OPERATION

- Most of the clients are farmers
- Most of the crops planted are potato, cabbage, chili & carica
- Farmers are limited-resource farmers with 3-4 children, some have more than 10
- Most are land owners while some are tenant;
- Rotation farming in a 1 to 2 hectares



THE SHARIAH-MICROFINANCE PRACTICE

Mudharabah

- Partnership where one partner gives money (*Rabb-ul-Maal* or investor) to another (*Mudarib* or manager) for investing in a commercial enterprise.
- A contract between the BMT and a farmer
- Profit is shared according to a mutually agreed ratio, usually 20% for Tamzis and 80% for farmers
- Basis are the experience of entrepreneur and the nature of business

SAMPLE COMPUTATION

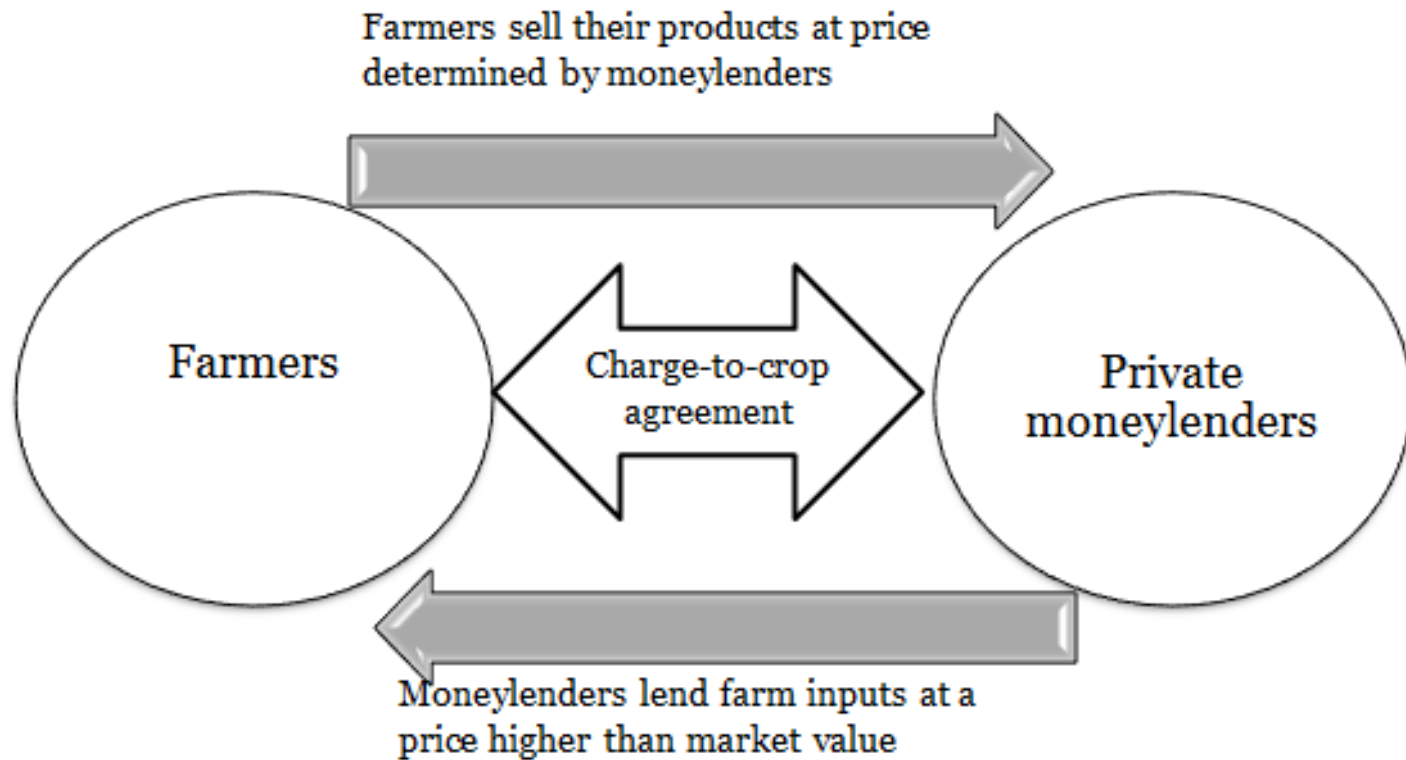
	Borrowed Amount	Assumed Profit	Profit Sharing		Remittances
			Trader (80%)	BMT (20%)	
Month 1	30,000.00	7,000.00	5,600.00	1,400.00	4,000.00
Month 2	26,000.00	7,000.00	5,786.67	1,213.33	5,000.00
Month 3	21,000.00	7,000.00	5,869.23	1,130.77	5,000.00
Month 4	16,000.00	7,000.00	5,933.33	1,066.67	5,000.00
Month 5	11,000.00	7,000.00	6,037.50	962.50	5,000.00
Month 6	6,000.00	7,000.00	6,236.36	763.64	6,000.00
Month 7	-	7,000.00	7,000.00	-	

GOOD PRACTICES

- Uniform of the personnel
- Regular monitoring and daily remittance
- Computerize system
(collection, data management etc.)
- Continuous education of the clients
(values and technical)
- Trust between the clients and BMT



THE EXISTING INFORMAL MICROFINANCE SCHEME FOR SMALL FARMERS IN MAGUINDANAO



CONCLUDING STATEMENTS

- BMT operation is rooted with Islamic principles with the aim to help the poor not only for economic recovery but for spiritual reasons
- BMT's cooperative is by the members and for the members
- BMT operation is applicable for the small farmers in Maguindanao and several parts of the Philippines, though careful researches is required to fit the practice with the local situation

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