

# Enhancing Sharia Microbusinesses: The Implementation of Microfinance Institution Regulations at the Micro Waqf Bank Sumber Barokah

**Putri Dianitasari**

Universitas Trunojoyo Madura  
E-mail: [190711100050@student.trunojoyo.ac.id](mailto:190711100050@student.trunojoyo.ac.id)

**Aang Asari**

UIN Walisongo Semarang  
E-mail: [aangasari@walisongo.ac.id](mailto:aangasari@walisongo.ac.id)

**Satrio Anugrah Pangestu**

KTO Karatay University  
E-mail: [bilgi@karatay.edu.tr](mailto:bilgi@karatay.edu.tr)

**Abstract:** Frequently, individuals involved in productive endeavors encounter difficulty in securing business capital. In response to this issue, government has initiated national program including the implementation of Microfinance Institutions (MFIs), aimed at providing capital to Micro, Small, and Medium Enterprises (UMKM). Within this framework, the emergence of the Micro Waqf Bank (BWM) served as a solution to empower productive underprivileged communities. The research aims to investigate the efficacy of BWM in fostering the development of micro-enterprises within the vicinity of Islamic boarding schools (pesantren). A qualitative approach was adopted for this research, employing methodologies involving observation, interviews, and documentation to gather research data. The finding of this study reveals that the financial distribution mechanisms of the BWM Sumber Barokah Denanyar comply with prevailing legislative regulations, utilizing qardh contracts aligned with Sharia principles. Furthermore, the financing provided by the Micro Waqf Bank significantly contributes to the advancement of business activities among productive underprivileged communities. Operationally, the BWM Sumber Barokah Denanyar adheres to the guidelines stipulated in Law No. 1 of 2013 concerning Microfinance Institutions. Moreover, in addition to fostering the nation's economy, the Micro Waqf Bank plays a pivotal role by providing financial resources to uplift productive underprivileged communities in Indonesia.

**Keywords:** Microfinance Institution, Micro Waqf Bank, Financing

**Abstrak:** Seringkali sulit bagi orang produktif untuk mendapatkan modal usaha. Berbekal permasalahan tersebut, pemerintah membuat berbagai program, salah satunya adalah Lembaga Keuangan Mikro (LKM) untuk memberikan modal kepada UMK. Dalam konteks ini, Bank Wakaf Mikro kemudian meluncurkan solusi untuk kaum prasejahtera produktif. Penelitian bertujuan untuk mengetahui efektivitas BWM dalam mengembangkan usaha mikro di sekitar kawasan pesantren. Penelitian ini

menggunakan pendekatan kualitatif. Pengumpulan data dalam penelitian ini menggunakan teknik observasi, wawancara dan dokumentasi. Penelitian ini menemukan bahwa mekanisme penyaluran keuangan Bank Wakaf Mikro (BWM) Sumber Barokah Denanyar telah sesuai dengan peraturan perundang-undangan yang berlaku dengan akad qardh sesuai dengan prinsip syariah. Selain itu pembiayaan Bank Wakaf Mikro dapat membantu mengembangkan usaha bagi masyarakat prasejahtera produktif. Dalam proses operasionalnya Bank Wakaf Mikro Sumber Barokah Denanyar mengikuti aturan UU No. 1 Tahun 2013 tentang Lembaga Keuangan Mikro dalam kegiatan usahanya. Selain dapat meningkatkan perekonomian bangsa Indonesia dengan menyediakan sumber keuangan kepada masyarakat prasejahtera produktif.

**Kata kunci:** *Lembaga Keuangan Mikro, Bank Wakaf Mikro, Pembiayaan*

## Introduction

The challenges faced by Micro, Small, and Medium Enterprises (MSMEs) in obtaining capital funding from formal institutions stem from prolonged and intricate procedures, alongside business profiles that often conflict with the preferences of banks. Consequently, numerous MSMEs opt for loan sharks as one of their solutions (Agung Laksono, 2021). The government has implemented various programs to address these issues, including providing capital for MSMEs to expand their businesses and enhance income growth through the empowerment programs of Microfinance Institutions (MFIs).<sup>1</sup>

Sharia Microfinance Institutions (LKMS) represent an option for the community to develop their businesses in accordance with Sharia principles (Revita Adelia, 2019). The Micro Waqf Bank (MWB), registered and supervised by the Financial Services Authority (OJK), was launched by the government in October 2017. Under the guidance of the OJK and the Small Business Incubation Center (PINBUK), the first Micro Waqf Bank was established by Bank Mandiri Syariah, a National Zakat Institution (LAZNAS BSM). Islamic microfinance institutions play a significant role in the Micro Waqf Bank.<sup>2</sup>

The Micro Waqf Bank engages in business activities by disbursing financing to the community with an allocation of funds amounting to 5 billion, and the Sharia Microfinance Institution Micro Waqf Bank (LKMS-BWM) deposits totaling 3 billion. BWM Sumber Barokah Denanyar is recorded to have a cumulative customer

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<sup>1</sup>Muhamad Fauzi et al., "MICRO WAQF BANK FOR EMPOWERMENT OF INDONESIAN WOMEN'S MICROECONOMIC AND EFFORTS MINIMIZING THE LOANSHER TRAP," *I-ECONS e-Proceedings*, 2023, 753–64.

<sup>2</sup> Zainuri, Mohammad, Aliful Muhlis, and Faridatur Rosyidah. 2021. "OPTIMALISASI WAKAF PRODUKTIF SEBAGAI UPAYA PEMBANGUNAN DAN PEMBERDAYAAN EKONOMI MELALUI WISATA LOKAL". *Ar-Ribhu : Jurnal Manajemen Dan Keuangan Syariah* 2 (2), 267-77. <https://doi.org/10.55210/arrribhu.v2i2.740>. Hlm. 270-273.

base of 2,600 and 70 Community Enterprise Groups around Indonesian Islamic Boarding Schools (KUMPI). The cumulative financing totals 4.1 billion (BWM Booklet). Among the three Micro Waqf Banks in Jombang, BWM Sumber Barokah Denanyar stands out as the most productive in empowering the community and developing micro-enterprises in the vicinity of Islamic boarding schools.<sup>3</sup>

Several studies have been conducted regarding the implementation of the Microfinance Institutions (MFI) Act. For instance, Laksono examined Micro Waqf Bank's operational compliance from the perspective of Indonesian law.<sup>4</sup> Besides Laksono, Masyithoh examines the normative impact on the development of Microfinance Institutions. In this context, she highlights the Baitul Mal wa Tamwil (BMT). She found that this was observed before Law Number 1 of 2013 was enacted.<sup>5</sup> Furthermore, Amin discovered that the existence of the Microfinance Institutions Act resulted in consequences for Sharia Microfinance Institutions (SMFIs) operating as cooperative entities or limited liability companies.<sup>6</sup> The three researchers above examined how the Microfinance Institutions Act impacts Sharia-compliant microfinance institutions, subsequently influencing the development of microfinance itself.

This article focuses on how one of the microfinance institutions, specifically the Micro Waqf Bank, aims to enhance micro-businesses in the vicinity of Islamic boarding schools. Based on this premise, the research intends to examine the effectiveness of the Micro Waqf Bank in disbursing financing to develop micro-enterprises around the areas of the boarding schools. Furthermore, it aims to analyze how this financial institution applies Law No. 1 of 2013, particularly articles about the operational system of the Micro Waqf Bank. The study is structured using field research methods due to its analysis of the application of Law No. 1 of 2013 within the operational framework of the Sumber Barokah Micro Waqf Bank. Thus, direct observation of operational activities at the Sumber Barokah Micro Waqf Bank is crucial for this research. It adopts a normative juridical approach based on legal

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<sup>3</sup> Ria Anisatus Sholihah, Agus Arwani, and Siti Zulfa, "Accountability of Micro Waqf Banks in The Perspective of Sharia Enterprise Theory," *Jurnal Akuntansi Dan Keuangan Islam* 11, no. 1, April (2023): 25–47.

<sup>4</sup> Lesna Fitri Pratama, "BANK WAKAF MIKRO SEBAGAI SOLUSI KESEJAHTERAAN EKONOMI UMAT (STUDI KASUS DI BANK WAKAF MIKRO ALMUNA BERKAH MANDIRI)," 2022.

<sup>5</sup> Novita Dewi Masyithoh, "Analisis Normatif Undang-Undang No. 1 Tahun 2013 Tentang Lembaga Keuangan Mikro (LKM) Atas Status Badan Hukum Dan Pengawasan Baitul Maal Wat Tamwil (BMT)," *Economica: Jurnal Ekonomi Islam* 5, no. 2 (2014): 17–36.

<sup>6</sup> Muhammad Amin, "Implementasi Undang-Undang Nomor 1 Tahun 2013 Terhadap Lembaga Keuangan Mikro Syariah Yang Berbadan Hukum Koperasi," *Jurisdictione: Jurnal Hukum Dan Syariah* 10, no. 1 (2019): 9.a

aspects specified in the law. The study was conducted in Denanyar Village, Jombang Regency, East Java.<sup>7</sup>

The primary legal source for this study is Law No. 1 of 2013 concerning microfinance institutions. Secondary data were obtained from graphical documents such as tables, records, minutes, and meeting reports. Additionally, secondary data sources include archives from the Sumber Barokah Micro Waqf Bank, relevant research journals, and interviews with bank employees. Moreover, data collection involved interviews with the managers of the Sumber Barokah Micro Waqf Bank and its customers.<sup>8</sup>

## Results and Discussion

### The Law Number 1 of 2013 concerning Microfinance Institutions

As stipulated in this Regulation, the Microfinance Institution (LKM) is established to foster business growth and societal advancement. Microloans and micro-investments for members and the general public, savings management, and business consultations are among the services offered. All these are designed to assist individuals in initiating and developing businesses to generate profits. The Microfinance Institution is also specifically established to lend money or make investments in small businesses for community members (Law No. 1 of 2013).<sup>9</sup>

The Micro Waqf Bank (BWM) represents one form of Microfinance Institution that adheres to this law. Hence, the operations of BWM adhere to the norms outlined in this legislation. This discussion focuses solely on particular chapters and law articles mentioned above. It encompasses the establishment of LKM by discussing capital, ownership, and licensing. Additionally, it addresses the principles of LKM, business activities, the scope of LKM business areas, supervision, as well as the reporting mechanisms of LKM.<sup>10</sup>

According to Law No. 1 of 2013, Sharia Microfinance Institutions (LKMS) are microfinance institutions whose business activities encompass managing deposits

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<sup>7</sup> Mugiyati Mugiyati, Nur Kholis, and Siti Nur Azizah, "The Effect of Micro Waqf Bank on the Financial Inclusion of Micro and Small Enterprises in the Pesantren Areas," 2021, <http://repository.uinsa.ac.id/id/eprint/1896/>.

<sup>8</sup> Muhamad Ulul Albab Musaffa, Dakum Dakum, Ahmad Hujaj Nurrohim, Muhammad Rosyad Sudrajad, "Study the Philosophy of Islamic Law in Determination Percentage of Zakat Mal", *Az-Zarqa': Jurnal Bisnis Hukum Islam*, No. 1 Vol. 14 (2021). Hlm. 30-35.

<sup>9</sup> Rozalinda Rozalinda and Nurhasnah Nurhasnah, "Bank Wakaf Mikro: Its Operations and Its Role in Empowering Communities Surrounding Islamic Boarding Schools in Indonesia," *Islam Realitas: Journal of Islamic and Social Studies* 6, no. 1 (2020): 47–63.

<sup>10</sup> Dewi Fitrotus Sa'diyah et al., "Development of Micro Waqf Bank Strategic Management in Islamic Boarding Schools," *International Journal of High Education Scientists (IJHES)* 2, no. 2 (2021): 136–45.<sup>1</sup>

and providing loans or financing by Islamic principles and fatwas issued by the National Indonesian Ulama Council (DSN-MUI). A microfinance institution is a bank designed to provide business loans based on both conventional and Sharia principles, and it must adhere to Sharia principles and fatwas issued by the DSN-MUI, as per the definition above.<sup>11</sup>

As per the Small Business Act (Law No. 20/2008), Micro, Small, and Medium Enterprises (UMKM) need to be comprehensively, optimally, and coordinatively developed by creating a conducive business climate, offering numerous business opportunities, and meeting the requirements for such businesses.<sup>12</sup> This approach will enhance their significance and potential in driving economic growth, social equity, and individual welfare, as well as in infrastructure development and poverty reduction. According to the principles of Sharia law, muamalah (open transactions) must be conducted transparently, meaning that Allah SWT in the Quran only provides general guidance. By applying Sharia principles in business transactions, Sharia-compliant small businesses meet the criteria set for small businesses.

Although named as a bank, BWM represents a form of non-bank financial institution, similar to conventional banks. In every Islamic boarding school (pesantren), the Micro Waqf Bank operates as a cooperative legal entity. In Jombang, three Micro Waqf Banks are located in Tebuireng, Tambak Nasi, and Denanyar. With the innovative model of the Micro Pesantren Financial Institution, the Micro Waqf Bank emphasizes community empowerment and business development.

The primary aim of Islamic-branded institutions like BWM in the microfinance sector is to provide funding to communities that currently lack access to conventional banking institutions. The legal foundation and organizational structure of the Micro Waqf Bank have an inverse relationship with the use of the term "waqf" within the institution. Law No. 41 of 2004, which stipulates that the disbursement of waqf funds must go through the LKS-PWU officially nominated by the Ministry of Religious Affairs, does not serve as the basis for the current method of fund distribution. "Waqf" is a recognizable name within the pesantren environment, whereas BWM operates as a cooperative legal entity. Since President Jokowi greenlit the establishment of the Micro Waqf Bank in October 2017, 62 operational institutions in 20 regions across Indonesia (OJK, 2022).

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<sup>11</sup> Muzayyana Tartila, "Implementation of Ultra Micro Financing Based on DSN-MUI Fatwa Number 119," *JOURNAL OF MULTI-DISCIPLINES SCIENCE (ICECOMB)* 1, no. 1 (2023): 1–8.

<sup>12</sup> Muhammad Ash Shiddiqy, "Nazhir Capacity Analysis and Cooperation in Productive Waqf Management", *Az Zaqqa: Jurnal Bisnis Hukum Islam*, No. 1 Vol. 12 (2021) hlm. 120-125.

## The Financing Mechanism of BWM in Micro Business Growth and Community Empowerment

Financing is what Islamic financial institutions undertake to assist those in need of funds or facing cash shortages by providing funding options.<sup>13</sup> Supporting economic activities such as planned investments, whether conducted independently or by institutions, is the purpose of financing. In the Micro Waqf Bank, financing activities cannot request an annual return of more than 3%. This low return will cover the operational costs and working capital of the Micro Waqf Bank.

The process of applying for financing begins with completing several administrative requirements, including a photocopy of the family card and photocopies of the husband's and wife's identity cards (KTP). After the potential customer completes these administrative requirements, the Micro Waqf Bank Sumber Barokah Denanyar conducts a survey to assess the potential customers' seriousness. There are several assessment aspects in the feasibility survey phase to determine the eligibility of potential customers to obtain financing from the Micro Waqf Bank. These aspects include:

1. The House index is considered one of the assessment criteria because a house reflects socioeconomic status. The elements assessed in this aspect include the size of the house, the building's condition, walls, and structure.
2. The income index is used to obtain funds based on the income index issue based on poverty criteria in Indonesia, where families earn below the Regional Minimum Wage (UMR), and Jombang's UMR is Rp 2,850,000 per month.
3. Asset index, which includes land or fields, livestock, electronic products, vehicles, and other vital assets owned by prospective clients, are some of the factors evaluated in the asset index.
4. The land ownership index, which consists of the BWM financing initiative, aims to provide funds to productive individuals from poor backgrounds who do not own property or land but are not effective. The BWM will later examine this.

The BWM program aims to reach the pesantren community using a mentoring model and a Sharia-based microfinance institution. BWM operates under a Cooperative Services legal framework with a license as a Sharia Microfinance Institution (LKMS). In BWM, the funding method relies on collective responsibility among members rather than collateral. Prospective customers are categorized as 'KUMPI' group customers. KUMPI stands for Community Enterprise Groups

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<sup>13</sup> Khadijatul Musanna, "Contemporary Era of Credit Practices According to Classical Jurisprudence Scholars", *Az-Zarqa': Jurnal Bisnis Hukum Islam*, No.1 Vol.14 (2022). Hlm. 95-98.

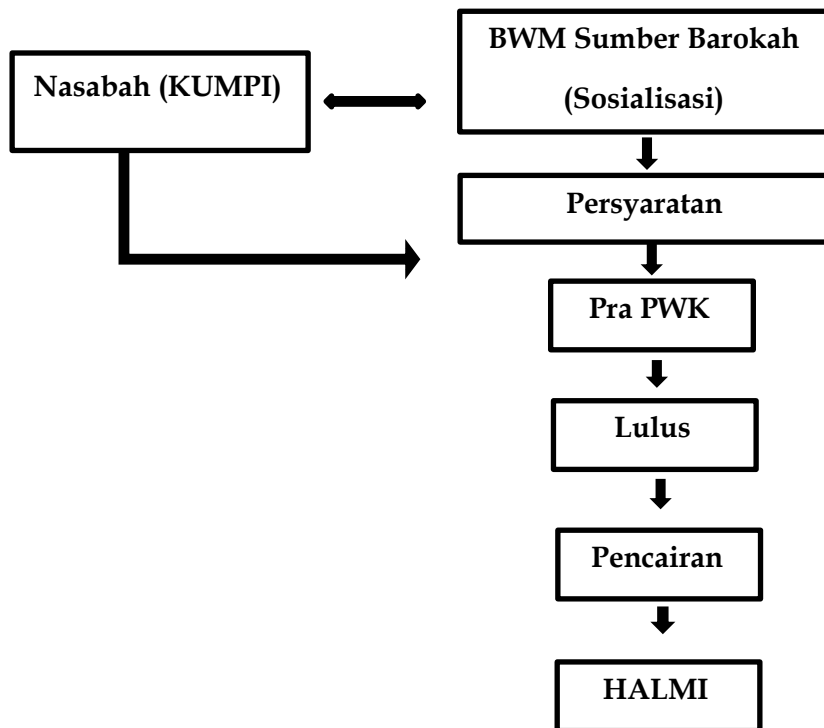
around Indonesian Islamic Boarding Schools. Five individuals utilizing the Micro Waqf Bank for funding form one KUMPI. They then hold weekly gatherings known as 'halaqah mingguan' (Halmi, weekly gathering), which serve as meetings for the KUMPI members. Disbursement of financing and funds to each KUMPI member takes place during the Halmi meetings.

The BWM financing system operates in a similar manner throughout. Before conducting the mandatory group training (PWK) during the formation of KUMPI, they assess the customer's eligibility. The mandatory group training (PWK) then takes place over five days, with a training assessment on the final day. Following this, a Halmi is convened, during which each KUMPI member receives financing and fund distribution. Initial fund distribution is carried out using a 2-2-1 approach, meaning the distribution in the first week involves two individuals, in the second week, also two individuals. In the third week, only one individual is involved.

### **The Method of BWM Sumber Barokah in Providing Capital Loans**

Observations and documentation indicate that the BWM offers services in the form of monetary assistance to the impoverished community. Prospective customers are not burdened with the financing options provided by the Micro Waqf Bank Sumber Barokah Denanyar. As part of the outreach process, BWM Sumber Barokah reaches out to schools within and outside the Denanyar Mamba'ul Ma'arif Islamic Boarding School area and several households surrounding these schools. Through this outreach, individuals gain new insights into the Micro Waqf Bank. Besides engaging with various institutions, MWM Sumber Barokah encourages productive but financially hindered housewives to apply for loans and develop home-based businesses.

Accessing financing is a straightforward process for potential customers. The subsequent step for potential customers involves forming a group of at least three individuals, ideally five individuals per group or a combined total of 15 individuals to apply for a loan, which is then known as KUMPI. Meanwhile, the analysis of observational data aligned with existing theories suggests that applying for financing within such groups could serve as collateral for BWM. This is because the financing will be distributed to the local residents without requiring collateral, thereby reducing the bank's losses due to non-performing loans. Prospective customers can apply for financing after completing the socialization phase. The financing process at BWM Sumber Barokah Denanyar is divided into several stages as follows:

**Figure 1. Financing Distribution Scheme at BWM Sumber Barokah Denanyar**

From the above diagram, the funding distribution process carried out by BWM Sumber Barokah can be observed. Once prospective customers fulfill the requirements, their applications are reviewed by BWM staff. If the prospective customers meet the criteria, their applications are accepted, and subsequently, the funding disbursement process is initiated. In addition to submitting these requirements, prospective customers should ideally have their own business, either individually or as a group. Here are some customer data along with their ongoing businesses.

**Table 1. Business Data of BWM Sumber Barokah Jombang Customers**

No.	Name	Bussinesses
1.	Sumaningsih	Farmer
2.	Erni Lestiawati	Chicken farming business, broilers
3.	Lailatul Qotim	Store
4.	Istiqomah	Warung Rujak
5.	Istikhamah	Sewing
6.	Akris Nurjanah	Trading



7.	Sumarti	Catfish farming
8.	Yani	Tailor
9.	Eni	Grocery store
10.	Nur Heni	Laundry

The program implementation did not produce an inaccurate target, as observed in the Micro Waqf Bank Sumber Barokah Denanyar's financing system aimed at productive impoverished individuals. Comprehensive testing is employed to assess various aspects. Since the BWM provides financing without requiring collateral, some of these indices differ slightly from the common ones. Moreover, according to POJK Number 19/Pojk.05/2021 on the operation of Microfinance Institutions, Article 3, Paragraph 1 states, "In carrying out loan or financing distribution activities for business development, Microfinance Institutions require loan or financing feasibility analyses." The use of qardh contracts by the BWM for financing aligns with the DSN-MUI Fatwa No.19/DSN-MUI/IV/2001 on qardh. The utilization of qardh contracts for financing incurs costs for customers and does not involve any collateral, as stated in the law.

Following the feasibility assessment stage, customers proceed to the pre-PWK phase, which is aimed at introducing the institution and programs at the BWM. Subsequently, the Mandatory Group Training (PWK) is the next stage. The PWK activities contribute to expanding customers' insights, providing new material that they may not have previously encountered. The disbursement process initially follows the 2-2-1 rule after being deemed suitable to apply for financing. Post-disbursement, customers are obligated to make installments and engage in routine activities known as Halaqoh Mingguan (HALMI). HALMI aims to evaluate customers' businesses, household financial management, and religious events. HALMI serves as a beneficial platform for customers, not only for installment payments but also as a space for consultations regarding the development of their micro-businesses. By providing financing as business capital to the community, the BWM has positively influenced and supported the surrounding community of the Mamba'ul Ma'arif Islamic Boarding School in developing Sharia-compliant micro-businesses. The Micro Waqf Bank assists their endeavors by offering manageable installments and a straightforward registration process, thereby contributing to the local economy through the development of Sharia-compliant micro-businesses within the Pesantren area.

### **The Implementation of Law No. 1 of 2013 on the Operational System of BWM Sumber Barokah**

The law stipulates that Microfinance Institutions (LKM) are established as services to develop employment, empower communities, and provide capital to

productive members of society who operate their businesses based on certain principles.

**Tabel 2. Analysis of Article 2 of Law No. 1 of 2013**

No.	Law No. 1 of 2013 (Article 2)	Implementation BWM
1	Principle of justice: providing equal opportunities for productive underprivileged communities or those with incomes below UMR to access LKM services.	From the data analysis obtained in the field, the BWM has fulfilled the principle of justice, where everyone is given the opportunity to apply for financing.
2	Principle of togetherness: activities carried out collectively for mutual interests.	Based on observations and subsequent analysis of business activities at BWM, it is evident that financing distribution is done collectively through a mutual responsibility system, and there are also HALMI activities carried out jointly with other KUMPI groups.
3	Principle of self-reliance: activities carried out without depending on others.	According to the data analysis obtained, the BWM's source of funding comes from LAZNAS as the program owner. Additionally, in monitoring, OJK collaborates with community figures such as clerics and scholars in the pesantren.
4	Principle of convenience: financing and loan procedures should be simple and not complicated for the community.	From the field data collected and analyzed, the financing distribution at BWM is very straightforward, and the requirements do not complicate the community.
5	Principle of transparency: a business activity whose management can be known by the public.	While observing in the field, it is relatively easy to request data from the BWM; however, some data is kept private, accessible only to specific individuals.
6	Principle of evenness: equal distribution of loans and financing to productive underprivileged communities.	Through field data analysis, the principle of evenness is fulfilled because during the financing distribution process, the BWM conducts comprehensive socialization both within and outside the pesantren area.

7	Principle of sustainability: a business activity that can be carried out continuously and sustainably without specific time limitations.	From observations and data analysis, the business activities conducted by BWM align with the principle of sustainability, aiming to empower productive underprivileged communities and enhance the Indonesian economy in a continuous and timeless manner.
8	Principle of utility and benefit: business activities useful for empowering productive underprivileged communities.	According to the research data analyzed, BWM effectively harnesses the surrounding community's efforts within the pesant

The analysis presented in the mapping table elucidates the research findings regarding the application of the fundamental principles of Microfinance Institutions (LKM) within the stipulations of the respective law. It is articulated that, among the eight fundamental principles, BWM Denanyar has adequately adhered to these principles. The Mamba'ul Ma'arif Islamic boarding school serves as the foundation site for the cooperative legal entity known as BWM Sumber Barokah. The cooperative LKMS Sumber Barokah is the appellation designated for the Denanyar Sumber Barokah Waqf Bank. The analysis of the law, specifically Articles 5, 7, 8, and 9, will be further delineated in tabular form as follows.

**Table 3. Analysis Table of Articles 5, 7, 8, and 9**

No.	Subject	Application
1	According to the aforementioned Law, there are two legal entities, namely, Cooperatives and PT (Limited Liability Company).	From the analysis of the data collected in the field, it is confirmed that BWM is a Cooperative legal entity, as evidenced by the institution's legal name in WebLKMS.
2	The capital sources of LKM (Financial Institutions) according to the Law are adjusted in accordance with the provisions of the legislation corresponding to its legal entity. For cooperatives, the capital sources come from basic deposits, mandatory deposits, and grants.	Based on the data gathered from the field, BWM's funding originates from donations by LAZNAS contributors. Additionally, there were initial basic and mandatory deposits during BWM's establishment.
3	Ownership: LKM (Financial Institutions) is prohibited from being owned, directly or indirectly, by foreign citizens or foreign business entities.	From the analysis of the data collected, BWM is owned by Indonesian citizens residing in the city of Jombang.

4	Licensing: according to the Law, before conducting its business activities, LKM (Financial Institutions) must obtain a business permit from OJK (Financial Services Authority)	From the observations conducted, BWM has obtained a permit since 2017.
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The table above explicates that the analysis of the law has been implemented within BWM. As per the analysis results, while there is no specific law governing the Waqf Micro Bank itself, the presence of LKMS indicates an alignment, primarily due to the nomenclature chosen for BWM, tailored to enhance acceptance within the Islamic boarding school environment.

Analysis of field data reveals that BWM's working capital stems from LAZNAS BSM, acquired through donations. Regarding the source of BWM Sumber Barokah Denanyar's capital, Article 7 of the law specifies that the capital is adjusted according to the entity type, with OJK regulations determining the capital adequacy. Moreover, regarding the initial establishment phase of BWM Sumber Barokah Denanyar, only 20 founders contributed to the primary and mandatory deposits, as derived from field data analysis. BWM Sumber Barokah Denanyar is focused on activities related to qardh financing distribution.

Its operational license, denoted as KEP-53/KR.04/2017, issued by OJK, is prominently displayed on the LKMSBWM website, indicating that BWM Sumber Barokah Denanyar Jombang possesses the required operating permission from OJK, as evidenced on the LKMSBWM website. Additionally, BWM's business activities and their operational scope align with Article 11 of the law, stipulating that microfinance institutions, among other activities, provide services for business development and community empowerment. This is achieved through offering micro-scale loans or financing, managing deposits, and providing business development consulting services (Law No.1 Year 2013).

**Table 4. Analysis of Business Activities and Coverage Area**

No.	Subject	Application
1	Business Activities: According to Article 11 of the Law, LKM's business activities encompass business development services and community empowerment through both loans and financing, savings management, as well as providing business development consultation services. Also, actions based on	From observations in the field, BWM engages in qardh financing activities as an alternative to developing the productive businesses of underprivileged communities. They also employ qardh contracts in accordance with the fatwa of DSN-MUI (Indonesian National Sharia Board). Within BWM's organizational

	Sharia principles are required to form a Sharia Supervisory Board.	structure, they have formed a DPS (Sharia Supervisory Board).
2	Coverage Area: As explained in Article 16 of the Law, the coverage area of an LKM is within a village/urban village, sub-district, or district/city. An LKM operates on a village/urban village scale if it provides financing to the residents of one village. For an LKM operating on a sub-district scale, it provides financing to the residents of two or more villages/urban villages within the same sub-district. Whereas, on a district/city scale, it provides financing to residents in two or more sub-districts within the same district/city.	From the data collected in the field, the coverage area of BWM Sumber Barokah has reached the sub-district scale. Meanwhile, the total number of BWMs in Jombang District has reached three. BWM Sumber Barokah, operating at the sub-district scale, provides financing to residents in more than one sub-district, which means several villages only.

The BWM engages in activities directed at developing the businesses of productive, underprivileged individuals by providing funding through financing. BWM Sumber Barokah Denyar employs the qardh contract, wherein customers must repay the borrowed sum. However, the bank requires a 3% annual return on financing or consulting services. Furthermore, upon the financing agreement, the terms of the loan interest or financing return have been regulated following the Republic of Indonesia Government Regulation No. 89 of 2014 concerning Loan Interest Rates. This aligns with the extant regulations, indicating compliance with the Microfinance Institutions Law, where LKMS operates according to Islamic principles and Shariah.

Concurrently, the analysis indicates that BWM complies with the regulations, stipulating that the operational scope of microfinance institutions is limited to a single village or urban area, sub-district, district, or city. Based on observations and research analysis, BWM has adhered to Government Regulation No. 89 of 2014 concerning Loan Interest Rates or Financing Returns and the Operational Scope of Microfinance Institutions. If an LKM provides loans or financing to residents from two or more villages or urban areas within the same sub-district, they are categorized within the sub-districts business scale.

Field research data analysis indicates that BWM has established a Sharia supervisory board as evaluators to ensure compliance with Sharia principles in its business operations. This is evidenced by the organizational structure of BWM Sumber Barokah. The Financial Services Authority (OJK) then develops and oversees BWM in accordance with Article 28 of the law, which covers OJK's

guidance, regulation, and supervision of LKM. The research data analysis further indicates that the monitoring and reporting systems of BWM Sumber Barokah Denanyar comply with the Microfinance Institutions Law, supervised by OJK in coordination with various community figures such as religious leaders and scholars within the Islamic boarding school, reported every four months. In other words, as long as BWM Sumber Barokah Denanyar abides by the provisions of the Microfinance Institutions Law, alongside other regulations and OJK provisions.

## **Conclusion**

Based on the previous discussion and research analysis, the author concludes that the process of disbursing financing at Bank Wakaf Mikro Sumber Barokah Denanyar is relatively straightforward for prospective customers. Customers register by submitting personal identification requirements. Financing disbursal at Bank Wakaf Mikro Sumber Barokah Denanyar uses the qardh contract. Subsequently, a survey is conducted with various assessment aspects, and those customers deemed suitable can proceed with the disbursement process using the 2-2-1 system. Upon disbursement, customers are obligated to repay installments and participate in routine activities known as HALMI. By providing financing as working capital for the community, Bank Wakaf Mikro Sumber Barokah Denanyar has already made a positive impact and provided assistance to the community around the Mamba'ul Ma'arif Islamic Boarding School in developing Shariah-compliant micro-businesses.

In executing its operational system, Bank Wakaf Mikro Sumber Barokah Denanyar fundamentally follows the regulations stipulated in Law No. 1 of 2013 concerning Microfinance Institutions regarding the application of microfinance principles, establishment, licensing, capitalization, coverage areas, business activities, supervision, and reporting. Although Bank Wakaf Mikro solely provides financing as its business activity, it is also a cooperative entity located within the Mamba'ul Ma'arif Islamic Boarding School. Bank Wakaf Mikro Sumber Barokah Denanyar operates under the label of Cooperative LKMS Denanyar Sumber Barokah. There is no specific law governing Bank Wakaf Mikro itself; however, if there is a Shariah Microfinance Institution, it is because the name Bank Wakaf Mikro is used to ensure acceptance within the Islamic Boarding School environment. The supervision and oversight of Bank Wakaf Mikro Sumber Barokah Denanyar Jombang are carried out by the Financial Services Authority (OJK), regulated under Law No. 1 of 2013 concerning Microfinance Institutions, Article 28, which involves the guidance, regulation, and supervision of Microfinance Institutions conducted by OJK in coordination with community figures such as religious leaders and scholars within the Islamic boarding school.

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