

## ISLAMIC SOCIAL FUNDS: ENABLING THE UNABLE TO BE ABLE

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### Article

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### Abstract

*The low level of financial inclusion for the poor becomes a time bomb amid Islamic finance growth as an alternative and way of life, particularly for those who believe in the application of Islamic tenets in finance. Further, the evolving of fully-fledged Islamic Financial Non-Bank Institutions, particularly Islamic Microfinance Financial Institutions (IMFIs) are one of the myriad ways in alleviating poverty. Indonesia, with the highest number of the Muslim population in the world, can reduce the poverty percentage by using Islamic social funds, namely infaq, zakah, shadaqoh and awqaf. This study sheds light on how to optimise the Islamic social fund benefit for improving the poor's quality of life; both by injecting money to provide them with business skill and to feed people them who are poor. We use a meta-analysis method to recap different findings related to maximise the usage of Islamic social funds across a different point of view; hence a fit mechanism is found to be applied. It found that Islamic social funds can be used to sustain the fund while enabling the poor for generating income by integrating the fund with economics activities..*

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## 1. Introduction

As the enemy of every nation through the goals of Sustainable Development Goals 2015, it has been an endless fight to eradicate poverty within societies. It is caused by the limited capability to earn sufficient money for fulfilling their basic needs, for instance, education, health, food, and even money for generating income to fulfil their daily needs (Pande, Cole, Sivasankaran, *et al.* 2012) also to pay *zakah*, when they can do so.

Because of the poor' limited ability, they are classified into eight *ashnaf* for qualification to receive the *zakah* payment. From Table 1, there is the income from Islamic social fund in the form of *zakah*, *infaq* and *shodaqah* received by BAZNAZ. While from Table 2 depicts the fund channelling to the *asnaf*. It can be seen that the fund received is higher than the fund channelling; hence it means that there is potential to maximize the fund usage for broader coverage.

**Table 1.** National Fund Collection based on the Fund Type (Badan Amil Zakat Nasional 2016, 2017, 2018)

Fund Type	2016	%	2017	%
Maal Alms-Individual Income	2.843.695.144.686	56.68	2.785.208.957.779	44.75
Maal Alms-Institution	620.546.547.627	12.37	307.007.314.242	4.93
Fitrah Alms	273.975.100.183	5.46	1.101.926.162.357	17.7
Individual <i>Infaq</i>	858.631.089.706	17.11	1.651.254.048.632	26.53
<i>Infaq/CSR/PKBL Badan/Shadaqah</i>	142.867.215.300	2.85	113.629.148.360	1.83
Social Religion Fund	277.336.514.452	5.53	265.345.638.101	4.26
Other's Fund	241.514.997	0	0	0
<b>TOTAL</b>	<b>5.017.293.126.950</b>	<b>100</b>	<b>6.224.371.269.471</b>	<b>100</b>

Fund Type	2018	%
Maal Alms-Individual Income	3.302.249.700.640	40.68
Maal Alms-Institution	492.422.843.634	6.07
Fitrah Alms	1.112.605.640.958	13.71
Tied <i>Infaq</i> and or <i>Shadaqah</i>	963.154.055.758	11.87
Untied <i>Infaq</i> and or <i>Shadaqah</i>	1.439.878.355.805	17.74
Social Religion Fund	692.939.298.007	8.54
<b>TOTAL</b>	<b>8.117.597.683.267</b>	<b>100</b>

\*there is a difference the data of 2018 and previous years in term of tied *infaq* and untied *infaq*

**Table 2.** Fund Channelling based on *Ashnaf* (Badan Amil Zakat Nasional 2016, 2017, 2018)

No	Ashnaf	2016		2017		2018	
		Amount	%	Amount	%	Amount	%
1	Fakir Miskin	2.137.613.944.379	72.93	3.356.325.642.451	69.06	2.459.628.416.537	63.3
2	Amil	209.233.041.289	7.14	518.647.467.254	10.67	440.536.648.274	11.34
3	Muallaf	17.403.367.642	0.59	97.156.889.988	2.00	17.061.510.766	0.44
4	Riqob	4.278.727.729	0.15	21.827.062.720	0.45	1.478.837.467	0.04
5	Gharimin	16.435.575.105	0.56	40.772.744.732	0.84	32.875.372.661	0.85
6	Fi Sabilillah	524.865.496.303	17.91	755.062.496.814	15.54	896.893.187.209	23.08
7	Ibnu Sabil	21.379.958.163	0.73	70.363.020.484	1.45	37.156.093.806	0.96
	<b>TOTAL</b>	<b>2.931.210.110.610</b>	<b>100</b>	<b>4.860.155.324.445</b>	<b>100</b>	<b>3.885.630.066.721</b>	<b>100</b>

It is important to remember that if the goal of Islamic finance is to gain development for society as a whole, the focus should go beyond the economic variables because development intertwines with social goals, namely alleviating poverty, increasing the quality of life and boosting chances for better education and health (Chapra 2001). Indonesia's *awqaf* system has been supported by issuing Law No. 41 of 2004 on *awqaf* and Government Regulation No. 42 of 2006 on the implementation of a new paradigm about *awqaf*; there is an emphasis on *awqaf* empowerment that is productively giving social benefit (the welfare for the society).

(Asian Development Bank 2000) and (Obaidullah & Khan 2011) found out that the poor need a specialised instrument, a tool for them, to fulfil their need for the availability of convenient and low-cost financial institutions, Microfinance Financial Institutions (MFIs). By that situation, financial inclusion for every layer of society should be the primary goal, and it should be the goal of financial institutions (Pande, Cole, Sivasankaran, *et al.* 2012). Besides, it is also worth to remember that Islamic banks have socio-economic objectives which are described in the form of *Maqasid Al-Sharia* (the goals of sharia) (Ahmed 2012), to take part in the

process of achieving the goal of alleviating poverty.

The graph below depicts factors causing financial exclusions. There are two categories; first is a group where people are voluntarily excluding themselves from formal financial services. This group is people who think that financial institutions fight against their tenets. It can be because of their traditional belief and or their religious value that financial institution, even when they are in the sharia form, the institutions are not convincing enough for holding on the Islamic principles. It happens since the emergence of microfinance in the 1960s, it has not been able to fulfil the needs of Moslem because the product application is not sharia-compliant finance, while the Muslims tend to use a sharia-compliant product (Wilson 2007). The second group tells their inability, specifically about their financial resources, both about money or financial matter or their occupations' stability. These groups are categorized into eight categories that entitle for receiving *zakah* and those who are not embracing Islamic religion as their faith, but they belong to poor category. Since Islamic tenets are universal, thus we are not going to categorise people based on their faiths.

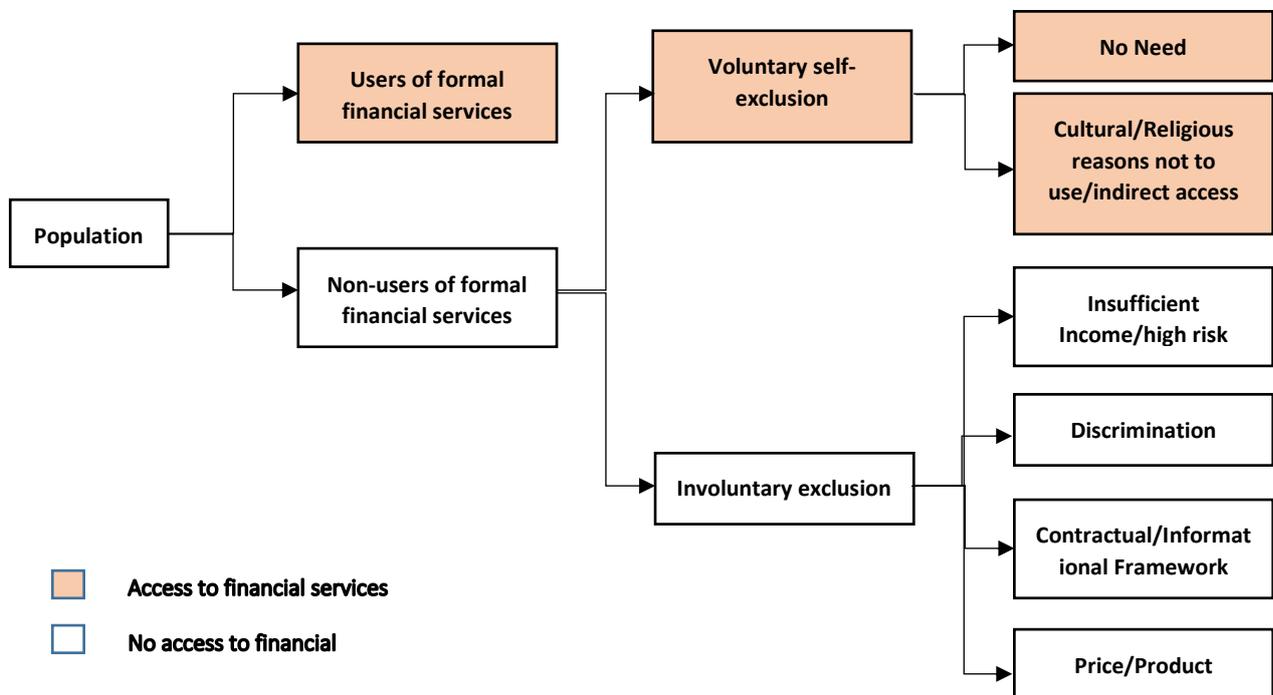


Figure 1. Factors of Financial Inclusion (Demirgüç-Kunt, Beck & Honohan 2008)

Above the noble goal of helping the society through developing full-fledged Islamic

Microfinance Financial Institutions (MFIs) so that they have a just economic system for running

their business as well as daily activities, the cause might not be maximal without emerging the ability of the poor to generate sufficient income and also without creating equality and enabling them in the society. It is believed can be earned by applying the Islamic aqad correctly, which initially are rarely appropriately done in Islamic Financial Institutions (IFIs) as they are pursuing the ease of application, which is *murabahah*. On

the other hands, IFIs tend to avoid aqad like *salam* and *mudharabah*.

Given that, this paper will portray the non-financial inclusivity of the poor and how Islamic social fund, in form of *zakah*, *infaq*, *shadaqah* and *awqaf* able reducing the gap and maximise the role of those funds in evolving full-fledged IMFIs, assist them with soft skills, and enabling them to live within society in general

### Realities of the Islamic Bank and Society

Even though Islamic Banks have Islamic tenets with the socio-economic role for eliminating the poverty among the societies (Chapra 1990), this role cannot be burdened to Islamic Banks as a single institution since there are demand and profit-sharing relation in which the profile does not suit the poor's profile. It should be noted that CSR is being done by almost every company, which is mandatory, but for Islamic Banks, it is supposed to do more social actions or social roles to alleviate poverty, raising the welfare. However, the responsibility holds by Islamic Banks to give competitive profit sharing, even though it has risk sharing as well, to the customer of funding. If Islamic Banks decided to invest more in financing the poor, the risk would be higher than financing the have as it will cause a reputational risk that, in a bigger picture, might cause a domino effect for banks for losing the reputation in front of customers. So, this might be the answer that IMFIs might help to reduce poverty because of the non-strict policy to give more profit sharing. Thus, to make it maximal, it is good to apply the fully-fledged IMFIs as part of the pilot project and as part of helping the poor to generate income.

On the other hand, *awqaf*, in particular able in giving various social services to solve social problems (Shaikh, Ismail & Shafai 2017), to make it systemized, it is needed to establish a

social finance ecosystem. In the broader aspects, social problems are the responsibility of society to solve. Creating a social finance institution with a fund that is sharia-compliant able to keep the fund received sustained (Jouti 2019). In Yogyakarta itself, in 2018, there were Rp. 684.646.315,33 of cash awqaf collected as part of Islamic social fund. It is believed that if Muslims are knowledgeable of the importance of cash waqf, once it is collected, the fund can be transferred to the societies in need to strengthen the economy and to solve problems, namely, starvation, poverty and education (Kresnowati & Berakon 2017).

Helping the poor might not be easy as the social culture can influence the decision making of the society. From several cases that happen, it was found that people who borrow money from banks used the money for different purposes when they stated in front of the bank's account officer. Some people used it to pay their other debts or to buy other things. The same situations have a high probability of happening when social institutions, like BAZNAZ, give money for their business development. Precisely, there should be more effort to assist the poor in doing their business like controlling the money until they have the independence to control the business itself to avoid mission drift coming from the individual. Preferably until they are no longer belong to eight *ashnaf*.

### Benefits of Enabling the Poor

The primary purpose of having wealth distributed not only for the riches and for the poor is to alleviate poverty, and the further aim is to create a new circle of people who able to invest their money for *infaq*, *zakah*, *shadaqah* and *awqaf* (this one is a bonus). So basically, we have two layers of economically successful for the poor. The first is when they can generate their own money to fulfil their daily needs. Secondly, creating a new circle to donate their money for *zakah* in which

this is important. The scarcity practice of fully-fledged Islamic Financial Institution Non-Bank might be reduced by starting this project. Many parties have questioned the way current Islamic Financial Institution running the Islamic tenets on the business. Apparently, from the surface, there is no difference between Islamic and conventional financial institutions if they do not apply the risk-sharing itself. While this is what they need, if it is succeeded in applying this

principle in the project, we will be able to create real IMFIs. Even though it is known that it might need more operational funds, but for something impactful, we have to sacrifice at the beginning.

An application of Islamic social fund in the form of *infaq* also can be used to enable the poor in term of education. It helps to reduce the students burden for the money they should bear in fulfilling the rising educational cost as well as the living cost (Nordin & Rahman 2018)

### Current Development of Islamic Microfinance Financial Institutions (IMFIs)

Microfinance means providing a loan for poor people, particularly for those who are included in financial exclusion (Elwardi 2015). IMFIs lend a small amount of money, which is prolonged at a reasonable rate and being returned through a weekly or monthly payment (Ahmed 2013). The fund used in IMFIs itself then can use Islamic social capital as a network of linkage (Hassan 2014), namely *zakah* and *awqaf* (Ahmed 2004). Therefore, the role of *zakah* and *awqaf* can be maximised as it can be used continuously, not only for consumption at once because it is being recycled (Wilson 2007). As a result, it can maximally generate wealth that in other words, is a productive fund (Chowdhury 2009), which is funded by *zakah*. By doing so, the role of *zakah* to alleviate poverty can be achieved (Ahmed 2004) through integrated microfinance. This is inevitable that this scheme can solve the trade-off problem in micro-financing products.

There is an immense chance for microfinance to develop. To be more specific, the potential of

microfinance is still significant, wherein almost all of OIC countries, Islamic financing instruments, only take part in a small portion. For instance, in Syria, the percentage is only 3%. Even so, microfinance generally has a rapid growth that mostly only concentrates in Indonesia, Bangladesh, and Afghanistan, but the regulatory and accounting framework has not incorporated yet (Mohieldin, Iqbal, Rostom, *et al.* 2011) The growth is shown by the emerging of more than 3000 BMTs until 2006 in Indonesia.

It is justified that the characteristics of sharia microfinance are quite similar with the conventional MFIs, but the MFIs always try to adjust with the Islamic principle from day to day which is then further justified by the fact that instead of charging interest then institutions try to charge the administration fee along with the profit as interest is prohibited (Mohieldin, Iqbal, Rostom, *et al.* 2011). The table below explains the list of differences.

**Table 3.** Differences between Conventional MFI and Islamic MFI (Ahmed 2002)

<b>The Differences between Conventional MFI and Islamic MFI</b>		
<b>Category</b>	<b>Conventional MFI</b>	<b>Islamic MFI</b>
Liabilities	External funds, savings of clients	External funds, savings of clients, Islamic Charitable Sources
Assets (Mode of Financing)	Interest-based	Islamic Financial Instruments
Financing the Poorest	Poorest are left out	Poorest can include by integrating <i>zakah</i> with microfinancing
Deduction at the inception of the contract	Cash has given	No deduction at inceptions
Target group	Part of the funds deducted at inception	Family
The objective of targeting women	Women	Ease of availability
Liability of the loan (when given to woman)	Recipient	Recipient and spouse
Work incentives of employees	Monetary	Monetary and religious
Dealing with default	Group/centre pressure and threats	Group/centre/spouse guarantee, and Islamic ethics
Social Development Program	Secular (or un-Islamic) behavioural, ethical, and social development	Religious (include behaviour, ethic, and social)

Although independent MFIs are more suitable for the poor, now some banks already released their microfinance products to spread their market, namely Bank Misr in Egypt, Tadhamon Islamic Bank in Yaman. Specifically, Noor Islamic Bank and Emirates Post Holding Group in the UEA also planned to set up financial services that are explicitly focused on low-income costumers (Mohieldin, Iqbal, Rostom, *et al.* 2011). In fact, by focusing the poor to use microfinance services, there might be a more significant gap between the have and the have not because they are being classified. However, it is essential to realise, in terms of system, Islamic Banking and MFIs have their markets and characters.

The static development of Islamic knowledge in applying suitable tenet of Islamic banking, which is based initially on the equity-based products, imposes the general principle by using debt-based products. This adoption assumed to make it under control; the effort needs much money (Ahmed 2012). The trade-off between sustainability and scope of the target, which is unfortunate, becomes the primary consideration in the banking business (Ahmed 2013). Whereas, a long time ago, Prophet Muhammad was living among the poor before gaining wealth from his Profit Loss Sharing (PLS) business by using a microfinance system with Khadijah (Rahman 2007).

### **Challenges in Supporting the Poor through Islamic Social Fund**

Strengthening financial infrastructure can be the best way out (Mohieldin, Iqbal, Rostom, *et al.* 2011). For example, in Indonesia, there is a remote area who still beyond the reach of financial services. This situation caused by improper infrastructure like roads and electricity provided there. As a result, there are still many non-bankable people, especially in remote areas. Training the member of IMFIs about accounting and administrative material in the form of the Islamic system can increase productivity as they lack Islamic training, which is precisely in microfinance (Ahmed 2002). Further, the harmonisation of the institutional regulation and the IMFIs are also needed for having good growth. As in OIC countries, the lack of good cooperation between IMFIs and the regulation will hinder the growth (Zouhari & Nabi 2013).

The lack of knowledge about finance is might be one of the reasons for poverty. Further, the institution should be an integrated institution where the focus is not only on the financial matter

If the goal of Islamic finance is to eliminate poverty, then why it tends to have the same principle as the conventional ones (Ahmed 2012).

On another basis, their weaknesses, namely low numerical skills, improper infrastructure, and difficulties in monitoring the fund, are assumed to lead to adverse selection, asymmetric information, and moral hazard problem. Thus, by providing financial inclusion, then how are we supposed to help the poor when we hinder their access to financial services? This situation can be gained by providing financial services to low-income segments or deprived groups at a reasonable cost. There are four aspects needed in financial inclusion; they are easy to access for every level of economics, a reputable institution backed up by strong regulation and management, sustainable financial institution, and competition among financial services as it can be used as an alternative for the customers (Mohieldin, Iqbal, Rostom, *et al.* 2011). There has been supporting for the establishment of different financial services to the poor as an essential element to alleviating poverty (Asian Development Bank 2000). The fact that many financial institutions have a failure to develop the function in eradicating poverty and improving prosperity (Ahmed 2012) makes the existence of specialised non-bank institutions prominent.

but also on moral and knowledge. As a regulator, the government hand is needed to create a massive movement for society in alleviating poverty. As already explained, regulations are the obstacle in creating a stable movement of the MFIs (Bin Mislán Cokro Hadisumarto & Ghafar 2010) because of the non-effectiveness (Sample 2011) The obstacles should be detached in order to meet the market demand, which is the poor who urgently need help (Pearce, 2011). Not to forget, the institution should be a sustainable financial institution (Mohieldin, Iqbal, Rostom, *et al.* 2011) hence it can build a good infrastructure when it is strong enough already.

Establishing a fully-fledged Sharia Financial Institution yet keep it sustained might be too much because it is needed a talented human resource and system in the Islamic finance field. Further, Islamic financial institutions have social and financial purposes in which there is a possibility of mission drift. Often, it will lead to commercial purposes instead of social purposes

and vice versa (Rizaldy, Arumsari & Amalia 2019). Hence, besides having difficulty finding talented human resources in Islamic finance, it is also tricky for altering the principle of the financial institutions as there is only a limited number of institutions that can apply the Islamic tenets to achieve both the social and financial purposes. Most of the financial institutions are still money-oriented; thus, there is still an obstacle in applying the risk-sharing principle, where it is needed transparency from the customer and also from the financial institutions about the loss of customer bear when they have a failure. What is happening in almost all of the financial institutions are applying profit-sharing only.

When there are more difficulties in establishing a fully-fledged Islamic Financial Institution Non-Bank, it is better for providing fully-fledged

## 2. Research Method

We use one method in this research, meta-analysis. Various research has been done in coverage of various types of microfinance application. The purpose of this research is to recap different findings related to maximise the usage of Islamic social funds, namely *infaq*, *zakat*, *shodaqah*, and *awqaf* across a different point of view, hence a fit mechanism is found to be

## 3. Result And Discussion

### 3.1 Problems of Islamic Microfinance Financial Institutions

Besides the drawback of conventional microfinance, Islamic Micro Finance Financial Institutions also faced a condition where there is a limited fund to mobilise and to service the customer (Ahmed 2002). IMFIs need more operational funds to make the poor sustain in developing the business and raising their confidence to stand on their own. Overcoming the problem by using the capital of the IMFIs might be difficult. In other words, it helps the IMFIs to kill themselves gradually, thus, Islamic social fund can be the help to minimise it. Islamic social fund-based IMFIs can lower the *nisbah* for the borrowers to make IMFIs sustained as. Usually, IMFIs use the profit accepted to run IMFIs. However, with the help of the Islamic social fund, the operational costs and also the *nisbah* will be born. Thus as the fully-fledged IMFIs, BAZNAZ (National Zakah Institution of

### 3.2 Mechanism of Maximizing Islamic Social Funds

The mechanism applied in the model proposed is to integrate the fund from *zakah* and *awqaf* to bear the operational cost of the IMFIs. The target of the borrowers is those who do not have the skill

Islamic Financial Institutions Non-Bank products, which are specifically for those eight categories not to forget those who have different faiths other than Islam itself. In other words, we are allowing the IMFIs for being a part not fully-fledged Islamic in terms of all of the products, but for the one specialised for those products, it would be better to apply the full-fledged Islamic mechanism. Thus the goal of providing an opportunity for the poor in generating income achieved and also the poor can get education about Islam better. The principle applied here is because this is a social fund that aims to raise the prosperity of the poor. We want to raise the status of those eight categories; we would like to make a prototype of fully-fledged Islamic products with the hope that one day the IMFIs can apply the Islamic tenet as a whole.

applied. It covers the various point of views to fill the gaps within the integration of social funds and microfinance for the sake of eradicating poverty. Some of the worldly known papers have done more in-depth research within a tremendous amount of time for the sake of truth-seeking.

Indonesia), and BWI (National *Awqaf* Institution of Indonesia) if it is meant to be on a national scale or else, will be in control of the operation.

IMFIs can get funding from *awqaf* and *zakah*. However, to make it integrated, it is better for the BAZNAS to organise it since it has the data already and agenda about what to do with the fund. It has been stated by the Ministry of Finance of Indonesia, Sri Mulyani, in 2017 that the process of *zakah* and *awqaf* collecting will be centralised so it can be managed well.

Indonesia has resources to compete in the international sphere. Indonesia is a country with the most significant Muslim population, has substantial natural resources, Islamic economics development is a market-driven and bottom-up; people also want it to rely upon the real sector (Hidayat 2018).

to generate money. Thus, the scheme is not to give money for consumption but to create a new job for the borrowers. As they are new and not, every borrower can apply the skills directly in the

market. Assistance will be provided to the borrowers to look for the market.

Choosing responsible borrowers are done by using interview and written examination (Ahmed 2002), as a result, it will be able to eliminate moral hazard. This will be done through tight assistance by the officer of Islamic social funds collectors to make them succeed. In the end, if some are not able because of the failure then instead of being the employee of the successful one, they will become the employee of the social institutions. By doing so, it can hinder them from the jealousy. Social Funds Institutions integrated IMFIs will also help people who are not able to provide money for consumption because of the health condition and age. So the money given for starting the business will not be used for consumption.

Indonesian Ulema Council (MUI) has stated through the fatwa Number 4 the Year 2003 about the usage of zakat fund for investment. It has been mentioned several points in case the *zakah* fund will be used for business capital. First, *zakah* should be channelled to permissible business which in line with sharia's rules. Second, it must be invested in field where there will be gain from it. Third, the business should be assisted and monitored by competent officers. Fourth, the business should be run by professional institutions and can be trusted. Fifth, the business capital should be guaranteed by the government and the government should replace if there is a failure. Sixth, if there is a poor who need it because of the hunger or need money for emergencies when the fund was invested, then

the priority goes to the emergencies. Seventh, the usage of *zakah* fund for business capital should be limited (MUI 2003).

Also, (Ahmed 2002) conveyed in his paper that microfinance in Bangladesh was formed in a group of 10, where there will be a leader, and every people in the group are responsible for the sustainability of the instalment payment every month. While in this scheme, we propose to make social institutions' business. Thus, it can cater to the need of providing job vacancies.

It starts by establishing using the *awqaf* land for erecting the building of IMFIs and the place where the business going to operate. The institution's business is needed for giving the job to those who have no business skill but manage to have a willingness to work; thus, they have a stable income. On the other hand, *zakah*, *infaq*, and *shodaqah* fund will be used for the operational cost in day to day basis also channelling it to borrowers. To avoid moral hazard done by the borrowers, then there will be a test to filter those who suit the social institutions to get the finance. In the future, there will be two classifications, those who are succeeding in running the business and those who failed in running the business. To alleviate poverty, a business will be established by giving the needy a job in social institution's business. Thus, they will not be jobless. In the end, there is no obligation for them to pay back the money borrowed. In achieving this, the officer's role is tough. They need to monitor and assist every step their takes once it has been decided that they will get money to start the business. Below is the flow depicts the situation

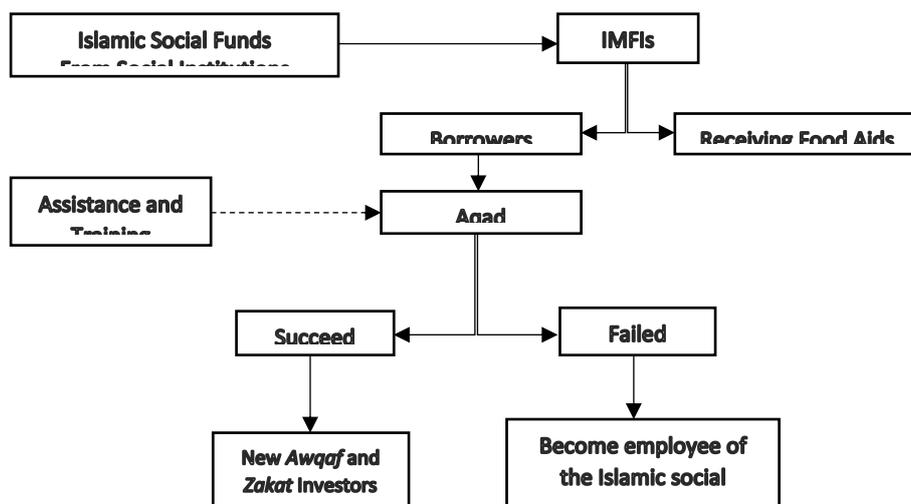


Figure 2. Flowchart of Funding and Financing by authors

### ***Suggested Aqad (Contract) for Fully-Fledged Islamic Financial Non-Bank Institutions***

#### **a) *Mudharabah***

In this product, customers are allowed to ask for a partnership to establish a business. So, for this one on IMFIs should provide business coaching, assisting them in doing their business even help them penetrate the market. Mostly, these people do not know well about how to do business. Many do a traditional business where it ends up do not grow well. If they are succeeded in raising their business, they will also be able to shift people's status from a low level to the middle. Not much different than the other one, IMFIs staff should know the customer better thoroughly, financially. There should be a *nisbah* discussion about how much money the customer should pay to the IMFIs if they got benefit and the other way around when they have a loss in their business due to the market condition.

#### **b) *Salam***

There have been limited products about *salam*. Because *salam* contract is quite complicated. In

#### **4. Conclusion**

The failure of Islamic banks in fulfilling the role of an intermediation institution for the poor to have financial access leads to the conclusion that a specialised non-bank institution is urgently needed. Islamic banks are no longer suitable to bridge the poor's need because of the tenet deviation, on a side note, they do not have sufficient trust in the poor because of the inherent risk it might bring in the future under uncertainty. An integrated MFIs that cooperate with *zakah*, *infaq*, *shadaqah*, and *awqaf* can help the poor.

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this product, a customer does not need to sell their crops at a low price as IMFIs will have it together in the end and sell it to their partnership. In this step, IMFIs are forced to have co-operated with a factory or company which runs for selling the goods and crops. So, it can increase the cash flow of the customer. Later, they can look for their market. This scheme is in the effort of exterminating "*tengkulak*" or illegal wholesaler who fiercely buys the crops at a low price. This agreement is rarely applied in the IFIs while in the village some are trapped in this situation and resulted in unjust economics system.

#### **c) *Murabahah***

In this model, customers are allowed to propose a financing scheme to buy goods or tools for their business. This is the first step for the poor businessman to develop their business without any goods or certificate as a guarantee. The guarantee is the trust between the IMFIs and the customer itself. In this case, IMFIs staff should know the condition of the customer thoroughly financially.

Moreover, it can reach the purpose of Islam to alleviate poverty with *infaq*, *zakah*, *shadaqah*, and *awqaf* through IMFIs because the fund is used as a productive fund to generate wealth and giving the poor food to eat. Thus *infaq*, *zakah*, *shadaqah*, and *awqaf* have a sustainable benefit by applying the mechanism above. However, more efforts to develop IMFIs still need to be done to make it more stable in facing the practice in the field.

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