

T.R.
ISTANBUL SABAHATTIN ZAIM UNIVERSITY
GRADUATE EDUCATION INSTITUTE
DEPARTMENT OF ISLAMIC ECONOMICS AND FINANCE

ISLAMIC MICROFINANCE PRACTICES
IN INDONESIAN EDUCATIONAL INSTITUTIONS:
AN ANALYSIS ON PESANTRENS

MA THESIS

Dzul BASHOR

Istanbul
November-2024

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DECLARATION OF ORIGINALITY AND SCIENTIFIC ETHICS

This is to certify that this MA thesis titled “*Islamic Microfinance Practices in Indonesian Educational Institutions: An Analysis on Pesantrens*” is my work and I have acted according to scientific ethics and academic rules while producing it. I have collected and used all information and data according to scientific ethics and guidelines on thesis writing at Istanbul Sabahattin Zaim University. I have fully referenced, in the text and bibliography, all direct and indirect quotations and all sources I have used in this work.



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Istanbul, November 2024

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ABSTRACT
ISLAMIC MICROFINANCE PRACTICES
IN INDONESIAN EDUCATIONAL INSTITUTIONS:
AN ANALYSIS ON PESANTRENS

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Microfinance is a financial institution specializing in providing financial services to the poor who are unable to afford the requirements of the mainstream banking sector. Recently in Indonesia, Islamic educational institutions known as pesantrens are able to independently establish their own microfinance institutions with success. This is despite the prevailing preconception among the society that viewed pesantrens as institutions that are too entrenched in traditionalistic view and too economically feeble to sustain themselves. Thus, the study seeks to reveal the factors that brought this unpredictable phenomenon into reality. There are four samples specifically selected for this study, they are Haramain Mini Bank, BMT La Tansa Gontor, LAZIS Tazakka, and BMT UGT Sidogiri; the cases represent small, intermediate, and advanced-scale institutions respectively. Data are gathered through observation, interview, and documentation method, which are then analyzed through QDA Miner Lite software. The analysis revealed the significance of codes related to the subject by counting their frequency in in-depth interviews, further strengthened by their confirmations in observation and documentary. The findings show that each case has its own unique practices and ideas, which can be generalized into few summarized conceptions. The achievement of all cases revolves around their ability to mobilize few resources despite their limitations. This is possible owing to their spiritual adherence, solid community, and independence; those qualities would then be respectively responsible for their credibility, institutional strength, and self-reliance.

Key Terms: Microfinance Institution, Pesantren, Pesantren Values, Pesantren Community, BMT, Islamic Economics, Islamic Finance.

ÖZET
ENDONEZYA'DAKİ EĞİTİM KURUMLARINDA
İSLAMİ MİKROFİNANS UYGULAMALARI:
PESANTRENLER ÜZERİNE BİR İNCELEME
Dzul BASHOR

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Mikrofinans, ana akım bankacılık sektörünün şartlarını karşılayamayan yoksullara finansal hizmetler sağlama konusunda uzmanlaşmış bir finansal kurumdur. Son zamanlarda Endonezya'da pesantren olarak bilinen İslami eğitim kurumları kendi mikrofinans kurumlarını bağımsız olarak kurabilmiş ve kayda değer başarılar elde etmişlerdir. Bu durum, pesantrenleri gelenekçi görüşe fazlasıyla bağlı ve ekonomik olarak kendilerini idame ettiremeyecek kadar zayıf kurumlar olarak gören toplumdaki hakim önyargıya rağmen gerçekleşmiştir. Bu nedenle çalışma, bu öngörülemeyen olguyu gerçeğe dönüştüren faktörleri ortaya çıkarmayı amaçlamaktadır. Bu çalışma için özel olarak seçilen dört örnek bulunmaktadır; bunlar Haramain Mini Bank, BMT La Tansa Gontor, LAZIS Tazakka ve BMT UGT Sidogiri'dir; vakalar sırasıyla küçük, orta ve büyük ölçekli kurumları temsil etmektedir. Veriler nitel doğrudan gözlem, derinlemesine mülakat ve dokümantasyon yöntemiyle toplanmış, daha sonra nitel veri analizi yazılımı QDA Miner Lite ile işlenmiştir. Analiz, derinlemesine mülakatlardaki sıklıklarını sayarak konuyla ilgili kodların önemini ortaya koymuş, bunu gözlem ve belgeler ile teyit ederek daha da güçlendirmiştir. Bulgular, her vakanın kendine özgü uygulamaları ve fikirleri olduğunu, ancak hepsinin birkaç özet kavramla bütünleştirilebileceğini ve genelleştirilebileceğini göstermektedir. Tüm vakaların başarısı, birçok kısıtlamaya rağmen az miktardaki kaynaklarını kurnazca seferber etme becerileri ile bağlantılıdır. Bu başarı, yüksek manevi bağlılıkları, sağlam toplulukları ve sadık bağımsızlıkları sayesinde mümkün olmuştur; bu nitelikler daha sonra güvenilirlikleri, kurumsal güçleri ve özgüvenleri ile ilişkilendirilmiştir.

Anahtar Kelimeler: Mikrofinans Kurumu, Pesantren, Pesantren Değerleri, Pesantren Topluluğu, BMT, İslam İktisadı, İslami Finans.

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LIST OF ABBREVIATIONS

MFI: Microfinance Institution

IMFI: Islamic Microfinancing Institution

IRTI: Islamic Research and Training Institute

BMT: Bait-al-Mal Wa-at-Tamwil (House of Fund and Financing)

SME: Small and Micro Enterprises

CAR: Capital Adequacy Ratio

LOLR: Lender of Last Resort

CHAPTER I

INTRODUCTION

Ibn Khaldun, one of the most renowned Muslim scholars of all time, and arguably one of the earliest intellectuals who came with profound economic theories seven centuries ago, had stated that the most powerful of communities were not the ones who possessed plenty of material resource, but those who possessed strong social cohesion, group feeling, or '*asabiyah*' (Ibn Khaldun, 2015, p. 142). This cohesion is what drives people of the communities to go beyond their boundaries, to reinforce the sense of common goal within them, to seek out technologies that can improve their wellbeing; all of these qualities are further strengthened by the emphasis on Islamic principles and moral values (Choudhury, 1983, p. 93; Mamun, Sinanoğlu & Uddin, 2022, p. 43). This is one of the factors that contributed to the rise of humble groups into considerable forces, including educational institutions. As an example, the Egyptian University of Al-Azhar started as a simple scholarly gathering in the mosque with the same name, and today, by virtue of its forward-looking community, had managed to build a productive and financially sustainable institutions owning several campuses, hospitals, research centers, and libraries (Kasdi, 2018, p. 1850). The same pattern of development and success can also be witnessed in the popular Indonesian religious organizations like Muhammadiyah and Nahdlatul Ulama (NU).

The aforementioned examples act as a testament of the robustness of Ibn Khaldun's socioeconomic theories. However, rather than being the end of the argument, this notion signifies its beginning: that a tightly knit community with strong sense of adherence to Islamic principles and value, should have a great potential to develop their own wellbeing; and as per the focus of this research, pesantren, madrasa, and other similar institutions qualify as such kind of community. Although reality often reveals that these educational institutions are constantly plagued by limited funding and weak developmental capability, contrasting evidences are increasingly growing in number (Nofal, Hafez & Kafafy, 2021, p. 601). The limitation mentioned before is not a paradox of Ibn Khaldun's theories, but rather, an invitation for scholars to thoroughly study the matter. Growing enthusiasm toward the economic empowerment of educational institutions had been shown in the studies of Zarkasyi

(2005), Faozan (2006), and Rimbawan (2012) to name a few; thus, literature concerning the general topic of economic empowerment of pesantren is currently available, and the scope of this research is therefore not invested in such topic, but in a more specific and more recent development, namely the microfinance activities in pesantrens.

1.1. Research Problem Statement

The subject of this research is to construct an Islamic microfinance model suitable for pesantren, madrasa, and similar institutions through examination of successful financial practices of such institutions in Indonesia. These religious educational institutions had long been viewed by the general population as financially dependent and heavily reliant toward students' tuition and charitable donations. But this general assumption is challenged by the fact that there exist pesantren institutions that successfully managed their own financial matters and reached financial independence. The majority of those efforts were conducted through professional management techniques and modern microfinance system, though not yet highly developed. In order to establish a full-fledged functional Islamic microfinance system for those institutions, the different successful financial practices shall be examined thoroughly. Findings gathered through the examination shall then be utilized to provide the basis and/or framework for the construction of Islamic microfinance model for pesantren and madrasa institutions.

1.2. Research Rationale

Treasury is the lifeblood of any institution as it enables the institution to afford growth and to settle liabilities in short and long term. A sound management of financial matters directly contributes to the health of each institution's treasury, which in turn contributes to its sustainability in the long run. This quality is generally still absent within pesantren institutions, resulting in limited educational programs, slower growth of quality, strained budget, and disordered bookkeeping among others. Thus, it is not unusual to find pesantrens with lagged development despite their access to generous amount of human and natural resources (Arifin, 2017, p. 5). However, an excellent financial management will not guarantee an institution's survivability if it is only concerned in expenditure aspect. Any institution should be wise to devise one or more methods for generating revenue from the existing treasury if it wishes to achieve financial survivability and, to some extent, independence. This

is even more relevant to pesantren and madrasa institutions as they are mostly in the “private” sector of national education system.

Quite a few numbers of resourceful agents of pesantren took notice of the growing Islamic Microfinance Institutions (IMFI) in Indonesia after the 1998 Southeast Asian crisis and they slowly began to imitate some of its elements. For them, IMFI practices hold one of the keys to achieve financial independence, business enterprises establishment, and impactful social entrepreneurship. Compared to conventional microfinance, Islamic microfinance incorporates deeper ethical aspects and greater social awareness, which are given considerable attention by the agents in pesantrens; who are well aware that pesantrens are solid platforms for *halal* pool of fund linking investors with small and micro enterprises (SMEs), as well as providing resources for educational and social development, at least to their immediate communities (Masrifah, 2020, p. 81-82). Notwithstanding the lack of academic coverage in this context outside Indonesia, especially, an Islamic microfinance model practicable for developing pesantren, madrasa, and similar institutions appear to have a great necessity.

1.3. Research Significance

The importance of this research lies in its focus toward Islamic microfinance practice in educational institutions. It attempts to showcase the suitability and practicality of Islamic economics and finance to solve problems in lower income environment and their ability to empower developing institutions in various fields. The study carried out by the research will show the advantage of Islamic finance, institution by institution, each with its own unique interpretation, system, and practice. The idiosyncrasy of each institution is not to be mistaken as an ambiguity of Islamic finance, but an advantageous adaptability instead; some pesantrens are more proficient in providing SME funding, some in utilizing waqf, and some in takaful or social securities. Such rich variety in efforts to realize the true power of Islamic finance should not be overlooked, as therein lies the antidote for poverty and financial dependency so prevalent within our modern society.

There existed already studies that show positive application of Islamic finance in pesantren institutions – especially in Indonesian sources. Studies of Faozan (2006), Marlina (2014), and Susila (2014) had highlighted potential economic power of pesantren and further described its successful application in real sector. It is not the

main objective of this research to continue confirming pesantren's feasibility as an economic and financial platform, nor to show even more examples of successful ventures, as a sizable amount of studies concerning such matters were already discussed by Indonesian scholars and are readily available online. The originality of this research comes in the form of a model that it promises to construct based on the aforementioned literatures. The objective is to incorporate the strengths of Islamic financing and present it to the intended beneficiaries.

1.4. Research Limitations

There are several inherent limitations due to the design of this research. As a qualitative study, the results of this research might not provide the most robust of explanation in contrast to the precise quantitative method. Although the research's method has put a mechanism to suppress the biasness of the study, it is still possible for the latter to manifest itself in the results no matter how minor it will be. Furthermore, the data gathered for this research comes from interviews and observations that are susceptible to the subjectivity of the sources and the researcher, respectively; not to mention that plentiful time and funding are luxuries which the researcher did not possess. However, these are the trade-offs taken to construct a more generalized view of a subject that is recent and relatively "untouched" by the scientific community. The significant variables found by this study should adequately pave the way for further studies that employ more sophisticated approaches.

Other than methodological limitations, there are at least two shortcomings that emerged from the sources. First, the institutions have rules of discretion regarding the data that they may or may not share. Since pesantrens are "private" institutions, they are not required to publicize their data and many would secure it for obvious reason. This matter restricted the amount of data that could be ethically obtained. Second, cultural differences limited the generalizability of the results. The pesantren culture in Indonesia has managed to stay popular within the Muslim population given its strong historical root and willingness to innovate. This is one of the reasons why pesantrens could amass manpower and resources for their initial capital with relative ease. This specific cultural advantage might not be enjoyed by madrasas and similar institutions in other countries.

1.5. Research Questions

The objective of this research is to construct a practical Islamic microfinance model suitable for pesantren, madrasa, and similar institutions. Before the model construction, a basis and framework for such model should be built first. Only then the work to construct a beneficial model to financially empower the aforementioned institutions can be carried out. Therefore, there are three main questions that this research seeks to answer, which are:

- 1) What are the current Islamic microfinance practices of Indonesian pesantrens?
- 2) What are the strengths of Islamic microfinance practices that Indonesian pesantrens adopted into their financial management?
- 3) What is the best model that can be constructed in consideration of these strengths?

The first and second questions act as the backbone of this research as the analysis and discussion concerning them will constitute the majority of this research. The data upon which the analysis and discussion will be built are gathered from some case studies relevant toward the questions. With this way, single institutional bias can be avoided, thus supporting the feasibility of the final model constructed by the research. The research variables that will guide the direction of this research are classified into three groups; the three groups are accordingly assigned to answer the respective research questions. The details of research variables are given in Chapter IV.

1.6. Research Method

The research is designed to be a descriptive exploratory qualitative study. The study is more concerned to reveal qualitative points of the subject, but regardless, important quantitative details would support it in the process. The research is divided into two stages. The first stage reveals the positive qualities of Islamic microfinance employed by the different pesantrens. At this stage, the researcher uses both primary and secondary data obtained through structured observation and semi-structured in-depth interview methods. The compiled data is then combined through source triangulation method to prove whether the data is expanding, inconsistent, or contradictory to each other. The second stage is the construction of Islamic microfinance model which incorporates all findings that passed the analysis of

previous stage. See Chapter IV for a more detailed discussion regarding the methodology of this research.

1.7. Research Outline

The research will be divided into seven chapters. *Chapter I* is a preface that gives introduction to this research by outlining the research's problem, rationale, significance, limitations, questions, and its method.

The research background in *Chapter II* will describe the general overview of both conventional and Islamic microfinance and along with their current state in Muslim world. The chapter will also shine light upon the institution of pesantren which is going to be the focus of this research.

To support the structure of this research, *Chapter III* presents the review of literature related to the subject of microfinance, Islamic microfinance, pesantren-based economy, and microfinance enterprises in pesantren.

The methodology assumed by the researcher will be discussed in depth in *Chapter IV* along with the methods, research variables, and data sources.

In *Chapter V*, all data concerning the microfinance practice of each selected pesantrens will be reviewed and analyzed. The result of this chapter is essential to build the final model.

The fruition of this research will be presented in *Chapter VI*, which integrates all strengths of Islamic microfinance practices discussed at the previous chapter, displayed in qualitative models. In addition, the chapter also suggests policy recommendation for related institutions.

Chapter VII gives the general conclusion of the research along with recommendations for future researches. The subsequent appendix chapter collates all data collected throughout the research activity.

CHAPTER II

RESEARCH BACKGROUND

This chapter discusses some key concepts and phenomenons that act as the background of this particular study. It starts with the discussion of the concepts of microfinance and Islamic microfinance, explaining their definition, operation, advantages, disadvantages, and differences. Afterward, to support the relevance of this study – and why Indonesia is chosen as the case study location, the current condition of Islamic microfinance in few select countries are presented. Lastly, the readers are introduced to the focus of this particular study, the pesantren; what it is, what is its current condition, what challenges it faces, complete with explanations regarding its economic potentials.

2.1. Microfinance

Microfinance is understood as a means to reach the poorest section of society which is deemed as “unbankable” by mainstream financial institutions. The concept of microfinance was popularized by Bangladesh’s Grameen Bank in 1990s which was successful in providing financial service to the poors of the country (Ahmed, 2002, p. 28). The basic rationale is to financially encourage the productivity of the poors to alleviate themselves from poverty, eventually putting a dent at the inequality rate (Obaidullah, 2008a, p. 1). According to Karlan & Goldberg (2011), there are at least nine traditional characteristics of microfinance: Small loans; entrepreneurial loans; Collateral-free; group lending; focus on poverty alleviation; focus on female clients; simple application; tolerance to the unbankable community; and market-based interest rate.

In operation, microfinance institutions (MFIs) faced challenges unique to their circumstances. Most of their poor customers lack anything valuable to act as collateral for loans and the MFIs themselves have very limited capability in monitoring their customers (Cull, Demirgüç-Kunt & Morduch, 2011, p. 142). To solve the first problem, MFIs required their customers to provide “collateral substitutes” i.e., things that hold personal value to their owners, albeit technically not enough to cover the loans. Other solution is to require the customers to deposit

mandatory saving routinely, a kind of “cash collateral.” (Karlan & Goldberg, 2011, p. 23-24). And to solve the latter problem of costly monitoring, MFIs employ the joint liability mechanism in which all borrowers, one to another, are required to watch the progress of their peers. The borrowers are incentivized to do so by the idea that failure of one of their peers could also impact their own progresses. This mechanism has an advantage of low-cost and more credible insider information (Fischer & Ghatak, 2011, p. 63).

After four decades of operation, it is clear that MFIs need to answer for their apparent shortcomings, especially the ones related to profitability and innovations. Already in 2006, White & Ledgerwood advised MFIs to transform themselves into regulated deposit-taking institutions, to be an integral part of a country’s financial system; however, most MFIs, including the successful ones, were reluctant to do so. The study was repeated years later in 2013, in which the emphasis was shifted onto client-focused strategies as the institution-focused previous strategies fell short of the intended outreach and impact towards the poor. The latter study advised the MFIs to put greater attention on the demand side of their services as different backgrounds and circumstances among the poor require different approaches and schemes (Ledgerwood, Earne & Nelson, 2013, p. 15-16).

The limited impact of MFIs has sparked many criticisms, and even a question on whether it is necessary to continue them. The adversaries of MFIs had blamed the institutions for bringing Neoliberalism into the rural corners of the developing world. Economically, the MFIs ruined the poor communities’ ability to alleviate themselves from poverty by discouraging the growth of local unions and cooperatives; the institutions were more like entrepreneurs who traded in the market of poverty. This might be one of the causes underlying the decreasing popularity of MFIs during the 2010s (Bateman & Maclean, 2017, p. 2-3). Critics further pointed out that there are other alternatives that better suit the poverty alleviation agenda. One of the most vocal critics, Bateman (2010), argued that the poor communities’ initiative to pool their effort along with the support of development-aware government could be a better alternative, as evidenced by the recovery of Japanese economy post-WW2, and the successful bottom-up-built cooperatives in the Spanish region of Mondragon post-Spanish Civil War.

2.2. Islamic Microfinance

Establishment of Islamic Microfinance Institutions (IMFIs) happened not long after the popularization of conventional microfinance by Grameen. It sought to undertake the same intention of alleviating poverty; however, it will be done through Islamic principles corresponding the Shariah law. Broadly speaking, the principles are the avoidance of interest (*riba*), fraudulent conduct (*gharar*), religiously prohibited (*haram*) goods and services, and speculation (*maysir*) (Khan & Ahmed, 2017, p. 2). There are two categories of IMFIs, market-based and donor-based (Aslam, 2014, p. 144). The first category mainly offered the products of (1) *Murabaha*, a markup sale contract; (2) *Ijarah*, a leasing contract; (3) *Musharaka* and *Mudaraba*, both are profit and loss sharing schemes; and (4) *Takaful*, a joint guarantee scheme equivalent to insurance (Karim, Tarazi & Reille, 2008, p. 3). While the latter utilized the instruments of *zakah*, *sadaqah*, *waqf*, and *qard hasan* (Azmi & Thaker, 2020, p. 25).

In the side of market-based IMFIs, the partnership-based concepts of *mudarabah* and *musharakah* are not widely utilized due to their complex bookkeeping process exacerbated by the lack of financial literacy among IMFI beneficiaries. The most popular concept is still *murabahah*, due to its simplicity and familiarity to the beneficiaries and financial practitioners respectively. However, *murabahah* is a debt-based concept and ideally IMFIs should not depend on it too much (IRTI, 2014, p. 19-20). While in the donor-based IMFIs, the problem is basically the lack of innovations in their implementation, obscuring the benefits derived from the charitable deeds compared to their market-based counterparts. The issues of underdevelopment of partnership-based concepts, overreliance on *murabahah*, and meagre contribution of Islamic charitable instruments indicate a major disadvantage of IMFIs compared to the more established conventional microfinance. Some reasons of this disadvantage are: lack of appropriate knowledge, experience and professionalism, and weak risk management system. The issues eventually lead to lack of loanable funds and many unsolved moral hazard problems (Abbas & Shirazi, 2014, p. 264).

Nevertheless, IMFIs have a greater potential to alleviate poverty compared to its conventional counterparts, as they have access to draw the potential of charitable deeds (IRTI, 2014, p. 19). Although these instruments are still regarded as side projects by many IMFIs, with Obaidullah & Latiff (2008) even encouraging IMFIs to

shift toward market-based sustainability, some specific IMFIs had managed to gain impressive results while staying resilient through such instruments; as shown by the success of *waqf* by LAZIS Tazakka in Indonesia and *qard hasan* by Akhuwat in Pakistan (Khan & Ahmed, 2017, p. 15-16); Islamic values and principles further contribute toward the motivation of IMFI agents and the social empowerment of its beneficiaries (Taiwo, et. al., 2016, p. 115); conformity to the Shariah law deters moral hazard and asymmetric information, there is also an explanation on why staying true to Shariah specifications keeps the profit from decreasing (Ahmed, 2002, p. 58-59). Note that conventional MFIs, including their originator Grameen, charged interest rate for their services. This dependence toward interest rate entailed some issues e.g., low rate of return, high drop-out rate among borrowers, and preservation of debt trap phenomenon (Ahmed, 2002, p. 34).

Although promising a positive impact, Haji (2018) advised IMFI practitioners to learn what factors contribute to the success of a microfinance institution. Lower operational costs could ease the borrowers and at least spare them some indispensable income. This could be achieved by omitting interest from loans; accumulating charitable funds; provision of business loan; provision of small loans with a tenure of more than a year; and lowering service charges. It should be noted that if not solved, higher costs would pose a sustainability threat for the institution. Further measures could be taken, such as: reducing human resources and cutting service fees through the usage of modern information technology as pointed by Susila (2014).

Regarding on what approach the IMFIs should take as a collective effort, Obaidullah & Latiff (2008) argued that a uniform approach may not be better compared to diverse approaches, as diverse channels offer more reachability to the poor. In his other works, he stated that Islamic finance scholars should put attention on both the supply and demand side of IMFIs. At the supply side, there are three landscapes of IMFI that needs to be developed i.e., the micro level, which is the IMFIs themselves along with their Shariah-compliance and products expansion; the meso level, comprising financial infrastructures and institutions that supports the practice and growth of IMFI, and; the macro level, the topmost support from the government in the form of enabling regulations and policies (Obaidullah & Khan, 2008). Meanwhile at the demand side, a program package that guides the poor throughout the process of

financing should be developed e.g., Protective Safety Net which ensures the fulfillment of the daily needs of beneficiaries; Promotional Safety Net which introduces them to productive skills, and finally; Financial Intervention, where loans are introduced to the now ready beneficiaries (Obaidullah, 2008c, p. 60).

2.3. The Current State of Islamic Microfinance in Muslim World

Despite the apparent issues mentioned before, IMFIs in different regions of the world have been constantly developing. Diverse approaches taken by each IMFI have been successful in overcoming the particular issues that each faced. Although a one-for-all solution is yet to be formulated, small successes by IMFIs around the world can be seen as a progress to reach this objective. One of the few institutions that document the progress of IMFIs around the world is Islamic Research and Training Institute (IRTI). It has conducted research in Asia-Pacific (2014), Sub-Saharan Africa (2015), Europe and Central Asia (2017), and Northwest Africa (2020). IRTI found that the awareness of IMFI in Muslim majority countries in Asia-Pacific is high, which is further supported by enabling regulations by their governments, especially in Indonesia and Bangladesh. The same high awareness toward IMFI is shared by Muslim majority countries in Sub-Saharan Africa, which is unfortunately impeded by severe lack of infrastructures and unstable political environment. Meanwhile in Northwest African countries, the awareness is growing and their governments are willing to accommodate through supportive regulations, but lack of knowledge and skills related to IMFI development is the greatest obstacle there. Further away in countries with sizable Muslim population in Europe (Russia, Bosnia, and Macedonia), awareness is low but is steadily increasing, mainly due to the actions of independent Islamic institutions. Although their governments are unwilling to formulate IMFI-friendly regulations, the current laws do not forbid Islamic-patterned enterprises, especially those concerning *waqf* preservation.

The data presented by Table 2.1 below describe a rational setting for IMFI provision in each country. Besides having sizable Muslim population, the countries, especially Bangladesh, Pakistan and Sudan, exhibit symptoms of lagged economic development i.e., below average GDP per capita, average GDP growth rate, below ideal inflation rate, poverty rate above 10%, and average but not ideal Gini index. Of all, Sudan seems to be in the direst economic danger, as it exhibits negative GDP growth, uncontrolled inflation, high poverty and unemployment rate, and underdeveloped

economic sectors. Fortunately, Sudanese IMFI agents saw the opportunities and managed to give some favorable effects to their clients' economic enterprises, yet, infrastructural and human resources problems greatly impeded the development of IMFIs there, even more so in its rural areas (Ahmed, 2015, p. 3-4). The aforementioned table shows Sudan's eagerness to increase the presence of its IMFIs; it had started IMFI decades ago in 1990 and currently has 56% of its financial system providing Islamic microfinance scheme to 3,500 clients.



Table 2.1: IMFII Profile in Countries of IRTI Research

Country	Year Initiating IMFII	IMFII Providers	IMFII Coverage (members)	The Status of Ideal IMFII Coverage System	The Status of IMFII and Their Share in Financial System	Sources
Indonesia	1984	4,500 (2021)	3.5 million (2014)	13.8 million*	IMFII providers are not considered in the formal financial system; they are either cooperatives or microfinance institutions	IRTI (2014); Tanjung & Novizas (2018); Indonesian Coord. Min. of Economic Affrs.
Bangladesh	1995	1 (2020)	625,000 (2018)	17.8 million*	The sole IMFII provider (IBBL) holds approx. 20% share of the system	IRTI (2014); Chowdhury, et.al. (2020); Roy, et.al. (2021)
Pakistan	2001	6 (2015)	5.5 million (2023)	47.5 million*	IMFII providers are considered as non-profit NGOs	IRTI (2014); official sites of IMFII providers.
Sudan	1990	501 (2015)	3,500 (2015)	8 million	21 out of 37 banks provide IMFII (56% of the system)	Ahmed (2015); Burger (2018)
Russia	2010	6 (2017)	No data	530,000**	IMFII providers are considered as non-profit NGOs	IRTI (2017)

Note:

*In Muslim majority countries, the ideal coverage is half of the whole poverty headcount ratio; the other half is reserved for non-Muslim poor and other non-IMFII poverty alleviation programs.

**In non-Muslim majority countries, the ideal coverage is half of the whole poverty headcount ratio in Muslim majority regions.

Source: Edited by Author, 2024

Meanwhile in other regions of observation, in the Muslim majority countries of Bangladesh and Pakistan, IMFIs have a more decent coverage than Sudan; yet, the number of IMFI initiatives is still small there. Bangladesh, albeit known as a Muslim majority country where the microfinance institution originated, had only one well-known IMFI, the Rural Development Scheme (RDS) of Islami Bank Bangladesh Limited (IBBL). In 2018, the RDS managed to cover 625,000 clients while having to compete with conventional MFIs like Grameen, BRAC, BASA & BKB (Hossain, 2021: 139-140). It is clear that Bangladesh needs more IMFI initiatives, as RDS alone could only cover 3.5% of the country's ideal IMFI coverage. In contrast, Pakistan managed to cover 11.5% of its ideal IMFI coverage as it has more IMFI initiatives. Although Pakistani IMFIs were relatively younger, they have shown themselves to be very active and more Shariah-aware – most of their products are based on *qard hasan* concept. Nevertheless, infrastructural, human resources, and institutional supports appear to be their obstacles, as from the six IMFIs, only three maintain regular public reports and plans i.e., Akhuwat, Naymet, and Islamic Relief. And as for the last observation in Russia, currently, there is no official data and studies regarding IMFI available apart from IRTI 2017 report; which unfortunately means that for the time being, Russian IMFI contribution is still negligible.

Concerning IMFI development in Indonesia, in terms of the economic conditions, there is a relatively favorable environment compared to other countries assessed by IRTI research. Starting from its demographics, Table 2.2 shows a massive number denoting Indonesian Muslim community of about 230 million people, constituting 87% of its total population, which is the largest in the world.

Table 2.2: Muslim Populations in Countries of IRTI Research

Year: 2020

Country	Total Population (million)	Muslim Population (million)	Muslim Population (% of total population)
Indonesia	263.9	229.6	87.00%
Bangladesh	168.5	153	90.80%
Pakistan	207.8	200.4	96.43%
Sudan	42.3	38.4	90.78%
Russia	139.7	15.9	11.38%

Source: Pew Research Center

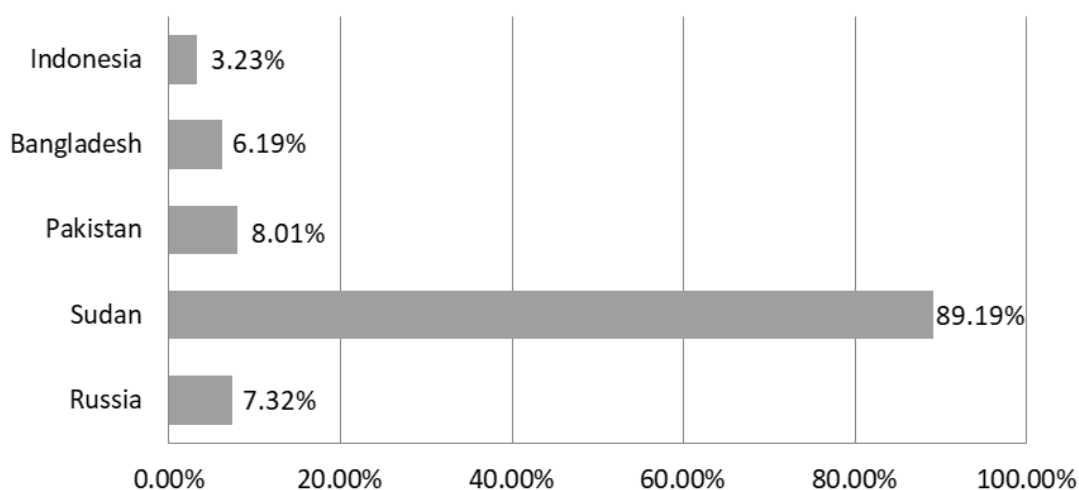
Indonesia's GDP per capita is the highest with a relatively high annual growth coupled with inflation rate controlled below 4%, this means that resources are plentiful with promising prospect for growing Small and Micro Enterprises (SMEs), as shown in Table 2.3 and Figure 2.1 respectively.

Table 2.3: GDP, GDP per Capita, and GDP Growth in Countries of IRTI Research

Year: 2022

Country	GDP (USD)	GDP per Capita (USD)	GDP Growth (Annual)
Indonesia	1,319,100	4,788	5.3%
Bangladesh	460,201	2,688	7.1%
Pakistan	376,532	1,596	6.2%
Sudan	51,662	1,102	-1.0%
Russia	2,240,422	15,345	-2.1%

Source: The World Bank. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>; <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD>; <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> all pages are accessed on Thursday, July 14, 2023

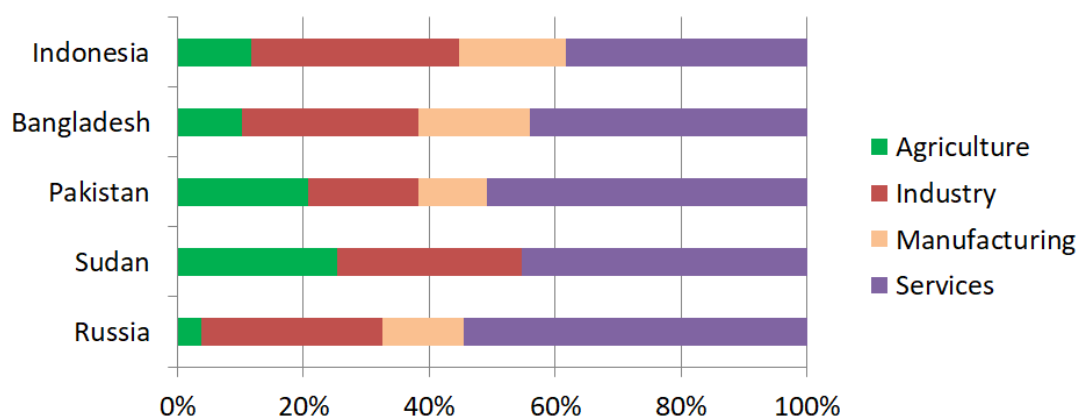


Range: 10 years (2013-2022)

Figure 2.1: Average Annual Inflation (Consumer Price) in Countries of IRTI Research

Source: Ha, et. al., 2021 & The World Bank. <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG> accessed on Thursday, July 14, 2023

Indonesia's distribution of economic sectors, shown in Figure 2.2, is relatively equal, comprising roughly 10% agriculture, 50% industry and manufacturing, and 40% service, opening diverse channels for employment which currently absorbs 96% of the total labor force, as evidenced by Table 2.4.



Year: 2020

Figure 2.2: GDP by Sectors in Countries of IRTI Research

Source: The World Bank. <https://wdi.worldbank.org/table/4.2> accessed on Thursday, July 14, 2023

Table 2.4: Unemployment Rate in each Country of IRTI Research

Range: 8 years (2015-2022)

Country	Unemployment Ratio (% of total labor force)							
	2015	2016	2017	2018	2019	2020	2021	2022
Indonesia	4.5%	4.3%	3.8%	4.4%	3.6%	4.3%	3.8%	3.6%
Bangladesh	4.4%	4.3%	4.4%	4.4%	4.4%	5.2%	5.1%	4.7%
Pakistan	3.6%	3.8%	3.9%	4.1%	4.8%	6.5%	6.3%	6.4%
Sudan	17.4%	17.4%	17.5%	17.6%	17.6%	19.3%	19.1%	18.7%
Russia	5.6%	5.6%	5.2%	4.8%	4.5%	5.6%	4.7%	-

Source: The World Bank. <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS> accessed on Friday, July 15, 2023

According to Table 2.5 and 2.6, since 2015, poverty rate and inequality is steadily decreasing with interruption during the worldwide pandemic in which the rate slightly increases.

Table 2.5: Poverty Headcount Ratio (National Poverty Line) in Countries of IRTI Research

Range: 8 years (2015-2022)

Country	Poverty Headcount Ratio (National Poverty Lines)							
	2015	2016	2017	2018	2019	2020	2021	2022
Indonesia	11.2%	10.9%	10.6%	9.8%	9.4%	9.8%	10.1%	9.5%
Bangladesh	-	24.3%	-	-	-	-	-	-
Pakistan	24.3%	-	-	21.9%	-	-	-	-
Sudan	-	-	-	-	-	-	32.52%*	32.34%*
Russia	13.3%	13.3%	13.2%	12.6%	12.3%	12.1%	-	-

*Projected

Source: The World Bank and Statista. <https://data.worldbank.org/indicator/SI.POV.NAHC> & <https://www.statista.com/statistics/1274508/projected-poverty-head-count-ratio-in-north-africa-by-country/> both pages accessed on Friday, July 15, 2023

Table 2.6: Economic Inequalities in Countries of IRTI Research

Range: 7 years (2014-2020)

Country	Gini Index						
	2014	2015	2016	2017	2018	2019	2020
Indonesia	40.2	40.4	39.3	38.8	38.4	37.6	37.6
Bangladesh	-	-	32.4	-	-	-	-
Pakistan	-	31.3	-	-	29.6	-	-
Sudan	34.2	-	-	-	-	-	-
Russia	39.9	37.7	36.8	37.2	37.5	37.7	36

Source: The World Bank. <https://data.worldbank.org/indicator/SI.POV.GINI> accessed on Thursday, July 14, 2023

Seen through Obaidullah's three landscapes of IMFI development, macro-wise, the Indonesian regulations regarding IMFI are very supportive (Obaidullah & Latiff, 2008, p. 12-13). The law places IMFIs in a dedicated position outside the rigid banking sector, enabling diverse approaches which are essential to increase IMFI's reachability (Ali, 2015, p. 82). However, it is interesting to note that despite the tremendous support, the network of Indonesian Islamic finance (both banks and IMFIs) compared to its conventional counterparts is still small – only 8.7% of the total network according to data from OJK (Otoritas Jasa Keuangan, lit. Financial Service Authority). A great number of Indonesian Muslims also still prefer the conventional services for practical and economic reasons (Girona, Aghina, & Boundaoui, 2014, p. 17). Such notion is reinforced by the data described in Table 6,

that despite starting very early in 1985 with currently more than 4,500 active windows, Indonesian IMFIs cover approximately a quarter of its ideal coverage; an insufficient contribution considering how well developed and supported the infrastructures of Indonesian IMFIs are. Regardless, IMFI practitioners should not be disheartened by such fact because the service of IMFIs as a collective is too noble and too important to be abandoned (Migdad, 2022, p. 139).

IMFIs in Indonesia are mainly in the form of of Bait al-Mal wa at-Tamwil (BMT), an indigenous model which combines Bait al-Mal, charity fund pool, and Bait at-Tamwil, investment fund pool, incorporated mostly as cooperatives (IRTI, 2014, p. 99). According to Indonesian National Committee of Islamic Economics and Finance (KNEKS), in 2019, there are about 4,500 BMTs in the country. Interestingly, many are established in the 1990s, when Southeast Asia faced a financial crisis, which means they are relatively recent with average operational age of 8 years. Most of BMTs started with a small capital of USD 101-500, generally with the help of meso-level institutions like PINBUK and Puskopsyah. *Murabahah*, followed by *mudharabah* are the two most common financing used, although the first's usage is steadily decreasing while the latter's is increasing. About 60% of BMTs have assets below USD 10,000 while 10% have more than USD 50,000. Albeit integrating charity instruments into their practice, the amount of charity funds within them is below 1% (IRTI, 2014, p. 100-103). There are two forms of incorporation available for BMTs: not-for-profit organization (known as *yayasan*, lit. foundation) and member-based organization (known as *koperasi* lit. cooperative). The law also requires BMTs to not operate beyond their authorized districts, because to do so requires transformation into a full Islamic Bank. As for deposit protection, the law suggests them to create their own deposit insurance scheme. This means that deposits in BMTs are not protected by law, nevertheless, Indonesian financial supervisory body (OJK) has the power to restructure problematic BMTs (IRTI, 2014, p. 104-106).

2.4. Pesantren

Pesantren is an Islamic educational institution native to Indonesian culture. Except for some cultural elements endemic to Indonesian Muslims, it is very similar to what the Middle-Eastern Muslims would refer to as madrasa. It is a place where religious students, known locally as *santri*, gather to learn religious knowledge from one or

more *ulema* (Islamic clerics); these *ulema* are called by different terms depending on the locality of their pesantren e.g., *Kyai* in Java, *Buya* in Sumatra, and *Tuan Guru* in Southeastern isles. Kyai Imam Zarkasyi, founder of Darussalam pesantren, defined pesantren as an Islamic educational institution with boarding school system, with a Kyai as its central figure, a mosque as its spiritual center, and Islamic teachings and learnings as its central activity (Panitia, 1996, p. 56). The existence of pesantren started with the arrival of Maulana Malik Ibrahim, a Muslim cleric of Arabian origin, to the island of Java in the 9th century. Maulana taught Islam to the locals, who flocked from different places in Java. This style of teaching would be followed by subsequent clerics and would continue on until this very day as pesantrens (Hamka, 2016, p. 553).

Besides teaching its students religious knowledge – and practical knowledge in modern-spirited pesantrens – the institution puts great emphasis on the matter of spirituality, forming individuals with strong Islamic worldview. The worldview urges men to always weight the consequences of their worldly actions as it will impact their lives later in the afterlife, thus, ethics (*adab*) is one of pesantren's main theme – and of Islamic Economics' as we know already. There is some kind of hidden curriculum in pesantren that encourages the students to always behave ethically (*ta'dib*) in every aspects of life (Hasib, 2016, p. 155-157). This ethical education toward the youths is regarded as an inseparable character of pesantrens. Further advocating this notion, H.F. Zarkasyi (2020) argued that worldview is best learned during teenage years, as during this period, students begin to develop critical thinking ability, start taking great interest in how the world around them works, and start their role as functional members of the society. As students of this age should get the best quality of cognitive teachings, they too should get the spiritual teachings with the same quality, if not better.

Historically, pesantrens stood as a symbol of defiance against progressive education system which reduced, if not abolished, the spiritual elements in education materials. To some extent, pesantrens also served as the bases of popular resistance and social movement that were completely independent from the influence of the state. During the Dutch colonial time, there were four separate attempts by the state to constitutionally restrict the growth of pesantrens (Mahdi, 2013, p. 12). It seems that the same role stays true until this day; A.S. Zarkasyi (2005) explained that

pesantrens' resilience toward the test of time came from their traditionalistic fervor; their duty of moral preservation; their closeness to the masses of lower and middle classes; and their insistence on being self-sufficient communities. After the Indonesian independence in 1945, many Kyais sought the national government to constitutionally acknowledge the pesantren institutions into the formal education system. This struggle for recognition proved to be a hard and long one, which fortunately resulted in the issuance of pro-pesantren constitution and executive order in 2019 and 2021, respectively.

2.5. Pesantren and Its Economic Potential

It is interesting to learn from history that early pesantrens were built from the bottom-up with very meagre resources to support their initial development; most of the time, it was the personal wealth of the founding clerics themselves that sustained the pesantrens in their early stage. The resource shortage was further complicated by the growing number of students which were destitute themselves. However, this problem was solved by the students' willingness to voluntarily devote themselves to the development of their pesantrens; some would work in the fields to grow food, and some would construct residences and maintain them with whatever resources they could get (Panitia, 1996, p. 55). As the number of students increased, so too the number of residences they built around the clerics' houses, hence, pesantrens are also known by the term "*pondok*," from Arabic "*funduq*," literally meaning "a place to stay" (Mahdi, 2013, p. 3). This is the core of pesantrens' economic potential, their insistence on being self-sufficient, resilience in the time of hardships, and an environment which encourages entrepreneurial spirit. In addition, looking through social phenomenology perspective, the pesantren environment builds its economic motivation through the *ulul albab* concept; the integration of *dzikr*, *fikr*, and *amal*. *Dzikr* is based on the Qur'an and Sunnah literatures, providing the basis of actions; *fikr* is the deep planning of the actions, and; *amal* is the realization of the actions (Siswanto, 2020, p. 4). All are consistent with the character of Islamic economics.

Perhaps there are few better examples to demonstrate pesantrens' economic potential than the case of Darussalam. The institution was established in 1926 and was the first pesantren to adopt modern administration. During the turbulent periods of post-independence Indonesia, the founders had to cover for the expenses with their own wealth. Thankfully, the founders' resilience and aptness for innovation paid off.

Darussalam currently owns more than fifty business units, ranging from a convenience store to a gas station. Their revenues enabled the pesantren to establish 18 branches and manage 12 million hectares of *waqf* assets (Arroisi & Syamsuri, 2020, p. 170). Darussalam's headmaster, Kyai A.S. Zarkasyi (2005) explained that this success is due to Darussalam's principles of financial independence, meticulous administration, mental attitude, and ethical conducts. Financial independence guarantees freedom for the pesantren to pursue their development programs in its own terms; meticulous administration allows pesantren to efficiently manage and rationally distribute its limited resources; refined mental attitude contributes to the successes both in individual and institutional level; and ethical conducts encourage responsible behavior in all activities.

By possessing the positive characteristics aforementioned above, it is not unrealistic to say that pesantrens have economic potential which is evidenced by their ability to utilize and manage the mechanisms of production, distribution, consumption and manpower (Rimbawan, 2012). But in order to present a fair judgment, it should be pointed that the problem of human resources is still the greatest challenge that haunts the development prospect of pesantrens. The success of Darussalam might had come from the fact that it had existed long enough to develop their human resources, to fortify the robustness of their institution, and to conduct trials and errors in financial administration; the three matters that generally stalled the growth of current pesantrens as described by Faozan (2006). Although there are indeed some pesantrens that managed to overcome these issues in less than a decade, it will be wise to not hastily generalize their achievement to the entirety of pesantren institutions.

CHAPTER III

LITERATURE REVIEW

This chapter discusses the findings of numerous academic studies related to the subject of Indonesian Islamic educational institutions known as pesantrens and their relation with Islamic microfinance. Before anything else, the economic role of pesantrens should be discussed first as it constitutes the fundamental relevance of this study. Afterward, findings concerning the pesantrens' adaptability toward the current economic and financial developments are presented to reflect the pesantrens' readiness to contribute toward the sectors, as well as to influence the general economic environment. The next sub-chapters then delve into findings that are empirical and technical regarding Islamic microfinance activities in pesantrens complete with their assessments, and a brief report on the field of charity-based institutions.

3.1. Economic Role of Pesantrens

The institution of pesantren was traditionally viewed by the Indonesian society as an institution whose sole purpose was to teach Islamic knowledge to the *santri* (students); to some very conservative pesantrens, this view is still being embraced today, characterized by their unwillingness to adopt modern methods and technologies. Hence, the institution was not expected to create human resources skilled in other than religious scholarship matter. (Ningsih, 2017, p. 60; Fathoni & Rohim, 2019, p. 134; Azizah & Ali, 2020, p. 645; Hamzah, et.al., 2022, p. 1044). However, since the 1970s, forward-looking pesantrens began to reposition themselves in the society, challenging the traditional view. Aside from their educational role, they started to consider contributing toward the economic, social, and political movements in Indonesia (Ningsih, 2017, p. 76; Fathoni & Rohim, 2019, p. 136; Silvana & Lubis, 2020, p. 135; Hamzah, et.al., 2022, p. 1044). Leadership is the key factor of this awakening. The Kyais, experiencing modern education and/or witnessing the rapid modern progresses in the society firsthand, began to develop a sense of urgency to reshape their pesantrens in accordance. A sense that is also closely tied to self-preservation needs (Ningsih, 2017, p. 60).

Considering their economical movements, pesantrens have an advantageous position in Indonesian society. Their historically agricultural root means that they are much closer to the people i.e., they are more likely to be trusted by the lower and middle classes; this factor, coupled with the available local resources, are indeed a good starting point for people-driven economic developments (Ningsih, 2017, p. 59, 74). In practice, each pesantren has its own unique approach to encourage Sharia-compliant economic developments both inward and outward (Azizah & Ali, 2020, p. 646). Regardless, the movements can be generalized into the creation of Sharia-aware environments – at the very least within their immediate community; the establishment of ethically-driven business enterprises; the formulation of Islamic microfinance institutions, and; the imparting of the related knowledge and skill to the *santri* of the pesantrens themselves. All of the aforementioned activities are based on the concept of propagation by action (*da'wah bi-l-hal*), which is more compelling compared to propagation by rhetoric (*da'wah bi-l-kalam*) (Fathoni & Rohim, 2019, p. 137-138).

3.2. Economic Adaptability of Pesantrens

The pesantrens' aptitude of economic developments can be traced to their spirit of self-sufficiency. The Kyais has long been aware that by harnessing the pesantrens' economic potential, they should be able to reach financial independence, to cease to count on tuition fees and donation for institutional development (Ningsih, 2017, p. 75; Silvana & Lubis, 2020, p. 131). However, such endeavor cannot be realized without a strong human resource basis. Hence, modernized pesantrens tend to put great attention in teaching their students the skills of management, administration, and entrepreneurship as they are the closest human resources available to the pesantrens. The proven effectiveness of refined human resources and robust institutional quality further reinforced the importance of the effort (Ningsih, 2017, p. 74; Fathoni & Rohim, 2019, p. 136-137). On ethical aspect, the students are taught to anchor their enterprise on five pillars: *Tawhid Uluhiyyah*, that it is a form of worship; *Tawhid Rububiyyah*, that it is a form of faith; *Khilafah*, that it is a form of duty; *Tadhkiyat-an-Nafs*, that it is a form of rehabilitation, and; *Falah*, that it is a deed worthy in both this world and the hereafter (Azizah & Ali, 2019, p. 650-652).

With modernization, pesantrens unlocked new capabilities in management and administrative matters, as well as expanding the horizon of their economic

understanding. Progressive pesantren agents are aware that open-mindedness toward new methods and technology does not necessarily mean abandonment of their identity, but vice versa, it reinforces the notion that pesantrens are centers of learning and practice. Awareness to what the market demands and comprehensive understanding of business cycle are indeed very technical, stemming from the mainstream economics, but are no doubt impactful toward the success and sustainability of pesantrens' economic endeavors, as found by a study (Silvana & Lubis, 2020, p. 139). Knowledge of the legal system and current regulations also enables the pesantrens to navigate through the imperfect Indonesian legal scene; a study suggested that one of the legal obstacles of pesantrens is presented by the pro-oligarchic conglomerate regulations in Indonesia, which aims to suppress competitions from the bottom-up (Ningsih, 2017, p. 72). Besides, practical technology also helps. For instance, application of automated virtual account technology in pesantrens was proven to ease the bookkeeping and governance workloads, in addition to minimizing the possibility of human error and moral hazard (Hamzah, et.al., 2022, p. 1042-1043).

3.3. Wider Economic Influence of Pesantrens

As for their outward impact to the wider society, especially in the issue of poverty alleviation, the pesantrens are also well-positioned. In 2019, 32% of pesantrens are considered to be capable economically. Their economic activities in the real sector, mainly in four fields: agricultural, service, trade, and industry can be recognized as poverty alleviation attempt in short-term. Such significance was noticed by the central government; pesantrens are expected to contribute toward the Masterplan of Indonesian Islamic Economics of 2019-2024 (Silvana & Lubis, 2020, p. 130-132). What differentiates pesantrens and other economic development programs is their inclusion of educational aspect. As pesantrens are fundamentally educational institutions, every economic success they managed would contribute to the improvement of their educational quality i.e., every short-term success shall contribute to the longer-term success. In 2018 alone, pesantrens absorbed 9% of school-age children, which is a quite large share in Indonesian educational system (Silvana & Lubis, 2020, p. 129). To highlight the importance of pesantrens' long-term economic impact through education, note that pesantrens are regarded as: *first*, the centers of excellence, they are places where Islamic thoughts are formulated and

practiced; *second*, the developers of human resources, with their provision of direct practical experiences, and; *third*, the agents of social change, as they are actively involved in carrying out actions beneficial to the society (Ningsih, 2017, p. 61-62; Fathoni & Rohim, 2019, p. 134; Azizah & Ali, 2020, p. 645; Hamzah, et.al., 2022, p. 1044).

3.4. Islamic Microfinance in Pesantrens

The SMEs comprised 98.68% of Indonesian business sector, absorbing 97% of its workforce. Although the number seems massive, the SMEs contribution are still very small compared to higher-level enterprises, which undoubtedly possess superior administration, management, information, and access (Masrifah, 2020, p. 76-77). The basis of IMFI establishment mainly revolves around the provision of financing toward SME agents which the mainstream banking deems as unbankable; due to their lack of collateral, capacity, character, capital, and condition. That reason coupled with Islamic economics objective of establishing Sharia-compliant practices, alleviating poverty by assisting SMEs, combatting predatory means of financing, and to fairly distribute the resources (Alhifni & Huda, 2015, p. 598-599). Such basis resonates very well with the religious and freedom-striving pesantrens, as it bears an idea of independence from unfair practices, to break free from the mercy of mainstream economic and financial system ridden with asymmetric information and moral hazard issues. Thus, pesantren-based economic and financial developments are both motivated by social and religious matters (Putra, 2015, p. 45-47). This grass-roots movements are worthy to be considered; as the pesantrens grow, they contribute to well-being of the society, whether short-term through the processing of local resources, or long-term through the provision of Sharia-aware skilled human resources (Firdaus, 2022, p. 35). In addition, their method of community economic empowerment checks all the prerequisites: it is planned and targeted; it sought popular participation, and; it is done with socially acceptable approach (Nurhayati & Nurjamil, 2019, p. 47).

Indonesian IMFIs are commonly in the form of BMTs, which incorporate two Islamic financial institutions: *Baitu-l-Mal* and *Baitu-t-Tamwil*. The first is concerned with collecting funds from Islamic charitable instruments of *Zakat*, *Infaq*, *Sadaqah*, and *Waqf* (abbreviated as ZISWAF from this point on) for both charity and commercial purposes. What drove the establishment of this institution was the

inability of traditional charity collector to respond toward the massive social and technological change in Indonesian society (Nurhayati & Nurjamil, 2019, p. 49). On the other hand, *Baitu-t-Tamwil* employs Islamic deposit and lending schemes such as *Mudharabah*, *Murabahah*, *Wadi'ah* and *Ijarah* for mainly commercial undertakings akin to Islamic banking (Putra, 2015, p. 47); but despite the variety of schemes, deposit products are still the most popular in pesantren communities (Alhifni & Huda, 2015, p. 607). By 2015, Indonesians had established similar IMFIs in 10,023 villages, with 94% of their members being women (Alhifni & Huda, 2015, p. 599). Many of these IMFIs were established with the technical and financial aids of both governmental and non-governmental organizations and committees like PINBUK (lit. Center for Small Business Enterprise Incubation) (Putra, 2015, p. 52), which in 2019, also helped to establish the Micro Waqf Bank initiative in 20 locations, some of those in pesantrens; this signifies the effectivity of meso-level landscape of IMFI development suggested by Obaidullah & Khan (2008). The macro-level (government regulations landscape), however, still fall short, as there are many intertwined regulations concerning IMFIs that can be problematic later due to legal overlapping (Nurhayati & Nurjamil, 2019, p. 51-52).

3.5. Academic Assessment of Pesantren-Based Microfinance

Pesantren-based IMFIs have an advantage in which they are able to perform the role of internal financial source for their parent-pesantren instead of just financial intermediary role. The role is achieved through independent capital creation in pesantrens, generally through agricultural, service, trade, and industry sectors. The creation of the internal financial source is made possible by the availability of market, opportunity, human resources, and access within their immediate institutions; those coupled with their forward-looking leaderships, spirit of self-sufficiency, constant human-resources development, and emotional connection with the wider Muslim communities (Putra, 2015, p. 47-48). BMT of Sidogiri pesantren is one of the successful stories in pesantren-based IMFI scene. Concerned with the lack of Islamic banking reach to pesantrens, Sidogiri took the establishment of professional pesantren-based IMFI into its own hands; in 11 years, Sidogiri managed to develop its IMFI institution into 120 branches located mostly in East Java province (Masrifah, 2020, p. 78-81). However, this success should be regarded as the beginning of a long journey for pesantren-based IMFIs. A more comprehensive study

involving various similar IMFIs found deficiencies in institutional quality, liquidity management, and coordination with regulators. The study stated that only 39% of the observed IMFIs passed technical and practical efficiency tests. They were in need to increase their financial coverage by 11.51%, operational income by 13.12%, and ZISWAF-based funding by 53.34%. Further, only 6% of the observed IMFIs fulfilled their internal financial source role, although thankfully, there was a sign of positive increase of the trend (Masrifah, p. 89-95).

Among the indicators to measure pesantren IMFIs performance are their longevity, ease of access, profit margin rate, time efficiency, and the number of their customers. The longevity factor, measured by the age of each IMFI, assumes that the older the IMFI, the greater the trust it has gained from its immediate society. The ease of access i.e., spatial adjacency to the customers has an impact toward their decision to continue working with the IMFI; a growing IMFI will be wise to increase their coverage by building branches, as done by Sidogiri. The profit margin rate shows the profitability of the IMFI's products. Time efficiency factor, mainly involved with an IMFI's service quality, also directly indicates the quality of its administration and management. The amount of customer describes both the growth of an IMFI's coverage and how successful its enterprise is (Alhifni & Huda, 2015, p. 600). Scoring high in all of the aforementioned indicators results in the increasing quality of the IMFI's service and products, however it doesn't have any correlation with SMEs empowerment (Alhifni & Huda, p. 607).

In short, pesantren-based IMFI quality is very much affected by the improvement in its human resources sector as it directly contributes to the institutional, financial, economic empowerment, and management performances (Putra, 2015, p. 62). Institutional aspect is greatly strengthened by clear direction and priorities, which is a sign of qualified leadership at the helm of the IMFI. In financial aspect, transparent and robust financial reporting is the key; to their detriment, pesantrens are too accustomed to simplistic financial report, caused by low human-resources initiative. In economic empowerment, robust and streamlined customer-service serves the aspect well; again, this requires qualified human-resources. And finally, in the management aspect, the most powerful variable is the presence of a well-thought strategic planning (Putra, 2015, p. 53-58). It is clear that pesantrens need to update

their outdated traditional management system and provide human-resources development initiatives to answer the contemporary challenges.

3.6. Charity-Oriented Instruments of Pesantren-Based Microfinance

Regarding the ZISWAF development, it is still relatively underdeveloped compared to its commercial counterparts, which is unfortunate considering how great its potential is. In *waqf* sector, there are 4,142,464 km² registered *waqf* assets in Indonesia (2018), with a large portion owned by pesantren institutions. To convert these idle ZISWAF assets into productive ones, program-based and regulation-based supports by IMFI agents and regulators are greatly desired (Rohmaningtyas, 2018, p. 1-2). Serious developments to develop this untapped potential have been carried out directly by the pesantrens Gontor and Tazakka, who themselves took inspiration from the successful *waqf* management of Al-Azhar University (Don & Hussin, 2024, p. 1374-1375), and indirectly by LAZNAS (lit. National Institution of Zakat Agents).

The one carried by Gontor is passive in approach, but should not be mistaken as traditional and simplistic. Gontor established a robust system with modern management in its effort to develop productivity in its 11,081 km² *waqf* assets; resulting in constant influx of revenue large enough to support its sustainability and financially contribute to its ever-increasing programs, with its ultimate objective of establishing a higher-learning institution as a center of Islamic-based empowerment (Rohmaningtyas, 2018, p. 12-14). Tazakka meanwhile adopts a more active approach by creating a dedicated ZISWAF management body. The body actively seeks potential donors and updated its method with modern methods and technology. Tazakka's endeavor managed to gather Rp 5,676,809,500 of cash *waqf* in 2015 alone (Rohmaningtyas, 2018, p. 15-17). As for the indirect effort, LAZNAS cooperated with 20 pesantrens to establish Mini *Waqf* Banks, which act as conduits of ZISWAF and CSR funds, distributing them mainly through *qard hasan* scheme (Nurhayati & Nurjamil, 2019, p. 46, 53).

CHAPTER IV

RESEARCH METHODOLOGY

Methodology is the strategy utilized by the researcher upon which the work is built. The presence of methodology is crucial to the scientific work as it affects its outcome, its place among the countless other scientific works, and how well it will be perceived among the academics. As it is difficult to separate a work from the subjectivity of its author, the methodology – the modern one, specifically – helps to construct a contribution based on the objective reality of the research object with as little subjectivity as the circumstance permits (Howell, 2013, p. 1). The scientific method, as inspired by Aristotle (384-322 BCE), disdains the notion that phenomena are caused by random chances i.e., everything happens for a reason that is empirical and generalizable through various cases. The tradition is later continued by the Islamic *falsafa*, Latin *scientia*, Newtonian empiricism, and modern scientific orthodoxy best represented by Karl Popper's falsification principle, which aims to set a clear boundary between scientific and pseudoscientific works (Gauvin, 2013, p. 1233-1234).

Note however that in Ghazalian Islamic epistemology, both empirical and transcendental knowledges are given proper place. Despite acknowledging the superiority of empirical method, as it reflects the optimal utilization of '*aql*', Ghazali did not shy to admit that intuitional knowledge is not only valid, but higher than the former owing to its divine nature (Alam, 2021, p. 11). This point is important for this particular study as much of its content is concerned with the realization of such mystical intuitional knowledge into the real world, particularly in the matters of economics and financial. Thus, in compliance to this scientific tradition, particularly the empirical one, this research employs credible design, model, data collection method, and data analysis technique which will be described at the following paragraphs.

4.1. Research Design and Model

The study is carried out using qualitative exploratory method with case study approach. The study aims to explore and understand a social phenomenon through

answering the main questions presented, with data provided by interviews, observations, and documentation by the author, who then analyze it inductively from particular statements to general conclusion. Individual meanings interpreted from the data are presented wherever possible to reflect the complexity of a phenomenon (Creswell & Creswell, 2023, p. 41). The results obtained from the core research are then to be confirmed by the extensive literature review and conceptual framework also presented in this work, reinforcing their credibility by intertwining them with the existing thoughts. Throughout the research, the aforementioned review and framework are responsible to guide the researcher to conceptualize, organize, and communicate his findings in the most scientifically-based method possible (Green, 2014, p. 37).

Based on this design, this research therefore aims to study the Islamic microfinance activity in pesantrens, to explore the factors that contributed to its development and the ones that pose as challenges to its agents, which culminates in the understanding on how the system works and how to improve it. Deep interviews with the key practitioners in the field, direct observations toward the practices in question, and collection of documentations related to the practices are the main instruments that the researcher utilizes to explore the subject. Afterward, with the help of literature review and conceptual framework, inductive reasoning is employed to process the data, to refine it into generalizable factors condensed into a comprehensive model; a model that may properly contribute to the empowerment of Islamic microfinance in pesantrens, madrasa, and other similar institutions.

Regarding the definition of the exploratory aspect of this study, it closely matches the concept of *exploration for discovery*, in which the researcher seeks to thoroughly uncover everything that bears important ideas within the confine of the subject. This is in contrast with the concept of *exploration for innovation*, which is narrower and more focused to a certain aspect of the subject; it is wholly occupied in a mission to contribute a specific thing. As such, the first concept exhibits patterns of flexibility, pragmatism and particular interests are common throughout the paper which aims to unearth ideas unknown or less known prior to the study (Stebbins, 2001, p. 3). Although the result of an exploratory research is more suggestive in nature, if done correctly, it can dispel misconceptions and ambiguous ideas in the subject and act as a platform for further extensive studies. In short, there are three main purposes of this

kind of research: (1) to dispel curiosity regarding the subject, (2) to open possibility of future studies of the subject, and (3) to develop suitable methods for future studies to better approach the subject (Babbie, 2012, p. 90).

With that explained, this study seeks to uncover ideas and facts present in the relatively novel subject of Islamic microfinance in pesantren in the most possible exhaustive manner as permitted by available time, source, and effort. There will be high degree of flexibility in this study as it tries to gather ideas and facts scattered in the field and around its corners; as such, trivial matters found will not be immediately assumed as meaningless and insignificant (Marshall & Rossman, 2016, p. 171). The study set its pragmatical priority in discovering applicable and generalizable ideas to empower the scene of Islamic microfinance in pesantren, madrasa, and other similar institutions. However, this high degree of freedom does not mean that the study will go in an uncontrollable manner, as it needs to conform toward the scientific tradition represented by the presence of research methodology; the core discussion of this exact chapter.

As a case study, the subject is centered on a real-world phenomenon that the researcher has found to be intriguing. The study therefore is highly contextualized to deeply understand the “why” and “how” of the subject at hand, however, the researcher has no power and no instruments to control the phenomenon. This is what differentiates case study from the closely-controlled experimental study. Due to its “free range” character, case study has to deal with credibility issues by preparing countermeasures such as: (1) Setting data points for the usually vast amount of research variables, (2) conducting data triangulation to concentrate the findings of multiple different sources, and (3) formulation of comprehensive literature review and theoretical framework – the latter presented by the research background in this study – to support the findings (Yin, 2009, p. 49-50). Despite its association with vast amount of seemingly scattered and disconnected data sources and research variables – even more so in qualitative approach – case study is not impossible to generalize. At the heart of this process is the contextual interpretation via rich and deep description that allows the reader to connect the aforementioned data and variables. There are some methods to generalize a case study, and as for this specific study, it will be reached through in-depth learning of the uniqueness of its case (Leavy, 2014, p. 465).

The case of this study is the phenomenon of widespread development of Islamic microfinance in pesantrens. The intriguing point of this case is the “where” aspect of this phenomenon: pesantrens, Islamic educational institutions similar to Middle-Eastern madrasas. It is uncommon for religious educational institutions to establish their own financial service providers, let alone to manage them to reach the point of widespread acknowledgement and significant relevance – at least among Indonesian Muslim population. As described by the previous paragraph, the researcher has no control on this phenomenon, there are factors out there that contributed to this rising prominence warranting the attention of Islamic economists; thus, the underlying rationale of this study has been settled. Understanding and insights gained by studying the phenomenon is not meant to merely provide explanation for the case, but also to provide a framework of practical improvement manifested through a constructed model of pesantren-based IMFI.

This study will be carried out in two stages. *The first stage* will form the backbone of this study, in which the researcher gather any relevant data concerning pesantren-based IMFIs; on how they work, what factors allowing them to flourish, what advantages and disadvantages they experienced along with the ideas that will allow them to bolster the first and remedy the latter. Besides, any interesting suggestions of developments that are within the realm of possibility and applicability will be considered. Supported by the literature review and research background, the result of this stage will enable the researcher to describe a comprehensive qualitative understanding of the subject which culminates in research conclusion, policy recommendations, and notes for future relevant studies. The methodology and methods of this part are described by the following Figure 4.1.

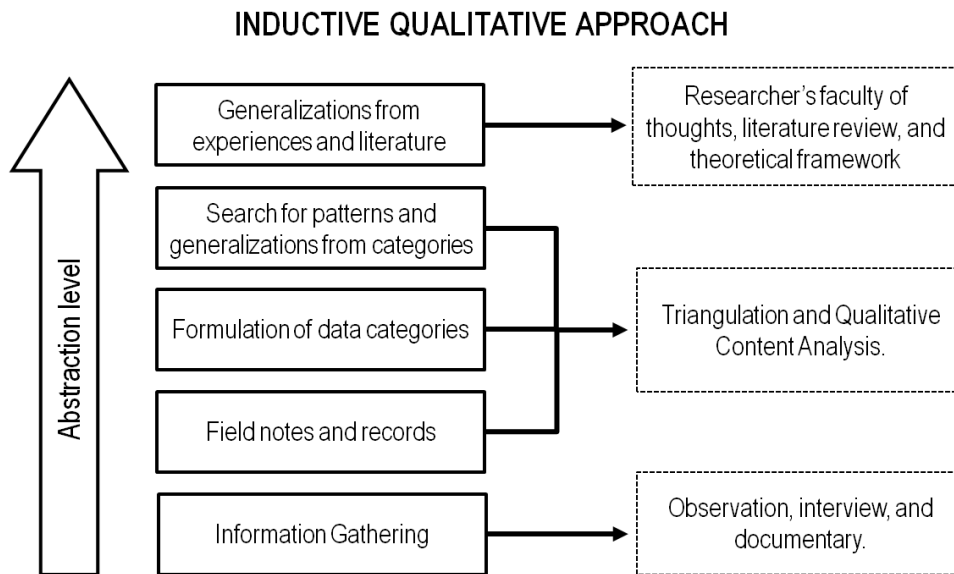


Figure 4.1: Methodology and Methods of the First Stage of the Research

Source: Adapted from Brandao, 2015

However, no matter how comprehensive and detailed the result of the first stage will be, it will not serve the exploratory purpose of this study, as it does not go beyond its explanatory character i.e., it lacks novelty, a fresh contribution toward the already existing practice. Hence, *the second stage* of this study acts as its exploratory extension, realized through the construction of a structured model for pesantren-based IMFI. The model, therefore, is an accumulation of ideas gathered from the literature review and research background, reinforced by the findings of the previous stage, and extended by the suggestions of possible practical developments. Nonetheless, the model should not be confused as a definitive framework for existing and budding pesantren-based IMFIs. Due to its non-confirmatory nature, the result of an exploratory research sparks more questions compared to the limited answers it offers (Stebbins, 2001, p. 4).

4.2. Location and Time of the Research

This case study will be generally conducted in pesantren institutions in Indonesia; specifically, in four pesantren-based IMFIs. Each has strong development and significant contribution identified by numerous prior studies concerning them. *The first* is Nurul Haramain pesantren's Mini Bank in West Nusa Tenggara province, which is focusing on the power of social cohesion to reach financial independence. *The second* is Darussalam Gontor's BMT La Tansa in Ponorogo, East Java province,

which took advantage of the pesantren’s strong institution, structure, and system. *The third* is Tazakka pesantren’s LAZIS in Batang, Central Java province, which is viewed as a model institution of charity-based ZISWAF fund management and allocation. And *the fourth* is pesantren of Sidogiri’s BMT UGT in Pasuruan, East Java province. The IMFI is mainly occupied with the profit-based IMFI business i.e., provision of financial services to the poor and SMEs. Brief profile of each pesantren is provided by Table 4.1.

Table 4.1: Research Cases Profile

No.	Pesantren	Features
1	Nurul Haramain (Lombok, Indonesia)	<p>Established in 1991, the pesantren has grown as one of the most prominent pesantrens in Eastern Indonesia. Its innovative spirit enticed it to establish a modern financial institution called Mini Bank in 2015. The Mini Bank was a sign of departure from traditional management common in pesantrens, in which the financial matter is still managed by each’s inner circle.</p> <p>The Mini Bank manages students’ and teachers’ money and allocates it wherever needed. So far, the institution had provided working capital for business ventures; vehicle credits; education funds; pilgrimage funds; housing funds, and; funding of social and economic development programme.</p> <p>This institution is a template for successful developing small-level microfinancing.</p>
2	Darussalam Gontor (East Java, Indonesia)	<p>Established in 1926, Darussalam was the first “modern” pesantren in Indonesia. It is currently one of the most renowned pesantren both locally and internationally. As a modern institution, it employs heavy emphasis on professionalism and systematic management. The result is a constantly growing institution with excellent administration.</p>

		<p>Darussalam's general financial administration is itself interesting to learn, but the research will be focusing on its BMT (<i>Bait al-Mal wa at-Tamwil</i>), a fully-fledged Islamic microfinancing institution which offers an array of financial products aiming both internal community and the general population.</p> <p>This institution is a template for successful intermediate-level microfinancing.</p>
3	Tazakka (Central Java, Indonesia)	<p>A relatively new pesantren established in 2012 by three siblings who are alumni of al-Azhar Cairo. Although young, the institution is famous for its spectacular growth from a modest learning community (<i>majlis at-ta'lim</i>) into a professionally managed pesantren owning several industry-scale businesses.</p> <p>The growth of Tazakka is financially supported by its innovative activities in utilizing Islamic charitable concepts such as <i>waqf</i>, <i>zakat</i>, and <i>infaq</i>. To manage them, LAZIS (Institution of Zakat, Infaq, and Sadaqah Workers) was installed. It is indeed one of the very few institutions that successfully unleashed the full potential of those aforementioned concepts.</p> <p>This institution is a template for successful management of Islamic charitable concepts which are relevant toward Islamic microfinancing activity.</p>
4	Sidogiri (East Java, Indonesia)	<p>One of the oldest pesantrens in Indonesia. Sidogiri was founded in 1745 by Sayyid Sulaiman, whose father was a Yemeni cleric and mother an aristocrat of Cirebon Sultanate. Currently, the pesantren is headed by its 13th headmaster, Kyai Fuad Noerhasan. Economically, the pesantren has a significant presence in East Java, especially around the Pasuruan regency.</p>

		<p>Despite having a very traditional root, the pesantren isn't shy to embrace the latest methods and technology, as reflected by the superb institutional quality within one of its IMFIs, BMT UGT Sidogiri. The BMT is in fact so successful that it has domain in 60 regencies, serving 650.000 members with a vast array of financial products.</p> <p>This institution is a template for successful advanced-level microfinancing.</p>
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Source: Author, 2024

These choices are based on the following considerations: (1) As mentioned above, the selected IMFIs have been capturing the interest of academic world as evidenced by numerous studies conducted therein. This contributed to the *a priori* credibility of the sources at the very least, and contributed to the credibility of the case study at best. (2) The selected IMFIs have been influencing the growth of pesantren-based IMFIs thanks to their significant contribution toward the scene, which is identified by the emergence of their many imitations. (3) The selected IMFIs have observable practices, knowledgeable key-people, and collectable artifacts that are essential for scientific activities that demand measurable instruments.

The case study is conducted in a time span of 8 months, ranging from September 2023 to April 2024; the time span includes the formulation of the research's basis and rationale, data collection activity, data analysis process, and interpretation of its findings. The empirical facts and ideas collected by this study reflect the development of pesantren-based IMFIs during the time span. Any further developments of the scene after the time span are therefore regarded to be outside the reach of this study as the researcher has no control whatsoever upon it. Any contradiction and/or shortcoming that emerge after the publication of this study are therefore open to be discussed by future studies that are well-versed to meet such kind of development.

4.3. Data Collection Techniques

The majority of the research is conducted within the first stage of the study; it reveals the positive qualities of Islamic microfinance employed by the different pesantrens. The list of pesantrens that constitute the subject of the research is already given in the

previous sub-chapter, and the list of research variables to guide the research is presented in the next sub-chapter. In that sense, the researcher uses both primary and secondary data obtained through first-hand and second-hand works, respectively (Supardi, 2013, p. 16). The data collection method involves: structured direct observation method which involves processes of determining variables, planning data collection, and data recording (Hartono, 2013, p. 109-113); interviews, mainly using in-depth semi-structured interview method enables the researcher to control the informational flow but not to the extent of limiting the sources' freedom to add any valuable bits of information (Jamshed, 2014, p. 87), and; documentary method to complement all the existing data through acquisition of artifacts as permitted by the time and ethical constrain of the study (Satori & Komariah, 2013, p. 148-149).

4.3.1. Summary of the Research Variables

The role of extensive research background and literature review presented in this study is to provide basis, guidance, and direction, especially in relation with the study's data collection and analysis sections. Table 4.2 below summarizes the vast framework and review into manageable research variables which put the research questions at its core context.

Table 4.2: Variables of the Research

Group 1 – IMFIs in Pesantrens and their Practices		
1	Economic potential of pesantrens	The factors that contributed to the relevance of economic development through pesantren.
2	Economic role of pesantrens	The structural and functional factors that give pesantrens a chance to influence the economy.
3	Microfinancing Basis	Financial encouragement to allow the impoverished to alleviate themselves from poverty.
4	Difference from conventional MFIs	Conventional MFIs have fundamental and practical flaws, how do pesantren-based MFIs differ?
5	Key practices of pesantrens IMFIs	Pesantrens IMFIs have their focus either in commercial financing, ZISWAF management, or Takaful.
Group 2 – Strengths of Pesantrens IMFIs		
1	Fundamental strengths	The strengths that the pesantrens IMFIs drew from the values of of Islamic economics.

2	Micro-level strengths	The factors that contributed to the institutional, human-resources, and products development.
3	Meso-level strength	Inter-organizational cooperations and programmes that contributed to the strengths of pesantrens IMFIs.
4	Macro-level strengths	Governmental regulations and laws supportive toward the development of pesantrens IMFIs.
5	Weaknesses and challenges	Ability to detect and assess own's shortcoming is a part of an institution's strengths.
Group 3 – Future Development Possibilities		
1	Future institutional development	With the pesantren-based IMFIs practices and strengths discussion settled, what is their future plan regarding their institutions?
2	Future Islamic economics and finance development	What the pesantren-based IMFIs envision regarding the future development of Islamic economics and finance.

Note: These variables are based on the study's research background and literature review.

Source: Author, 2024

As shown by the table, the variables are divided into three groups. *Group 1* aims to uncover the fundamental principles of pesantren-based economic development in each case. Once the principles are revealed, the variables then continue to ask about the practices carried out by the IMFIs, how they differ from the conventional MFIs, and on what aspect of Islamic financing are they focusing to. *Group 2* seeks to reveal the factors that contributed to the strengths of each IMFI, along with the weaknesses and challenges that they need to assess and face eventually. These two groups will constitute the explanatory components of the research upon which the final model will be built. *Group 3* controls the substance and direction of the final model, which is more exploratory in character. It is the culmination of the research; thus, it should positively integrate all confirmed positive findings of the study.

4.3.2. Observation

Conducting a direct observation requires the researcher to be good with his senses, to be open-minded and keen to record any minute details. Thorough attention to details may reveal ideas that are normally obscured to unfocused researchers (Yin, 2009, p. 127). As such, the researcher's presence at the locations of case study itself is the prime requirement of observation method; otherwise the great amount of missing

details and insights will jeopardize the credibility of the whole study itself. The exploratory aspect of the study further reinforces the emphasis of observing something new, which is something that deductive analysis is poorly suited for thanks to its limitation within pre-existing ideas and facts (Stebbins, 2001, p. 7). Hence, the mission of observation is not only concerned with capturing things that should be observed by the study, but also to capture those that are “possibly observable” within the boundary of the subject.

Rosenbaum (2021) described that direct observation take advantages of three things: opportunity, device, and instrument. Opportunity comes from the disruption of the *status quo* of the subject. In this particular study, the disruption manifested itself through the emergence of financial bodies in institutions that are traditionally regarded as the ones purely focused on Islamic education; an interesting anomaly begging to be observed. Device is related to the methodology of the study. The presence of scientific methodology in this particular study acts as a clear advantage as it prevents the observation to be misguided, thus less credible. Instrumental advantage is represented by the research variables, which are in turn supported by the literature review and theoretical framework (research background). The instrument acts as a deterrent of causation error which is commonly caused by the lack of well-constructed research basis.

Therefore, to realize a good direct observation as described above, the researcher takes great attention in recording his observation as to not let any details to be left unnoticed. This is done in the location of study through available means i.e., first-hand writing and audio-visual captures. The objects of observation are: (1) the human actors in the location; (2) activities done therein; (3) phenomena occurring due to the presence of the construct, and; (4) any non-human objects that are related to the subject both directly and indirectly. To transform the observation into a systematic one, prior to the field research the researcher has set three guidelines: (1) a list of research variables which acts as an itinerary of the field trip; (2) a daily schedule which acts to keep the time efficiency of this time-constrained research, and; (3) form of observation results to be filled daily which is useful to map the findings, to derive correlations among the ideas, and to detect conceptual gaps among them. The detailed process of direct observation is presented by Figure 4.2 below.

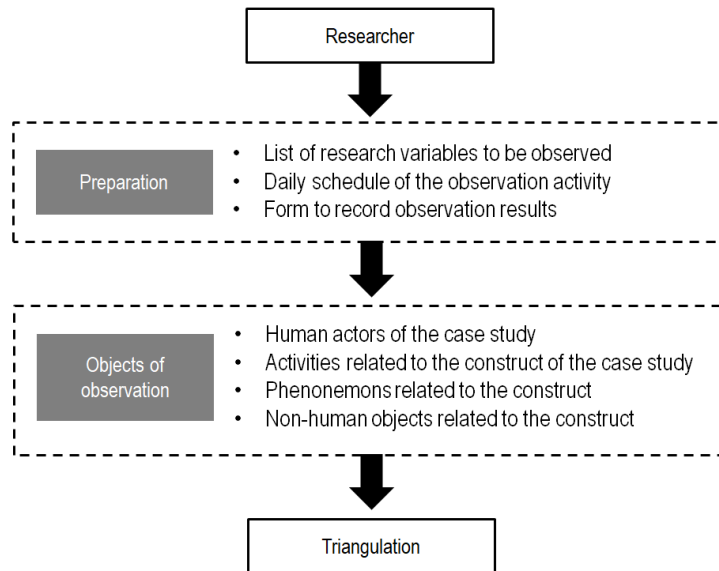


Figure 4.2: Direct Observation Method

Source: Based on Akrom, 2020

4.3.3. Interview

Interview method is one of the most commonly used in qualitative research. It allows to researcher to record, analyze, challenge, and reinforce the ideas, facts, and practices related to his subject. There are two types of interview, free unstructured and in-depth semi-structured. The unstructured interview is more suited for long-term research as it allows the researcher to collect data through sporadic conversations and commentaries; the rationale behind it is that the researcher should accumulate his data as naturally as possible, with as less intervention as possible. Meanwhile the semi-structured requires the researcher to control the direction of the information flow by setting up the core context of the interview, many associated questions are therefore built around the central theme of the subject (Jamshed, 2014, p. 87). The more organized manner of the latter interview method offers time and energy-efficiency that are crucial for studies with limited time and funding such as this particular study. Thus, the author chose the semi-structured in-depth interview method as the sensible and suitable part of his methodology.

There are some advantages gained by using an interactive interview method to gather information as opposed to a written questionnaire survey which is less interactive and one-direction in nature. An interview can yield a more thorough answer because it requires the interviewees to aptly conceptualize their take on the subject. The issue of

insufficient respond can be tackled by reinterpreting the question into a more discernible one or redirect it into a more answerable one whether within a single session or during separate occasions. Hence, a properly conducted interview is generally able to complete 80-85% of its intended target compared to the questionnaire method (Babbie, 2013, p. 250). However, due to its free-flowing nature, universities and scientific communities are constantly concerned with the ethical aspect of interview. Different institutions have different standard of acceptable research interview questions. The list of interview questions and the chosen respondents are respectively presented by Table 4.3 and Table 4.4 beneath.

Table 4.3: Interview Questions

Group 1 – IMFIs in Pesantrens and their Practices		
No	Context	Question
1	Economic potential of pesantrens	What factors do you think contribute to the relevance of economic development in pesantrens?
2	Economic role of pesantrens	What structural and functional factors give pesantrens advantages to influence the economy in your opinion?
3	Microfinancing Basis	Microfinance is a financial encouragement to allow the impoverished to alleviate themselves from poverty, how does your institution carry out this objective?
4	Difference from conventional MFIs	Conventional MFIs have fundamental and practical flaws, how is your institution different?
5	Key practices of pesantrens IMFIs	Pesantrens IMFIs have their focus either in commercial financing, ZISWAF management, or Takaful, which one is your institution's focus? What are the examples of its product?
Group 2 – Strengths of Pesantrens IMFIs		
No	Context	Question
1	Fundamental strengths	What strengths does your institution has drawn from the values of of Islamic economics?
2	Micro-level strengths	What factors do you think have contributed to the institutional, human-resources, and products development of your institution?
3	Meso-level strength	What inter-organizational cooperations and programmes do you think positively contributed to the strengths of your institutions?
4	Macro-level strengths	Are there governmental regulations and laws supportive toward the development of your institution?
5	Weaknesses and challenges	What shortcomings and challenges have you been detecting within your institution and how do you plan to assess that?

Group 3 – Future Development Possibilities		
No	Context	Question
1	Future institutional development	With your institution's practices and strengths discussed, what are your future plans regarding the development of this very institutions?
2	Future Islamic economics and finance development	What does your institution envision regarding the more global objective of future development of Islamic economics and finance?

Source: Author, 2024

Table 4.4: List of Respondents

No	Name	Occupation	Case Study
1	Al-Ustadz Abdul Majid *	Chief director of BMT UGT	BMT UGT Sidogiri
2	Al-Ustadz Imron Husnan *	Marketing director of BMT UGT	BMT UGT Sidogiri
3	Al-Ustadz Abdussalam *	Financial director of BMT UGT	BMT UGT Sidogiri
4	Al-Ustadz Luthfillah Habibi **	Director of Sidogiri Corp	BMT UGT Sidogiri
5	Al-Ustadz Masykur Hasan *	Director of BMT La Tansa	BMT La Tansa Gontor
6	Al-Ustadz Ismail Abdullah **	Director of Gontor Foundation	BMT La Tansa Gontor
7	Al-Ustadz Hanif Hafidh **	Supervisor of Gontor business units	BMT La Tansa Gontor
8	Dr. Khoirul Umam, M.Ec. **	Vice rector of UNIDA Gontor	BMT La Tansa Gontor
9	Al-Ustadz Fardana K. Haq *	Director of LAZIS Tazakka	LAZIS Tazakka
10	Kyai Muhammad Bisri **	Headmaster of Tazakka	LAZIS Tazakka
11	Al-Ustadz Ahmad Dahlan *	Supervisor of Nurul Haramain economic affair	Nurul Haramain Mini Bank
12	Al-Ustadz Sunarto **	Supervisor of Nurul Haramain economic affair	Nurul Haramain Mini Bank
13	Tuan Guru Hasanain Juaini **	Headmaster of Nurul Haramain	Nurul Haramain Mini Bank
14	Al-Ustadzah Istiharah **	Manager of Haramain Mini Bank	Nurul Haramain Mini Bank

Note: *semi-structured in-depth interview, **unstructured free interview

Source: Author, 2024

To formulate a successful data collection through the semi-structured in-depth interview method, the researcher are required to fulfill these requirements (Babbie, 2013, p. 251-253): (1) *Proper appearance and demeanor*; The interview should be a comfortable and friendly activity for the interviewees, as such the researcher should present himself with the most appropriate looks and manner. However, this should not be done too casually or too obsequious as both equally provoke uncomfortable reactions. (2) *Familiarity to the subject*; asking the wrong questions to the wrong people will prove to be a fatal blow to the credibility of the interview. To prevent this, the author decided to narrow down the respondents into the ones regarded as the most familiar to the subject, the list of suitable respondents is presented by Table 4.4. (3) *Clear questions*; unclear questions yield equally unclear answers, the interviewer should precisely convey what the questions are aiming for so that the respondents will give corresponding answers. The interviewer is allowed to probe the respondents for the desired answers but he should never force them to agree to his own conclusion. (4) *Exact recording*; the interview record should reflect the verbatim response of its respective respondent. As opposed to recording the key points only, verbatim recording opens up a wider possibility of interpretation essential for an exploratory study. As such, audio and/or visual recording is a minimum requirement for each interview session.

4.3.4. Documentation

Documentation is one of the most recurring methods of researchs with qualitative approach, especially the ones conducting case studies. Paired with observation and interview methods, documentation increases the amount of data and bolsters the study's credibility as it offers an original capture of the internal mechanism of the subject along with its external manifestation on daily life. Documentation is commonly presented through qualitative audio-visual materials, social media posts, and digital materials which are available at public spaces; and through personal notes, reports, and plans that are only available through personal visitation and correspondence (Creswell & Creswell, 2023, p. 284). As the method possesses strengths, so does it possess weaknesses. The strengths of documentation method lies in its relevance to the case studies; it conveys wide amount of data through the language and terms used by the sources and it readily reveals their interest, which is a boon for researchers concerned with time and fund efficiency. However, there are

also several weaknesses; some materials may be inauthentic or hard to interpret, and there are sensitive materials that are barred from public view which are obviously hard to collect (Creswell & Creswell, 2023, p. 287).

As described above, in this particular study the researcher utilizes the documentation method to gather data from audio-visual materials either through first-hand or second-hand means; from social media posts that are available at online public spaces such as official website and popular social media sites; and from digital materials obtained through correspondence with the customers at the field. Regarding the more private data like personal notes, reports, and plans, the researcher will try to obtain as many as he can within the boundary of permission granted by the sources. The researcher should never venture beyond the permitted line as being too intrusive will raise a concern of ethical breach both by the sources as well by the researcher's institution. As for the analysis of the data, the difference of language, terms, and interpretations among the sources will be reconciled with the help of literature review and research background. It should be noted that such differences, rather than challenges, are more like blessings to the study as it allows the researcher to gain native insights toward the subject (Howell, 2013, p. 120). The detail of this method is presented by Figure 4.3.

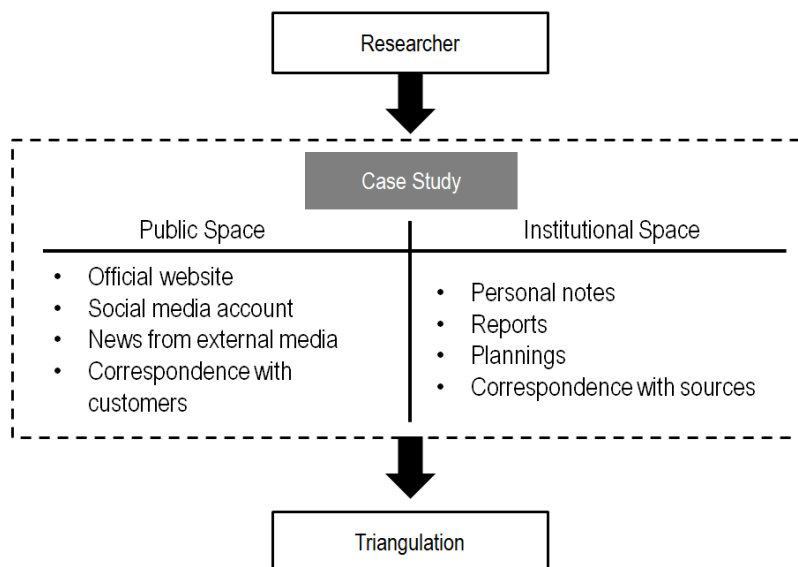


Figure 4.3: Documentation Method

Source: Based on Howell, 2016

4.4. Data Analysis Techniques

To analyze the data collected from different sources and methods, it will be first assessed through triangulation method to prove whether the data is expanding, inconsistent, or contradictory to each other (Sugiyono, 2014, p. 423-425). There is another reason to choose this method, namely to avert the prevalence of individual bias toward the result, because after all, the subject is focusing on institutional development. Technically, the data obtained from interviews – which may hold some degree of personal biasness, especially regarding the *'aqidah* and Shariah hypotheses – will be supported by a collection of documentary and thorough field observation. Therefore, any discrepancy found during the triangulation method is an indicator of such bias and the researcher may need to look for a more eligible sample. Once the data passed the triangulation analysis, it is subjected to processes of content analysis method i.e., developing data categories, coding the data, and analyzing the data to reach the final result of this stage (Kuckartz & Rädiker, 2023, p. 81). All findings are then reviewed, screened, and modified to better suit the work of the next stage. This whole process is described in Figure 4.4.

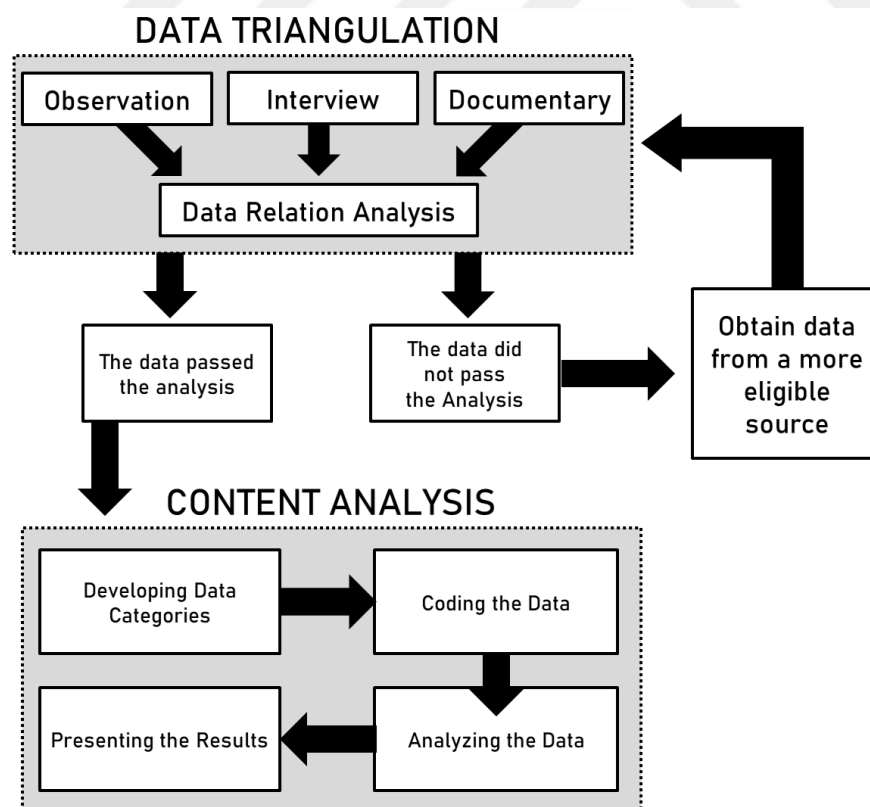


Figure 4.4: Triangulation and Content Analysis Method

Source: Sugiyono, 2014 & Kuckartz & Rädiker, 2023

4.4.1. Triangulation

In the most general sense, triangulation is a method that enables the researcher to conduct a single study with multiple methods. The different data collection methods are therefore integrated to maximize the methodological advantage of the research. The three different data collection methods reflect the three levels of data triangulation i.e., individuals, interactive, and collective (Denzin, 2009, p. 301-302). The interview method, with its focus on individuals familiar with the subject represents the individual-level of the triangulation. The direct observation method represents the interactive level as it focuses on the real-life practice and implication of the subject, in more specific words, how the interaction of research variables with the real world is captured within the limited time and energy available to the researcher. The documentation method covers the collective level as it provides informations that are broader in application.

The researcher employs the triangulation method to aid him in analyzing the diverse data by drawing useful relations between them, hence increasing the extent of the context (Leavy, 2014, p. 108). Triangulation also helps the researcher to preserve the credibility of the study by detecting possible contradictions between the first-hand and second-hand data. To pass the triangulation, the data explaining a research variable in its respective case study must not contradict each other i.e., the observation, interview, and documentation elements must correlate with each other. Severe contradictions in many research variables within a case study will deem it unfit for the research, necessitating for a more credible case as a replacement. The researcher will assume a neutral stance in this assessment, he should not force correlation where it does not exist nor should he negate contradiction where it does emerge; this process is described before by the upper part of Figure 4.4. An example and guideline of the triangulation assessment is presented by Table 4.5.

Table 4.5: Triangulation Assessment Table

Instances	Observation	Interview	Documentation	Triangulation Verdict
Instance 1	✓	✓	✓	Data is available and confirmatory
Instance 2	×	×	×	Data is contradictory, or unavailable
Instance 3	✓	✓	×	Data is consistent, but lacks confirming artifacts

Instance 4	✓	×	✓	Data is consistent, but lacks insider confirmation
Instance 5	×	✓	✓	Data is consistent, but lacks first-person confirmation
Instance 6	✓	×	×	Data is unreliable, too heavy on researcher's bias
Instance 7	×	✓	×	Data is unreliable, too heavy on insider's bias
Instances 8	×	×	✓	Data is unreliable, too reliant on artifacts

Note: ✓ = Data is available and confirms the research's context; × = Data either rejects the research's context or not available at all.

Source: Author, 2024

4.4.2. Content Analysis

Kuckartz & Rädiker defined qualitative content analysis as a scientific analysis of content derived through communication that is systematically and methodologically guided. In this kind of analysis, the materials related to the research questions are coded to relevant categories. The analysis does not only focus on the manifest of the content, as it also takes great attention toward the obscured and unrevealed. It is suitable for either deductive or inductive approach, category or case-oriented study (Kuckartz & Rädiker, 2023, p. 21). The communication content mentioned by the definition, in this particular study, is derived from the observation, interview, and documentation method. The manifest of the content is essential to answer the first and second research questions of the study that is delegated to its first stage; while the content's latent ideas, with the support of its manifest ideas, are utilized to answer the third question presented by the second stage of the study.

The vast amount of data collected through multiple sources and methods will prove to be a challenging for the researcher to code individually. Hence, an instrument to efficiently perform this task is crucial for the study. The researcher therefore decided to use computer software called QDA Miner Lite to help him in this task. It is one of the many qualitative data processing softwares available to the public. The software is capable in performing qualitative content analysis that involves word listing, word frequency counting, data annotation, data coding, data mapping, and categorization into matrices (Brandao, 2015, p. 50-51). Concerning the last-mentioned bit, matrices of ideas to which the dataset will be sorted are required because the study is built on research background and literature review.

The process of a qualitative content analysis involves a lengthy chain of activities that can be simplified into four steps: (1) Development of suitable samples and data categories with the help of the research background and literature review, (2) indexing the data by coding it using the computer software, (3) analyzing and summarizing the coded data, and (4) presenting the results of the analysis (Kuckartz & Rädiker, 2023, p. 90; Brandao, 2015, p. 53). This process is depicted by Figure 4.5 below.

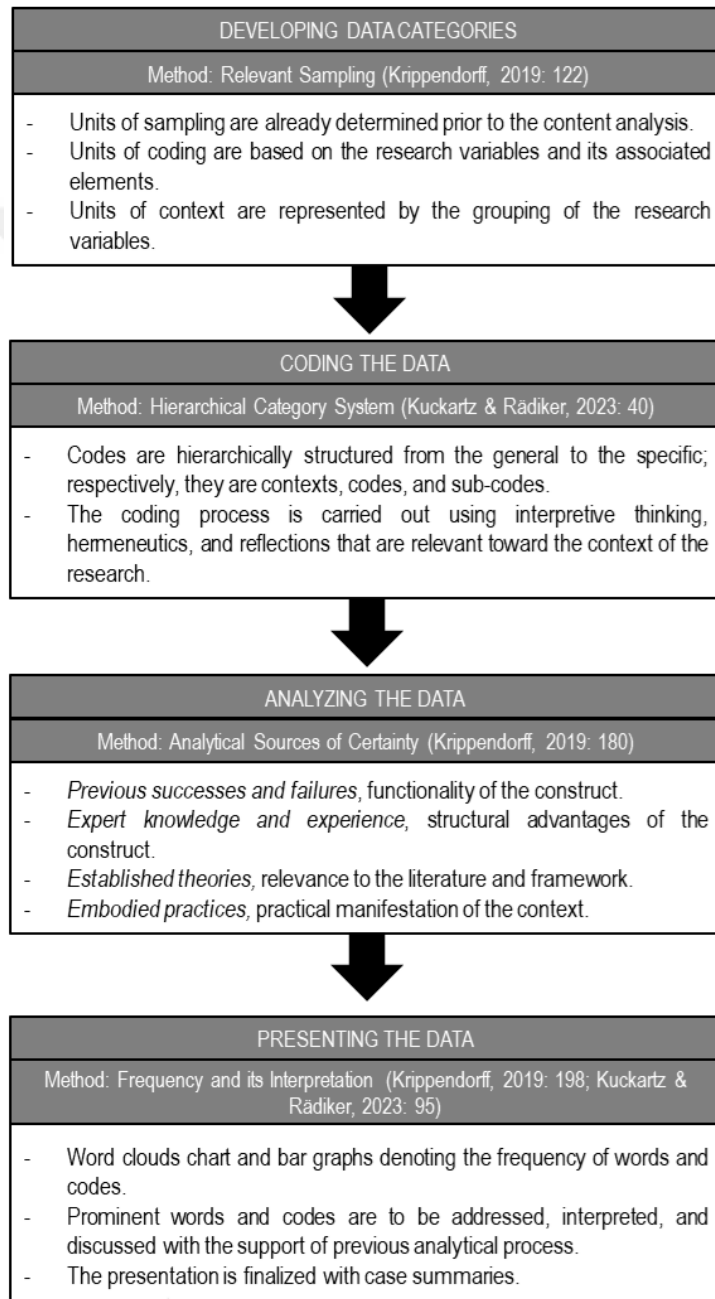


Figure 4.5: Qualitative Content Analysis Procedure

Source: Krippendorff, 2019 & Kuckartz & Rädiker, 2023

a) Developing Samples and Categories

Before delving into the content of the data from each case, the researcher first has to decide what he will consider as the units of sampling, coding, and context (Krippendorff, 2019, p. 103). Sampling units are those selected to be included in the analysis, these units have been described at the sections concerning observation, interview, and documentation methods. Coding units are categories where the content of the sampling units is sorted to, they explain the aspects that distinguish or correlate them with each other. The coding units are presented by the research variables; any specific coding units not explicitly mentioned by the variables will be considered as sub-coding units. Context units are the ones overseeing the coding units, they set boundaries on what each coding units are allowed to include. All of these units are selected through *relevant sampling* i.e., they are chosen given their relevance to the research questions of this particular study (Krippendorff, 2019, p. 122).

b) Coding the Data

Coding is the interpretation of data by sorting them into different categories relevant to their content. Coding lets the researcher to register his qualitative data into an instrumentalized process, which is done to at least reduce the subjective biasness of the interpretation and the subsequent analytical process (Krippendorff, 2019, p. 129). The coding process involves the application of interpretive thinking, hermeneutics, and based reflection by the researcher (Kuckartz & Rädiker, 2023, p. 25). In this particular study, the system of data coding is not linear, it is a *hierarchical category system* in which codes are structured from the general ones, represented by the context units, to the more specifics, represented by the coding and sub-coding units respectively (Kuckartz & Rädiker, 2023, p. 40). List of the codes and sub-codes is presented by Table 4.6 below.

Table 4.6: Qualitative Content Analysis Context, Codes, and Sub-codes

Context	Code	Sub-code
Islamic Values	Adherence to Sharia (Choudhury, 1983)	Preservation of Sharia (Khan & Ahmed, 2017)
		Means of worship (Azizah & Ali, 2019)
		Spiritual quotient (Siswanto, 2020)

	Brotherhood (Choudhury, 1983)	Social Concern (Mamun, Sinanoğlu & Uddin, 2022)
		Community Building (Kasdi, 2018)
		Community Economy (Panitia, 1996)
		Poverty-alleviation (Silvana & Lubis, 2020)
Technical Aspect	Internal	Institutional Quality (Fathoni & Rohim, 2019)
		Human Resources (Putra, 2015)
		Product Development (Obaidullah & Khan, 2008)
	External	Cooperation/Partnership (Obaidullah & Khan, 2008)
		Training (Putra, 2015)
		Marketing (Alhifni & Huda, 2015)
Products	Financing (Karim, Tarazi & Reille, 2008)	Profit-sharing
		Sale-based
		Rent-based
		Pawnbroking
		Insurance
		Deposit Product
	Charities (Azmi & Thaker, 2020)	Zakat, Infaq, and Sadaqah Waqf
Challenges	Institutional (Masrifah, 2020)	
	Social/Sharia-awareness (IRTI, 2017)	
	Regulation (Ningsih, 2017)	
	Digitalization (Interviews, 2024)	
	Macroeconomics (Interviews, 2024)	
Outcome	Welfare (Silvana & Lubis, 2020)	Immediate community
		Wider community
	Educational (Azizah & Ali, 2020)	Immediate community
		Wider community

Source: Edited by Author, 2024

Brief explanations of the context, codes, and sub-codes are explained below.

- 1) Islamic Values: Beliefs and conceptions that originated from the Islamic teachings. Further divided into Adherence to Sharia and Brotherhood.
 - a. Adherence to Sharia: Spiritual values that the subject embraced. Mainly concerned with the subject's reverence and obedience to God.
 - a) Preservation of Sharia: The subject's protection and propagation of Islamic Sharia law within the society.
 - b) Means of Worship: The subject's exercise of Islamic teachings in the real life.
 - c) Spiritual Quotient: The subject's ability to link its ideas and practices with Islamic teachings.
 - b. Brotherhood: Social values based on Islamic teachings that the subject embraced.
 - a) Social Concern: The subject's willingness and/or effort to relief social problems within the society.
 - b) Community Building: The subject's endeavor to develop a solid and effective community.
 - c) Community Economy: The subject's effort to independently build and develop its own economy.
 - d) Poverty-Alleviation: The subject's effort to combat poverty in the society.
- 2) Technical Aspect: Any matter concerning the system, mechanism, and techniques that put the subject's institution to work.
 - a. Internal: Any system, mechanism, and techniques adopted within the subject's own institution.
 - a) Institutional Quality: Positivity of the subject's working facility, governance, and leadership.
 - b) Human Resources: Readiness of the subject's manpower to deal with the institution's business.
 - c) Product Development: The subject's initiative to create new products and/or develop the older ones.
 - b. External: Any system, mechanism, and techniques conducted with the aid of institution(s) other than the subject's.

- a) Cooperation/Partnership: The subject's institution mutually beneficial work with other institution(s).
 - b) Training: The subject's initiative to send its human resources to other institution(s) for training purpose.
 - c) Marketing: The subject's effort to promote its institution, or its product(s), to the wider society.
- 3) Products: Financial services provided by the subject's institution.
- a. Financing: Services that focus on providing the customers with financial products.
 - a) Profit-sharing: Services based on *mudarabah* and/or *musharakah* concepts.
 - b) Sale-based: Services based on *murabahah* concept.
 - c) Rent-based: Services based on *ijarah* concept.
 - d) Pawnbroking: Services based on *rahn* concept.
 - e) Insurance: Services based on *takaful* concept.
 - f) Deposit Product: Provision of account in which the customer can keep their money in; the account may involve profitable schemes.
 - b. Charities: Services that are more leaning toward voluntary contribution.
 - a) *Zakat, Infaq, and Sadaqah*: *Zakat* is annual almsgiving obligatory for financially-able Muslims; *infaq* is charity in the form of material valuables, and; *sadaqah* is charity in whatever form, be it material or not (such as labor, service and instruction).
 - b) *Waqf*: Charity in the form of endowment for religious, educational, or social cause.
- 4) Challenges: Phenomenons that negatively affect the development of the subject's institution.
- a. Institutional: The subject's inadequacy of working facility, governance, leadership, or human resources.
 - b. Social/Sharia-Awareness: The society's lack of acceptance toward the subject's institution, or its practices, due to the former's current social condition or due to its low understanding of Sharia law.

- c. Regulations: Laws enacted by the ruling bodies that hinder the practices of subject's institution.
 - d. Digitalization: The subject's unreadiness to face the increasingly digitalized economic and financial landscape.
 - e. Macroeconomics: The subject's unpreparedness to weather macroeconomics shock.
- 5) Outcome: The impacts of subject's activities.
- a. Welfare: The material betterment brought by the subject's activities.
 - a) Immediate Community: Betterment brought toward the subject's internal community comprising the institution's leadership and employees, and the denizens of its parent pesantren.
 - b) Wider Community: Betterment brought toward those other than the institutions leadership and employees, and the denizens of its parent pesantren. This includes the institution's customers and non-customers.
 - b. Educational: The subject's propagation of Islamic economics and finance along with its academic contribution to the discipline.
 - a) Educational values brought toward the subject's internal community comprising the institution's leadership and employees, and the denizens of its parent pesantren.
 - b) Educational values brought toward those other than the institutions leadership and employees, and the denizens of its parent pesantren. This includes the institution's customers and non-customers.

c) Analyzing the Data

The analytical procedure of the data mainly intended to reveal correspondence between the construct of the cases and the context of the research. This procedure includes four aspects (Krippendorff, 2019, p. 180): (1) *Previous successes and failures*; past positive and negative consequences related to the construct of the cases are corresponding toward the functionality of the construct. (2) *Expert knowledge and experience*; the data collected from the respondents represent the structural correspondence between the construct of the cases and the context. Note that the respondents' knowledge does not represent functionality as the previous aspect. (3) *Established theories*; which argues that the correspondence between the construct

and the context is governed by the existing theories and framework – represented by the literature review and research background respectively. (4) *Embodied practices*; the embodiment of the context is inferred through its similarity, correlation, or relevancy toward the construct.

d) Presenting the Data

The analysis of the data is afterward visualized into forms that are convenient to read and describe. In this particular study, the analysis result will be presented by word and code count. However, it should be noted that although the presentation relies on reporting frequency, the frequency itself is not a designator of significance or representation of strength. Rather, the frequency denotes points of interest, much like a deviation in a uniform distribution, a disruption of the *stable temporal pattern* that the researcher should address, interpret, and discuss with the help of all available means (Krippendorff, 2019, p. 198-199). Once the data visualization and discussion are settled, the researcher then provides the respective case summary that communicates to the readers the fact-based explanatory generalization inferred from the whole content analysis process (Kuckartz & Rädiker, 2023, p. 95).

e) Model Construction

The construction of comprehensive pesantren-based IMFI model is the objective of the second stage of the research; it is the expansion of the answers to first and second research questions. The model is some sort of continuation of data presentation, but wider and includes exploratory aspects. The model incorporates all findings that passed the analysis of previous stage. Relevant literatures and framework concerning pesantren-based IMFIs, its practices, challenges, and visions will guide the work in this stage. Wherever needed, the findings are simplified by means of strict selection, summarization, or classification with the preservation of their original context in mind. And to better describe the idea, presentation by means of graphs, diagrams, and/or tables will be formulated as necessary. Finally, the comprehensive Islamic microfinance model will be presented.

Due to the vast amount of data and codes, the building of a qualitative model is a complex task; it requires the researcher to systematically map the extensive collection of findings and patterns as they act as the underlying basis of the constructed model. Further, as an answer to criticism toward qualitative modelling,

which argued that such endeavor is more of an art than a structured scientific activity, Bredeweg, et.al., presented a *structured approach* which acts a protocol managing the qualitative modelling process (Bredeweg, et.al., 2006, p. 586). The description of the approach is presented by Figure 4.6 below.

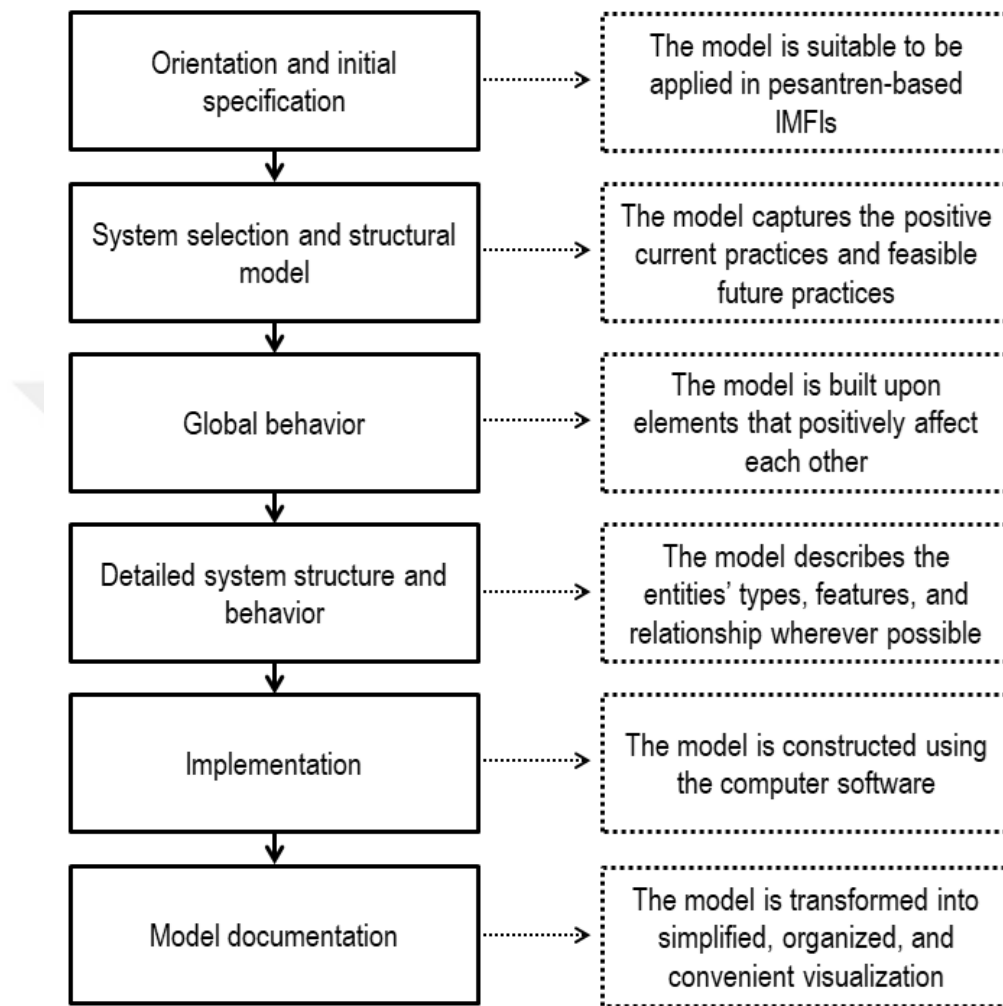


Figure 4.6: Qualitative Modeling Structured Approach

Source: Adapted from Bredeweg, et.al., 2006

As for the visualization of the model, the author has set four general rules, they are:

- 1) It has to begin from the fundamental concepts then technical ones, all the way down to the institution's eventual contributions i.e., "outcomes" (along with its idealized outcomes i.e., "visions");
- 2) Flow of ideas and how they impact each other should be denoted with simple arrows colored black for positive impact, and red for negative one. Circles depicting plus and minus symbol also denote either impacts, this is a precaution

should the model be shown in black and white version. The arrows should not intersect each other whenever possible;

- 3) Different levels of significance possessed by each codes and sub-codes are indicated by their position and the way they are written. The higher they are placed within their grouping the higher their significance. Those written in all-capital letters (such as “SOCIAL CONCERN”) possess major significance, while those written in normal style (such as “Social Concern”) possess lesser significance;
- 4) The model is designed vertically to better comply with Rule (1) and its content should be arranged as symmetrically as possible.

These rules are set with the convenience of general readers in mind. The sequential order, simple network of arrows, obvious significance indicators, and generally symmetric design are all there to facilitate instinctive understanding and to prevent confusion in the readers’ part.

CHAPTER V

ANALYSIS AND DISCUSSION

This chapter discusses the findings revealed by the author’s field research in the four subjects. The findings will be organized into four sections respective toward the number of the subjects, and each one further separated into points that correspond to the qualitative content analysis codes of this study – see Table 4.6 in Chapter IV for reference. In the end of each subject’s discussion, a qualitative model is presented to better describe and summarize the findings. All the subjects have passed the triangulation process; the detail regarding the process is presented first by Table 4.7 below.

Table 4.7: Triangulation Result

Instances	Observation	Interview	Documentary	Triangulation Verdict
Haramain Mini Bank	Direct observation in the IMFI and the pesantren	Structured interview with a key person; unstructured interview with two key people.	Direct correspondence with a key person; a weekly financial reporting (August 7, 2024)	Data is available and confirmatory
BMT La Tansa	Direct observation in the IMFI and the pesantren	Structured interview with a key person; unstructured interview with three key people.	An academic thesis focusing on the IMFI; the IMFI’s official instagram account	Data is available and confirmatory
LAZIS Tazakka	Direct observation in the IMFI and the pesantren	Structured interview with a key person; unstructured interview with a key person.	An academic journal focusing on the IMFI; The IMFI’s official website.	Data is available and confirmatory
BMT UGT Sidogiri	Direct observation in the IMFI and the pesantren	Structured interview with three key people; unstructured interview with a key person.	The IMFI’s official website	Data is available and confirmatory

Source: Author, 2024

5.1. Haramain Mini Bank, Pondok Pesantren Nurul Haramain

Haramain Mini Bank is a template for successful small-level microfinance in pesantren. The institution, unlike those of later subjects, is still operating within the direct structure of the pesantren; in other words, it has no dedicated system e.g., bylaw and human resources management, as it still largely depends on the pesantren's system. Other thing to be considered, due to the scale of the subject, there will be smaller variety of financial products offered compared to other subjects and there will be initiatives that were not so well-narrated by the agents. However, this is to be expected in smaller scale institutions due to lower level of facilities, institutional quality, and human resources development.

As an overview of the subject, Haramain Mini Bank is heavily investing in the concept of *jama'ah* (congregation) as the key to economic development. In line with Ibn Khaldun's thought that a small community could rise as a powerful entity should the social cohesion is constantly being preserved and developed (Ibn Khaldun, 2015, p. 142). As a pioneering initiative, Haramain Mini Bank derived its programs and methods not from other already developed IFIs as commonly done by IFIs in their infancy; bur rather, the institution derived those from the wisdom and past economic initiatives of the pesantren's founder, Tuan Guru Juaini Mukhtar. It is therefore interesting to see that Haramain Mini Bank, instead of spending most of its time learning from other existing IFIs, has become one that inspired many other aspiring pesantrens to learn from.

5.1.1. Haramain Mini Bank: Context 1 - Islamic Values

The Islamic values context is divided into two categories: Adherence to Sharia and Brotherhood. For the first category, Spiritual Quotient aspect has the highest presence (9.3% of the total codes), followed by Preservation of Sharia (5.6%), and then the Means of Worship (4.6%). As for the Brotherhood category, Community Building aspect is the highest (14.8%); in fact, it was the highest of the case's content analysis. Community Economy and Social Concern then follow it up (both 5.6%). There is no presence of Poverty-Alleviation aspect throughout the subject.

a) Context 1, Code 1 - Adherence to Sharia

The basis of Haramain Mini Bank's Spiritual Quotient aspect came from two factors. *First*, from the wisdom of the pesantren's founder, Tuan Guru Juaini Mukhtar.

Mukhtar was originally sent by his teacher, Maulana Shaikh, to propagate true Islamic teaching in the western part of Lombok Island in the 1950s. Mukhtar was sent there by two other students; together, their teacher proclaimed them as brothers, not in blood, but in struggle. Mukhtar understood the importance of brotherhood and the power of emotional bond; he would later utilize it in his economic initiatives. *Second*, from the teaching of Maulana Shaikh, who said that every undertaking in this life must be based upon *iman* (belief to God) and *taqwa* (obedience to God). To this day, the Shaikh's teaching still acts as the underlying philosophy of Nurul Haramain pesantren.

The next aspect, Preservation of Sharia, manifested in Haramain Mini Bank's will to prevent *riba* from invading the livelihood of the community; which is done by basically providing Sharia-compliant alternative of conventional financing products. This initiative has its historical basis during the time of Prophet PBUH in Madina, when he decided to establish an Islamic market just across the interest-ridden Jewish market. The basic idea of a distinctly Islamic-patterned initiative is that brothers will not harm each other, so no interest will be necessary, no exploitation will be conducted. The establishment came from the conviction that Shariah is indeed beneficial to the community.

The Means of Worship aspect in Haramain Mini Bank is realized through its products' emphasis on the narrative of mutual help, as the *jama'ah* naming convention entails; that everyone is contributing its part to the *jama'ah*, sharing what they possibly can afford to, for the betterment of the community, in the hope of evoking God's blessing. Thus, what the members had spent into the Mini Bank were not only for worldly self-preservation, but also for transcendental low time preference deeds i.e., blessings in the afterlife. By this way, the Mini Bank implied to its members that their utilization of the products is itself a form of piety to God.

b) Context 1, Code 2 - Brotherhood

The aspect of Community Building scored the highest in the content analysis of this subject – in fact, the aspect did score very high too in the rest of the cases. The aspect is reflected by the spirit of self-sufficiency shown by the pesantren and its Mini Bank. The agents believed that the economy should be controlled by the people of the community, through a mutual effort called *jama'ah* concept, where people with strong emotional bond are trying to increase their living standard with every small bit

they can contribute. Hence, the sense of brotherhood should be shared by all members if they are to achieve a common welfare objective. Consequently, any factors that can potentially cause enmity within the community must be promptly resolved.

This is why all products or programs initiated by Haramain Mini Bank are advertised with the motto of helping each other; unlike the interest-ridden conventional products which the Mini Bank thought as deteriorating the already low social cohesion of modern community. One of the products, Dana Jama'ah, is an example of community-oriented product. The product gathers monthly contribution from the members, and the fund pool can be borrowed by the members who have emergency needs, such as medication and childbearing. Ahmad Dahlan, supervisor of the Mini Bank, stated that without this product, each household within the community has to at least save IDR 5 million for emergency situation, which is very difficult considering the small monthly wage. He further added that this product's other objective is to induce social cohesion within the community.

As for the impact of Haramain Mini Bank toward the immediate pesantren community, represented by the Community Economy aspect, the Mini Bank indeed contributed many things. In the past, the founder managed to fund construction of a mosque by the means of coconuts contributed each week by its congregation; and now, the Mini Bank is emulating the concept, but through different media, through financing. The presence of Mini Bank amidst the pesantren facilitated the development of a controlled and self-sufficient economy of the community. Without it, the pesantren might still have to rely on the student fees and external aids; as it was before, during the time when the pesantren's financial management was still underdeveloped.

The initiative to establish Haramain Mini Bank was also influenced by the Social Concern aspect. The successful stories of the founder's economic initiatives should become evidence that community-based financing is indeed possible. However, the wider society seems to be still unaware of this potential. Interest-bearing loans are still prevalent within the society, which the Mini Bank tried to solve by providing *qard hasan* loan, no interest, no exploitation, with only optional *infaq* as its profit margin. Besides interest-bearing loans, there is also a prevalent practice in the society called *arisan* group, in which each member has to contribute regularly to a

fund pool. A member will be selected randomly to win the pool; each member is only allowed to win one time. Though this practice seems to be based on mutual help, it is no doubt bears an element of lottery, which is no way to build social cohesion. The Mini Bank fights this practice by creating the *jama'ah* products. The products, albeit having a striking similarity with the *arisan*, are based on helping brothers in doing good deeds.

Note that there is no code scoring Poverty-Alleviation aspect whatsoever. The rationale behind this is that Haramain Mini Bank, despite its good growth, is still not ready to provide its products to the wider community to put a dent at the poverty rate, focusing on the immediate pesantren community instead. There are reasons for this state; the most apparent are the institutional quality and human resources issues. Nevertheless, the Mini Bank has already taken preparations to develop itself into a full-fledged IMFI, as evidenced by the presence of cadres and talks of future initiatives involving Islamic banks and government initiatives.

5.1.2. Haramain Mini Bank: Context 2 - Technical Aspects

As a relatively new IMFI, there were few points concerning the context of Technical Aspects in Haramain Mini Bank, both in the Internal and External categories. In the Internal category, Product Development aspect scored the highest (2.8% of total codes), followed by Institutional Quality and Human Resources aspects (both 0.9%). And in the External category, Cooperation/Partnership and Marketing aspects scored the same (both 1.9%). Meanwhile there was no code hitting the Training aspect.

a) Context 2, Code 1 - Internal Affair

The Product Development aspect in Haramain Mini Bank is greatly influenced by the pesantren's founder past economic initiatives; all products are shown as means to help each other and to build social cohesion within the community. And due to the Mini Bank's smaller-scale activities, the products are deliberately made simple and easy to understand, which is convenient for both the staffs and the customers. These simple products act as prototypes for the Mini Bank's next products. The development of Human Resources aspect is also conducted through a very simple approach; the skilled older staffs pass their knowledge to the newer ones. All in all, in the short-run, the Mini Bank's simple Institutional Quality aspect is adequate to run its small-scale operation; however, in the long-run, it has to consider advancing it

to better suit its growing operation; certifying its staffs is one of its preparations for future expansion.

b) Context 2, Code 2 - External Affair

For an institution that is based on the concept of self-sufficiency, Haramain Mini Bank stayed true on it in the sense that it doesn't depend on external institutions. For almost a decade of its operation, the Mini Bank had only one financial cooperation with an external IFI; it was in automobile credit provision scheme. There are cooperations with various Islamic banks and governmental institutions; however, they were not in financial matters, the Mini Bank merely acts as the conduit of their funding to the pesantren. So, currently the Mini Bank has very few programs in Cooperation/Partnership aspect.

In the Marketing aspect, Haramain Mini Bank does not have any dedicated marketing strategy to advertise its operation to the wider society. Nevertheless, the Mini Bank's focus on developing a well-working small-scale IMFI has captured the attention of many external institutions. For its competence in managing Nurul Haramain's financial matter, some Islamic banks and governmental initiatives expressed their interest to build a closer financial relationship with the Mini Bank. However, due to many considerations, especially regarding Internal Affair aspect, the pesantren's headmaster chose to decline the plan, at least for the time being.

There was no code hitting the Training aspect because, as mentioned above, Haramain Mini Bank's small-scale operation does not entail complicated financial products; hence, what human resources it currently has is enough. The Mini Bank is aware that as it grows larger, dedicated training will be needed; thus, certifying its staffs is one of its first moves toward that direction. Note that the implied certification does not count as a hit in the Training code as it is a *waqf* certificate; a field untouched yet by the Mini Bank.

5.1.3. Haramain Mini Bank: Context 3 - Products

There are two main categories in the context of Products of IMFIs, Financing and Charities. For the case of Haramain Mini Bank, the General Financing aspect scored higher (5.6% of total codes) compared to its General Charities aspect (2.8%). As for specific Financing products, Sale-Based and Deposit Products scored the same (2.8% both) followed by Pawnbroking (0.9%). There is no hit on the Profit-Sharing, Rent-

Based, and Insurance codes. On the other hand, Charities products are mainly in the form of ZIS (2.8%) with no mention on *Waqf* code.

a) Context 3, Code 1 - Financing Products

The majority of Haramain Mini Bank products are in the form of financing services. Deposit Products revealed during the field research are the Dana Jama'ah, Jama'ah Haji, and Jama'ah Automobile. Sale-Based product is in the form of automobile and electronic credit provision. There is an upcoming product based on Pawnbroking concept which will be based on the value of gold acquired and stored by the Mini Bank. In the near-future, the Mini Bank hoped that it will grow to facilitate inter-pesantren financing products.

Dana Jama'ah mentioned above is a Deposit Product mandatory for all teachers of Nurul Haramain pesantren. The regular contributions toward the product are automatically cut from the teachers' wages to be transferred to the Dana Jama'ah pool. The idea behind the product is to provide for emergency loans i.e., in case of sickness, accident, or childbearing. There will always be available fund for emergencies; otherwise, each teacher has to save at least IDR 5 million for both personal and household emergencies – as calculated by the Mini Bank agents, which is quite difficult considering the teachers' small wages. The loan will be given in the form of *qard hasan* scheme; therefore, the borrower has to repay the loan with exactly the same amount, no interest involved. The profit margin of the loan is gained through optional *infaq* donated by the borrower during the settlement.

Other Deposit Products, Jama'ah Haji and Jama'ah Automobile are optional for those who wish to have pilgrimage or automobile respectively. The contributions to the products' pool are also cut directly from the wages of those involved. At the end of their tenure, a name will be randomly selected to have the pool; each name is only liable to be selected once. At a glance, the practice is similar to what the Indonesian society called as *arisan*, a kind of community lottery. However, there are differences between a community lottery and the Mini Bank's products. The first does not put a rule on what goods the pool should be spent on, it depends on the whim of the winner; the latter defined beforehand on what goods the pool should be spent on. By defining the goods i.e., pilgrimage or automobile, the Mini Bank ensured that the products are indeed for good cause, for the objective of mutual help and building social cohesion.

The rest of the Financing products are the Sale-Based automobile and electronic credit provision and the upcoming gold-based Pawnbroking. The first is for those who wish to promptly acquire the respective merchandise without relying on fund pool like the Jama'ah products. The product is basically a *murabahah* scheme, where the merchandise is bought by the Mini Bank and then sold back to the customer with markup or optional *infaq* as the profit margin. The gold-based Pawnbroking (or *rahn*) product is still in gold supply acquisition phase. Once the supply reached a sufficient amount, the product will be launched.

b) Context 3, Code 2 - Charities Products

And as for the Charities category, the products/programs are mainly in the form of *infaq*. First is the aforementioned optional *infaq* to be paid by the borrowers in time of loan settlement. Note that the *infaq* is optional and the borrower can choose not to pay it altogether. The amount of the *infaq* is also not defined by the Mini Bank; the borrower can donate with whatever amount they can sincerely spare. The second is the *infaq* piggy bank program, in which piggy banks are distributed to students' hostels, classes, and parents. Every day, the piggy banks should be filled with at least IDR 2000, which is the most common smallest currency in Indonesia. The piggy banks are to be collected at the end of every educational year.

5.1.4. Haramain Mini Bank: Context 4 - Challenges

Challenges faced by Haramain Mini Bank are dominated by the Institutional aspect (5.6% of total codes). This does make sense considering that the Mini Bank is a small-scale and relatively new IMFI. It was then followed by the Regulation aspect (2.8%) and Social/Sharia-Awareness aspect (0.9%).

a) Context 4, Code 1 - Institutional Challenges

Haramain Mini Bank's Institutional challenges came from its status as a relatively new pesantren-based IMFI. The Mini Bank grows as its pesantren-base grow, which means that human resources and facilities that are available to it depends on the quality of the pesantren, both in short and long terms. There were opportunities of expansion presented before the Mini Bank, many came from external institutions; however, due to its Institutional constraints, the Mini Bank agents have to bid their time before they can take a larger initiative of institutional expansion. There is also

the issue of regulation landscape which is considered to be still inadequate to facilitate growth of small IMFI as explained by the next sub-chapter.

b) Context 4, Code 2 - Regulation Challenges

The agents of Haramain Mini Bank considered that the current regulation is still underdeveloped to perform what it is expected to do. The current *waqf* regulation, for example, has many loopholes that could put pesantren institutions in danger. Dahlan explained that the *waqf* regulation does not consider the values and tradition of pesantren; should a pesantren mismanaged, breaching the *waqf* regulation, it can be appropriated to another party who does not share the same values and tradition with the pesantren's founder. He further added that the regulation is deliberately trying to suppress community-based economy and finance initiatives so that they will not challenge the already large initiatives. Until the regulation is reformed into a fairer one, IMFIs should better assume the stance of "small but numerous" instead of "large and focused." This last point is in line with the view of Obaidullah and Latiff (2008).

c) Context 4, Code 3 - Social and Sharia-Awareness Challenges

Haramain Mini Bank currently has no problem in convincing their members that its products and programs are indeed Sharia-compliant and socially concerned. It is the global development of Islamic finance that is worrying the Mini Bank's agents. Recently in Indonesia, centers of Islamic finance are being built in the major cities. However, they are built by the country's largest conglomerates, which are beginning to take attention toward the rapid development of Islamic finance in Southeastern Asia. The agents thought that if the Indonesian Muslim *ummah* does not take any initiative to organically capture this development, then they are letting Islamic finance to be driven by those who may not understand its true essence, Adherence to Sharia and Brotherhood.

5.1.5. Haramain Mini Bank: Context 5 - Outcomes

As an institution that is still focusing on building welfare for its immediate pesantren community, Outcomes of Haramain Mini Bank Islamic financing activities are focused in Immediate Community Welfare aspect (8.3% of total codes) followed by Islamic finance education for the pesantren's denizens reflected by Immediate Community Education aspect (3.7%). Toward the aspect of Wider Community

Welfare, the Mini Bank currently has no programs whatsoever, but it has a point that can be considered into the Wider Community Education aspect (0.9%).

a) Context 5, Code 1 - Immediate Community Welfare

Presence of an IMFI in a pesantren should be a sign that the immediate pesantren community is serious in creating welfare through their own hands. The community, instead of handing its financial matter to external financial institutions, manage it themselves to better suit their needs and orientation; as shown in the past by the founder's economic initiatives. However, in order for this to work, the members of community have to build strong bond of brotherhood between them first and avoid anything that can destroy this bond. With the community members sharing the same spirit, it will be easier for the Mini Bank to direct them in conducting its programs and operating its products.

Haramain Mini Bank's programs and products have indeed fulfilled the aforementioned things. By controlling and managing their own financial matter, the Nurul Haramain pesantren community now has a secure source of available loans for pressing needs. Unlike what the conventional financing institutions provide, the loans do not constrict the borrower with interest, and do not punish severely during late repayment. And to preserve the strong bond of brotherhood within the community, the products are advertised as mutual help initiatives, to finance a brother in need, or in doing good deeds, such as pilgrimage. The piggy bank program also helps to nurture the charitable spirit in all members of the community. To conclude, the Mini Bank is successful in increasing the welfare of its immediate community through the members' own hands, without any direct help from external financial institutions.

b) Context 5, Code 2 - Immediate Community Education

Besides increasing the Immediate Community Welfare, Haramain Mini Bank also provide Islamic financial education to the community, mainly in the form of prevention of riba and the strength of *jama'ah*. The first form is taught by the presence of the Mini Bank itself. The pesantren could still be able to operate without the Mini Bank, by employing the help of external financial institutions; despite that, the danger of riba channeled through them could not be tolerated and the Mini Bank had to be established. The second form is taught by showing the Technical Aspects

of the Mini Bank. Its Institutional Quality, Human Resources development, and Products are all sourced from the ecosystem of the pesantren. Besides the Technical Aspects, the Islamic Values aspects are also taught by promoting the importance of Adherence to Sharia and Brotherhood through the building and preservation of the *jama'ah* concept.

c) Context 5, Code 3 - Wider Community Education

Haramain Mini Bank considers the Wider Community Education as one of its long-term objectives. It is concerned with where the Islamic finance of Indonesia is heading to. The great attention given to the potential of Islamic finance by the conglomerates might bear some good things for its development; however, there is anxiety concerning where it might end up. Dahlan explained that some elements of Indonesian Muslim community chose to abandon modern financial approach altogether, they are afraid that the practice will diminish the purity of Islamic financial teachings. Dahlan deemed this as a counterproductive action; he instead promoted the involvement of Muslim community in modern finance scene. The Mini Bank was established so that it will show to the society that modern finance is indeed the right direction to go to, and the effective approach to preserve the purity of Islamic finance.

d) Context 5, Code 4 - Wider Community Welfare

For the time being, Haramain Mini Bank has no direct programs and products launched for the wider community. The Mini Bank instead had conducted indirect programs in the form of training, guidance, and discussion to the parties interested in how to establish and manage independent financial institution like itself. Nevertheless, there are some points that showed the Mini Bank's eagerness to expand itself to a level where it can serve the wider community; such as its staffs certification initiative, cadres building, and its future plan to cooperate with other pesantrens, Islamic banks, and government initiative in economic and financial matters in a much more wider scale.

5.1.6. Haramain Mini Bank: Context 6 - Visions

From the in-depth interview, it is found that Haramain Mini Bank's visions are involved in contributing to both Immediate Community Welfare and Immediate Community Education aspects (both 2.8% of total codes) with a small element of

Wider Community Education aspect (0.9%). There is no element of Wider Community Welfare aspect in the Mini Bank's visions.

a) Context 6, Code 1 - Vision of Immediate Community Welfare

Haramain Mini Bank envisioned a pesantren community which manages its own economic and financial matters in an approach that is entirely guided by Islamic values i.e., Adherence to Sharia and Brotherhood. Both facets are interpreted into the values and tradition of the Nurul Haramain pesantren. The first is manifested by the Mini Bank's struggle to prevent riba within the pesantren's community and its encouragement of religious piety through the *jama'ah* concept. The second is realized through the active implementation of the *jama'ah* concept. The feasibility of Haramain Mini Bank's methods had invited many pesantrens to follow suit, and the Mini Bank is always eager to share its success to those interested. For this last point, the author chose to include it in this code instead to Wider Community Welfare, because it only concerns educational institutions similar to the Mini Bank's immediate community.

b) Context 6, Code 2 - Vision of Immediate Community Education

This vision has exactly the same content with the previous code; the difference is, this one is directed toward the Islamic financial education of Nurul Haramain pesantren community along with other pesantrens that took interest in the Mini Bank's method, also as described by the previous paragraph. In short, the Mini Bank envisioned itself as an educational media that teaches the community about the feasibility of Islamic finance, the benefit of Sharia-compliance, and the relevance of Islamic values that underlies its practice. It also shows the potential of well-managed pesantrens, dispelling the myth of their close-mindedness toward modern methods and practices.

c) Context 6, Code 3 - Vision of Wider Community Education

Haramain Mini Bank, despite largely focusing toward its immediate community, also has a side project to educate the wider society about the implementation of Islamic finance through the strength of each community. The Mini Bank saw that the society's ignorance toward their own potential is what causing them to be financially weak and submissive toward harmful financial services and schemes. Indonesian intellectuals have long been aware of the society's potential, which is why the

Indonesian cooperatives were established and preserved despite the increasingly unfair regulation put upon them. To realize this objective, the Mini Bank, along with the pesantren, is open to academic researches; so far, eight doctoral dissertations discussing the pesantren and the Mini Bank had been published.

d) Context 6, Code 4 - Vision of Wider Community Welfare

Haramain Mini Bank has no specific objective concerning the Wider Community Welfare i.e., it has no plan to directly empower the community besides its own. It therefore, chose to economically and financially empower the wider community through long-term means, through education. By increasing the welfare of its immediate community, the Mini Bank increases the quality of its education programs, ensuring the continuation of qualified human resources throughout generations. This is in line with the conception that pesantrens are centers of excellence, developers of human resources, and agents of social change (Ningsih, 2017, p. 61-62). The Mini Bank's lack of specific wider community program, however, should not be considered final yet. As the institution is relatively new, it may expand its vision during its long journey of future development.

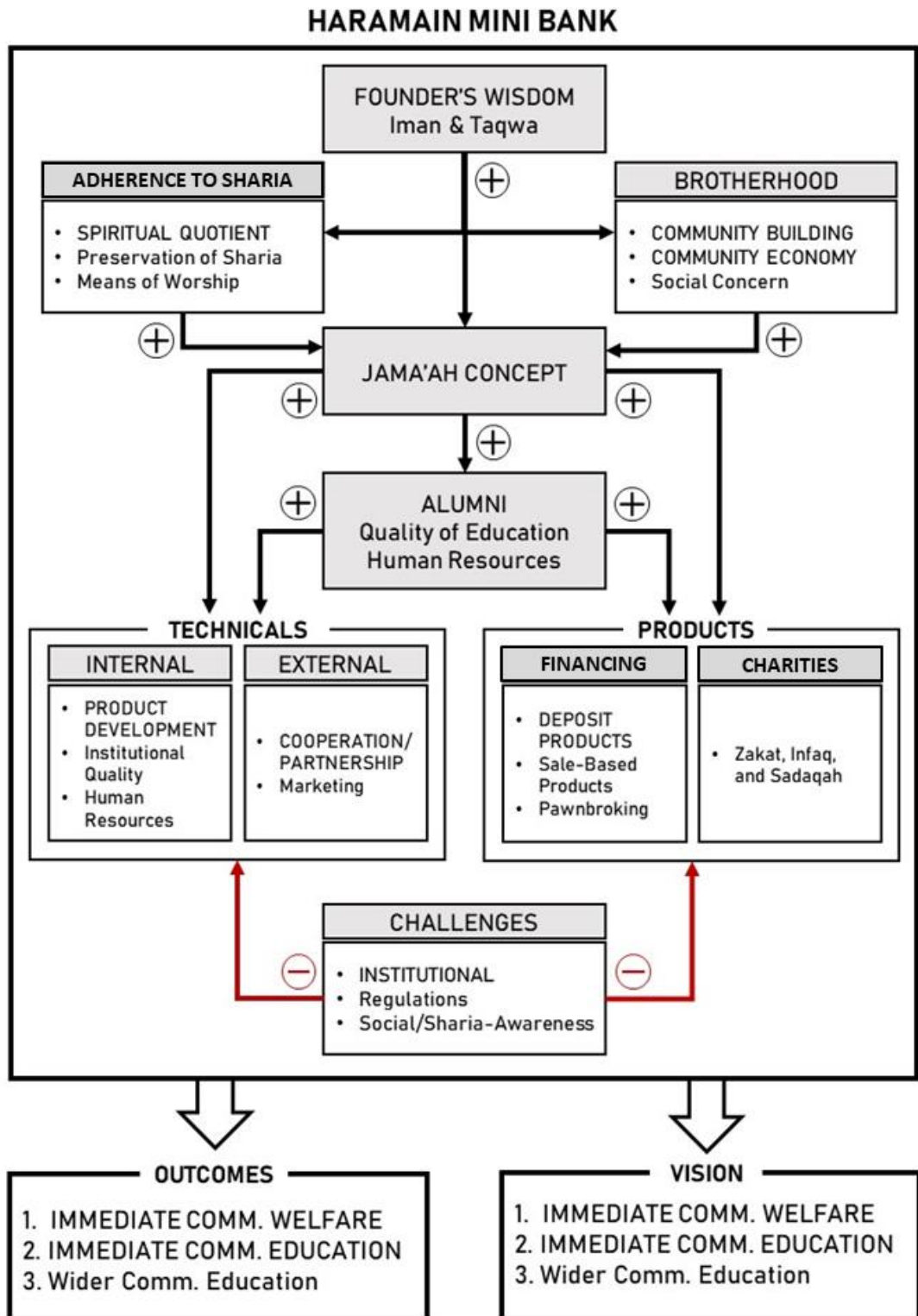
5.1.7. Haramain Mini Bank: Summary of Content Analysis

Haramain Mini Bank derives its strengths from the wisdom of its founder, which is kept in written and spoken records. The wisdom can be summarized into, first, *iman* and *taqwa*, to believe that God oversee humans' deeds and reward them accordingly; and second, to trust in the power of Brotherhood. The wisdom, which included both Adherence to Sharia and Brotherhood aspects of Islamic Values, would then be manifested in the dynamics of the pesantren through the Jama'ah concept. The concept inspired the pesantren community to help each other in the name of God through whatever means possible. The Internal Affair of the Mini Bank thus embodies the concept by having its products, facilities, and human resources all designed and maintained by the alumni themselves. Externally, the concept acted as a kind of indirect marketing; various governmental and private institutions offered their cooperation to Mini Bank after witnessing its successes.

The financial products are designed with the Jama'ah concept in mind. Dana Jama'ah, Jama'ah Haji, Jama'ah Automobile, Automobile financing, and some other future Financing products are all intended to build the pesantren community through

the agency of its members. As for the Charities products, the Mini Bank currently has a few ZIS donation programs that are yet to evolve into fully functional financial products. Challenge-wise, the Mini Bank's greatest issue lays in the Institutional aspect i.e., the lack of advanced facilities, which itself is understandable due to the small-scale of the Mini Bank. The Regulation challenge is insignificant, but is already considered. Likewise, the challenge of Social/Sharia-Awareness is still manageable owing to the Mini Bank's operational range which is still confined within the pesantren community.

The Outcomes of the Mini Bank's activity closely correspond to its Visions: To free Nurul Haramain pesantren's community from usurious financial practices through the real practice of modern Islamic finance, done by the willing hands of the members themselves. In short, the Mini Bank managed to increase the Immediate Community's Welfare through its financial activity, and successfully raised the Immediate Community's Education on Islamic finance through practical means. Later on, interested parties from governmental, private, and academic sectors came to conduct their own researches on the Mini Bank, fulfilling the Wider Community Education role. Overall, Haramain Mini Bank, despite its many shortcomings, has shown that strong values and tradition coupled with the spirit of community building are the essential building blocks of IMFIs. The qualitative model summing up this case's content analysis is shown on Figure 5.1.



Legends: → (black arrow) = positive impact; → (red arrow) = negative impact; ↔ (double arrow) = reciprocal impact; CODE (all-capital typing) = major focus; Code (normal typing) = minor focus.

Figure 5.1: Qualitative Model of Haramain Mini Bank

Source: Author, 2024

5.2. BMT La Tansa, Pondok Modern Darussalam Gontor

BMT La Tansa of Darussalam Gontor pesantren is a template of intermediate-level pesantren-based IMFI. The BMT gained many advantages from the strength of Darussalam Gontor' institutional structure and the robustness of its system on top of the pesantren's excellent preservation of its own values and tradition. Compared to the previous case, this pesantren-based IMFI has seen greater development, shown by adequate facilities, good institutional quality, and competent human resources. The products offered by the BMT are named and described using the terminology of Islamic finance commonly found in the academic world, which is a sign of its agents' academic proficiency relative to the field of Islamic finance.

BMT La Tansa derived its power from Darussalam Gontor's philosophy of progressivism. The pesantren dubbed itself as a "modern" pesantren that seeks to embrace the progress of mankind without abandoning its root as an Islamic educational institution. "The preservation of old aspects that are good, and the adoption of newer aspects that are better" is the motto that reflects Darussalam Gontor's modern ideology. The BMT itself is therefore an effort of the pesantren to embrace the current development of Islamic finance in Indonesia. The BMT was established around the turn of this second millennium, which coincided with the rising fervor of Islamic finance within Indonesia. The concept and culture of the BMT, as a result, share many similarities to professional non-pesantren-based BMTs.

5.2.1. BMT La Tansa: Context 1 - Islamic Values

In the category of Adherence to Sharia, BMT La Tansa is focusing on the Preservation of Sharia aspect (5.4% of total codes), followed by Means of Worship aspect (4.7%) and Spiritual Quotient (3.1%). Meanwhile in the Brotherhood category, the BMT's content is high respectively in Social Concern (8.5%); Community Economy (6.2%); and Community Building (5.4%); with a few elements of Poverty-Alleviation aspect (0.8%). Note that in the Brotherhood category, BMT La Tansa is an outlier, as it has the highest content in Social Concern aspect; the rest of the research cases have the Community Building aspect as their highest.

a) Context 1, Code 1 - Adherence to Sharia

Concerning Preservation of Sharia aspect, Masykur Hasan, director of BMT La Tansa told that one of the factors of establishment of the BMT was the prevalence of

rentenir (loan sharks) near the vicinity of Darussalam Gontor pesantren. “In fact, my family had experienced it” he further added to show the extent of such practice. The community was in danger of this harmful practice, so the BMT was established to prevent it and to provide the Sharia-compliant alternative, such as with *qard hasan* loans. Subsequent products were then launched to specifically combat the harmful financial practices. The products were carefully designed so that they would bear no *zhulm* (exploitation), *ghurur* (uncertainties), and incomplete or false possession of goods.

The activities of BMT La Tansa are based on the *ta'awun* (mutual help) concept. The BMT take little profit from its products, but this is due to the deliberate choice of the BMT; it chose to allocate the greater share of profit toward its customers, to better help them and encourage them to trust Islamic financial institutions. Should the customers experience late repayment, they are required to pay *infaq* instead of penalty, or even a reschedule if they are truly in distress. These are the points of BMT La Tansa's Means of Worship aspect. The BMT's staffs are constantly reminded that what they are doing is itself a form of worship to God. Struggling to reach financial security is akin to a struggle to present greater contribution to the society; those who have nothing can not contribute anything.

Indeed, as a subsidiary of an Islamic educational institution, BMT La Tansa has points corresponding to Spiritual Quotient aspect. In line with Islamic *muamalat* teachings, the BMT put greater emphasis in the importance of contract. Unclear or unfair contract should be avoided no matter what. Unfortunately, it is this aspect that is questioned many times by the BMT's potential customers. Regarding this, the staffs are required to be able to explain to them the rationale behind every contract. Every contract should bear fruit, and for a fruit to grow, a seed must be planted i.e., a real effort has to be undertaken. Riba does not follow this logic, it grows fruit out of no planted seeds, it demands payment for contribution that was never made.

b) Context 1, Code 2 - Brotherhood

BMT La Tansa's Brotherhood category is heavy in the Social Concern aspect. As described by the previous paragraphs, the BMT took the prevalence of unscrupulous financial service as a serious matter within the society. Its earliest product, the *qard hasan*, was therefore designed to introduce to the society that loans do not have to be constrictive toward the borrowers as shown by the practice of loan sharks. It was also

due to this concern that the BMT chose to distribute most of its profit to the accounts of its customers. Besides that, compassion is also displayed in the form of BMT's tolerance to those experiencing hardships by opening the possibility of payment reschedule.

The concern is further shown in the BMT's products. According to Masykur, the most-used product is the deposit product. Generally, financial institutions will deduct small amount of their customers' deposit as administration fees, resulting in the decrease of their deposit as time passes. The BMT however, put no burden whatsoever on its customers' deposit. Instead, the deposits' amount slowly increases due to the presence of PLS revenue. This shows the BMT's effort to provide friendly and profitable financial access to the non-bankable people; where low performance is tolerated, and high performance is rewarded. An example of the latter is shown in the BMT's *mudarabah* scheme; for high performing *mudarib* (borrower), the BMT is willing to concede its profit, increasing the *mudarib*'s share up to 70%.

The second highest aspect is the Community Economy, which is not strange considering that Darussalam Gontor pesantren is known nation-wide as an ultimate example of successful pesantren-based economic management and administration. This phenomenon is facilitated by the pesantren's staunch preservation of its identity. The pesantren ecosystem itself is like a country within a country; it has its own population, system, rules, and tradition. By having this potential power base, pesantren should be able to be self-sufficient and finance its programs through its own initiatives (Zarkasyi, 2005, p. 207). BMT La Tansa, despite its socially-oriented programs, is one of the pesantren's business wings that have to regularly send its profit to the pesantren's central administration office.

As described by the overview of the context, the Community Building aspect, which scored highest in the rest of the research cases does not apply in this one. This may be explained by the presence of Darussalam Gontor pesantren, which itself had contributed massively to the Community Building aspect. BMT La Tansa, however, has contribution to the same aspect no matter how little. The BMT acts as one of the elements that strengthen the community by providing an alternative for conventional financial services available both to the immediate and wider communities related to the pesantren. The future plan to expand the BMT into other campuses of the pesantren reflects the BMT's part in promoting the agenda of self-sufficiency.

And as for Poverty-Alleviation aspect, BMT La Tansa has relatively few elements concerning it. The most salient of this aspect was the BMT's provision of *qard hasan* loans. The poor actually needs small loans to finance their SMEs and should not be burdened by constrictive interest, said Masykur. This, however, should not be considered as a sign of disinterest in the aspect because it is already clear that the BMT's Social Concern aspect is high. The problem may lay in the fact – as far as this study has obtained – that the BMT has a shortage in initiatives that directly and specifically address the issue of Poverty-Alleviation aspect. Note that the BMT is a business wing of the pesantren whose foremost objective is to gather fund for the educational institution; in Masykur's word, “(we aim) to be a part of Gontor's economic enterprise that contribute its profit for the pesantren's development.”

5.2.2. BMT La Tansa: Context 2 - Technical Aspects

Internally, BMT La Tansa scored high in the Product Development aspect (4.7% of total codes), followed not far behind by Human Resources (3.1%) and Institutional Quality (2.3%) aspects. Externally, there were few activities, mainly in Cooperation/Partnership aspect (2.3%); a slight element of Training aspect (0.8%); and no specific activity concerning Marketing.

a) Context 2, Code 1 - Internal Affair

BMT La Tansa's Internal Affair is heavy on the Product Development aspect. This may very well be the result of the BMT's link to Darussalam Gontor pesantren; the first is greatly benefitting from the latter's excellent Institutional Quality and Human Resources. Thus, the BMT can spend its time focusing on its practice, providing financial products. The products are built based on the *ta'awun* concept, mutual help, which does not put profit as the primary objective. The BMT therefore possesses high tolerance for low-performing borrowers, even willing to help them by rescheduling their repayment. As its operation grow, the BMT expanded its products by learning and adapting the schemes present in other BMTs, such as pilgrimage financing and tax payment window.

As stated before, the BMT's Human Resources aspect is linked to Darussalam Gontor pesantren because the BMT is relying on the quality of the pesantren's alumni to fill the rank of its staffs. Nevertheless, the BMT managers still have works to do to ensure the competence of the staffs. The staffs are required to understand

and be able to explain the Sharia-compliance aspects of the products as Sharia-awareness issue is still a persistent challenge. For technical skill, the newer staffs are taught by the older staffs or the managers, or sent to training programs held by OJK (Indonesian Financial Service Authority), among many others. However, among all of these, Masykur thought that it is the spirit of the staffs that is crucial to the Human Resources quality of the BMT, which is why the managers regularly assures the staffs about the positive weight of their activities.

Similar to its Human Resources aspect, BMT La Tansa's Institutional Quality aspect has strong ties with Darussalam Gontor pesantren, as it is structurally linked with the pesantren's authority. As one of the pesantren's business units, the BMT is incorporated into Kopontren, the main body that manages all of the pesantren's economic initiatives. The Kopontren, in turn is a subsidiary of YPPWPM, the pesantren's foundation. With the pesantren's excellent management and preservation of values and tradition, these many interlocking bodies translate into a system that strengthen and support each other instead of being a troublesome bureaucracy. The system ensures the presence of strong administration and sense of direction for the business units, which is even more crucial for the survivability of struggling business units.

b) Context 2, Code 2 - External Affair

There were few attempts by BMT La Tansa in the field of Cooperation/Partnership aspect with external institutions. Most of its cooperation initiatives were done to expand the range and variety of its products. For instance, the BMT cooperated with the government's tax office to open a tax payment window. Another cooperation was with other BMTs, with the intention to learn, imitate, and adapt their products to the need of the BMT's customers. This last example is the only hit within the Training aspect of this particular research case. As for the aspect of Marketing, the BMT has conducted no specific advertisement campaign to increase its customer base.

The dearth of External Affair shown by the BMT is a sign of inward-oriented institution. It is however, should not be considered as an apparent weakness; but rather, it is the deliberate choice of the institution. In Masykur's words, "unlike the objective of other BMTs, who wish to expand their operation, ours is to provide media of education and practice..." The presence of the BMT is to support the educational enterprise of Darussalam Gontor pesantren; directly through its provision

of Islamic financial education media, and indirectly through its contribution in funding the pesantren. Hence, the BMT only consider expanding its External Affair aspect if it fulfills the aforementioned objective.

5.2.3. BMT La Tansa: Context 3 - Products

Most of BMT La Tansa products revolve around the Financing aspect (7.7% of total codes), with a small element of Charities aspect (1.6%). Specifically, the BMT's Financing products are Deposit-Product (2.3%), Profit-Sharing, and Sale-Based (both 1.6%). The information regarding Charities products mention ZIS (1.6%) and no *Waqf*.

a) Context 3, Code 1 - Financing Products

The majority of BMT La Tansa's products are on the Financing side with Deposit, PLS, and Sale-Based schemes. There were no products based on Rent, Pawnbroking, and Insurance. Currently, the most utilized product is the Deposit scheme as it is the simplest one that can be comprehended by the customers. Masykur himself admitted that the utilization of the more "active" products like PLS and Sale-Based is much lesser compared to the "passive" Deposit product. To incentivize the utilization of PLS and Sale-Based products, the BMT arranged reward for high-performers in said products. It seems that the Sharia-Awareness challenge is the one impeding the BMT's product development.

The reason why the Deposit Product became the BMT's most utilized product is its simplicity, convenience, and profitability. The customers regarded the BMT – which they refer to as the "Gontor Bank" – as a safer and easier alternative to keep their money compared to the local banks. The BMT deduct no administration fees for each deposit, basically keeping each's value constant until it is withdrawn. Further appealing the customers is the presence of PLS share for all deposits. So, by keeping their money in the bank, the customers preserved, and even increased, its value. There is another lesser utilized Deposit Product in the form of pilgrimage deposit which provides *haj* and *umrah* financing along with their related administration and formalities.

As for the BMT's Profit-Sharing product, there is one with *mudarabah* scheme. Despite not their most utilized product, the *mudarabah* has some success stories related to creation of financial security for its customers. Some of the benefactors of

this product started their SMEs from no asset at all. But what the benefactors found interesting concerning the *mudarabah* was its greater profit share compared to other financial institutions. The BMT promised 70% of the profit should the benefactors, as *mudarib* of the scheme, be able to complete the enterprise ahead of its time. But should the enterprise be completed on the agreed time, or even later, the *mudarib* profit would then be marked at 50% share, no higher nor lower. By rewarding high-performance, the BMT motivated the *mudarib* to work harder, inspired loyalty to the IMFI, and educated them about the viability of Islamic finance.

The last product is in the form of Sale-Based scheme, namely a *murabahah*. The product provided an on-credit purchase of automobile and electronic merchandise. This product is the BMT's most popular active product due to the presence of a reward; for those settling their credit earlier, they are eligible for a cashback whose value corresponds to the size of financing and the amount of credit settled earlier. This is an oddity for financial institutions, while most would decrease their customers' credit score for early debt settlement, the BMT would reward such behavior. Masykur told, "They thought that we were not different (compared to conventional financial providers) ...However, once they took our service, they realized that we did not exact much profit from our service... This service then boomed thanks to the cashback."

b) Context 3, Code 2 - Charities Products

BMT La Tansa's Charities products are meagre compared to its Financing products. The BMT accepted *zakat* payments, but it does not contribute much to its financial activity since the *zakat* fund has to be immediately distributed to its recipient as soon as it is collected. Besides accepting *zakat*, the BMT also accepts *infaq*, mainly in the form of mandatory contribution for those experiencing late repayment, a sort of "penalty" for low-performing customers. However, despite presented as a penalty, the customers welcomed this *infaq* and showed no contempt on it. There was no mention of *Waqf* product; however, note that Darussalam Gontor is an institution known for its expansive *Waqf* assets and initiatives, but not in the sense of *Waqf*-based financial products like what will be described later in the next case of Tazakka pesantren.

5.2.4. BMT La Tansa: Context 4 - Challenges

BMT La Tansa is more concerned with the challenges in Institutional and Sharia-Awareness aspects (both scored 3.9% of the total codes). It regarded the Regulation aspect as a lesser concern (0.8%) as it puts more thought toward the institution's educational direction instead of operational expansion.

a) Context 4, Code 1 - Institutional Challenge

As described by the previous sub-chapters, BMT La Tansa is structurally linked to Darussalam Gontor pesantren. This gave the BMT strengths in the matters of robustness of administration and clarity of direction. However, it is also from this link that its limitations appeared, at least two of them. *First*, the BMT was established as one of the pesantren's many business units; thus, its main objective is to gather fund for the pesantren and act as a media of Islamic financial education. As long as it does those duties well, then it has done its objective. *Second*, as the BMT relied on the pesantren's alumni to staff itself, it needs to constantly train the newer staffs. This became an issue since the staffs are not employed on a permanent basis; they will eventually finalize their service to the pesantren, which consequently terminated their employment by the BMT, which means that the BMT experiences brain-drain annually (Prianto, 2021, p. 59). To solve such issue, senior teachers – which are employed on a permanent basis – who possess understanding in Islamic finance are assigned to guide the BMT and train its newer staffs.

b) Context 4, Code 2 - Social and Sharia-Awareness Challenge

One of the factors of BMT La Tansa establishment was the prevalence of loan sharks' activities in the vicinity of Darussalam Gontor pesantren. Although the grip of those loan sharks could be loosened, the society's ignorance toward the rightful practices of Islamic finance still persists. The BMT provided alternatives for usurious products, and this mainly involved restructuring the well-known financial products bottom-up with Sharia-compliant components. Many potential customers, however, fail to understand this restructuring and viewed the BMT products as not dissimilar to conventional products. There is also an issue with the customers, in which they mostly tend to utilize only the Deposit Product in spite of the presence of various products. "We can't force or direct the customers to channel their interests toward those aspects," said Masykur.

c) Context 4, Code 3 - Regulation Challenge

With its higher administration and direction provided by its structural link to the pesantren, the BMT has no issue related to governmental regulations. In Darussalam Gontor pesantren's ecosystem, the issue of regulations concerning the business units is usually resolved by the YPPWPM, the pesantren's foundation. There were some instances where the business units had to address specific regulations themselves, but it was quite rare. Hence, there was no report of Regulation issue within the case of BMT La Tansa. Regardless, Masykur considered the Regulation aspect as a hindrance for the BMT should it decide to expand its operation or institution in the future.

5.2.5. BMT La Tansa: Context 5 - Outcomes

Surprisingly, despite BMT La Tansa's conservative institutional development policy, it had contributed many favorable outcomes for the Wider Community Welfare (7.0% of total codes) while providing a good contribution for its Immediate Community Education regarding Islamic economics and finance (6.2%). The Wider Community, by joining and witnessing the BMT's activities, further gained education of Islamic finance (4.7%). And as the BMT is a business unit of Darussalam Gontor pesantren, it has a role of increasing the welfare of the Immediate Community (4.7%).

a) Context 5, Code 1 - Wider Community Welfare

Above all else, BMT La Tansa's most profound contribution to the wider community is its struggle to cut them off from usurious practices by means of Islamic financial service provision. The BMT's presence signals to the wider community that financial services do not have to be exploitative and underhanded. The BMT has proven itself to be the opposite of loan sharks that once were so prevalent by having an approach that is tolerant and charitable toward its customers. All of its products were not designed to constrict the customers with complicated rules. And to further show its encouragement for hard-workers, it is ready to cut much of its profit share to be reallocated as their reward. Through this well-meaning approach, the BMT gained the trust of the wider community.

b) Context 5, Code 2 - Immediate Community Education

As its root is an educational institution, BMT La Tansa seeks to educate the pesantren denizens on the matter of Islamic finance. The pesantren's spirit of self-sufficiency dictates that in order to be prosperous, an institution has to be free, to be independent from the mercy of others, much more so in financial matter. The presence of business units owned by the pesantren, which included the BMT, is itself a means to educate the denizens through a method that is more practical and real-time. However, the BMT specifically contributed a unique element in this education. While other business units are mostly involved in "money-making" by producing commodities and providing services, the BMT's activity is more toward "money-planning" through provision of financial products.

c) Context 5, Code 3 - Wider Community Education

While having their welfare increased by joining BMT La Tansa, the customers also gained elements of Islamic financial education. It was mentioned before in the Challenges sub-chapter that one of the most persistent issue hindering the BMT's activity is the low Sharia-Awareness education. Hence, it is imperative for the BMT to directly and indirectly educate the customers and potential customers in the matter of Islamic finance; the direct education is done by the means of its products, and the indirect education through the demonstration of tolerance and charitable spirit in its daily practice. During two decades of operation, the BMT managed to build a base of loyal customers thanks to its educational endeavor.

d) Context 5, Code 4 - Immediate Community Welfare

Concerning BMT La Tansa's profit allocation, Masykur clarified that "100% of its profit is transferred to the pesantren," highlighting the BMT's duty as a source of funding for Darussalam Gontor pesantren. Indeed, the excellent education quality of Darussalam Gontor's pesantren – along with its higher education institution, Darussalam University – is buttressed by the presence of strong business units. Lately, the BMT saw an increased demand from the denizens of Darussalam Gontor, including by those who are located in other campuses. This prompted the BMT managers to consider expanding their operation to those campuses, which are located in many Indonesian provinces. Currently, the BMT only operates through its main office near the pesantren in East Java Province.

5.2.6. BMT La Tansa: Context 6 - Visions

As a subsidiary of an educational institution, BMT La Tansa's vision is mostly related to the effort of creating qualified human resources through education, both toward the pesantren's denizens (Immediate Community Education aspect: 3.1% of total codes) and to the society (Wider Community Education: 1.6%). And as a business unit of the pesantren, the BMT also has a vision to contribute more toward the pesantren (Immediate Community Welfare: 0.8%). Despite having many good outcomes related to the Wider Community Welfare, the BMT has no specific vision on that direction.

a) Context 6, Code 1 - Vision of Immediate Community Education

Masykur's words "our main objective is *da'wah*, to educate the people about transactions that are based on Islamic values," clearly described the core vision of BMT La Tansa. The BMT seeks to propagate the viability of Islamic finance through practical approach, and the foremost people that need to be educated about that are the ones who will act as agents of social change, namely the students and teachers of Darussalam Gontor. One of the former headmasters of the pesantren, Kyai Shoiman, consistently prayed that his students would become charitable people; charitable people are surely wealthy, but not all wealthy people are charitable. This way, the pesantren, through BMT La Tansa, signals to its denizens and to other pesantrens that the wealth they gain should contribute to the society, at the very least to their adjacent communities.

b) Context 6, Code 2 - Vision of Wider Community Education

BMT La Tansa helps the pesantren to carry its educational obligation not only to the Immediate Community, but also to the Wider Community. This is in line with the conception that pesantrens are the driving force of social change; a change that is created gradually through years of teachings and actions, through encouragement to do the right things as envisioned by Islamic values. The BMT thus wishes to educate the society specifically in the field of financial matter, to change the wrongful exploitative activities into one that is based on fairness and tolerance. The BMT may have significantly diminished the wrongful financial activities around its community, but the issue of Sharia-awareness is still persisting; an issue that the BMT is clearly eager to address.

c) Context 6, Code 3 - Vision of Immediate Community Welfare

One of BMT La Tansa's vision is to raise its financial contribution to the pesantren. Actually, as a business unit of the pesantren, the BMT has two inherent duties, development and contribution. The development duty is indispensable since business units are meant to help improving the pesantren's institutional quality and human resources, not vice versa. And the contribution duty is the regular financial allotment sent by the business unit to the pesantren. In the perspective of pesantren's business administration circle, the amount of financial contribution is indicative to the health of a unit's administration and management; this of course, respective to the unit's capacity. At the end of the day, by contributing more to the pesantren, BMT La Tansa helped itself; as the exceptional Institutional Quality and Human Resources it enjoyed mostly came from the pesantren.

d) Context 6, Code 4 - Vision of Wider Community Welfare

Despite having no clear-cut vision to increase the welfare of non-pesantren associates, BMT La Tansa has been showing actual impacts in this matter e.g., countering the practice of loan sharks; running a deposit system that is safe and profitable, and; providing products that are encouraging industriousness while not being exploitative. This should be viewed as the manifestation of the pesantren's role as agent of social change. Pesantrens, if managed and developed well according to the Islamic values and tradition that they held, can very well be contributive toward the well-being of the society. Note that this process may be lengthy as pesantrens tend to be independent in their own development effort; Darussalam Gontor itself is nearing its 100-year jubilee.

5.2.7. BMT La Tansa: Summary of Content Analysis

Darussalam Gontor's progressive ideology dictated that pesantrens, if managed well and willing to embrace modern methods and technology, are more than capable in supporting itself economically and financially without the need to involve external parties; hence, the concept of Protective Economy emerged. Since the 1960s, Darussalam Gontor independently managed its economic and financial affair through the institution of YPPWPM, later helped by Kopontren Gontor. The institutions built many economic initiatives which successfully realized the aforementioned Protective Economy. With its internal economy and finance secured, the pesantren then

expanded its activity to include the betterment of adjacent communities, realizing its role as an agent of social change.

BMT La Tansa was established in the early 2000s to address the issue of prevalent usurious financial practices near the pesantren. The BMT was intended to provide Sharia-compliant alternatives to the usurious services, both for the denizens of the pesantren and the adjacent communities. With the concept of *ta'awun*, mutual helping, the BMT designed financial products that are not only accessible to the poor and disadvantaged, but are also friendly and willing to compromise for the sake of common welfare. So far, the BMT managed to help the society out of the grasp of usurious practices, despite the persistent challenge in educating the masses on the issue. However, the greatest challenge impeding the BMT came from the Institutional and Human Resources aspect.

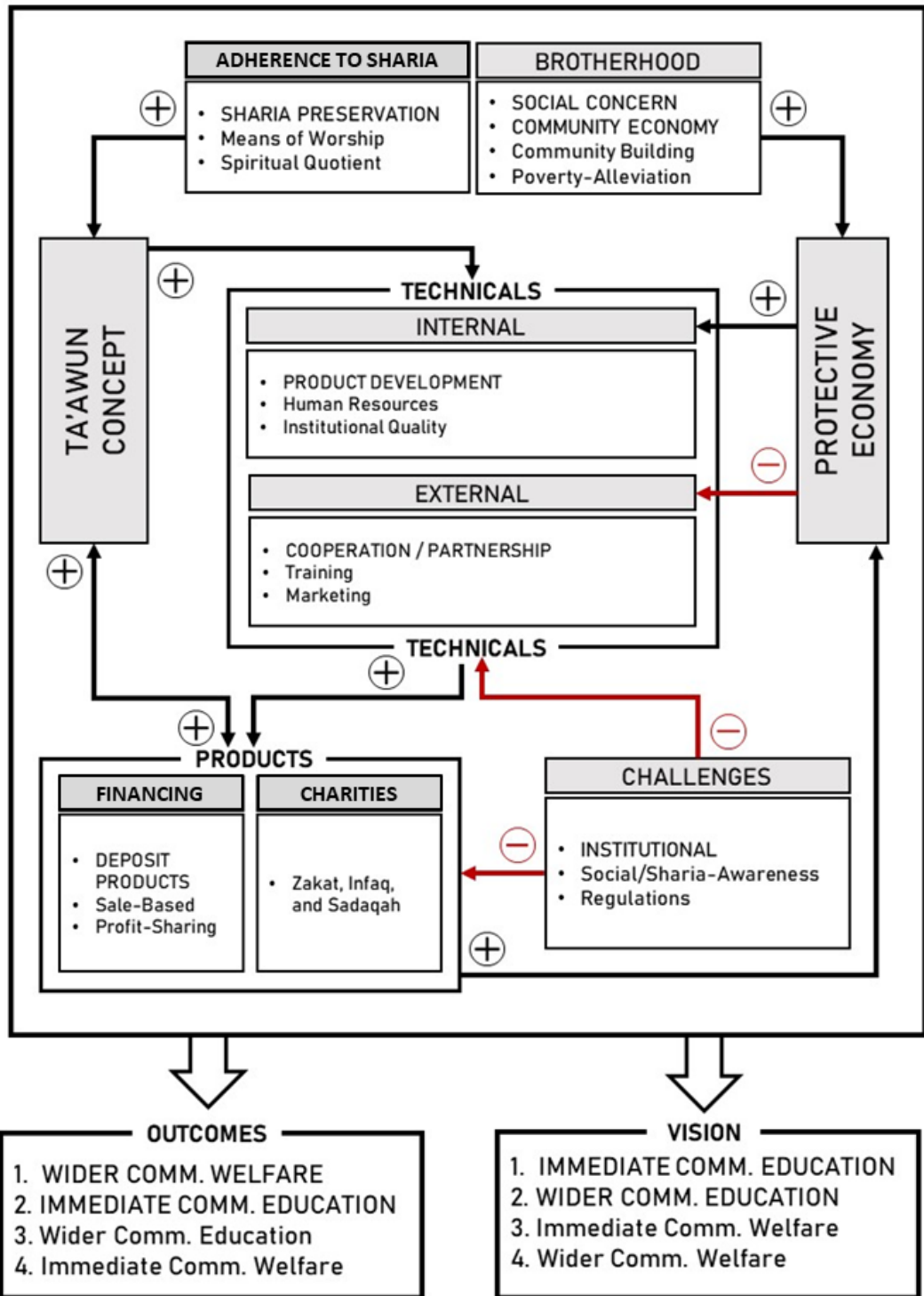
The apparent shortcoming of Darussalam Gontor's Protective Economy concept is that the businesses units, including the BMT, have to make do with any available manpower they currently have as the concept significantly limited the intervention of external parties' involvement. This issue requires the managers in each business unit to constantly train, guide, and motivate their employees in addition to creating a system that ensures their work discipline and productivity. This challenge does not necessarily doom the business units, as many would overcome it by creating robust system and dynamic internal culture. The BMT is currently still struggling in creating both the system and culture, which can be seen as one of the reasons why it has not reached a higher level of significance despite the might of the pesantren's system and concept. Nevertheless, the managers are currently prioritizing to address this specific issue and are optimistic that they can solve it just like the other business units. The demand to expand the BMT's operation further acted as evidence that it is viewed with growing favor.

BMT La Tansa stayed true to its pesantren root, its vision is to become a financial institution that fulfilled the role of Islamic financial education for both the denizens of the pesantren and the general society whilst at the same time contributing financially to the development of the pesantren's educational quality. Despite its internal-oriented vision, the BMT arguably has the largest impact toward the development of Wider Community's Welfare as evidenced by its involvement in combatting usurious practices and provision of accessible financial products that are

highly favored by the customers. Overall, BMT La Tansa showed that the limits of pesantren-based IMFIs are not marked by lack of facilities and funding, but by the commitment, dedication, and motivation of their own Human Resources. For further information, Figure 5.2 shows the qualitative model summarizing the the case of BMT La Tansa.



BMT LA TANSA GONTOR



Legends: → (black arrow) = positive impact; → (red arrow) = negative impact; ↔ (double arrow) = reciprocal impact; CODE (all-capital typing) = major focus; Code (normal typing) = minor focus.

Figure 5.2: Qualitative Model of BMT La Tansa Gontor

Source: Author, 2024

5.3. LAZIS Tazakka, Pondok Modern Tazakka

LAZIS Tazakka is a template of an intermediate-level IMFI that is entirely focusing on the management of the Charities aspect. This makes the institution as an outlier compared to the other cases of this study. While the rest of the cases exerted majority of their efforts in managing fund through Financing initiatives, utilizing the Charities aspect only as some kind of side-projects, the LAZIS' concept is the other way around; the initiatives are all derived from charities, from ZIS and *Waqf*, with its management akin to Financing-based institutions such as BMTs. The LAZIS' agents refer to their products as programs, as conventional naming of "products" imply that the institution is seeking for customers, which is somewhat misleading; instead, the institution is seeking for donors, and is quite successful in doing so.

The conception of LAZIS Tazakka itself is something of an outlier compared to other pesantrens in this study. While other pesantren-based IMFIs are conceived long after the establishment of their pesantrens, LAZIS Tazakka was established almost at the same time as its parent pesantren, Pondok Modern (PM) Tazakka, was inaugurated in 2012. In fact, the pesantren's owed its rapid development thanks to the massive funding gathered through LAZIS. It should be noted that the LAZIS fund is not exclusively reserved for the pesantren's development. Since its establishment, LAZIS funded both internal and social programs in equal term. This achievement is the result of PM Tazakka's excellent planning and administration, which invited academic interests both from inside and outside the country.

5.3.1. LAZIS Tazakka: Context 1 - Islamic Values

By having Islamic charity instruments as its core activity, LAZIS Tazakka is leaning more toward the encouragement of Islamic finance through revealing the potential of ZIS and *waqf* instead of explicit effort to combat *riba* as exhibited by other IMFIs in this study. LAZIS therefore scored the highest in Means of Worship aspect (5.0% of the total codes). As such, by being the activists of Islamic charity, the agents possessed understanding related to the rationale behind ZIS and *waqf* (Spiritual Quotient aspect: 2.5%). LAZIS' Preservation of Sharia aspect (1.7%) is represented by the preservation of ethical conduct within the institution.

Focus on Islamic instruments of charity gives an impression that LAZIS' activity is more directed toward the Social Concern aspect; however, through the content

analysis, it is found that LAZIS' highest score is by the Community Building aspect (9.2% of total codes), and then afterward, the Social Concern (7.5%). LAZIS also has a part in supporting PM Tazakka's Community Economy aspect (4.2%) and has a few programs related to Poverty-Alleviation (1.7%).

a) Context 1, Code 1 - Adherence to Sharia

The embryo of PM Tazakka itself was a religious social and educational movement in the 1990s, so it is no wonder that the pesantren and its subsidiaries, including LAZIS, assumed the direction of social empowerment through Islamic values. LAZIS is specifically involved in social empowerment through Islamic instruments of charity, ZIS and *waqf*. Although at first LAZIS seems like an institution that gathers fund, its main objective is to channel said fund to its designated recipients, not accumulating it. LAZIS is very particular on the matter of *zakat* coverage, it tried to exhaustively channel the fund to all eight designated recipients of *zakat*, which included policemen and soldiers who are generally deemed as the more affluent members of the society. The religious fervor is further shown by the willingness of LAZIS' staffs to let go of their rightful *zakat* share – as *amil* (*zakat* workers) – to increase the size of *zakat* fund to be distributed annually.

As with the other pesantren-based IMFIs in this study, LAZIS Tazakka prioritized to fill its rank with the alumni of various pesantrens. Fardana Khirzul Haq, the head of LAZIS and an alumnus of Darussalam Gontor pesantren, said: “To manage our financial system, we employed no one except our teachers and senior students.” This choice is mainly influenced by the presence of developed character within the alumni of pesantren, especially the sense of responsibility and sincerity. Those senses are displayed by the staffs' objection to accept their *zakat* share – which comprised 12% of the total fund – despite legally, institutionally, and morally deserving it. This is what Hamza & Jedidia (2017) described as the prioritization of the wealth's social value instead of its economic value; the staffs deliberately refuse what's currently in front of them in order to gain greater benefits later, whether in this world or much later in the afterlife.

As an institution that is focusing on Islamic instruments of charity, LAZIS positively believes that its activity and programs have no element of *riba*; rather, it is by channeling their wealth to charity that the donors may find redemption from *riba*, which they may or may not know, is present within their wealth. Therefore, LAZIS

has no specific anti-riba measure; instead, it is more concerned with the preservation of strong ethical culture among the staffs. The ethical concern further passes on toward the programs, especially those related to *zakat*. As it is unethical to hold *zakat* fund for more than a year, LAZIS distributes it each month with the Tasharruf Zakat program.

b) Context 1, Code 2 - Brotherhood

As an institution that carries out educational and social programs simultaneously, PM Tazakka community can be roughly categorized into internal and external community. The internal community is the ecosystem of the pesantren itself, which included students, teachers, and their family members. The external community comprises people who have direct mutual ties to PM Tazakka, whether through LAZIS Tazakka or its other subsidiaries.

The Headmaster of PM Tazakka, Kyai Anang Rikza, is an alumnus of Darussalam Gontor pesantren; he applied the Protective Economy concept of his alma mater, emphasizing the self-sufficiency of the internal community. The concept is intended to create a thriving market within the pesantren through reasonably strict economic control. The presence of digitalized transaction and administration in the pesantren is the manifestation of such control. Most of the profit of this internal market is then transferred to LAZIS to be allocated to its productive *waqf* initiatives e.g., students' shops, inn, and bakery. To further build the internal community, teachers and senior students are assigned to manage the operational of said initiatives, which is a means to build their character and skills.

The self-sufficient internal community would contribute to the success of LAZIS' programs for the external community. Astonishingly, the external community itself has a high-degree of self-sufficiency, which is shown by the presence of sub-communities of dedicated donors. These donors are mostly comprised of affluent people with considerable skills e.g., doctors, lawyers, and businessmen; or people possessing large material assets. This collection of distinguished people would regularly donate to LAZIS. Note that donation to LAZIS is not restricted into financial contribution, but also include professional participation and free lease of assets – detail of this practice will be explained in the Products context. With the presence of these vibrant sub-communities, LAZIS strengthened its source of

funding to better contribute toward its intended target: Impoverished people and underdeveloped institutions.

Social-oriented programs are one of the foundations of PM Tazakka since its inauguration in 2012 and back beyond during the 1990s when it was just a religious educational gathering in Batang Regency. PM Tazakka was not going to abandon its foundational role as an agent of social empowerment and even intended to develop such effort by establishing LAZIS Tazakka. The good intention was paid off by the performance of LAZIS, which successfully raised the quality and quantity of both the donors and recipients for pesantren's social-oriented programs. Fardana explained that in the end, despite all its successes, LAZIS is not a corporation that takes pride on its own growing size; it is a social empowerment institution that wishes to spread awareness about the potential of Islamic charity concept.

LAZIS' Social Concern is shown both in its programs and working culture. One of its most enduring programs is the annual distribution of *zakat* for the *faqir* (destitutes) and *miskin* (impoverished) on monthly basis. The *zakat* is intended to cover the daily needs of their households so that they may focus on increasing the quality of their jobs. The program was warmly welcomed both by recipients and donors, and LAZIS is currently planning to expand the number of recipients of the program. As for LAZIS' working culture, the staffs are educated to put great care to what the institution is aiming for. The success in this field is displayed by the staffs' willingness to forego their rightful share as *amil* (*zakat* workers) to increase the amount of fund available for the *faqir* and *miskin*.

As stated by previous sub-chapter, PM Tazakka replicated Darussalam Gontor's Protective Economy concept. The concept allowed the pesantren to freely control the distribution and allocation of assets within its immediate community. As a result of this, the pesantren established an internal market that is self-sufficient and dynamic. The pesantren ceased to be a passive market that depends on external effects to sustain itself. The economic activity within the pesantren is further refined with the adoption of modern infrastructure such as computerization of data and digitalization of transactions. Most of LAZIS' operations depend on this lively economic scene, both regarding its input and output. Input-wise, LAZIS' operational expenses are covered by the pesantren; and output-wise, a sizable part of LAZIS' programs are related to the development of the pesantren's facilities and economic initiatives.

LAZIS has a few programs related to Poverty-Alleviation, but it has no specific ones that directly address it. One of the programs mentioned is the *zakat* allocated specifically to *faqir* and *miskin* recipients. The *zakat* program is not a panacea for poverty, but it helped the impoverished recipients in fulfilling the primary necessities of their households. LAZIS hoped that at least by relieving the poor from their emergency needs, they could focus on increasing the quality of their livelihoods. Fardana, however, has a different perspective in this matter; he saw that Poverty-Alleviation effort should not be focused on short-term aids like the one mentioned before. He thought that the effort should encompass the long-term aids too, such as educational aid for the impoverished children and training program for those in working age.

5.3.2. LAZIS Tazakka: Context 2 - Technical Aspects

LAZIS Tazakka exhibits a dynamic Internal Affair, with the greatest focus shown toward the improvement of Institutional Quality aspect (6.7% of total codes), but without neglecting both the Human Resources and Product Development aspects (both 4.2%). Meanwhile, LAZIS' External Affair is mostly concerned toward building Cooperation/Partnership aspect with other similar institutions (4.2%), with few elements concerning Marketing (1.7%) and Training aspects (0.8%).

a) Context 2, Code 1 - Internal Affair

In this aspect, LAZIS Tazakka has both inward and outward approaches concerning the development of its Institutional Quality aspect. As for the first approach, LAZIS holds weekly evaluation meeting attended by all of its staffs. During the meeting, besides addressing work evaluation of the week, the staffs also discussed the planning and organizing of its actions for the next week. The result of the meeting will then be proceeded to the next higher-level meeting which is conducted monthly. This time, the headmasters of PM Tazakka are present. Through this series of meetings, LAZIS' Institutional Quality is regularly assessed; amendments and suggestions from its higher-ups are essential to preserve LAZIS' good performance.

On the other hand, LAZIS' outward approach is its attempts to increase its Institutional Quality by influencing the external parties. LAZIS does have cooperation with other IMFIs that share its vision regarding the potential of Islamic charity concept; however, the most remarkable thing that LAZIS managed to do is its

success in influencing affluent and skillful people to join the rank of its regular donors. To further increase the coverage of their activity, LAZIS plans to upgrade their institution from city-level to province and eventually, national-level. Symbolic influence through prestige is also being pursued by LAZIS, which will be done by financially aiding the pesantren to realize the establishment of a university, a hospital, and a campus for female students.

LAZIS' Human Resources aspect is closely linked to the values and tradition of pesantrens. The most obvious manifestation of this is the institution's insistence on recruiting the alumni of pesantrens as its staffs. Fardana pointed out that alumni of pesantrens have qualities that are rarely possessed by non-alumni, such as sincerity, credibility, honesty, and surprisingly of all that, management skill – Fardana himself is an alumnus of Darussalam Gontor who has experience in managing various institutions and committees in his alma mater. The alumni, however, initially have varying degree of skills; and it is the task of LAZIS' older and skilled staffs to train and guide these rookies through direct supervision and routine evaluation meeting. As for the older staffs, they are tasked to attend various advanced training programs which resulted in their official certification.

The aforementioned series of routine meetings is itself a powerful device of Product – or as they prefer to call it, Program – Development for LAZIS. Almost all of LAZIS' programs came from the ideas that emerged or presented during these meetings; the digitalization of infrastructures and the building of a state-of-the-art donation reception desk within the pesantren are some of the results of these meetings. LAZIS also has a necessity to always come with fresh economic initiatives as the current regulation required productive *waqf* – one of LAZIS' renowned programs – to bear other productive *waqfs* instead of being allocated for consumption. Should issues of limited operational range and facilities hinder the execution of certain programs, LAZIS would utilize its partnership with other financial institutions to overcome them.

b) Context 2, Code 2 - External Affair

So far, the most enduring official work partnership established by LAZIS Tazakka is the one it has with LAZIS Asfa; both share the mission of optimization of Islamic charity instruments. The rest of LAZIS' Cooperation/Partnership venture is built unofficially with the adjacent communities, local mosques, and government officials.

Every cooperation has its own benefit; for instance, cooperation with nearby communities ensured the preservation of LAZIS' reputation as an institution that is friendly toward the commoners. The cooperation with local mosques, 15 of them, accommodates the LAZIS with venues for their social programs. And the one with government officials e.g., police department and military personnels, acts as a sign of LAZIS' goodwill toward the authority.

This informal cooperation also played a role in LAZIS' unofficial and indirect Marketing strategy, which seeks to advertise its programs to increase the number of donors; note that LAZIS' deemed the number of donors as a good indicator of success. The recurring visitation of various educational institutions and researchers also helped to indirectly advertise the achievements of its many programs. LAZIS' direct-approach Marketing is mainly conducted within the pesantren, where meeting of donors and potential donors is conducted regularly. The attendance of donors from the affluent and professional backgrounds further enhanced the prestige of the institution, which influenced potential donors to eventually join.

There were no special training programs attended by LAZIS' staffs save for the certification programs. The institution seems to manage just fine with what Human Resources they already have; however, in order to extend the quality and quantity of its programs, LAZIS needed to comply with the government regulation concerning certification of charity workers. As an institution that is involved in managing ZIS and *waqf*, it has to employ people that are holding the certification of *nazhir* and *amil*, respectively. Currently, the pesantren has 11 holders of *nazhir* certificate, no other pesantren has that many. Fardana told that there are also few holders of *amil* and pilgrimage guide certificates. All in all, LAZIS has complied with the regulation and has no problem with it except for some very technical matters that will be described in the Challenges section later.

5.3.3. LAZIS Tazakka: Context 3 - Products

LAZIS' products, or programs, are completely on the Charities aspect (6.7% of total codes). Similar to the content of the literature review, the field research in LAZIS Tazakka found that most of its products are in the form of *Waqf* (5.0%), with a smaller element of ZIS (2.5%). There is only a single hit on the Financing aspect (0.8%), which is more of a process than a product.

a) Context 3, Code 1 - Charities Products

LAZIS' programs have close ties with the pesantren's Protective Economy concept. Much of the programs' input is sourced from the revenue of the pesantren's business units; in turn, the input would then be turned to the funding of new business units, development of existing ones, and to expand the educational facilities of PM Tazakka. So, in a way, by allocating the Charities fund accumulation – especially from its *Waqf* programs – to the pesantren, LAZIS' programs get even better, not worse. While the originator of the Protective Economy concept, namely Darussalam Gontor, took a more traditional approach of long-term *Waqf*, a slow but steady enterprise commanded by its elders; PM Tazakka took a modernized *Waqf* management, which is executed by a dedicated institution – LAZIS – through implementation of many specific programs.

LAZIS' main *Waqf* program is the productive *waqf*, the one mentioned previously, with which the pesantren built its facilities and business units. “One of our buildings, such as the Cordova Building, was built with the productive *waqf* fund,” described Fardana. This program is basically implementing the concept of cash *waqf*. The productive *waqf* fund is gathered from the contributions of LAZIS' numerous donors. Besides receiving donation from individuals, the institution also accepts periodic *waqf* contribution from some private business establishments e.g., restaurant, cafe, and bakery. To efficiently gather the fund, LAZIS has provided state-of-the-art donation reception service, allowing the donors to send their contributions digitally in real time.

There are some other programs that are cashless and more creatively designed, such as the asset and professional *waqfs*. Asset *waqf* is implemented through the lease of certain assets to LAZIS, in which the assets can be used as factors of production by the pesantren free of charge. One such example was the lease of a resort near the pesantren; whenever the resort was vacant, the pesantren would be free to use it. As for the professional *waqf*, as its name implies, it is the donation of one's professional skill to the pesantren i.e., the donor would work for the pesantren, “donating” his time and expertise free of charge. Through this *waqf*, the denizens of the pesantren received medical service from donors skilled in medical field, among other things.

While the *waqf* programs generally contributed toward the pesantren's internal development agenda, the ZIS programs are entirely dedicated for social-oriented one.

LAZIS' ZIS fund is collected through methods that are not dissimilar to its *waqf* counterpart. *Zakat* is received both from individuals and business establishments who have reached the required *nasab* (annual income threshold), specifically donating at least 2.5% of their annual income before the end of Ramadan month. *Infaq* and *sadaqah* are more unrestrained, they can be donated throughout the year in any amount the donors wish to contribute. The ZIS fund is distributed monthly through LAZIS' Tasharruf Zakat program, in which the fund, now in the form of cash and primary commodities packages, are distributed to more than 2,000 recipients, mostly *faqir* and *miskin*. The program also targets specific recipients e.g., madrasa teachers, Qur'an teachers, mosque caretakers, local imams, policemen and military personnels.

b) Context 3, Code 2 - Financing Products

LAZIS has no Financing products or programs. However, its link to the central administration office of PM Tazakka can be understood as an element of Financing, not in the sense of a dedicated program, but a process. It is already described before that one of LAZIS' sources of fund is the pesantren's business units. As all transactions conducted within these units are done through digital means – using credit cards, the machine automatically transfers some percentage of these transactions toward LAZIS' productive *Waqf* account. So, looking through a wider perspective, this small element of Financing enabled LAZIS to tap the internal contributions efficiently.

5.3.4. LAZIS Tazakka: Context 4 - Challenges

As an institution with excellent management system, LAZIS has no significant internal problems. Therefore, most of its Challenges came from the Regulation aspect (3.3% of total codes). There are few that are regarded as problematic in the longer-term for LAZIS in both Institutional and Social/Sharia-Awareness aspects (both 1.7%).

a) Context 4, Code 1 - Regulation Challenges

LAZIS has complied with the requirements of regulations regarding ZIS and *waqf* management, as shown by the presence of individuals that are certified to carry out ZIS and *waqf* programs. However, there persists a very technical challenge related to the financial reporting formats. Both the official supervisory bodies of ZIS and *waqf*, BAZNAS and BWI, respectively, required LAZIS to report its finance in very

particular formats. The formats in question have a design that does not suit the LAZIS' approach. For example, BAZNAS required the format to be categorized into programs, which contradicted LAZIS' individual-based format. Meanwhile, BWI required the donors' identity to be fully disclosed, which contradicted the donors' preference of anonymity. Fardana then added that compared to BAZNAS' format, BWI's format is less developed, allowing some degree of convenience for LAZIS, "we could write the report in our own preferred format. Nevertheless, I think this issue will complicate BWI's work," he said.

b) Context 4, Code 2 - Institutional Challenges

Regarding to a strictly Institutional issue, Fardana was concerned in the future impact of LAZIS' programs. He argued that the current focusing on short-term programs shared by most of Indonesian Islamic charity institutions will not result in a profound impact. The programs were indeed beneficial for the recipients but they do not eliminate their dependency toward aids. He argued that Indonesian charity insitutions, including LAZIS itself, should put more attention toward developing programs that are oriented to eliminate the root-causes of poverty, namely low education and lagged human resources development. So far, the programs addressing such matter are mostly in the form of facilities and materials endowments. Very few contributed the more crucial provision of scholarships and human resources trainings.

c) Context 4, Code 3 - Social and Sharia-Awareness Challenges

The lack of development regarding Islamic charity concept is not caused by the lack of affluent people; as of Indonesia, it has a very low count of population under poverty line compared to other countries presented in the literature review chapter (See Table 1.4). It is the society's lack of awareness or education regarding Islamic charity concept. Both are acute and chronic problems even for Muslim majority country like Indonesia. The problem is so severe that even *zakat*, which is mandatory for every Muslim, is quite difficult to be gathered; even more so for the non-mandatory charities. Charity institutions are always present; unfortunately most of their approaches are concerned in promoting the institutions themselves, not in propagating widespread awareness of Islamic charity concept. LAZIS therefore took a different approach; it propagates about the concept, but does not coerce its audience to think that LAZIS is the most sensible institution in this matter. In

Fardana's words, "we here preach about the matter but we don't insist on the people to donate through our own institution. The people, once educated about the matter, will know where to safely donate."

5.3.5. LAZIS Tazakka: Context 5 - Outcomes

As a charity-based IMFI, LAZIS is quite successful in its effort to increase the Wider Community Welfare (7.5% of total codes). By having the pesantren as its operational base, LAZIS brought the Islamic financial education to the students and teachers of the pesantren (Immediate Community Education: 5.8%) while at the same time increasing their welfare (Immediate Community Welfare: 5.0%). During the field research, there were few elements of Wider Community Education revealed (1.7%); however, data from documentation method suggested that it is more prevalent than what initially presumed.

a) Context 5, Code 1 - Wider Community Welfare

LAZIS' social-oriented programs are quite successful in channeling the Islamic charities to their intended recipients. The monthly Tasharruf Zakat program helped the impoverished to fulfill their primary necessities in hope that they would have more focus on their daily jobs. The program also targeted specific recipients like Qur'an teachers and local imams, those who are giving contributions to the society but are helplessly underpaid. To further develop such programs, LAZIS cooperated with other similar institutions to increase their coverage – which currently reaches up to 2,000 recipients – and to extend the profiles of recipients to include *gharimin* (the heavily indebted) and *muallaf* (the newly converted). The pesantren's effort to certify LAZIS' agents can also be understood as an effort to increase the quality and quantity of its social-oriented programs.

b) Context 5, Code 2 - Immediate Community Education

LAZIS' role in building an environment that is conducive toward Islamic financial education within the pesantren is undisputed. The students and teachers of the pesantren are constantly exposed to the practical elements of LAZIS' activities, directly and indirectly teaching them the essential skills of management and entrepreneurship. Besides the practical skills, the more subtle spiritual elements are also being taught through the display of sincerity by all who takes part in the charitable enterprise. The increasing number of donors, especially those from the

affluent and professional communities further reinforced the idea that Islamic charity is indeed a viable solution to tackle the ummah's many economic and welfare issues.

c) Context 5, Code 3 - Immediate Community Welfare

The welfare of the pesantren's immediate community started with the adoption of Protective Economy concept. With the increasing efficiency of available resources' allocation and distribution, the pesantren could start establishing its self-sufficiency initiatives, mainly through the creation of business units. LAZIS then supported the development of business units by allocating its productive *waqf* fund to reinforce the existing units and to finance the establishment of newer ones. Besides the productive *waqf*, LAZIS' asset and professional *waqfs* increased the community's welfare in more unique ways. The asset *waqf* provided the pesantren with free-of-charge temporary usage of certain factors of production, while the professional *waqf* provided free essential services to the pesantren's denizens.

d) Context 5, Code 4 - Wider Community Education

LAZIS' success in propagating the viability of ZIS and *waqf* to the wider community is reflected by many things. The ever-increasing quantity of donors willing to contribute regularly is one such thing. In addition, the presence of affluent and skillful people among the donors shows the sophistication of LAZIS' approach. The donors' willingness to contribute their assets and time without charge in asset and professional *waqf* programs is evidence that LAZIS managed to instill ultimate low time preference, the willingness to forego worldly gains for the more eternal ones. Based on documentation relating to LAZIS, the institution continues to spread awareness concerning Islamic charity concept by attending or holding seminars and welcoming many visits from parties interested in learning ZIS and *waqf* management.

5.3.6. LAZIS Tazakka: Context 6 - Visions

Respectively, LAZIS holds high attention toward the objectives of Wider Community Education (2.5% of total codes), Immediate Community Welfare (1.7%), and Wider Community Welfare (0.8%). There was no specific mention of Immediate Community Education.

a) Context 6, Code 1 - Vision of Wider Community Education

The *ummah's* ignorance toward the potential of Islamic charity concept is the greatest obstacle hindering the optimization of Islamic charities. For the majority of Indonesian Muslims, *zakat*, *infaq*, *sadaqah*, and *waqf* are still obscure concepts. Therefore, LAZIS hold a mission to build widespread awareness concerning the concepts. The institution believes that Indonesia does have a large population of wealthy Muslim individuals, and it is up to the practitioners of Islamic charity institutions to persuade them to contribute. As for technical matters regarding the system and management of Islamic charity institutions, LAZIS is eager to share their experience with the academic world and with other Islamic educational insitutions.

b) Context 6, Code 2 - Vision of Immediate Community Welfare

“ZISWAF is the backbone of development for educational institution like us,” said Fardana, highlighting the role of LAZIS in the rapid development of PM Tazakka since 2012. LAZIS will continue to be the source of funding and a catalyst for the growth of the pesantren’s economic initiatives to help realize the pesantren’s ambitious projects – a hospital, a higher education institution, and a female campus – which it seeks to complete by 2035. The pesantren learned that optimal *waqf* management would result in the longevity and perpetual development of an institution, as what happened in Al-Azhar University and Darussalam Gontor, from which many of the pesantren’s elders and teachers graduated.

c) Context 6, Code 3 - Vision of Wider Community Welfare

It is described before that LAZIS wishes to expand the quantity and quality of its programs. The institution’s success in distributing charities to 2,000 recipients in 6 different regencies in Java is but a milestone among many future milestones. Although currently LAZIS is focusing on the city-level operational range as per the direction of the headmaster of PM Tazakka, Fardana admitted that sooner or later the institution should extend beyond it. The great amount of facilities and infrastructures available for LAZIS, coupled with its dynamic cooperation with other similar institutions and the academic world warrants for greater development. Further documentation shows that LAZIS is beginning to address the long-term programs to tackle economic problems through the provision of higher-learning scholarships.

d) Context 6, Code 4 - Vision of Immediate Community Education

LAZIS mentioned no specific objective regarding Immediate Community Education; however, it should be understood that the IMFI's whole activity is associated with the education of PM Tazakka's denizens. The agents that executed LAZIS' many programs are consisted of the pesantren's students and teachers; so, if anything, it is they who learned the most throughout the existence of LAZIS. The institution therefore has a big role in realizing the positive cultural impacts of pesantrens; as the center of excellence, the developer of human resources, and the agent of social change. Building excellent human resources through involvement in LAZIS' many programs, and promoting social change through institution's educational and social-oriented programs.

5.3.7. LAZIS Tazakka: Summary of Content Analysis

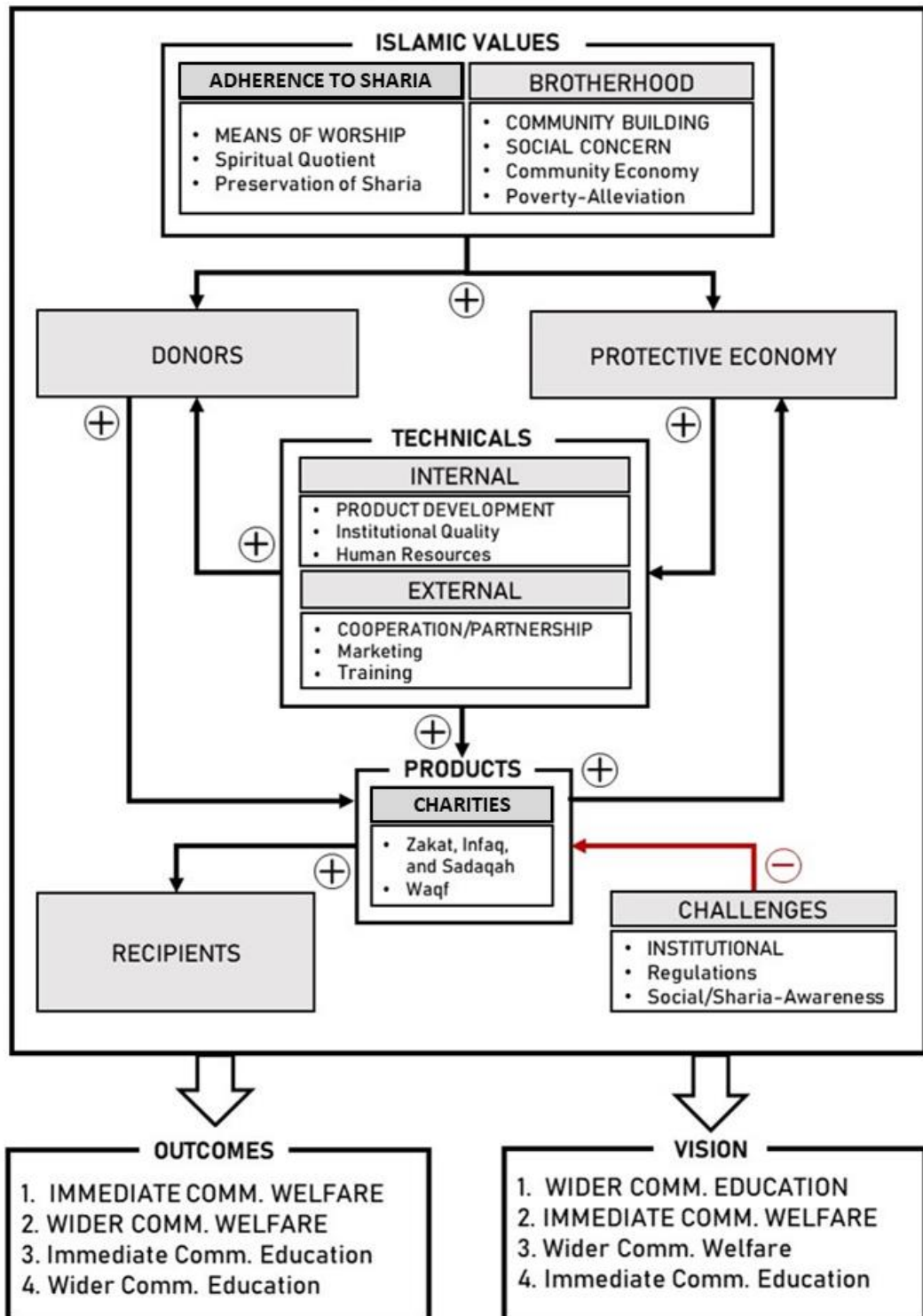
LAZIS Tazakka's underlying objective is to undertake a systematic attempt to reawaken the fading potential of Islamic charities such as *zakat* and *waqf*. Many agents of LAZIS are the alumni of Darussalam Gontor pesantren, who witnessed firsthand the result of optimization of *waqf*. Darussalam Gontor's *waqf* initiative was inspired by Al-Azhar University, which enabled the latter to survive and thrive for more than a millennium. Darussalam Gontor declared itself as a *waqf*-based institution in 1958, stating that it belongs to the *ummah* and has to be managed by the people who dedicated itself for the *ummah* i.e., the alumni and active teachers. Henceforth, the pesantren adopted the Protective Economy concept to shield itself from things that may harm the *waqf* status. To counterbalance the persistent human resources problem, the pesantren has built excellent system and undertook continuous human resources regeneration program.

LAZIS agents sought not only to imitate the concept of their alma mater, but also to adapt it to the current age, and to enhance it with methods that are uniquely theirs. While Darussalam Gontor's *waqf* initiative takes a more traditional and gradual development, the agents preferred a modern and active one. LAZIS agents actively seek to gather as many donors as possible without coercion; they took advantage of PM Tazakka's social capital as a religious educational gathering to assemble initial donors. LAZIS then allocated the accumulated *waqf* and ZIS funds to various activities. Generally, *waqf* is for developing PM Tazakka's Protective Economy, and ZIS is for social-oriented programs. By showcasing the funds' progress and excellent

job in managing them, not only LAZIS kept the donors' loyalty, it also attracted more new donors. So far, the challenges that LAZIS is facing are only mildly affecting its programs and are mostly inconsequential to its institutional growth.

LAZIS' vision is to educate both the pesantrens' communities and the wider society about the great potential of Islamic charity concept, while simultaneously showing its practicability and adaptability toward modern methods, all showcased by PM Tazakka's rapid growth as a *waqf*-based educational institution. In reality, the outcome of LAZIS' activity is not far from the vision. PM Tazakka is indeed experiencing amazing growth thanks to the *waqf* programs alone; a blessing further shared to the society through its ZIS programs. LAZIS' success in educating the pesantren's immediate community is shown by its thriving community economy; and the success in educating the wider society is reflected by the ever-increasing number of donors. A qualitative model summarizing the case of LAZIS Tazakka is available in Figure 5.3.

LAZIS TAZAKKA



Legends: → (black arrow) = positive impact; → (red arrow) = negative impact; ↔ (double arrow) = reciprocal impact; CODE (all-capital typing) = major focus; Code (normal typing) = minor focus.

Figure 5.3: Qualitative Model of LAZIS Tazakka

Source: Author, 2024

Overall, LAZIS Tazakka is an institution with an excellent concept supported with great adaptability and robust system. Its uncompromising objective of maximum utilization of Islamic charity concept brought for PM Tazakka considerable welfare, development, and respect.

5.4. BMT UGT Sidogiri, Pesantren Sidogiri

BMT UGT (Usaha Gabungan Terpadu, lit. Integration of Combined Businesses) is a form of ultimate achievement for pesantren-based IMFIs. Compared to the rest of the research cases, BMT UGT has reached a level where facilities and human resources are no longer the prevalent obstacles. It also has extended its operational range into the national level, running 298 branch offices covering 10 provinces in Indonesia. The products it offered encompass both Financing and Charities aspects, reflecting an excellent product development practice. However, with greater opportunities came greater challenges; the BMT has to face threats that are normally inconsequential for the smaller pesantren-based IMFIs, such as the unfair regulations that hindered the growth of large cooperatives like itself, and the consequence of negative macroeconomic effects.

As its name implies, BMT UGT started from the cooperation of many businesses owned by Pesantren Sidogiri and many other affiliated madrasas. It was initially an effort to build economic self-sufficiency through the autonomous enterprises of their respective community, much like the concepts of Nurul Haramain's *Jama'ah* and Darussalam Gontor's Protective Economy. What sets it apart from the other cases is its full autonomy from its parent pesantren, indicating high-level of institutional maturity. The BMT's remarkable rise to the national level was commenced by its visionary directors, who brought many positive changes in the matters of Institutional Quality and Human Resources Development, the two significant challenges for developing-level pesantren-based IMFIs.

5.4.1. BMT UGT Sidogiri: Context 1 - Islamic Values

BMT UGT's success is based on its deep Adherence to Sharia, reflected by its high score in Spiritual Quotient aspect (3.7% of total codes). The urge to fight the exploitative and unfair financial practices further drove the BMT to develop the quality of its practices (Preservation of Sharia: 3.5%). The intention to bring

economic and financial betterment for the society constituted the rest of the BMT's driving force (Means of Worship: 2.7%).

As for the Brotherhood category, BMT UGT displayed tremendous interest and effort in Community Building (10.0% of total codes), in fact it comprised the highest in this particular case. The effort is further supported by the similarly high effort in Social Concern aspect (8.2%). By being autonomous from its parent pesantren, the BMT could put higher effort in Poverty-Alleviation aspect (2.7%); however, it still has sizable contribution toward the development of the pesantren's Community Economy aspect (2.0%).

a) Context 1, Code 1 - Adherence to Sharia

The initial problems of pesantren-based initiatives revolve around the lack of facilities, undeveloped human resources, and limited access to funds. However, the denizens of pesantren are taught to believe in the concept of *tawakkal* – total mental and spiritual submission toward God – and *ikhtiyar* – continuous effort to do good. And a verse in Qur'an surah As-Saff said that God loves those who fight in His name together and united like a mighty fortress. Although lacking many things at first, the BMT was never short of people that are spiritually and emotionally strong. These are the BMT's underlying Spiritual Quotient values that motivated it to overcome all the aforementioned obstacles.

Sharia Preservation is always the central issue for the establishment of pesantren-based economic and financial initiatives. The community of Sidogiri pesantren was once greatly concerned by the prevalence of interest-borne businesses around the pesantren complex frequented by the students. Aside from that, there were also instances where charity funds gathered from the denizens were eventually deposited in conventional bank accounts. Those phenomenons were unpleasant paradoxes; while the pesantren community is taught to avoid *riba*, they consumed goods provided by interest users and entrusted their charities to interest-bearing institutions. Thus, the pesantren decided to supply all internal necessities with their own effort, and to establish dedicated financial insitutions that are interest-free. BMT UGT was established as one of the latter.

Once the Institutional and Human Resources issues are settled, BMT UGT then had to design its products; this is where its Means of Worship aspect could be realized.

According to Abdul Majid, the chief director of the BMT, the purpose of the institution is “to serve the pesantren, and to serve the *ummah*... BMT UGT exists to extend help to the poor.” The BMT’s early products were simple deposit products intended to safekeep the funds of Sidogiri pesantren and many of its affiliated madrasas; there was also simple *qard hasan* scheme for the members of aforementioned institutions. By performing this activity, the BMT accomplished its duty to safeguard the pesantren and local madrasas from usurious financial practices.

b) Context 1, Code 2 - Brotherhood

Community Building aspect is the core strength of BMT UGT, during every phase of its development, the institution derived solutions from its own community. During its earlier time, the institution fostered the economic and financial power of the community to cut off external influences and saw significant success in the effort. Then during the institution’s reformation and restructuring phase in mid 2010s, when the BMT was forced to seek help to other BMTs, the directors harnessed the full potential of its pesantren alumni employees to elevate the institution from one that required help, to one that outgrew its helpers. And in its current phase, the BMT retains the strength by keeping the internal community – of employees, managers, branch managers, and directors – close to each other and by maintaining the loyalty of the external community – the cooperative members, customers of the BMT.

BMT UGT preserve the solidarity of the internal community by conducting annual tour of meetings with the branch offices, located in more than 60 regencies in various provinces in Indonesia. As for the external community, the cooperative members, BMT UGT conducted various programs to build their economic skills and Islamic finance awareness. To show that the BMT is fully committed to the betterment of their members, in addition to providing microloans for SMEs, the BMT also provided technical training and guidance for the borrowers.

BMT UGT possessed high sense of Social Concern aspect which is reflected in its underlying concern toward the condition of the poor and further manifested into its programs. The products offered to them are completely designed in consideration to their situation; starter loans are offered without the need to include collateral, repayment is separated into small daily repayment schedule so as not to burden the borrowers; and there is a bailout fund for low-performing borrowers reserved from the ZIS fund of the BMT.

In addition to products that are friendly toward the poor and their growing SMEs, BMT UGT possessed various social-oriented programs that are mainly funded by its Charities side, through *zakat*, *infaq*, and *sadaqah* contribution along with the regular donation mandatory for both the members and staffs of the BMT. The Charities fund is allocated into Dana Sosial (Social Fund) account to be in turn be allocated to social programs which included disaster relief effort, renovation projects for dilapidated residences, disadvantaged madrasas, and underdeveloped mosques.

The BMT's eagerness to Alleviate Poverty is displayed by its total commitment toward the poor's SMEs. According to Abdussalam, the "financial illness" suffered by the poor can be concluded into three: access, collateral, and skill. To remedy it, the BMT required no complicated paperwork for the potential borrowers as they themselves were mostly illiterate in administrative things to begin with. And to eliminate the restrictive collateral requirement, the BMT asked no collateral for first-time borrowers. And for the most complicated part, training, the BMT held free training sessions for the borrowers, mostly teaching them on the essential skills of bookkeeping and digital advertising. Thanks to this approach, the BMT managed to significantly increase the living standard of its members. Imron stated that the local members around the BMT's core domain in Pasuruan regency are already alleviated from poverty.

Despite focusing on its members, BMT UGT does have great contribution toward its parent pesantren, building the latter's Community Economy. During its earlier time, the BMT provided dedicated financial services for the pesantren, preventing the money from crowding out of the pesantren. So committed the pesantren to this effort that it managed to create cashless economy within the community; the students could be seen conducting transactions using credit cards, a rare phenomenon for the deeply conservative pesantrens such as Sidogiri. As a result of this, the pesantren managed to gather surplus funding essential to establish its own business units that provided all kind of essential necessities for all students and teachers of the pesantren, further strengthening the economic self-sufficiency of the pesantren. The surplus is also allocated to subsidize approximately 70% of the students' tuition fees. "Imagine if we have no cooperatives and businesses, I'm sure that the (students') monthly fees will reach and exceed IDR 2 million," said Abdussalam.

5.4.2. BMT UGT Sidogiri: Context 2 - Technical Aspects

The evident signs of BMT UGT's advanced-level Internal Affair management are its superb Product Development and dynamic improvements in Institutional Quality aspects (both comprising 4.9% of total codes). This is further reinforced by excellent Human Resources development concept (3.7%).

As a fully-fledged financial institution, BMT UGT shows high activity in External Affair category. It forged many official cooperations with governmental bodies and with other IMFIs. Compared to other cases, the Cooperation/Partnership aspect of the BMT is the most extensive (3.1%). The BMT also possessed dedicated Marketing managers and is active in both joining and providing Trainings related to the development of IMFI (both 1.4%).

a) Context 2, Code 1 - Internal Affair

BMT UGT adopted a more lenient approach in its Product Development aspect; it does not try too hard to specifically tick all the ideal requirements of Sharia-compliant products. This does not mean that the BMT is abandoning the Sharia-compliance, it is still strictly adhering to the fundamental values of *fiqh muamalat*; however, the BMT is having an open-minded approach and is willing to improvise. This is done because the challenges found in practice did not let any room for overly idealistic close-minded approach. As an example, Abdussalam described that the ideal *murabahah*-based loan require a merchandise to be owned by the BMT first, which is doable for smaller scale operation. But for the BMT which operates in large-scale, the aforementioned ideal *murabahah* method would prove to be a logistical ordeal due to massive transportation and storage necessities that would be required. And that is the reason why the BMT adopted a modified product called *wakalah-bil-murabahah*, a combination of two Islamic financial schemes, with each's shortcomings eliminated.

By having more leniencies in the aspect, the BMT could design products that are completely suitable to finance the poor, able to address their limitations in collateral and training. Here is an example to demonstrate the suitability of the BMT's products for the poor; for starting borrowers, collateral-free loans are offered up to the value of IDR 2 million; value greater than that will require collateral to be applied. To allow the starters to taste their own successes as a form of incentive, the

BMT derives its profit from the loans proportionately; the smaller the the loan, the smaller the BMT takes. And to tackle the issue of low skilled borrowers, the BMT staffs will provide the training of skills and technical guidance that are indeed essential for the borrower's enterprises. They are further helped by being included in the vast business network consisted of the BMT's members around the country.

BMT UGT's rapid development in Institutional Quality aspect began with its restructuring and subsequent institutional reformation. Majid told that the restructuring started with his appointment as chief director in the then low-performing BMT UGT. The BMT was forced to integrate with the larger BMT Maslahah to help the first's reforms. Majid, however, saw opportunities and advantages within the institution, and he began to build a culture of professionalism and efficiency, constantly training and supervising the staffs – who were all alumni of the pesantren – and challenging them to improve the BMT's working quality. Majid's effort eventually paid off; BMT UGT managed to be independent from BMT Maslahah, even surpassing it. The culture he built also flourishes within the BMT's culture, which displays a working environment that is professional, efficient, ever-expanding, and interestingly enough, shows its connection to the pesantren's values e.g., the staffs' clothing, behavior, and respect toward prayer times.

Another striking feature of Institutional Quality aspect within the BMT is its adoption of state-of-the-art digital financial methods. The BMT provided services that are comparable with the ones provided by mainstream financial institutions in this current digital age. The BMT's members have an access to a digital app that allows them to conduct real-time transactions with the BMT or with other members. The service is also already connected to the network of digital finance comprising mainstream banks and large corporations, which allowed the members to conduct digital transactions through Banks, ATMs, or minimarkets of their choosing. The app has a marketplace feature too, connecting the different businesses of the members, effectively cutting the middlemen between them.

The Human Resources aspect of the BMT is probably the most interesting, as it bears evidence to the pesantrens' role as effective Human Resources builders. Despite operating as a national-level financial institution that can attract bright and skilled employees to join, the BMT's staffs are overwhelmingly consisted of pesantrens alumni. "Pesantren alumni comprised around 99% of our workforce," stated

Abdussalam. He further explained that the reason behind this is the BMT's preference toward employees that possess high SQ (Spiritual Quotient) and EQ (Emotional Quotient) instead of IQ (Intellectual Quotient). First of all, the employees have to be credible, responsible, and honest; all those characters are already taught in the alumni's alma maters. He admitted that initially, the employees lacked practical technical skills due to their background. This issue is solved by assigning staffs – be it the directors, the managers, or even older ordinary employees – to teach the newer employees. As for more complicated technical trainings, the BMT is not reluctant to send its employees out to join various training programs. In the end, the new employees proved themselves to be as reliable as professional financial workers.

b) Context 2, Code 2 - External Affair

BMT UGT exercised a very active External Affair activity. It established many Cooperation/Partnership, official or not, either to reinforce itself against the external challenges or to develop the quality of its products. For the first objective, the BMT joined some associations related to the development of Indonesian cooperatives and IMFI's such as Forkopi (Forum of Indonesian Cooperatives) and Asbisindo (Forum of Indonesian Businesses) to discuss and solve issues regarding cooperatives, mostly concerning regulations and directions. As a national-level financial institution, the BMT is regarded as one of the key players in both the fields of Islamic microfinance and cooperative. Majid himself is still active in the quest of fairer regulations toward cooperatives and is frequently invited to discuss the matter in both governmental and private forums.

For the second objective regarding product development, BMT UGT established Cooperation/Partnership with specific governmental programs such as with LPDB (Institution of Revolving Fund Development), PIP (Governmental Investment Center), BPKH (Institution of Pilgrimage Financial Management), and BPDBLH (Ministry of Environment's program). The programs originated from various government bodies that trusted the BMT with large fund, allowing it to expand the scale of its products. Besides the ones with government bodies, the BMT also forged cooperation with Islamic banks, cooperatives, and IMFI's; this latter type of cooperation is generally done to increase the BMT's network, hence, increasing the coverage and quality of its products.

In the Training aspect, BMT UGT does both ways, it received training while also providing training. During its reformation, the BMT intensively sent its employees to learn technical skills from programs such as KKMB (Financial Consultancy and Financial Partnership) and BDSP (Business Development Service and Provider); and practical management skills from mainstream financial providers. Nowadays, the BMT itself is able to provide trainings for its employees and is more concerned in observing the development of digital financing and issues of regulations. With its high accumulation of experiences, the BMT is able to provide training and guidance for developing IMFIs. One of its most successful trainings was with a cooperative owned by MUI (Indonesian Ulama Association); the BMT was able to help the cooperative to be fully functional from scratch. “With the initial capital of IDR 300 million, they were able to develop it to IDR 80 billion,” told Abdussalam.

In the Marketing aspect, BMT UGT hold a belief that social capital will invite greater financial capital i.e., social-oriented activity brings more trust toward the BMT, thereby increasing the possibility of greater revenue. So, besides the accomplishment of CSR (Corporate Social Responsibility), the BMT’s social-oriented programs also act as an extension of its marketing effort. By showing its successes in alleviating poverty, fostering grassroots SMEs, betterment of living condition, and material support toward madrasas and mosques, the BMT simultaneously advertised itself as a financial institution that is truly holding concern to the poor and disadvantaged as evidenced by its real contributions. “Our effort to propagate the Islamic values through economic means is very warmly welcomed by the people. Our distant members even requested us to build branches to better facilitate them,” described Imron regarding the effectiveness of social-based marketing.

5.4.3. BMT UGT Sidogiri: Context 3 - Products

As generally found so far by this study, compared to the Charities products, the Financing products tend to be more numerous and sophisticated in the BMTs, including in BMT UGT. The BMT’s Financing aspect scored higher (5.1% of total codes) compared to its Charities aspect (3.1%). However, it should be noted that in BMT UGT, both aspects are relatively balanced and equally sophisticated. The BMT’s Financing products encompassed all known variables i.e., Profit-Sharing (1.2%), Deposit Products (1.2%), Sale-Based (0.8%), Rent-Based (0.6%),

Pawnbroking (0.4%), and Insurance (0.2%). Likewise, the BMT's Charities products included both known types i.e., ZIS (2.0%) and *Waqf* (0.2%).

a) Context 3, Code 1 - Financing Products

BMT UGT started as an internal financial institution providing simple deposit products for the denizens of the pesantren, with network to the pesantren's other economic and financial institutions like BMT Maslahah and Basmalah Minimarkets. Over time the BMT transformed into an institution with wider scope and products, serving accessible financial products for the impoverished commoners. The most common products are based on Profit Sharing, Trade, and Rent all designed in consideration to the condition of the borrowers, adapting to their needs and capability. The objective of BMT UGT's Financing products is to help the members to establish their own productive enterprises with the main focus in trading and small-scale industries. The BMT's success in aiding the growth of SMEs invited the attention of governmental bodies, which were willing to further aid the BMT with financial capital.

For the starter borrowers who are relatively inexperienced in building SMEs, those in need of technical guidance and minimized losses, The BMT provided the collateral-free 100-day *qard hasan* loans. Through this product, the BMT is able to provide financing to members who were not ready to routinely contribute money to the BMT. However, the recipients are required to join a social gathering such as *manaqiban* or *yasinan*, as the loans will be distributed through community leaders who will also act as their guarantors. The recipients then signed a document and are required to be present at the respective gathering, this method managed to increase the efficiency of the BMT's field monitoring aspect.

The BMT's Profit Sharing products are what its directors regarded as effort-aware schemes, because what sets it apart from conventional financial products is that it put great consideration toward the condition of the Borrowers. The Borrowers are required to repay daily in small amounts, this is done to minimize their burden, as opposed to large periodic installments. In addition, the BMT only take profits proportionate to the effort exerted by the borrowers, not more than that. The profit taken by the BMT is further distributed to the members. The BMT's profit sharing products are further enhanced by the capital aid from various government bodies, increasing their competitiveness relative to conventional loans.

As a cooperative, BMT UGT required its members to give regular financial contribution to fund its products and programs. There are three of those, *Simpanan Wajib* (Mandatory Deposit), *Simpanan Khusus* (Special Deposit), and *Simpanan Wajib Khusus* (Special Mandatory Deposit). The first one is mandatory for all members, while the latter two are for specific occasions or members. Besides these mandatory deposits, there are deposits that are designed for specific needs, such as deposits for agriculture, pilgrimage, pension, and scholarship. For the last two items, the BMT provided the corresponding insurance products with the help of external insurance institutions. This last point made the BMT as the only case in this study that possesses Insurance product.

As for Sale-Based product, the BMT used the general *murabahah* scheme, where acquisition of goods and their subsequent ownership by the BMT becomes the basis of loan provision. On paper, the scheme seems doable, but for a large-scale institution like BMT UGT, the scheme can be problematic in the field, as it will entail complicated issues of goods acquisition, ownership, and storage. Thus, the BMT devised *wakalah bil-murabahah* scheme, combining the elements of both of its namesake. The *wakalah* element ensures convenience for both the BMT and the borrower, while the *murabahah* element ensures that the scheme is based on tangible assets, not on false debts.

Further, BMT UGT provides Rent-Based and Pawnbroking products. The first one is provided through *ijarah muntahiyah bit-tamlik* scheme, in which the BMT buys specific assets needed by the members, and will then rent it to them. Over time, with each rental payment, the “ownership share” of the members increase, eventually ending in them fully owning the assets. And for the Pawnbroking product, the BMT provided gold-based *rahn*, which mechanism is based on the BMT’s possession of gold, and its subsequent pawning by the borrowers. Abdussalam explained that the current regulation does not permit the BMT to operate a direct pawnbroking service, hence, the slightly altered pawnbroking scheme of gold-based *rahn* was designed. “The products don’t matter to the regulation as long as they are offered only to our own members,” he further added.

b) Context 3, Code 2 - Charities Products

The directors of BMT UGT have made it clear that they put equal if not greater emphasis toward the social capital, in line with Majid’s statement: “The cooperative

manages two things; *first*, social capital, which is the core objective; *second*, financial capital.” And the instruments that carry out this social capital objective is Dana Sosial (Social Fund), LAZ Sidogiri, and UGT Peduli initiatives that are all funded by the BMT’s Charities aspect. While the Financing aspect focuses on accumulating financial capital through commercial financing product, the Charities aspect is the BMT’s arm of social capital accumulation through social welfare projects. The majority of the BMT’s social-oriented activity is directed for consumption, education, and amelioration of living condition, but there were occasions when it was allocated for productive financial activity e.g., 100-day *qard hasan* loans, and emergency bailout for low-performers.

The three aforementioned instruments of the BMT’s Charities aspect each have specific function. Dana Sosial is the BMT’s instrument for accumulating CSR fund, which is either gathered through the donors’ free volition or through structured means. The structured method is done by deducting certain fraction of the BMT’s annual income residue and some portion of the members’ Profit-Sharing revenue. LAZ Sidogiri is the BMT’s subsidiary specifically established for *zakat* accumulation and distribution. And UGT Peduli is the BMT’s organizer and executor of its social-oriented programs. So far, those instruments have managed to realize programs related to, but not restricted to, common charities, *zakat* distribution, disaster relief, renovation of houses and facilities, scholarship, and financial bailouts.

As a side note, the BMT also has cash *waqf* initiative, receiving donation as little as IDR 1,000. However, how much the BMT managed to gather and for what it was allocated is still uncovered by the study. Regardless, by having a *waqf* initiative, BMT UGT completely ticked all the variables of Charities aspect in this content analysis.

5.4.4. BMT UGT Sidogiri: Context 4 - Challenges

Owing to its large-scale of operation, BMT UGT has its greatest challenge coming from the governmental Regulation aspect (4.3% of total codes). Social/Sharia-Awareness aspect is still challenging (2.5%), especially regarding the close-mindedness of the academics. On the Institutional aspect, the BMT has no doubt in its institutional quality; however, the unfair regulation put cooperatives and MFIs like the BMT in an unfavorable position relative to the mainstream banks (2.1%).

Also unique to the BMT, due to its scale, it is affected and concerned with the issues of Digitalization (1.0%) and Macroeconomics impact (0.8%).

a) Context 4, Code 1 - Regulation Challenges

BMT UGT was particularly vocal in expressing its disagreement with the enactment of the 2023 PPSK (Development and Consolidation of Financial Sector) regulation which sought to enforce laws regarding cooperatives and MFIs. The enforcement was provoked by the financial failures of some of the largest Indonesian cooperatives; the government was keen to see the cooperatives be supervised by the OJK (Indonesian Financial Service Authority). The point of contention was the OJK's inadequacy to assess the financial activity of the cooperatives, as it is known to demand strict adherence in operational requirements such as CAR (Capital Adequacy Ratio), LOLR (Lender of Last Resort), deposit insurance system, and limitations from certain financial products. The supervisory plan is effective for mainstream banks, but not for cooperatives and MFIs whose focuses are on providing accessible micro loans and building social capital. Abdussalam further explained that the closure of numerous Indonesian MFIs was in part due to the strict supervision of OJK.

Besides the recent regulation, the directors of BMT UGT also expressed their disappointment with the attitude of the governmental financial regulatory bodies. According to the directors, the regulatory bodies seemed to conduct preferential treatments toward the commercial banks over the cooperatives and MFIs. The regulation very clearly defined the legal operational boundaries of cooperatives and MFIs, they cannot provide services for non-members, but the same cannot be seen on commercial banks. The banks operational range is unrestricted; they can even provide services for the current members of the cooperatives without legal repercussions. "There was (once) governmental effort to assure that every class (of financial providers) has its own share. But now, all is within a free competition," said Imron expressing his disappointment. In addition, the recent proliferation of fintechs and online loan providers, also less restrained by the regulation, caused a new concern for the BMT.

b) Context 4, Code 2 – Social and Sharia-Awareness Challenges

The directors of BMT UGT expressed their concern toward the evolving methods of usurious financial practices. In the past, the BMT combatted the prevalent usurious services provided by individuals or small institutions known as the *rentenir* (loan sharks, or rent-seekers). It is safe to assume that the BMT managed to diminish the prevalence of *rentenir*; however, while the usurious institution can be beaten, the usurious practice itself is harder to defeat. The usurious practice is now performed by entirely new institutions e.g., commercial banks through their dedicated microloan services, and fintechs through their online loan services. Most of their customers, specifically the Muslim ones, failed to see the danger of usurious products, in part due to the convenience and larger loan promised to them.

While the BMT struggles to propagate the viability of Islamic finance vis-à-vis conventional finance by designing friendlier and socially-aware products, the BMT met another challenge from the academics. Unfortunately, the academics that are supposed to support the growth of Islamic financial institutions are not completely supportive of the BMT's methods and products. The academics tend to be overly conservative in what is allowed in Islamic financial products, demanding idealistic adherence to *fiqih muamalat*, and disdaining any attempt of modification. Abdussalam expressed a great concern in this phenomenon; he argued that this overzealous conduct will just harm the viability of Islamic finance as it will restrict the flexibility and convenience of its products. He assured that the BMT is not ignoring the fundamentals of *fiqih muamalat*, and advised the academics to be more realistic and pragmatic in seeing the issues.

c) Context 4, Code 3 - Institutional Challenges

BMT UGT is completely confident with its own Institutional Quality and its excellent governance further lend strength to its internal affair. But the challenges related to their institution came from the outside, from the aforementioned Regulation issues. As a cooperative, the BMT has fundamental differences compared to commercial bank. Its products are mostly provision of microloans and profit-sharing schemes for generally low-skilled borrowers; seen through the perspective of conventional regulation, the BMT is indeed conducting a very risky operation, which is further exacerbated by the lack of dedicated LOLR system. Despite the bleak premonition, the BMT never experienced imminent collapse, if anything, its form as

a cooperative is well-suited to manage such risks. Therefore, the BMT's Institutional challenge is on how it will navigate itself as a cooperative through the unfavorable regulation and supervision.

d) Context 4, Code 4 - Digitalization Challenges

The recent pandemic had sparked a rapid advance in the digitalization of economic and financial activities. Both the sellers and buyers were forced to adapt to the sudden changes of methods, the members of the BMT included. The directors acknowledged that the members were unready to face the sudden changes; the BMT had to intensively train and guide them in the utilization of digital apps. As most of the members were active in SME field, the BMT focused the training in digital transactions and marketing to allow their enterprises to survive in the current digital age. So far, the BMT managed to provide the digital training with no government support; which once gain disappointed the directors. "The world is anticipating Industrial 5.0... However, as we get closer and closer to AI age, the cooperatives have been receiving no proper support yet (from the government)," said Abdussalam.

e) Context 4, Code 5 - Macroeconomics Challenges

Macroeconomics effect became even more impactful as an institution grew; this is what happened in BMT UGT. The recent pandemic hit the commercial world hard, affecting the members' SMEs. The lockdown phenomenon weakened the role of retailers and mid-level distributors, many of them were the members' SMEs. The rising cost of living coupled with the restriction of movement gave way to direct online transactions; effectively cutting off the role of retailers and non-primary distributors that lacked digital capabilities. The impact felt by the BMT was immediate; its annual income decreased considerably and it has to conduct a stricter financing requirement policy. The BMT has to pay greater attention to possible Macroeconomics domino effect to preserve its own sustainability in the long-run.

5.4.5. BMT UGT Sidogiri: Context 5 - Outcomes

As a full-fledged independent IMFI, BMT UGT successfully reached its objective of realizing Wider Community Welfare (6.6% of total codes) whilst educating the masses on the viability of Islamic financial institution (Wider Community Education: 4.1%). And as for the pesantren community, BMT UGT accomplished both objectives of Immediate Community's Education and Welfare (both 3.7%).

a) Context 5, Code 1 - Wider Community Welfare

With its provision of microfinancing schemes suitable and friendly toward the lower classes, BMT UGT had significantly neutralized the threat of usurious financial services on the grassroots level. Seeing the lack of financial access for the so-called non-bankables, the BMT dedicated its commercial products to encourage, aid, and guide the poor in alleviating themselves from poverty through establishment of numerous SMEs. The directors believed that providing loans entails greater benefit than just charities, as loans are given to those who are desperate to escape hardships. The visible signs of success are obvious around the Sidogiri region, the community thrives economically and its people were having good standard of living. The directors confidently stated that the BMT's members around the region had generally pulled themselves out of poverty through their own businesses.

Besides providing commercial products, BMT UGT also conducted social products for the economic betterment of the society. The directors hold an idea that by expanding the BMT's social capital through social-oriented programs, an even greater reward of financial capital ensues. Thus, the BMT is active in gathering fund for social programs either through the residue of its commercial products, or through voluntary and mandatory donations from the members and staffs. The BMT spent the CSR fund in matters related to general charities, betterment of living condition, educational scholarships, and disaster reliefs among others. In the end, the social capital indeed increased the BMT's financial capital by reinforcing the loyalty of the members, increasing popular demand for the BMT to expand its operational range, and inviting cooperation and aid from various IFIs and governmental bodies.

b) Context 5, Code 2 - Wider Community Education

BMT UGT plans to propagate the viability of Islamic finance through *da'wah bi-l-hal* (propagation by action), through practical real time activities that are experienced directly by the members and staffs. With the current regulation, the BMT has to compete with commercial banks in providing microloans to the poor. To show the advantage of Islamic finance over the conventional one, the BMT displayed great concern toward the borrowers by training and guiding them until they eventually mastered the essential skills, becoming skilled businesspeople themselves. This is how the BMT educate the masses on the effectivity of Islamic finance, by encouraging and assisting the poor to have confidence and pride in their own

economic effort. However, to the dismay of the BMT, the commercial banks targeted the BMT's skilled members with the promise of greater loans and convenience. "I think this is an unscrupulous practice by the banks. They should have created their own customer base from zero like we did instead of readily snatching ours," said Abdussalam.

Apart from educating the society on Islamic finance, BMT UGT tried to educate them on the concept of cooperative as well. Cooperative is a legacy of Indonesian founding fathers, who believed that every tight-knit community has great economic potentials, as reflected by its motto "from the members, by the members, for the members." The members of cooperatives each contributed for the mutual economic betterment of the whole. The BMT's commercial products are funded through the regular contribution of the members, and its social products are funded through the residual revenue and donations. All of this to show that a cooperative, if well-managed and motivated, is indeed a potential economic powerhouse. The BMT's success in alleviating poverty and executing various social programs further reinforced the idea.

c) Context 5, Code 3 - Immediate Community Welfare

BMT UGT is currently independent from its parent pesantren, although it still retains strong emotional bond with it. Nevertheless, during its early days, the BMT's role was focused on building the economic self-sufficiency of the pesantren. The BMT was specifically tasked to manage funds gathered from the pesantren's students and teachers to be allocated to the pesantren's economic initiatives or to the BMT's own financial products. By having dedicated institutions for financial administration and management, the pesantren prevented its wealth from crowding-out, to be reserved for its numerous economic initiatives. After its reformation, BMT UGT diverted its focus toward the wider society, and the pesantren's economic initiatives were wholly transferred to the jurisdiction of Sidogiri Corp; nevertheless, the BMT retained an financial consultant position within the network of Sidogiri pesantren and its affiliated educational institutions.

d) Context 5, Code 4 - Immediate Community Education

BMT UGT's Immediate Community: the employees, staffs and, to some degrees, the denizens of its parent pesantren and affiliated education institutions, learned precious

lessons of the potentials of economic self-sufficiency and community building. The BMT, started with a group of alumni as its directors, managers, and employees eventually managed to raise the institution into the national-level. This feat was achieved by harnessing the spiritual and emotional qualities of the alumni, motivated by the values of Islamic teachings and traditions of the pesantren, and further augmented by their willingness to adopt and adapt the modern methods and technology. The BMT, therefore, instilled a sense of pride among the pesantren communities; that despite their centuries-old institution, it has essential capabilities to adapt to modern challenges and even overcome them.

5.4.6. BMT UGT Sidogiri: Context 6 - Visions

The directors of BMT UGT have made it clear that their main objective is the education on the viability of Islamic finance through real practical activities, both toward the Wider Community (2.3% of total codes) and to the Immediate Community (1.2%). Despite its great outcomes toward the Wider Community Welfare, the content analysis found that in the context of Visions, the Welfare aspect came later after the Education ones. There are few hits in Vision of Wider Community Welfare (1.0%) and no hit whatsoever in Vision of Immediate Community Welfare.

a) Context 6, Code 1 - Vision of Wider Community Education

BMT UGT seeks to reveal to the masses the potentials of Islamic finance, both to commoners and academics. It shows that a financial institution whose focus is to help the poor and disadvantaged, not to accumulate financial capital, can eventually grow into the national-level – with the media even acknowledged it as the largest IMFI in the country. The success story of the BMT further expressed the importance of capable and visionary leadership who are willing to adapt to the modern technology and to consider being more realistic and pragmatic in the field. This leadership in turn is supported by the presence of spiritually and emotionally-strong employees, who despite their lack of qualifications, managed to be professionally capable with the strong guidance and motivation by the leadership itself.

As stated before, in addition to educating the commoners, the BMT specifically aims to break the close-mindedness of the academics. By showing the effectiveness of its methods, the BMT displays that the strength of Islamic finance came from its

flexibility to adapt to the different economic and financial landscapes. Rather than following the theories 100% by the book, the BMT took into account the practical difficulties suffered by the financial providers and recipients, devising products that are both convenient and competitive – that, without breaching any fundamental law of *fiqih muamalah*. The directors hope that the BMT's activity will contribute toward the academic world by providing real practical solutions and effective management that can be witnessed, read, learned, replicated, and further developed.

b) Context 6, Code 2 - Vision of Immediate Community Education

Recently in 2019, BMT UGT management formulated its grand vision that will act as the guideline of its internal development. The vision has three points: *first*, *Amanah* (credible); *second*, *Tanggung* (strong); and *third*, *Bermartabat* (honorable), abbreviated to MANTAB. *Amanah* is performing the duty as best as possible; *Tanggung* is strength coming from the synergy within the community, from the integration of its central and branch managers, employees, and supervisors. This is as described in the hadith, “Allah loves the believers who fought in His way in a single formation that is as strong as formidable structures.” The last one, *Bermartabat* (honorable) is related with independence; free from the mercy of other parties, especially of the banking sector. The directors explained that as long as the BMT is strong internally, it can face any challenge.

c) Context 6, Code 3 - Vision of Wider Community Welfare

The directors believed that their greatness came from their dedication to the betterment of the poor's economic condition and the amelioration of their living standard. “The sincere prayer that they offered us whenever we helped them, I think, is the secret of why this institution grew,” said Majid expressing this belief. The directors further argued that Islamic economics and finance is the most suitable concept to combat poverty as it is designed to be beneficial and convenient to the poor and disadvantaged. Through the *qard hasan* scheme alone, the BMT managed to aid the establishment of hundred thousand of SMEs. The directors, however, know that there are still rooms for improvements, which is why the BMT currently focuses on the issues of digitalization; to better support its effort in raising the society's economic and financial welfare.

d) Context 6, Code 3 - Vision of Immediate Community Welfare

The absence of specific mention regarding this aspect should not be thought as abandonment in BMT UGT's part. This aspect is the lesser of the BMT's concerns because of two things: *first*, because it has accomplished high-level of internal welfare, and; *second*, because the welfare of the pesantren is no longer the BMT's objective. The first point is evidenced by the internal denizens' – who comprises directors, managers, branch managers, and employees – willingness to offer regular financial contributions that are greater-than-required, implying the BMT's success in sustaining them. Meanwhile for the second point, the objective of increasing the pesantren's welfare has been handed over to Sidogiri Corp; itself is a large institution owning three subsidiaries, which in turn own more than a hundred economic enterprises.

5.4.7. BMT UGT Sidogiri: Summary of Content Analysis

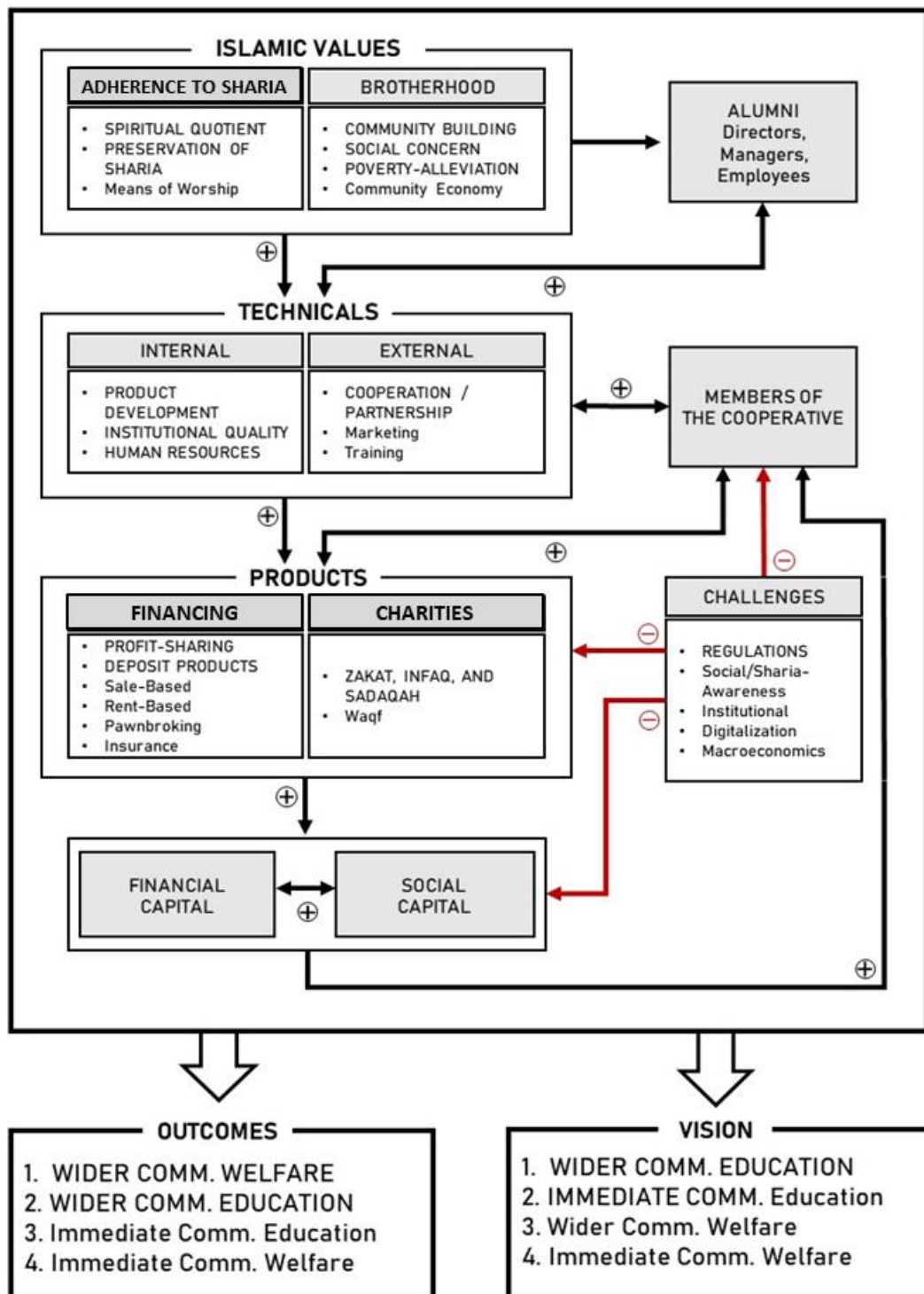
BMT UGT reflected the wisdom of centuries-old Sidogiri pesantren, it faithfully preserves the pesantren's values and tradition, which can be summarized into strong spiritualism and high spirit of community building. Driven by this force, the directors committed themselves to devise financial solutions that may bring opportunities for the poor, with the help of none other than the pesantren community. The values and tradition would further be transformed into the underlying principles held by the alumni employees who, despite their apparent lack of Islamic financial education, managed to overcome their shortcomings and performed just as well as professional financial workers. This phenomenon reinforced the credibility of the statement which describes pesantrens as centers of excellence and competent builders of human resources (Ningsih, 2017, p. 61-62; Fathoni & Rohim, 2019, p. 134; Azizah & Ali, 2020, p. 645; Hamzah, et.al., 2022, p. 1044).

The directors of BMT UGT chose not to readily imitate successful products from other financial institutions, instead relying on their creativity to create products that meet the needs of the poor and comply with their often-difficult condition. The result is fascinating, the BMT offered a wide array of products in both Financig and Charities field, both equally sophisticated and well-managed. The Financing products are designed to operate commercially, gathering financial capital; while the Charities products are for social-oriented operation, which gathers social capital. The directors want both fields to be *mutakamilah* – complementing each other; the accumulation of

financial capital will finance the BMT's social programs, and in turn the accumulated social capital will invite greater financial capital.

The phenomenal achievement of BTM UGT warranted positive acclaim from various parties, attracting many collaborations, partnerships, visits, and academic researches. However, the challenges faced by the BMT also grow in equal proportion. The BMT began to clash with the unfair regulations which seem to clearly favor the banking sector over the grassroots-built financial institutions, a struggle in which the directors took active participation. Besides the regulations, the BMT also faced a challenge from the academic world, which criticized its less-than-ideal adherence to *fiqh muamalah* as evidenced by its modified products. The directors, however, view the modification as a necessity to address the practical and technical difficulties found in the field; they suggested the academics to assume a more realistic stance. Lastly, by having a wide, nation-scale operation, the BMT becomes prone to experience the negative effect of macroeconomics impact as demonstrated by the pandemic crisis; the directors have to be more careful and considerate in future operations. The summary of BMT UGT's content analysis is displayed by the qualitative model in Figure 5.4

BMT UGT SIDOGIRI



Legends: → (black arrow) = positive impact; → (red arrow) = negative impact; ↔ (double arrow) = reciprocal impact; CODE (all-capital typing) = major focus; Code (normal typing) = minor focus.

Figure 5.4: Qualitative Model of BMT UGT Sidogiri

Source: Author, 2024

BMT UGT, despite its significant impact on the Wider Community's Welfare, is actually more concerned on the education aspect i.e., to send a message to the wider society that Islamic finance is indeed viable, as presented by the BMT's many achievements. As for its internal affair, the BMT aims to develop its Institutional Quality and Human Resources even more by adopting the vision of MANTAB – credibility, solidarity, and self-reliance. Overall, BMT UGT is the manifestation of pesantrens' three societal roles: *first*, a center of excellence, shown by the directors' vast knowledge regarding issues of Islamic finance; *second*, a builder of human resources, evidenced by the highly-motivated and well-trained alumni as its employees, and; *third*, an agent of social change, reflected by the economic and financial development it has brought for the poor and disadvantaged.



CHAPTER VI

EXPLORATORY RESULT

This chapter focuses on delivering the exploratory part of this study i.e., to construct a qualitative model based on the findings of the previous chapter. The descriptions of IMFIs' strengths are divided into their respective contexts and codes similar to the Research Variables presented in Chapter IV (Table 4.6). The sub codes, however, are arranged according to their significance level, which means that the ones with the higher significance are described first. At the end of this chapter, a completed qualitative model, the integration of all aforementioned strengths, will be displayed.

6.1. Islamic Values - Adherence to Sharia

Looking through the result of previous chapter, the most prominent sub code of Adherence to Sharia aspect is the Spiritual Quotient. Deep understanding of Islamic teachings allowed the observed IMFIs to expand beyond their original educational purposes. In the case of Haramain Mini Bank, it is the pesantren's founder wisdom that encouraged the institution to put great attention toward the importance of building Islamic-patterned economy. And in BMT UGT Sidogiri, the hundred-years old pesantren retains the economic wisdom of the Nine Sages – the earliest documented propagators of Islamic teachings in Indonesia. Those wisdoms, in short, encouraged the pesantrens to be self-sufficient economically; as economic development is closely associated with their struggle to spread Islamic teachings.

Next is the Preservation of Sharia sub code, the drive to expel harmful economic activities prevalent within the society and to uphold the values of Islamic economics. Once a pesantren has developed its economic urgency, it is natural for it to have the aforementioned concept as its underlying value. This is most apparent in the case of BMT La Tansa of Darussalam Gontor pesantren. The pesantren puts great emphasis in economic self-sufficiency as evidenced by its numerous business units. However, upon reaching self-sufficiency, the pesantren does not stop there, it raised Sharia-Preservation matter up a notch by establishing the BMT to combat the widespread rent-seeking financing in grassroots level. For pesantren-based IMFIs, Preservation

of Sharia aspect developed organically as it is the manifestation of the pesantrens' Islamic teachings.

The least frequent of the Adherence to Sharia aspects is the Means of Worship; nevertheless, it does not indicate insignificance per se, as the aspect clearly manifests universally within the observed IMFIs. The Islamic teachings conducted within each pesantren positively encouraged humans to be righteously selfless, optimizing the potential charitable spirit within everyone. The most apparent manifestation of this aspect is displayed by LAZIS Tazakka; its successful Charities (*Zakat* and *Waqf*) initiatives would not be possible without strong spiritual incentives, how else would the donors be willing to share sizable portions of their fortune – and their professional services? BMT La Tansa also reflects similar conduct through Financing initiatives. Its parent-pesantren, upon reaching financial abundance, established the BMT as a means to help the society away from harmful financings. In short, all the observed IMFIs possess true and visible focus to contribute beneficial social impact, to worship the God through financial means.

The integration of these entire Adherence to Sharia aspects – Spiritual Quotient, Preservation of Sharia, and Means of Worship – formed the “**Social Concept**” embraced by the IMFIs. The Concept basically provides for them a distinct perspective concerning humans' social dynamic in relation to spiritual values. The Spiritual Quotient aspect ensures the logical and ethical coherence between the two seemingly conflicting worlds, material and spiritual. The Preservation of Sharia aspect then reinforces the spiritual world manifestation in this material world through a set of rules. And finally, the Means of Worship aspect encourages the agents to perform active deeds of spiritual devotion, and at the same time discourages pointless passive devotion prevalent among the *ummah*. This Social Concept distinguishes pesantren-based IMFIs from conventional MFIs, and arguably to some extent, from professional IMFIs even.

6.2. Islamic Values - Brotherhood

Of all the Brotherhood aspects, none other is as inherent within the culture of pesantrens and their IMFIs as the Community Building. It is true that the teachings of Islamic values and tradition are the core of pesantrens, but those teachings by themselves do not constitute pesantrens as a whole. There has to be a sense of community within a pesantren because after all, historically speaking, pesantrens

were established, maintained, managed, and developed through the numerous contributions of their denizens, most of the time voluntarily. The Community Building in question was witnessed firsthand in the observed IMFIs and their parent-pesantrens.

The Haramain Mini Bank presents the initial level of the Community Building aspect, where its agents constantly refer to the founder's wisdom to develop within its community a sense of common welfare along with the associated duties. Next, the intermediate level is shown by BMT La Tansa and LAZIS Tazakka, whose parent-pesantrens had matured institutionally. Thanks to their strong institutional footing, both IMFIs are able to project their Community Building works to a wider scale, enabling them to reach the external, non-pesantren communities. Lastly, the most advanced Community Building, at least in this study, is reflected by BMT UGT. With a time-tried institution, profound tradition, excellent administration, and vast manpower, the BMT went to influence the Islamic microfinance field way beyond regional-level into the national-level, affecting numerous communities in the process. For all their achievements, the agents in their respective institutions agreed on one thing: they owe it to their solid, dynamic, and forward-looking communities.

Once a pesantren's community is established and its role consolidated, it then can realize the three roles of pesantren as pointed out by (Ningsih, 2017, p. 61-62; Fathoni & Rohim, 2019, p. 134; Azizah & Ali, 2020, p. 645; Hamzah, et.al., 2022, p. 1044): a center of excellence, a builder of human resources, and an agent of social change; the last role is the closest to the next aspect in discussion, the Social Concern. Although in many ways exclusive, especially in the matters of institution, administration, and manpower, the observed pesantrens exhibited a healthy dose of inclusivity in the sense that they acknowledged the problems of the society as theirs. The IMFIs in this study stated that relieving the society from harmful economic and financial practices is their reason of establishment – besides building their own community of course. However, BMT La Tansa stood as a unique case in which it was established purely out of Social Concern. Note that its parent pesantren, Darussalam Gontor, has already possessed strong business units and was able to establish more lucrative others, but it chose to commit resources to the BMT nevertheless. For professional financial institutions, Social Concern might come later

as CSR; but for IMFIs, it has to come first. It is not a stretch to say that pesantrens and their subsidiaries are incomplete without Social Concern in mind.

Other aspect that should not be forgotten by IMFIs is the Poverty-Alleviation, because the “micro” namesake means the dedicated provision of financial service to the poor so they have a chance to pull themselves out of abject poverty at the very least (Obaidullah, 2008a, p. 1). Of all the cases, BMT UGT has the greatest realization of such aspect as evidenced by the hundred thousands of poor who benefitted from its service nationwide. Similarly, but in smaller scale, BMT La Tansa has accomplished the same thing. As for LAZIS Tazakka, it has no dedicated Poverty-Alleviation program, relying instead on distribution of *zakat* directly to the poor. Nevertheless, its charity-focused financial management could at least be considered as an organized work to combat poverty. Likewise, Haramain Mini Bank has no dedicated program; for the time being, it chose to prioritize on alleviating poverty in the internal pesantren community. Such priority bears some credits considering that in order to give real contributions, an institution has to consolidate its internal matters first.

Concerning internal matters, the last aspect of Brotherhood is very close to it, namely the Community Economy. Ability to independently sustain its own needs is a prerequisite for a dynamic and contributive pesantren, allowing it to establish a dedicated IMFI. The IMFI, in turn, further strengthens the Community Economy whether directly or indirectly. Haramain Mini Bank supported its parent pesantren’s economy by providing it with the much-needed professional financial administration. LAZIS Tazakka tapped the great potential of *waqf* to expand its parent pesantren, both in term of educational facility and quality. BMT La Tansa, despite its focus toward extra-pesantren community, has made it clear that it is still a business unit of Darussalam Gontor tasked with gathering revenue. And BMT UGT, while no longer holding direct economic ties with its parent pesantren, continues to support the latter’s programs with everything on its disposals. Broadly speaking, both the IMFI and its parent pesantren have a beneficial relationship as both are included within the radius of Community Economy aspect.

Just as the integration of Adherence to Sharia aspects would bear the Social Concept, the integration of Brotherhood aspects – Community Building, Social Concern, Poverty-Alleviation, and Community Economy – results in the fruition of a

“Community Concept” within pesantrens. The Concept acts as a guiding form and substance of certain idealized community that a pesantren struggles to create. As highlighted numerous times by the study, the Community Building aspect is the fundamental building blocks of the Concept; without strong community, the pesantren will lack the resources and manpower needed to develop itself, especially regarding the Community Economy aspect which ensures its survival, sustenance, and independence. With those two aspects consolidated, the pesantren will then be able to divert its attention toward the Social Concern, which is heavily encouraged by the Islamic teachings that the pesantren itself is propagating. The Poverty-Alleviation is but one of the socially-oriented concerns that a pesantren may manifest, obviously chosen to represent the scope of this study.

6.3. Technical Aspects - Internal

The previous discussion has stated that pesantren-based IMFIs actively projected the pesantrens’ role of social change, focusing on tackling the problems found within the society – financial problems, in this particular study. Correspondingly, the Internal code of every observed case is topped by the Product Development aspect. There is a specific advantage by being patronized by their parent pesantrens; the IMFIs gained readily available facility and manpower (Institutional Quality and Human Resources aspects, respectively). Thus, the IMFIs could start to focus right away toward the aforementioned mission; formulating, developing, and providing micro products and charitable services. This is further helped by their spatial and emotional proximity toward the lower classes, granting accurate assessment of their financial problems and their solutions. The phrase *ad-da’wah bi-l-hal* as quoted by Imron of BMT UGT clearly echoes within the actions of the whole observed IMFIs.

Despite their advantage, the facility and resources the IMFIs initially received from their patrons were, most of the time, acceptably bare minimum at best and glaringly inadequate at worst. Their ability to further develop therefore hangs on their ability to preserve and improve the Institutional Quality aspect; indulgence in this aspect would spell doom for each. Haramain Mini Bank is aware of its bare minimum Institutional Quality, and is currently occupied with preserving and improving it with what small resources it has at hand. LAZIS Tazakka maintained the aspect by practicing active and effective governance with its patron. BMT UGT, being a national-level financial institution, is ever at race tirelessly with the rapidly changing

landscapes of economy, technology, and regulations, to name a few. Interestingly, BMT La Tansa was least bothered by this aspect since its patron has provided it with excellent facility, resources, and governance. This determination to overcome resources inadequacy in part explains the pesantrens' survivability and adaptability for centuries.

The aspect of Human Resources at the IMFIs, at first glance, might be seen as an aspect that suffers the most. Since most of the observed IMFIs are quite exclusive in employment matter, preferring alumni, financial skills and expertise among them would be rare. This assumption is true; most of the alumni lacked the crucial skills and those with expertise are scarce. However, this is where the pesantren education's emphasis on mental and character building pays off handsomely. Motivated by the sense of responsibility and integrity, the alumni quickly learned the required proficiencies and the few who grasped expert knowledge chose to work with their alma mater despite better job opportunities elsewhere. In short, the initial limitations of pesantrens' Human Resources are remedied by their strong tradition, deep motivation, righteous direction, and constant support from their leadership.

6.4. Technical Aspects - External

The observed pesantren-based IMFIs knew very well that their efforts, sooner or later, would be impeded by the absence of higher-level facility and expertise. Therefore, they did not naïvely preserve their exclusivity, and were open to Cooperation and/or Partnership with external parties as long as the latter respect the values and tradition of the pesantrens. Haramain Mini Bank established cooperation with various Islamic banks to cover for its underdeveloped Institutional Quality. LAZIS Tazakka partnered with other charity organizations to increase its service quality and coverage. BMT UGT, in its early time, cooperated with professional financial institutions to learn from them management and administrative expertise; Nowadays, it joined some national-level associations to promote for fairer regulations concerning Indonesian cooperatives. And even the predominantly exclusive Darussalam Gontor allowed its IMFI, BMT La Tansa, to cooperate with government in providing a tax payment window.

The Marketing aspect in the IMFIs usually does not go beyond each of their intended community, relying mainly on gatherings held by the pesantrens or the IMFIs themselves, or delegated to organic gatherings within the society. The Marketing

generally puts emphasis on the IMFIs' Social Capital and moral standing i.e., on their successes in providing alternative financial service and their mission to ward off harmful and questionable financial services. Haramain Mini Bank, LAZIS Tazakka, and BMT UGT conduct regular meetings with their respective internal and external communities in which the feasibility of their institutions is promoted and discussed. There were instances where the IMFIs would use conventional and digital Marketing strategies as professional financial institutions would do, especially as the IMFIs grow larger. However, still the bulk of the Marketing operation is carried out using the method mentioned earlier as it suits the pesantren communities well and so far is the most effective.

The least attended External aspect within the IMFIs is the Training. It is already mentioned before that the IMFIs were able to manage with limited human resources and gradually built up their competence independently. However, objectively speaking, the one that decided to learn newer skills and higher expertise from different institutions ended up having more advantages in financial field, which proved to be crucial as the IMFI grows and begin to face greater competition. BMT UGT is the prime example of this notion; the other IMFIs will be wise to learn from its External Training ventures. The BMT's experience showed that a pesantren-based IMFI can learn and absorb many useful ideas and techniques by working with different institutions without sacrificing its preciously preserved institutional independence.

6.5. Products - Financing

All of the observed IMFIs started as small-scale initiatives to provide alternative financial service for the impoverished – an alternative that is comparatively friendlier and easier to comprehend. Simple financing based on *qard hasan* were generally chosen as startup products due to the concept's simplicity; Haramain Mini Bank and BMT UGT still provide products based on this concept. Alongside it, the IMFIs provided Deposit Products based not only on the basic *Wadi'ah* scheme, but also for various ends e.g., education, health, pilgrimage, marriage, and housing. As such, it is safe to assume that Deposit Products are the most widely used type of product in pesantren-based IMFIs befitting their customers. Note that products based on *qard qasan* are included in this category since their operations always involve some kind of mandatory deposit account as a prerequisite.

As the IMFIs grew, so did the complexity of their products; it was the Profit-Sharing or Sale-Based products that followed after the simpler earlier ones. The usual Profit-Sharing scheme of active *Mudarabah* accounted very minimal within the share of the IMFIs entire products, there seemed to be persistent matter of profitability and bookkeeping difficulty regarding this scheme as stated by (IRTI, 2014, p. 19-20). The Profit-Sharing scheme is thus generally attached to the less active Deposit Products as a Sharia-compliant way to benefit the customers' accounts. Similarly, *Murabahah* was deemed to be practically complicated if operated by-the-book, as was the experience of BMT UGT. Fortunately, they were remedied by modifying the schemes, such as updating the usual *Murabahah* into *Wakalah bil-Murabahah*. While the modification had sparked criticism from more orthodox Islamic economists, it nonetheless granted some degree of practicability toward the aforementioned schemes.

Other less-mentioned schemes such as *Ijarah*, *Rahn*, and *Takaful* are being so for obvious reason; they are relatively underused by the IMFIs. The dearth of Rent-Based *Ijarah* contract may stem from the existence of a regulation in Indonesia (Constitution No. 10 Year 1998) which forbade financial institutions to conduct asset-renting activity – although Islamic providers were given leniency in this matter – or; the scheme is simply unfamiliar to the customers. Concerning *Rahn*, there were talks within Haramain Mini Bank to provide gold-based *Rahn*, which is made more convenient by the introduction of digital gold certificates; BMT UGT very recently launched its own gold-based product. And as for *Takaful*, only BMT UGT provided the scheme in smaller-scale. The minimal presence of *Takaful* is due to the presence of more developed Deposit Products which already covered a wide array of needs, shrinking the former's relevance. Despite all these, the aforementioned lesser schemes are never completely abandoned and may be more relevant in the future as is the case of *Rahn*.

6.6. Products - Charities

As found by (IRTI, 2014: 100-103), so far most IMFIs are focusing on the Financing aspect while treating the Charities aspect as smaller side projects. This notion, however, is not entirely true within the observed IMFIs, especially the Charities-focused LAZIS Tazakka. LAZIS had put excellent efforts in utilizing the Islamic charitable instruments to their greatest extent, and the results are far from

insignificance. LAZIS' optimal development of *Waqf* allowed it to strengthen its treasury which allowed it to greatly contribute toward its parent-pesantren's rapid growth. Meanwhile its *zakat* endeavors enabled it to distribute substantial amount of charities to the needy, not annually, but in monthly basis. While LAZIS' success indeed came from its superb administration, management, and governance, its dedication to educate its community on the strength of Islamic charitable instruments should not be underappreciated; otherwise, the donors would be unwilling to part away with their wealth.

The other cases may have not reached the same achievement as LAZIS Tazakka but are nevertheless worthy to be mentioned. BMT UGT does possess Charities programs; its *zakat* distribution is comparable to that of LAZIS, bearing many beneficial welfare and relief programs. Its *waqf* program is smaller however, offering only cash *waqf* program as far as this study reveals. In Haramain Mini Bank, the Charities aspect is integrated to its financial activities; it utilizes *infaq* as a factor of its financial growth, by requiring debtors to donate as much as they willingly able upon repayment of *qard hasan* loans. The Mini Bank also funded its social and relief efforts by accumulating *infaq* donation from the pesantren community. And lastly, BMT La Tansa, although heavily focused in Financing side, still maintains its minor role as an annual *zakat* collector and distributor.

There is a question that arose upon concluding this inquiry on Charities aspect: Should an IMFI, for the sake of its Charities aspect optimization, establish a subsidiary entirely dedicated on managing the aspect? One of the factors of LAZIS Tazakka's success is its dedication on being a Charities-focused institution. As a single entity, it is able to both accumulate and distribute Charities funds effectively. In the case of BMT UGT, a sizable share of its Charities accumulation is transferred into Social Fund account and UGT Peduli subsidiary. Similarly, Haramain Mini Bank transferred a portion of its fund to Haramain Peduli, a subsidiary of its parent pesantren tasked to carry out the pesantren's social programs. In these latter cases, the Charities funds were collected as "byproducts" of the Financing aspect. Some of the funds would then be distributed with the help of social-oriented subsidiaries. In an idealistic view, an IMFI should possess the characteristics of both cases; an excellent Charities management on par with LAZIS Tazakka, and a Financing aspect that contributed to the former's activity.

6.7. Challenges

The issue of the lack of Institutional Quality is the most persistent challenge concerning pesantren-based IMFIs. This is what to be expected as almost all of the observed IMFIs started as grassroots initiatives – in the sense that they involved ordinary people with minimal financial literacy as stakeholders – with little material and human resources to start with. Haramain Mini Bank's situation clearly reflected the struggle against this particular challenge; the matters of limited facilities, manpower, and committed support from the higher-ups. Regardless, this hindrance should be viewed as a norm; as countless enterprises have experienced before, the beginning is always very difficult.

Fortunately for the IMFIs, their distinction of being patronized by their respective parent pesantren has proven to be advantageous in overcoming the Institutional Quality issues. The pesantrens' quality of being resilient and adaptable could very well be absorbed by the IMFIs provided that the former actively encouraged and preserved such qualities within the latter. All observed cases exhibit both the resilience and adaptability of their respective patrons. Sidogiri Pesantren's emphasis on spiritual and emotional quotient allowed BMT UGT to thrive despite their (initially) low-skilled human resources; the excellent administration and management of PM Tazakka allowed LAZIS Tazakka to function efficiently with just a few staffs; and even the previously mentioned Haramain Mini Bank owes its survivability to the wisdom of Nurul Haramain Pesantren's founder. In short, the IMFIs would thrive as long as they loyally embraced the values and traditions of their thriving patrons. This, however, presented a caveat: Abandonment of values and traditions on the patrons' side will be consequently detrimental toward their IMFIs.

While the pesantren-based IMFIs are well equipped to face the mostly internal-oriented Institutional Quality issues, they are relatively less prepared to face challenges coming from the outside such as the Regulations issue. The issue largely came from the regulators' misunderstanding of the IMFIs' role; the former expect IMFIs to perform like the capital-intensive professional financial institutions when in reality they are more leaning toward social-intensive institutions, which is the main external concern in the case of BMT UGT. Other issues manifested through legal technicality whose consequences ranges from small administrative complication – such as the confusion in financial report format as in the case of LAZIS – to possibly

hazardous loophole – such as the one concerning *waqf* appropriation. While the findings suggest that the impact of Regulations issue was relatively inconsequential for small to intermediate-level IMFIs (Haramain Mini Bank, BMT La Tansa, and LAZIS Tazakka), it would be wise for them to possess wider understanding regarding the legal landscape.

The issue of Social and Sharia-Awareness challenge has so far been manageable thanks to the pesantrens' emotional and spiritual proximity toward the IMFIs' constituency. Nevertheless, the awareness issue still persists within the Indonesian Muslim majority despite their visible religious conservatism. There are two notable methods by which the IMFIs face this problem; *first*, is through active teachings and proper motivation toward the constituency as shown by Haramain Mini Bank and LAZIS Tazakka, and; *second*, is by presentation of real and tangible achievements that are beneficial to the society as done by BMT La Tansa and BMT UGT. The Social and Sharia-Awareness issue is indeed widespread and still far away from being eliminated, however, the study also pointed that the pesantren-based IMFIs are well-positioned to tackle such challenge.

There are also two lesser-mentioned challenges of Digitalization and Macroeconomics; both are isolated within the case of BMT UGT. The issue of Digitalization emerged as a result of the rapid financial and economic change brought by the advancement of Information Technology (IT) which is further accelerated by the recent Covid-19 Pandemic. The sudden change forced the IMFI to hastily upgrade its digital capabilities, both at the provider and customer levels. The same pandemic also acted as a catalyst for a serious Macroeconomics shock that reverberated through the entire financial service system which includes the BMT. Again, this prompted the BMT to conduct a stricter lending regime to minimize the negative impact. While these two challenges are isolated within a single case involving an advanced national-level IMFI, it is too early to assume that they are specific only to IMFIs with similar standing. The merit of possessing advanced Digitalization and Macroeconomics shock contingency will be true even for smaller scale IMFIs.

6.8. Visions

Upon putting all the outcomes and contributions presented by all cases in this study into scrutiny, all seems to converge into the aspect of Wider Community Education

i.e., the pesantren-based IMFIs are very well suited to educate the masses about the feasibility of Islamic financial institutions. Haramain Mini Bank, despite its smaller scale, managed to pique local academic interest and to invite replication by other educational institutions; BMT La Tansa provided reasonable alternative to the already widespread harmful usurious financial institutions; LAZIS Tazakka showcased the strength of *waqf* and *zakat*, garnering the attention of international academics, and; BMT UGT achieved the unthinkable, a religious learning community, long thought by the masses as overly traditional folk, managed to almost independently develop a professional, advanced, national-level financial institution.

Further emphasizing their educational mission is the concept of the three roles of pesantrens pointed by (Ningsih, 2017, p. 61-62; Fathoni & Rohim, 2019, p. 134; Azizah & Ali, 2020, p. 645; Hamzah, et.al., 2022, p. 1044). *First*, the pesantrens are the centers of excellence where practitioners of Islamic economics and finance endeavor to combat the prevalent usurious economic and financial practices in the society; *second*, pesantrens develop the human resources necessary to carry the theoretical Islamic-patterned solutions out into the realm of practical reality, and; *third*, the pesantrens are catalysts of social changes due to their close proximity toward the society. However, note that these roles grew organically within the pesantrens over a relatively lengthy period. Roughly speaking, the pesantrens of this study had at least twenty years of experience before the aforementioned roles eventually manifested.

Naturally, the IMFIs' mission to educate the masses warrants them to put special attention in the Immediate Community Education i.e., the community that comprised the IMFIs' key practitioners and human resources. Furthermore, without the presence of such educated stakeholders, the three roles of pesantrens – and their IMFIs in extension – mentioned before will be rendered as unrealistic. This study has shown without exception that all the key practitioners of respective cases belong to the Immediate Community of their respective pesantrens, be it teachers, alumni, cadres, or all of those combined. With that mentioned, the pesantrens have somewhat similar purpose to colleges; both prepare their students with specific skills and train them to practically apply it in relevant real-life enterprises. Pesantrens however, are more inclined to the latter and less equipped to perform the former.

On how the pesantrens and their IMFIs conduct the Immediate Community Education, the observed cases generally have at least these three factors: *First*, the presence of fundamental values and traditions. While each case may have values and traditions unique to itself, the core always lies within the sphere of Adherence to Sharia and Brotherhood; *second*, the presence of key practitioners of Islamic finance who provided the IMFIs with both spiritual and technical guidance in consideration to the aforementioned values and traditions, and; *third*, the availability of real-time practices. The IMFIs were never short of practices in which the practitioners, employees, and future stakeholders took part to hone their relevant skills. The study assumed that the more accentuated the factors were, the more noteworthy the achievements.

Meanwhile on the aspect of welfare undertaking, pesantren-based IMFIs should be focusing on their Immediate Community Welfare first before venturing toward Wider Community Welfare. The IMFIs' benefitted greatly from their close linkages to their parent pesantrens, and as such would be wise to enrich the pesantrens to further develop the mutualistic relation. Not to mention that all of the observed IMFIs were established to provide their pesantrens with professional financial management. All cases in this study reflected this notion; Haramain Mini Bank provided its fledgling patron with essential financial professionalism; BMT La Tansa acted as one of Darussalam Gontor's numerous business units tasked with gathering financial resources; through *waqf*, LAZIS Tazakka has made the rapid development of PM Tazakka possible, and; BMT UGT has helped Sidogiri Pesantren to establish independent financial system before eventually branching itself off institutionally. All of those IMFIs, in return of their contribution toward their patrons, received from the latter spiritual and technical guidance along with precious human and material resources.

As a consequence of the IMFIs' preoccupation with their respective Internal Community Welfare, the Wider Community Welfare is relegated into secondary objective. But as the previous paragraph has explained, this notion has more to do with due development process rather than institutional exclusivity. Looking back to the findings, the cases with significant welfare contributions to the wider society are those that already secured their internal welfare issue. The cases of BMT UGT and BMT La Tansa clearly reflected this as both had long settled such issue and could

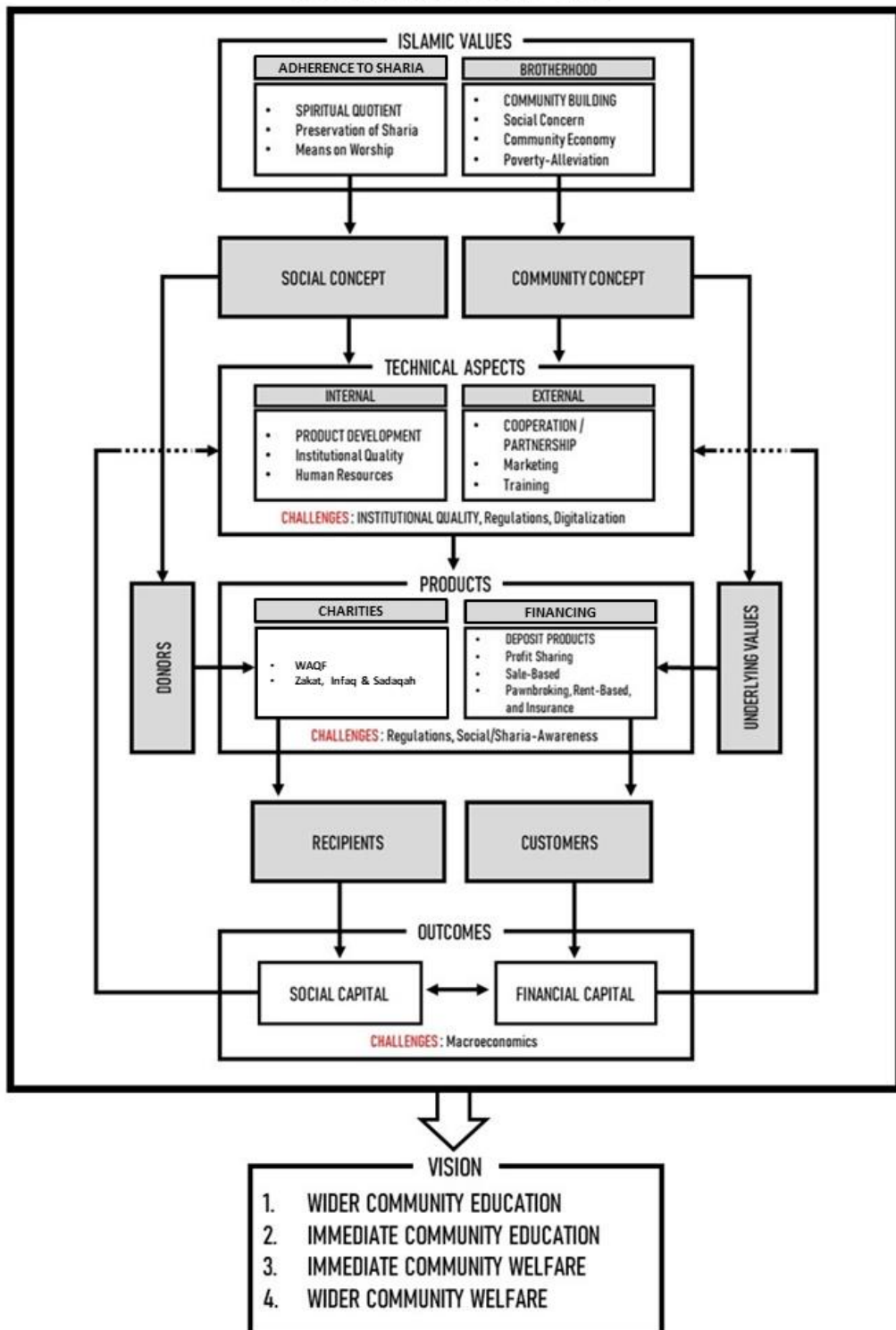
therefore focus on the wider community. Compare this to Haramain Mini Bank case which has yet to directly contribute significant welfare to the wider community owing to its preoccupation with its internal welfare issue. The case of LAZIS Tazakka is quite unique in this matter as it managed to perform both internal and external welfare enterprises in a relatively balanced manner. With that being said, it is safe to assume that to affect the Wider Community Welfare, pesantren-based IMFI should first secure their Internal Community Welfare.

6.9. Exploratory Qualitative Model of Pesantren-Based IMFI

Now, with all research questions answered, the exploratory model, as promised by the study can finally be constructed and presented by Figure 6.1 below.



PESANTREN-BASED IMFI



Legends: → (black arrow) = positive impact; → (red arrow) = negative impact; ↔ (double arrow) = reciprocal impact; CODE (all-capital typing) = major focus; Code (normal typing) = minor focus.

Figure 6.1: Qualitative Exploratory Model of Pesantren-Based IMFI

Source: Author, 2024

CHAPTER VII

CONCLUSION

This is the final chapter of the study which contains the overall summary of the study along with the entire findings that it has managed to come to. As finishing supplements, policy recommendations based on the findings will be presented as well as suggestions for future studies to fill the many gaps and flaws of this particular study.

7.1. Summary of the Study

This study is designed to answer three questions regarding financial practices conducted by Indonesian educational institutions known as pesantrens. Of late, Sharia-compliant microfinance institutions based on pesantrens have gained prominence due to their successes; this is despite the preconception that pesantrens are isolated to religious teachings, distant from the field of practical financial enterprises. The first question therefore aims to observe the general practices and ideas that brought the pesantren-based IMFIs to academic spotlight. The second question goes deeper to uncover the values and practices that formed the source of strength of each respective IMFI. Upon answering both questions, an exploratory pesantren-based IMFI model built upon the findings, combining each case's strength, is presented to answer the final question that revolves on the possibility of integrating all positive findings.

To answer the first and second questions, corresponding qualitative research variables are formulated. The variables are separated into three groups, each with specific objective; the first one is utilized to find out the prominent ideas and practices of the IMFIs; the second is to reveal the more fundamental ideas and values that have lent significant strength to the IMFIs; and the third is focused on the future development of the IMFIs to better capture the IMFIs' long-term visions along with their underpinning principles. With the variables at hand, data are then gathered through direct observation, personal interview, and documentary methods. Once the reliability of the data is confirmed through triangulation method, they are run through qualitative content analysis software which uncovered the salient ideas among the

context, codes, and sub-codes of the research. Afterward, generalizations would be drawn from the processed data with the help of the literature review and research background.

The findings showed that each case has its own unique practice and idea that brought it to prominence. For Haramain Mini Bank, it was its adoption of the idea that a fledgling pesantren community, despite its small human, material, and expertise resources, could very well manage its own financial matter professionally. Once the institution has reached institutional maturity, as was the case of BMT La Tansa, it could then focus beyond its own community and begin to work for real contribution toward the wider society. The case of LAZIS Tazakka then shed light on the often overlooked potential instruments of *waqf* and *zakat*; the IMFI admirably utilized and optimized the full potential of both. The pinnacle of pesantren-based IMFIs finally could be seen in the case of BMT UGT; its success to develop an advanced national-level financial institution almost independently is indeed a remarkable achievement. Overall, the salient practices and ideas can be summarized into the IMFIs ability to mobilize their few resources to form successful financial institutions in spite of their many limitations.

Similarly, each case has specific fundamental values that acted as the source of spiritual and technical strengths. Haramain Mini Bank drew such values from the wisdom of Nurul Haramain pesantren's founder, which advocated for independent economic and financial enterprises. Likewise, Darussalam Gontor pesantren's concept of Protective Economy suggested pesantrens to be self-sufficient in sustenance, development, and manpower, to build a community based on *ta'awun* (mutual helping) and sincerity. Such concept is embraced to the full by BMT La Tansa and LAZIS Tazakka, creating cultures of excellent administration, management, and emotional awareness. And as for the case of BMT UGT, its fundamental values, *Amanah* (credible), *Tangguh* (strong), and *Bermartabat* (honorable), abbreviated into MANTAB, fittingly summarizes the answer for the second question: The IMFIs possess high credibility due to their spiritual adherence; institutionally strong thanks to their solid community, and; stand honorably as they do not depend on other parties but themselves.

With the first and second questions answered, the model requested by the third question can eventually be reached. The construction process of the exploratory

model roughly involved the identification of positive applicable findings; the mapping of said findings complete with their relations to each other; and finally its presentation through a comprehensible model. The final model in general integrated all the positive aspects already found and presented in the four observed cases; however, there are specific aspects emerged after further review, they are Social Concept, Community Concept, Social Capital, and Financial Capital. The Social Concept is borne through understanding and Adherence to Sharia, which nurtured charitable spirit within the community. The Community Concept, coming from the positive dynamics within the community, provided basis for the IMFI's products. Both concepts contributed to the quality of the IMFI's Technical Aspects. Finally, the outcome of both concepts yielded two kinds of capitals, Social and Financial, which positively affect each other.

7.2. Policy Recommendations

The general objective of this study is to empower IMFIs based on pesantrens by reassuring the inherent strengths and potentials that they may or may not already recognize. Therefore, after the lengthy in-depth discussion, it is imperative to also present recommendations toward the stakeholders of the subject, especially those in early to mid-level institutions. The recommendations are as follow:

- 1) The pesantren-based IMFIs are to preserve their spiritual and emotional drive by preserving their founders' values and traditions. All cases in this study are strongly motivated by such drive.
- 2) The pesantren-based IMFIs are to maintain and develop their internal community's cohesion, solidarity, and competence in line with their patrons' values and tradition. The cases in this study were able solve their technical matters owing to the strength of their community.
- 3) The pesantren-based IMFIs are to balance attention toward financial and social capital. The latter, while indeed will not readily benefit them, is advantageous in the longer-term as it will nurture the trust factor from the society.
- 4) The pesantren-based IMFIs are to open cooperation and/or partnership. While the IMFIs' independence and self-sufficiency are heavily underlined in this study, some skills and experience regarding particular technical matters can only be

learned effectively through cooperation with other financial institutions and/or governmental programs.

- 5) The agents of pesantren-based IMFIs are to be knowledgeable of the regulations and legislations. While the current Indonesian law cannot be considered harmful toward the IMFIs, it is likewise cannot be yet regarded as supportive.

7.3. Suggestions for Future Studies

There are two main limitations that will diminish the impact of this particular study. *First*, that its scope is obviously limited to a single country, hence, successful replication in other countries with different religious, social, cultural, political and economic landscape is far from guaranteed. Other versions of this study that focus on different localities – or on a more generalized scope – will bring more light into the subject and, hopefully, a more general replicability. *Second*, the study's findings and recommendations are too “organic” i.e., very dependent on each case's ability to develop its own inherent values. Such process requires lengthy period, the parent pesantren may take decades before it is ready to devise a successful IMFI. As such, studies that focus on a more systematic empowerment for pesantren-based IMFIs will be welcomed as essential supplementary to this study.

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APPENDIX

Appendix 1

Key Terms and Definition

- Microfinance: Banking service provided to low-income individuals or groups who otherwise would have no other access to financial services.
- Islamic Microfinance: Institution which provides microfinancing products that complies with the Shariah law and Islamic economics values.
- Pesantren: Islamic educational institution with boarding school system. It shares many similarities with the Middle-Eastern madrasa.
- Bait-al-Mal wa-at-Tamwil (BMT): A form of Islamic Microfinance institution native to Indonesia.

Appendix 2

Qualitative Analysis Results

Here are the results of qualitative analysis of the data using the QDA Miner Lite software. Note that these results are previewed with the pre-revision terms; hence, the code of “Adherence to Sharia” is still written as “Tawhid.”

2.1.Haramain Mini Bank

	Count	% Codes	Cases	% Cases
Islamic Values				
Tawhid				
◆ Preservation of Sharia	6	5.6%	1	100.0%
◆ Means of Worship	5	4.6%	1	100.0%
◆ Spiritual Quotient	10	9.3%	1	100.0%
Brotherhood				
◆ Social Concern	6	5.6%	1	100.0%
◆ Community Building	16	14.8%	1	100.0%
◆ Poverty-Alleviation				
◆ Community Economy	6	5.6%	1	100.0%
Technical Aspect				
Internal				
◆ Institutional Quality	1	0.9%	1	100.0%
◆ Human Resources	1	0.9%	1	100.0%
◆ Product Development	3	2.8%	1	100.0%
External				
◆ Cooperation/Partnership	2	1.9%	1	100.0%
◆ Training				
◆ Marketing	2	1.9%	1	100.0%
Products				
Financing				
◆ Profit-Sharing				
◆ Sale-Based	3	2.8%	1	100.0%
◆ Rent-Based				
◆ Pawnbroking	1	0.9%	1	100.0%
◆ Insurance				
◆ Deposit Product	3	2.8%	1	100.0%
◆ (General) Tamwil	6	5.6%	1	100.0%
Charities				
◆ ZIS	3	2.8%	1	100.0%
◆ Waqf				
◆ (General) Mal	3	2.8%	1	100.0%
Challenges				
◆ Institutional	6	5.6%	1	100.0%
◆ Social/Sharia-Awareness	1	0.9%	1	100.0%
◆ Regulation	3	2.8%	1	100.0%
◆ Digitalization				
◆ Macroeconomics				
Outcome				
Welfare				
◆ Imm. Comm. Welfare	9	8.3%	1	100.0%
◆ Wider Comm. Welfare				
◆ (Vision) ICW	3	2.8%	1	100.0%
◆ (Vision) WCW				
Education				
◆ Imm. Comm. Education	4	3.7%	1	100.0%
◆ Wider Comm. Education	1	0.9%	1	100.0%
◆ (Vision) ICE	3	2.8%	1	100.0%
◆ (Vision) WCE	1	0.9%	1	100.0%

2.2.BMT La Tansa

	Count	% Codes	Cases	% Cases
Islamic Values				
Tawhid				
◆ Preservation of Sharia	7	5.4%	1	100.0%
◆ Means of Worship	6	4.7%	1	100.0%
◆ Spiritual Quotient	4	3.1%	1	100.0%
Brotherhood				
◆ Social Concern	11	8.5%	1	100.0%
◆ Community Building	7	5.4%	1	100.0%
◆ Poverty-Alleviation	1	0.8%	1	100.0%
◆ Community Economy	8	6.2%	1	100.0%
Technical Aspect				
Internal				
◆ Institutional Quality	3	2.3%	1	100.0%
◆ Human Resources	4	3.1%	1	100.0%
◆ Product Development	6	4.7%	1	100.0%
External				
◆ Cooperation/Partnership	3	2.3%	1	100.0%
◆ Training	1	0.8%	1	100.0%
◆ Marketing				
Products				
Financing				
◆ Profit-Sharing	2	1.6%	1	100.0%
◆ Sale-Based	2	1.6%	1	100.0%
◆ Rent-Based				
◆ Pawnbroking				
◆ Insurance				
◆ Deposit Product	3	2.3%	1	100.0%
◆ (General) Tamwil	10	7.8%	1	100.0%
Charities				
◆ ZIS	2	1.6%	1	100.0%
◆ Waqf				
◆ (General) Mal	2	1.6%	1	100.0%
Challenges				
◆ Institutional	5	3.9%	1	100.0%
◆ Social/Sharia-Awareness	5	3.9%	1	100.0%
◆ Regulation	1	0.8%	1	100.0%
◆ Digitalization				
◆ Macroeconomics				
Outcome				
Welfare				
◆ Imm. Comm. Welfare	6	4.7%	1	100.0%
◆ Wider Comm. Welfare	9	7.0%	1	100.0%
◆ (Vision) ICW	1	0.8%	1	100.0%
◆ (Vision) WCW				
Education				
◆ Imm. Comm. Education	8	6.2%	1	100.0%
◆ Wider Comm. Education	6	4.7%	1	100.0%
◆ (Vision) ICE	4	3.1%	1	100.0%
◆ (Vision) WCE	2	1.6%	1	100.0%

2.3. LAZIS Tazakka

	Count	% Codes	Cases	% Cases
Islamic Values				
Tawhid				
◆ Preservation of Sharia	2	1.7%	1	100.0%
◆ Means of Worship	6	5.0%	1	100.0%
◆ Spiritual Quotient	3	2.5%	1	100.0%
Brotherhood				
◆ Social Concern	9	7.5%	1	100.0%
◆ Community Building	11	9.2%	1	100.0%
◆ Poverty-Alleviation	2	1.7%	1	100.0%
◆ Community Economy	5	4.2%	1	100.0%
Technical Aspect				
Internal				
◆ Institutional Quality	8	6.7%	1	100.0%
◆ Human Resources	5	4.2%	1	100.0%
◆ Product Development	5	4.2%	1	100.0%
External				
◆ Cooperation/Partnership	5	4.2%	1	100.0%
◆ Training	1	0.8%	1	100.0%
◆ Marketing	2	1.7%	1	100.0%
Products				
Financing				
◆ Profit-Sharing				
◆ Sale-Based				
◆ Rent-Based				
◆ Pawnbroking				
◆ Insurance				
◆ Deposit Product				
◆ (General) Tamwil	1	0.8%	1	100.0%
Charities				
◆ ZIS	3	2.5%	1	100.0%
◆ Waqf	6	5.0%	1	100.0%
◆ (General) Mal	8	6.7%	1	100.0%
Challenges				
◆ Institutional	2	1.7%	1	100.0%
◆ Social/Sharia-Awareness	2	1.7%	1	100.0%
◆ Regulation	4	3.3%	1	100.0%
◆ Digitalization				
◆ Macroeconomics				
Outcome				
Welfare				
◆ Imm. Comm. Welfare	6	5.0%	1	100.0%
◆ Wider Comm. Welfare	9	7.5%	1	100.0%
◆ (Vision) ICW	2	1.7%	1	100.0%
◆ (Vision) WCW	1	0.8%	1	100.0%
Education				
◆ Imm. Comm. Education	7	5.8%	1	100.0%
◆ Wider Comm. Education	2	1.7%	1	100.0%
◆ (Vision) ICE				
◆ (Vision) WCE	3	2.5%	1	100.0%

2.4. BMT UGT

	Count	% Codes	Cases	% Cases
Islamic Values				
Tawhid				
Preservation of Sharia	18	3.5%	4	100.0%
Means of Worship	14	2.7%	4	100.0%
Spiritual Quotient	19	3.7%	3	75.0%
Brotherhood				
Social Concern	42	8.2%	3	75.0%
Community Building	51	10.0%	3	75.0%
Poverty-Alleviation	14	2.7%	3	75.0%
Community Economy	10	2.0%	1	25.0%
Technical Aspect				
Internal				
Institutional Quality	25	4.9%	3	75.0%
Human Resources	19	3.7%	3	75.0%
Product Development	25	4.9%	4	100.0%
External				
Cooperation/Partnership	16	3.1%	3	75.0%
Training	7	1.4%	3	75.0%
Marketing	7	1.4%	3	75.0%
Products				
Financing				
Profit-Sharing	6	1.2%	3	75.0%
Sale-Based	4	0.8%	3	75.0%
Rent-Based	3	0.6%	2	50.0%
Pawnbroking	2	0.4%	2	50.0%
Insurance	1	0.2%	1	25.0%
Deposit Product	6	1.2%	3	75.0%
(General) Tamwil	26	5.1%	4	100.0%
Charities				
ZIS	10	2.0%	3	75.0%
Waqf	1	0.2%	1	25.0%
(General) Mal	16	3.1%	4	100.0%
Challenges				
Institutional	11	2.1%	3	75.0%
Social/Sharia-Awareness	13	2.5%	4	100.0%
Regulation	22	4.3%	3	75.0%
Digitalization	5	1.0%	2	50.0%
Macroeconomics	4	0.8%	1	25.0%
Outcome				
Welfare				
Imm. Comm. Welfare	19	3.7%	3	75.0%
Wider Comm. Welfare	34	6.6%	3	75.0%
(Vision) ICW				
(Vision) WCW	5	1.0%	2	50.0%
Education				
Imm. Comm. Education	19	3.7%	3	75.0%
Wider Comm. Education	21	4.1%	4	100.0%
(Vision) ICE	5	1.0%	3	75.0%
(Vision) WCE	12	2.3%	4	100.0%