

The Role of BRI in the Indonesian Cash Waqf House's System

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Abstract

This paper tries to offer a design of the most suitable role of BRI in the system of the Indonesian Cash Waqf House, which will be established as soon as the supporting, proposed National Act is approved by the House of Representatives¹. The idea is developed from some of our previous research in cash waqf certification model and microfinance for coastal community.

Poverty alleviation program in Indonesia requires huge amount of fund that cannot be provided thoroughly by the government. Therefore, initiation of new sources of fund for such a program is inevitable. In the Islamic sosio-economic concept, there is a source of social fund that is economically and politically free of charge, namely cash waqf (*wakaf tunai*). In this concept, *Nadzir* (cash waqf fund manager) collects the fund from *Waqif* (cash waqf payer) and invest the money in the real sector (mainly Small & Medium-sized Ventures) and in any *syariah*-based investment opportunities. *Nadzir* will then allocate all profits and returns gained from the investments to any poverty alleviation programs to enhance the quality of poor people's life, such as free education and health service, cheap basic food, etc.

Nadzir is obliged to maintain the amount of fund in such a way that it does not go below the initial amount. Therefore, *Nadzir* not only should be highly capable, but also needs a financial institution, which has been proven to be experienced, highly capable and effective in helping SMEs development efforts, since such a microcredit program is considered as the most vital portfolio in the poverty alleviation program.

BRI has shown an excellent track record in conducting microbanking and strong commitment to SMEs development, as well as to poverty alleviation program. Therefore, BRI is the most valuable choice and is

¹ The National House of Representatives (*DPR*) was expected to issue an approval on a National Act regulating the operation of Indonesian Cash Waqf House in September this year.

expected to play main role in assisting *Nadzir* to manage the collected cash waqf fund and to distribute the returns to enhance the Poor's welfare in Indonesia.

1. Preface

Trend of people initiating small and medium scale businesses in Indonesia may stimulate larger entrepreneurship activities in the country. This will in turn support the emergence of tough entrepreneurs, which can help accelerate Indonesian economy. Starting small and medium scale businesses is one of the most effective ways for creating jobs and reducing unemployment rate.

Small and medium-sized enterprises (SMEs) are one of Indonesian economy's pillars. They have proven to be able to successfully survive during the Asian crisis. When many larger companies were default throughout the crisis leaving large amount of bad debt, most of Indonesian SMEs successfully managed their business and paid their liabilities. Therefore, collaboration among relevant government agencies, banking authorities, and academicians, for initiating conducive circumstances for SMEs development efforts, is inevitable.

In addition to favorable regulation, and effective integrated marketing strategy, SMEs development needs appropriate financing program. Hernandi de Soto in his book titled *The Mystery of Capital* (2001) bottom-lines significance of informal business sector in a developing country's economy. He further reveals that most of economic crisis taking place in developing countries result from the economies' inability to grow capital. Assets in such economies cannot be used as working capital due to property right problem, while credit for additional capital requires justification of property right.

2. Problem Identification

Large amount of debt has weakened Indonesian economy for the past seven years. Currently, Indonesian foreign debt is approximately USD 130 billions, which consists of government foreign debt of USD 70 billions and private sector's foreign debt of USD 60 billions. In addition, domestic government debt has reached IDR 650 trillions level. Nevertheless, amount of the debt will continue increasing since Consultative Group on Indonesia (CGI) meeting in Bali (January 2003) has decided to issue a USD 2,7 billion loan to Indonesia. Meanwhile, the government faces deficit budget almost every year since 1997, which means that the government may find it difficult to cover its routine

expenditures. Those regular balance sheet items require so large amount of fund that government cannot provide adequate fund for other strategic needs, such as good education, appropriate health, and SMEs development.

One of potential solutions to the necessity of sufficient fund for public needs is waqf fund, which results from people's donation. People (*ummah*) donate their money as cash waqf by purchasing cash waqf certificate. The gathered fund will be then invested in various investment portfolio, of which profit can be spent for the abovementioned public needs. The gained profit will also be used for funding poverty alleviation programs, while the principle will be reinvested in various highly profitable investment opportunities.

Waqif donates his/her money as waqf fund to *Mauquf'alaih* (a person who is entitled to get benefit from waqf fund) through *Nadzir* (a person/an institution that is in charge for managing waqf fund and distributing returns of waqf investment). Only gains of the invested waqf fund will be delivered to *Mauquf'alaih*. The principles keep being invested in potential investment opportunities. In relation to its role as waqf fund investment manager, *Nadzir* on behalf of Waqf Institution may allocate some waqf fund to finance SMEs' businesses on the basis of profit sharing system.

The larger the investment returns, the more fund can be allocated to poverty alleviation program. In some countries, waqf fund management has effectively reduced poverty and enhanced people's welfare, by providing additional fund for education & health development programs, cheap houses & public facilities development programs, and so forth. On the next part of this paper, we will discuss definition, law, and history of cash waqf to recognize the concept and its potential benefit.

3. Cash Waqf

Previously, waqf of building and land are the most popular forms of waqf. Nowadays, cash waqf has become increasingly well-known, particularly because of its flexibility, which allows distribution of the waqf's potential benefit to anywhere.

Cash waqf was firstly introduced in Ottoman era in Egypt. Professor Mannan then familiarized cash waqf in Bangladesh through Social Investment Bank Limited (SIBL). SIBL issues Cash Waqf Certificate to collect funds from rich people and distributes gains of the managed funds to poor people.

Like those of Bangladesh, most of Indonesian people are poor. Characteristic of communities in both countries are also similar. Therefore, effectiveness of cash waqf certificate program to help reduce poverty in

Bangladesh gives hope that analogous program can be implemented successfully in Indonesia.

Fatwa Commission, Board of Indonesian *Ullemas*, responded the necessity of cash waqf certificate program in Indonesia by issuing the following *fatwa* (dated on 11 May 2002):

- a. Cash Waqaf (*Waqf al-Nuqud*) is waqf donated by individual, group of individuals, or legal entity, in cash.
- b. Cash waqf includes securities.
- c. Money donated as waqf is not forbidden (*jawaz*).
- d. Cash waqf can only be distributed and allocated for anything not against *syariah* (Islamic law).
- e. Existence of waqf fund should be conserved. Waqf fund cannot be transferred to anyone.

3.1. Cash Waqf Certificate

According to Mannan (1998), the objectives of cash waqf certificate are;

- (1) to equip banks and other waqf management institutions with cash waqf certificate,
- (2) to help collect social savings through cash waqf certificate (cash waqf certification can be done in the name of other beloved family member to strengthen family integration among rich families),
- (3) to help transform the collected social savings to social capital, as well as to help develop social capital market,
- (4) to increase social investment,
- (5) to encourage rich communities' awareness on their responsibility for social development in their environment.,
- (6) to stimulate integration between social security and social welfare.

As cash waqf practice has not yet been popular in Indonesia, cash waqf management institutions in Indonesia can replicate successful practices from other countries, such as Bangladesh.

In addition to the above-mentioned objectives of cash waqf practice, profit of the managed waqf fund can be allocated for:

1. Poor Family Rehabilitation.
 - Enhancing poor people's welfare
2. Educational and Cultural Development.
 - Supplying free books
 - Funding relevant research and development
 - Improving educational programs
 - Scholarship
 - Grant for schools

- Preserving and developing cultural values
- 3. Health and Sanitation
 - Health and Sanitation for poor people
 - Establishing health center
 - Providing cheap medicines with appropriate quality
- 4. Social services
- 5. Building facilities for religious activity
- 6. Fixing social facilities.

Aspects involved when purchasing Cash Waqf Certificate include:

- One's own welfare (in this life and life after death)
- Family's welfare (in this life and life after death)
- Social welfare and social investment
- Developing social awareness: social security for poor people and social harmony for rich people.

Contribution of cash waqf to sosio-economic development in developing countries is significant. Fund collected through cash waqf certificate program can be allocated to social-related development areas (e.g., agriculture, education, health, and infrastructure), urban poverty alleviation program, and other public service development. This opportunity in turn will reduce poverty level and will allow people help themselves (Mannan,1998).

3.2. Cash Waqf Certificate Framework

Waqif is a person who donate some money as waqf by purchasing cash waqf certificate. The certificate can be bought in the name of family member, even if he/she is already dead. *Waqif* expects return of the managed fund to be assigned for certain purpose, e.g. public facility development, poor people rehabilitation, etc.

Nadzir invests the collected fund in various investment portfolios. *Nadzir* may (1) invest the fund in *syariah* (non interest) banking products of both domestic and overseas banks, (2) finance selected businesses, (3) establish new prospective businesses, or (4) finance small and medium scale enterprises (SMEs).

3.3. Requirements for *Nadzir*

Utomo (2001) states that cash waqf management institution is a legal entity, and therefore should fulfil some requirements, which are called *rukun waqf*. The rules can be explained as follows:

- a. *Al-waqif* is a person who donates waqf fund. He/she should be health physically and mentally. The decision to donate should not be made under pressure.
- b. Assets or fund donated as waqf are technically called *al-mawquf* in *fiqh* (Islamic law). Existence of *mawquf* should be clear and durable. Therefore, people can benefit from the waqf for long time. In terms of waqf benefit distribution target, waqf is divided two groups, i.e. *wakaf khairy* and *wakaf dzurri*. *Wakaf khairy* is waqf, of which *waqif* does not limit his/her waqf benefit distribution target. While, *wakaf dzurri* is waqf, of which *waqif* limits his/her waqf benefit distribution target only to his/her family.
- c. Those who are entitled to benefit from return of waqf fund management are *al-mawquf 'alaih*.
- d. The way of a *waqif* stating his/her asset or fund as waqf is called *sighah*.

Dr.Muhammad Anwar Ibrahim in his paper titled “*Wakaf Dalam Syariat Islam (Waqf in Islamic Law)*”² explains conditions that should be satisfied in managing cash waqf. They are as follows:

1. *Nadzir* is a person/entity that is assigned to manage waqf fund.
2. As a matter of fact, *waqif* has the right to determine person or institution that will manage his/her waqf fund. If a *waqif* does not appoint a *nadzir*, then *Kadi* (Islamic Judge) will do it for him/her. [Asy-Syarbini *op.cit* p. 396].
3. *Fiqh* experts determine flexible requirements for being a *Nadzir*. Fit and proper *nadzir* should be capable for managing waqf fund to be productive source of capital. If a *nadzir* cannot do his job properly, *Kadi* must replace him with someone else after explaining reasons for the replacement.
4. *Nadzir's* responsibilities include:
Maintaining waqf asset, preparing waqf asset for rent, managing waqf fund, collecting waqf investment returns and distributing them to *al-mawquf 'alaih*. *Fiqh* expert can expand these authorities as needed.
5. ***Nadzir's* division of work.** A *waqif* can appoint more than one *nadzir* to handle his/her waqf fund. If a *waqif* does so, each *nadzir* will conduct a more specific job. Asset maintenance, investment management, and investment return distribution will be carried out by different *nadzir*. If there are more than one *nadzir* for one job, a decision can only be made after necessary consultation among them.[Asy-Syarbini *op.cit*. hal 410-411].

² This paper was presented in International Workshop on People's Economy Empowerment Through Productive Waqf Management, in Batam, 2002.

6. **Salary for Nadzir.** *Waqif* may determine certain amount of money or percentage of waqf investment return as compensation for *nadzir*. A *nadzir* will not receive any compensation if he quits the job or gets fired. [*Ibid*].
7. A *Nadzir* cannot take any part of waqf fund. [*Ibid* hal 412].

3.4. Cash Waqf Management Institution's Duties and Responsibilities

Waqf Management Institution should manage waqf fund in such a way that the collected fund become more and more productive. The more the waqf investment return, the more *mawquf 'alaih* benefit from waqf fund. According to *fiqh*, *nadzir*, as a waqf fund manager, is obliged to handle the fund productively (Utomo, 2001). Furthermore, Manshur bin Yunus al-Bahuty states in *Syarh Muntaha al-Adaab* (p. 504-505) that *nadzir* is responsible for maintaining, expanding, and developing waqf assets in order that they can provide some income, such as investment return, rent fee, agricultural products, etc.

3.5. Waqif's Requirements

Waqif has a right to settle on particular requirements related to his/her waqf. Such a requirement is classified in two groups, i.e. (1) requirement that goes in line with *syariah*, and (2) condition that does not align with *syariah*. *Nadzir* does not have to obey the latter, even if *waqif* has agreed to donate his fund as waqf. Any rule or requirement should not violate Islamic law. *Fiqh* experts affirm that power of *waqif's* requirement status should not contravene Allah The Almighty's rule.

In terms of waqf management, there are two types of *waqif's* interests. Firstly, a waqf practice in which *waqif* fully delegates his waqf management authority to *nadzir*. This practice is called **Waqf Mutlaq**. Secondly, a practice named **Waqf Muqayyad** in which *waqif* requires the donated fund to be managed in particular way and the gain to be delivered to certain target.

4. Family Development and Microcredit Program

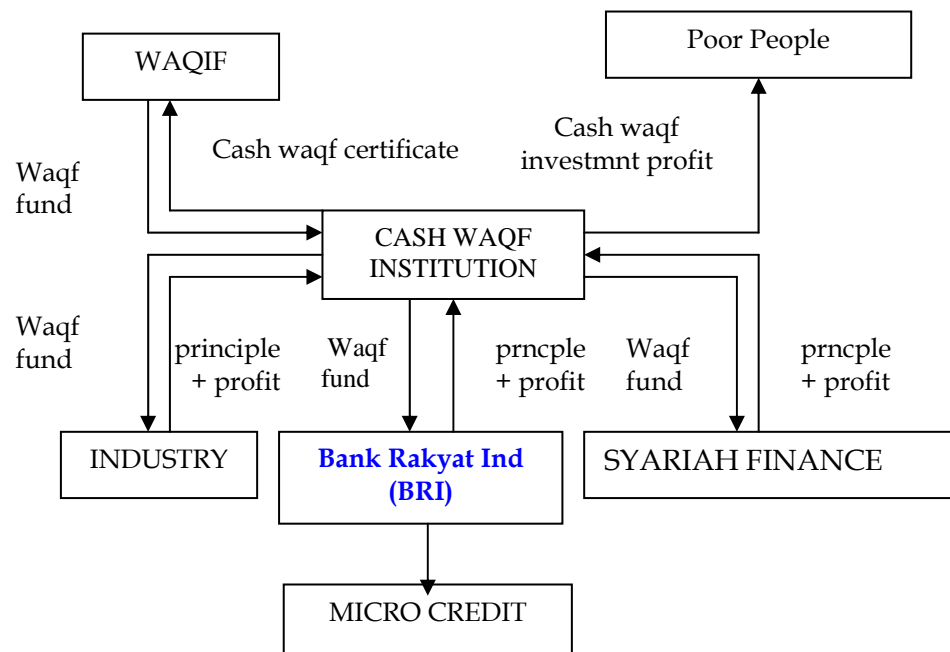
Families' business activities have significantly influenced economy of a community, particularly in developing countries. Big manufacturing companies indeed dominate mass production processes, both for goods and services, but most of enterprises are initiated by family. In addition, family's consumption behaviour also affects production and marketing activities, as well as other business activities.

Government's programs for family business empowerment has to do with informal sector development efforts, as most of family businesses are operated in non formal format and business system. Family businesses, which absorb the largest number of employee, are also found mostly in small and medium scale. In most developing economies, these small and medium enterprises (SMEs) has limited access to formal financing practices, as well as to adequate government's technical assistance.

Such a general circumstance in some extent applies in Indonesia. In spite of the existence of government agencies for SMEs development, government's contribution to SMEs development in the country has been insufficient. Policies issued fail to reach the essence of SMEs development subjects, eventhough the government realizes that Indonesian SMEs have helped the country survive the recent financial crisis.

Fortunately, however, some government-owned banks have found that SMEs in Indonesia are important businesses partners. Bank Rakyat Indonesia (BRI), one of them, has initiated and maintained longterm partnership with SMEs in all provinces in Indonesia. BRI focuses its main services on providing credit and relevant technical assistances for micro businesses. BRI's microcredit programs have been proven to be highly effective in helping SMEs accelerate their business.

With its long time experience and broad network, BRI is expected to be able to efficiently assist cash waqf management in Indonesia, including cash waqf fund collection and its allocation to real sector.



Scenario of Cash Waqf Implementation in Indonesia

In 2000, Dian Masyita conducted a research on cash waqf implementation design in Indonesia. This research used system dynamics methodology to capture dynamic phenomenon of a system, in which variables change simultaneously as time moves. She also carried out a survey on possible implementation of cash waqf in Jakarta and Jawa Barat. The survey concluded that most people do not trust any existing government institution to manage cash waqf fund and to control its investment activities, especially because cash waqf management will involve large amount of money. Most of them also recommend that if a special purpose institution is established to manage cash waqf fund, it has to be highly capable for detecting any potential dishonesty and for assessing performance of cash waqf fund manager, i.e. *nadzir*.

Based on the survey result, using exclusively designed computer program, she then simulated some scenarios of cash waqf implementation to formulate some policy concepts that are applicable in Indonesia. The computer program was designed to help her (1) estimate cash waqf potential in alleviating poverty in Indonesia, (2) supervise performance of *nadzir* or waqf fund management institution, and (3) identify appropriate policies that are conducive to poverty alleviation programs.

Since there was no similar study preceding the research, some assumptions were applied. The ability of three national TV corporations (RCTI, SCTV, and Indosiar) to collect donation amounting IDR 2 billions in two nights in 2000 was used as an assumption basis of amount of fund could be gathered by cash waqf management institution. It was then assumed that the institution could obtain IDR 50 millions a day in form of cash waqf from various components of Indonesian people. The study also assumed that the gathered fund would grow 25% annually and it would be invested in *syariah* financial products with profit sharing-based returns of 27% per annum (under optimistic condition).

Using the above assumption and data supplied by *Biro Pusat Statistik* (National Bureau for Statistics), *BKKBN* (National Coordinating Agency for Family Planning) and *Syariah* Financial Institution, the computer-based data process resulted in approximation of cash waqf investment return, which reached IDR 3,947 billions a day. Such an amount of fund is expected to be available for poverty alleviation efforts, especially through microcredit distribution programs. If this plan can be implemented smoothly and if those assisted SMEs can get well run maximum of 5 years after being financed, it will take 35 years to eliminate poverty in Indonesia. Other scenarios can be seen on table 1 below:

Table 1. Policy Scenarios														
CASH WAQF IMPLEMENTATION IN INDONESIA														
(Policy Evaluation in terms of profit and time needed in alleviating poverty in Indonesia)														
Scenario	Grw_Fnd	Csh_Inf	Return		ROI			Micro credit		Bad credit	Move	Pure Inv	Time (year)	Profit (Billion)
			dpst	rdsn	A	B	C	Rtrn	Fund					
capital	25%	50 M	28%	27%	36%	40%	35%	6%	1 juta	0%	5 thn	-	34,86	3,947B
1	50%	-----model dasar-----										18,62 th	137,7 M	
2	10%	-----model dasar-----										71,18 th	0,682 M	
3	<i>mdl</i>	100 jt	-----model dasar-----										31,04 th	7,905 M
4	50%	100 jt	-----model dasar-----										17,14 th	292,1 M
5	<i>mdl</i>	<i>mdl</i>	10%	15%	25%	25%	25%	3%	--- model dasar---			35,73 th	0,207 M	
6	--- <i>mdl</i> ---		30%	40%	45%	45%	45%	15%	--- model dasar---			31,44 th	4,635 M	
7	-----model dasar-----								3 juta	--- <i>mdl</i> ---		40 th	3,947 M	
8	-----model dasar-----								6 juta	--- <i>mdl</i> ---		43,08 th	3,947 M	
9	-----model dasar-----								0-10%		--- <i>mdl</i> ---		35,4 th	2,757 M
10	-----model dasar-----								20-30%		--- <i>mdl</i> ---		35,54 th	2,566 M
11	-----model dasar-----								10 thn		<i>mdl</i>		35,78 th	3,947 M
12	-----model dasar-----								15 thn		<i>mdl</i>		36,98 th	3,947 M
13	-----model dasar-----								100 jt				33,56 th	5,822 M

Table 1 Scenarios of Potential Cash Waqf Management

It can be concluded from the proposed scenario that the larger the amount of cash waqf collected, the larger the amount of fund can be invested in highly cost-effective profit sharing-based portfolios, and the larger the amount of return can be distributed to poor people. The more fund allocated to finance microbusiness, the sooner poverty in Indonesia can be alleviated.

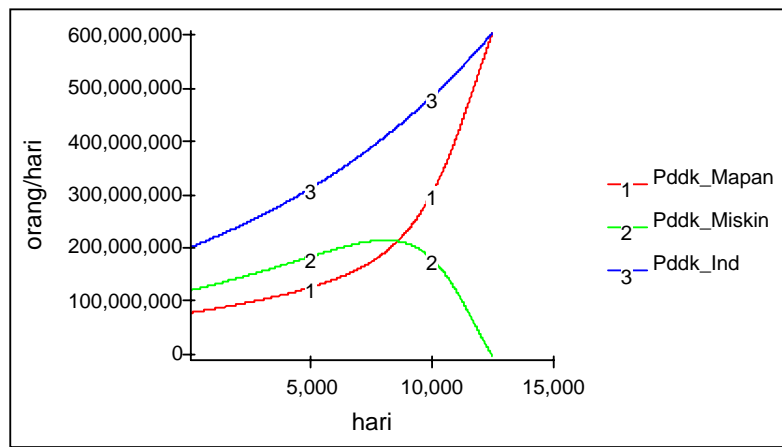


Figure 1 Simulation Result

Figure 1 shows the simulation result. If cash waqf institution can operate well, it will take 9,125 days (25 years) to reduce number of poor people and 35 years to completely eliminate poverty in Indonesia. Poor people, in this study, are those with very low quality of life. In other words, poor people are not only those who cannot feed once a day, but also those who cannot afford proper health and education services.

The Role of BRI in Cash Waqf Management

Based on the above study result and various scenarios proposed, some microcredit management strategies were then carefully formulated to ensure the achievement of cash waqf investment goals. However, the recommended strategies will not be effective without a capable executor. What institution would be the most suitable perpetrator of the strategies, then?

The chosen institution should have broad network and access to all regions in Indonesia, longtime experience in managing fund for disadvantaged people, proven capability for dealing with productive business activities, and strong commitment to community development. The criteria are set as combination between profit orientation and social responsibility to ensure accomplishment of cash waqf program.

As mentioned earlier, BRI has proven to be a highly competent and experienced institution for microcredit programs management, especially for those related to rural community development. BRI is the only bank in Indonesia that has specialized in developing SMEs since its first year of operation. Its achievement and commitment in this field have been well recognized nationally and internationally. With its tested microcredit program, BRI is expected to be able to efficiently circulate cash waqf investment gain as loan to microbusinesses under profit sharing system. For that reason, the next discussion will plot BRI as the perpetrator of the strategies.

Microcredit Management Strategies

Most of funds collected through cash waqf certificate issues will be allocated as loan for microenterprises. This microcredit program should particularly be aimed at helping poor people initiate their business and enhance their quality of life, accordingly. Nevertheless, merely supplying them with capital is not sufficient, since most of them do not have adequate knowledge and skill to choose and to run a business that is suitable to their condition. Consequently, relevant business technical assistance is needed to help them survive. Hence, BRI as the institution in charge for cash waqf fund management will not only manage fund

allocation for microcredit, but also will provide necessary business technical assistance to the relevant microenterprises.

Strategy # 1 Supporting Small Business Development Efforts

Conducive business environment and strong business structure are required to strengthen an economic system. BRI should develop beneficial cooperation with relevant government agencies to induce the abovementioned conditions. Below are two possible efforts for strengthening business structure:

- (1) Proposing certain policy to protect small businesses from unfair business competition. The proposed policy has to legally ensure that small businesses have non-discriminatory opportunities to grow and to become tough entities.
- (2) Recommending a regulation that gives small businesses proper accesses to capital, technology, and market.

Strategy # 2 Recognizing Small Business' Production Characteristic and Nature of Product

As an experienced institution, BRI may be familiar with small enterprises' production characteristic and product features. However, nature of small business, to which BRI will allocate waqf fund investment outcome as loan, should be in line with *syariah*. Below are specification of small business production and products.

- Production technology used by small business mostly affects nature of its products. Its production process is so simple that other business entities can easily replicate the product or even make better products. This situation induces more business entities producing the same product, which will reduce the related profit margin. If nothing is done to ease this problem, small businesses will never be able to enhance welfare of people involved in the businesses.
- Number of competitor in small scale business is quite large and keeps increasing. Production volume of such a business escalates accordingly, which then lowers price of the products, since price determination of most of small businesses is in line with market movement. For illustration, some items produced in Jawa Barat have reached post maturity phase due to over supply, e.g. textiles, handicrafts, etc. Recent financial crisis has lessened domestic demand for most items, which further confines most of small businesses to recover. Market and product innovations are therefore inevitable. Meanwhile, nature and quality of medium scale business ' products

are different from each other. Hence, medium scale businesses may determine specific price of their products.

The above circumstances highlight crucial role of BRI as microcredit distributor and technical assistance provider in assisting those small businesses appropriately.

Strategy # 3 Understanding Small Business' Nature of Marketing

Most of small businesses find it difficult to recover from the economic crisis effect due to limited capabilities in marketing and production. Some frequently faced problems are as follows: (1) Insufficient information on market specific, efficient technology, design requirement and quality standard; and (2) inspite of their ability to supply high quality raw materials, SMEs' necessity for technical assistance on product design, especially in leather and *batik* industries.

In this context, BRI should be able not only to help them make proper business plan, but also to cover the abovementioned marketing insufficiencies.

BRI may also establish a national marketing agency to help SMEs transfer their products from an over supplied area to other areas. The agency and its activities will be funded using cash waqf fund. This proposal will allow SMEs with high skills and innovation in a region to survive (or even enhance) their business without having to face oversupply of their products in the region.

Strategy # 4 Recognizing Comparative ad Competitive Advantage of Small Business

Comparative advantages include abundance of raw materials, market accessibility, availability of low cost human power, and government facilities. While, competitive advantages include low price, better quality, uniqueness, technology innovation, and high quality services.

Almost all small businesses cannot acknowledge their business advantage correctly. BRI as technical assistance provider should be able to map and position the assisted small businesses' product and organizational advantages. This assistance will allow them to reconize their strengths and weaknesses, and will enable them to develop their potential and minimize their flaws.

BRI also has to pay attention on possible partnership to optimize business potential. There are two popular categories of partnership that are relevant to small business development efforts, i.e:

(1) Vertical Partnership

Vertical Partnership reflects business relationship between large and small business, which include:

◆ Inti-Plasma System

Many agro industries have employed this system. This system can also be applied in other industry, such as manufacturing industry, if the expected final product can be divided up. A big manufacturing company may assign small companies to produce components of the product and the manufacturing company will assemble them.

◆ Trading System

In this system, small companies make their products and a bigger company is responsible for product promotion and trade, both in domestic and global markets. Handicraft industry usually employ this system.

◆ Financing Plus System

In this system, a financial institution provides not only loan, but also technical and managerial assistance to a small business. Joint Venture is the most popular form of this system.

(2) Horizontal Partnership

Horizontal Partnership is basically a complementary relationship among small industries from different regions. This collaboration will help the involved small industries operate more efficiently. For illustration, small industry in Ceper Klaten has been well known as raw metal work specialist, while that in Lik Takaru Tegal has been recognized as specialist for machinery component (e.g. hand tractor, water pump, boat motor, etc). If small industry in Ceper Klaten can handle raw metal works for Lik Takaru small industry's orders, that of Lik Takaru will save more money from lower production cost.

Horizontal Partnership can also be applied between trade and service industry to overcome oversupply and over demand problems. A research titled *Analysis on SMEs Development & Restructuring Policies*, carried out by LP3E Fakultas Ekonomi Unpad in 2000, elaborates this practice. It has been proven that if this partnership can be done involving more industries and regions, small industries will develop much better. In fact this kind of partnership is not popular and not developed well due to some difficulties in its application, e.g. cultural handicap, inadequate coordination among relevant government institutions, etc.

Strategy # 5 Reducing Non Performing Microcredit

As mentioned above, BRI is responsible for ensuring that cash waqf-based loan allocated to small businesses will perform well. Therefore, BRI should regularly supervise their business management, and provide necessary technical and managerial assistance. BRI may also help them market their product if necessary.

When the assisted small businesses can operate smoothly, they will repay the debt promptly.

Strategy # 6 Knowing Amount of Time Needed by The Assisted Poor People to be Independent

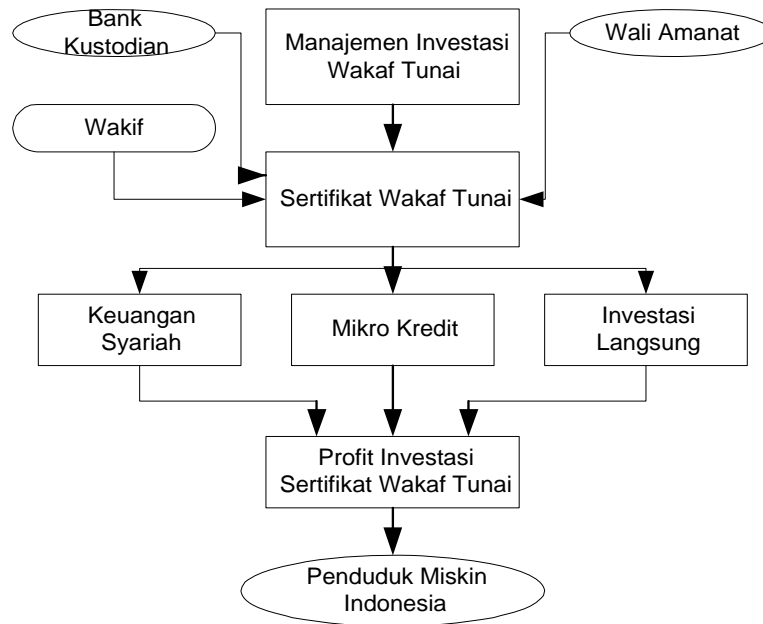
One of the basic assumptions on this proposed model is that the assisted poor people will get independent 5 years after their business being aided. A small business may need less or more than 5 years to get well run, particularly depending on the chosen business type and capability of the involved human resources.

In the policy scenario arrangement for this proposed model, duration of 10 years and 15 years are also processed in the simulation. Certainly, the longer the duration of a small business' being successful, the longer time needed to alleviate poverty in Indonesia.

Cash Waqf Implementation Mechanism in Indonesia

Cash waqf management institution will be established in every province, city, and district. National Cash Waqf Management House located in Jakarta will control national cash waqf management activities. Collaborating with prominent Indonesian communal organizations (e.g. *NU, Muhammadiyah, Persis*, etc), *Pondok Pesantren* (Islamic School for Religious Studies), Islamic Banks, and *Syariah* Investment Institution, BRI may use its network and longtime experience to lead this institution.

BRI that runs the national house will collect cash waqf fund by issuing cash waqf certificates to the nation wide. Acting as a *nadzir*, BRI will then carefully allocate the collected fund to any *halal*, safe and productive investment opportunity. The investment outcome will be delivered to small businesses as profit sharing-based loan through BRI's network in all cities and districts. This practice simply enables poor people in remote areas use waqf fund donated by people living in big cities. Furthermore, people living overseas, such as Moslems from worldwide, can also access Indonesian cash waqf certificates.



Cash waqf certificate will be issued in various denominations, e.g. IDR-100-million, IDR-50-m, IDR-10-m, IDR-5-m, and IDR-1-m, in order that more prospective donors can afford them. Name of the donor (it can be on behalf of dead individual) and specific purpose of the donation (e.g. for educational services, health assistance, or other welfare enhancement efforts) will be stated on the certificate.

As the appointed *nadzir*, BRI may carry out the followings to sustain investment return of cash waqf fund:

1. Invest cash waqf fund in various domestic or global *syariah* portfolios with good prospect.
2. Invest cash waqf fund in real sectors or businesses whose sources, process, and outputs are in line with *syariah*. Fund can be invested in existing business or in newly initiated one. *Nadzir* may establish new businesses that provide public services, such as convenience stores, hypermarkets, basic food stores, universities, hospitals, etc. This will generate more job opportunities and appropriately satisfy some people's basic needs.
3. Allocate some of the collected fund as profit sharing-based loan to selected small businesses. Technical and managerial assistance are required to accompany this investment. If this investment runs well, *nadzir* will not only generate returns, but also help accelerate poor people's economic development.

As *nadzir*, BRI should also pay attention on some points described below:

- a. **Transparency.** *Nadzir* has to manage cash waqf fund transparently and regularly make financial and performance reports, which are accessible by *waqif*.
- b. **Productivity.** *Nadzir* has to be able to manage the fund productively, so that disadvantaged people can benefit from cash waqf fund continuously.
- c. **Trustable.** Integrity of a *nadzir* is crucial. It has to avoid any business opportunity and process that can lead to moral hazard. All proposed business activities should be assessed in terms of Islamic law.

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