



Integrating Islamic Social and Commercial Finance in Financial Stability

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ABSTRACT

Integrating Islamic social and commercial finance into Islamic financial institutions can be important in maintaining the stability of the entire financial system by maximizing the role of zakat and waqf (as well as infaq, shadaqah) in the realization of micro and macro security. The aim of this research, which is a bibliographic study according to the opinions of Muslim economists, a study of the Islamic financial system and other research, reveals that documents used as discussions on the integration of Islamic economics, commercial finance and social are very important in efforts to improve the coherence of the financial system and social development. - economy in Indonesia. The type of data used by the author in this research is secondary data, namely data obtained from magazines, literary books and the Internet. The data obtained was then analyzed using descriptive analysis methods. From a macro perspective, sharia banking will increase financial system stability. If 0.5% waqf is applied to customer financing, then the waqf funds will accumulate every year. If 10% of savings customers become waqf each year, the waqf funds will accumulate for one year.

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1. INTRODUCTION

The idea of integration or fusion in this article is an ideal level in the application of sharia economic principles, a system that will benefit humanity. Currently, the global financial system is experiencing a prolonged crisis. The monetary economic crisis still shows no signs of easing. In this status, the government needs solutions that can respond to and overcome global economic challenges.

The Islamic economic and financial system is also seen as a system that is able to answer this challenge. In line with what was stated, the Indonesian economy faces challenges in the form of inequality and poverty. Sharia economics is considered the answer because it focuses on distributing income to all levels of society and optimizing production.

Sharia economics aims to achieve strong and stable growth, based on the synergy of social factors. Through this, inequality will be eliminated and poverty will be reduced. Why not, the economy is said to be in balance between managing the community's economy with sharia sponsorship and the piety of people who have spent their excess wealth to meet the living needs of other people.

In the traditional economic system, the commercial sector in the financial system always ignores the social aspect because the commercial sector seems to seek high profits and is always in conflict with the main objectives, namely: *three bottom lines* (reach, sustainability and health impact). Efforts to maximize profits are a reasonable goal in the current conventional secular economic system, which is dominated by commercial financing and excludes social financing.

Temporary That, financing commercial conventional on basically No stable, whereas three essences of finance social conventional not so achieved (Zeller And Meyer. 2002) Because exists change mission

(Armendariz. 2013) and commercialization, which leads to integration of the two between commercial marketing financing And financing social conventional For reach well-being social this is very important small the possibility.

The situation is likely to be worse if the commercial aspects are inherently unstable, prone to crises, and the social aspects of the conventional system that were originally intended to help achieve three solid goals will ultimately be commercially exploited.



In contrast to the dominant system, the sharia financial system does not only pay attention to commercial aspects but also focuses on social aspects to achieve the ultimate goal of sharia financing, namely *falah* (prosperity in this world and the hereafter). Meanwhile, sharia commercial finance is basically stable (Aziz. 2010) including the prohibition of usury and *maysir*, as well as risk sharing to facilitate productive investment, zakat obligations and *waqf* recommendations to stimulate the economy and encourage commercial and social investment, while sharia social finance can simultaneously be achieved three goals (Ascarya. 2015).

Highlights the clear differences between conventional and Islamic systems. The pillars of Islamic economics and finance include Islamic commercial finance (such as partnerships, business realities, (political and ethical) as well as Islamic social finance such as zakat and *waqf*. So, in countries with dual financial systems, the stability of the financial system can be improved through the integration of both aspects on a small/micro scale.

In recent years, Islamic commercial finance has imitated conventional systems by implementing fractional reserve banking, a pooling of funds and liabilities that can ultimately lead to risks of bubbles, mismatches and illiquidity resulting in the global financial crisis (GFC). These risks are always inherent in the conventional financial system, the consequences of which occur when Islamic finance does not pay as much attention to zakat, *waqf*, *infaq* and *shadaqah* as social finance does.

The government is trying to develop an alternative model that explains Islamic finance being integrated into Sharia Banks (IB/Bank Islam), People's Sharia Financial Banks (BPRS) and Baitul Maal wat Tamwiil (BMT). Adding to the previous explanation, IB coordinates with Internal Rating Based (IRB) and BMT can collaborate with Zakat and *Waqf* institutions to collect zakat and *waqf*, while *waqf* assets are still collected directly by *Waqf* institutions.

Zakat can be allocated by zakat organizations for *mustahik* consumption and production programs. In addition, direct *waqf* will be used to build social *waqf* facilities or productive *waqf*, while indirect advances can be given to finance IB, IRB and BMT MSMEs or organized *waqf* organizations investing in the real sector.

Islam.



Concludes that integrating Islamic social and commercial finance into Islamic financial institutions can be important in maintaining the stability of the entire financial system by maximizing the role of zakat and *waqf* (as well as *infaq*, *shadaqah*) in the realization of micro and macro security.

The purpose of this research, which is a bibliographic study according to the opinions of Muslim

economists, a study of the Islamic financial system and other research, reveals that documents used as discussions on the integration of Islamic economics, commercial finance and social are very important in efforts to improve the coherence of the financial system and social development. -economy in Indonesia.

The sharia economic system is an economic system based on Islamic values and teachings (Nugraha, 2013). Because it is based on sacred values, the Islamic economic system will of course be different from the capitalist economic system taught by capitalism or the socialist economic system taught by socialism. In general, it can be said that sharia financing is subject to the rules and provisions of mu'amalah fiqh (Noor, 2017).

This requirement will cause relatively significant differences between Islamic finance and conventional finance. Their skepticism is understandable, because they still do not believe in the existence of interest-free financial institutions (Efa, 2013). Likewise, would outside observers suggest that the financial system could operate without interest rates?

The sharia financial system or Islamic finance consists of two fields, namely: the first is the commercial sector and the second is the social sector (Nasar, 2017). The commercial sector is dominated by Islamic banking, Community Sharia Finance (BPRS), Sharia Capital Market and the non-banking Islamic financial sector. Meanwhile, community or what we usually call Islamic social funds are implemented through religious social funds managed by zakat and waqf experts.

A form of implementing the sharia economic system regarding sustainable development is a fundamental philosophical recommendation in the form of Islamic ecological ethics. (Arifin, 2013) The concept of Islamic ecological ethics essentially represents the idea of a sharia economic perspective regarding the relationship between humans and the environment. Islamic ecological ethics is the basic principle of Islamic ethics which has been widely applied to the basics of sharia economics such as love of justice, *maslahah* and harmonization (Islam, 2004). The basic principles of sharia economics will encourage the realization of balanced growth both from a material and spiritual perspective and including natural sustainability.

Since the beginning of Islam, the Prophet *sallallahu'alaihiwasalam* and his companions taught that daily trade and community activities were never divided into two. Not separating commercial and social goals, Uthman bin Affan *Radhiallahu'anhu* donated as much well water as he bought free from a Jew named Ruma, as much as the community wanted.

Furthermore, he donated all his assets in the form of a thousand camels loaded with wheat and food as alms to the poor when Medina experienced a drought, ignoring his commercial motives. The story of the well is found in *Shohih Bukhari*, *Sunan Tirmidhi* and *Sunan Nasa'i*. In *Shohih Bukhari* it is stated that *Saidina Utsman* was the one who worked on the "Ruumah Well" for the needs of the wider community.

In the story of *Sunan Tirmidhi*, it is said that the well was originally privately owned and was bought by *Saidina Utsman* who then donated the well to anyone who needed water. In the story of *Sunan Nasa'i*, it is also told that when *Rasulullah (saw)* migrated to Medina, there were no wells suitable for drinking except the well in the house.

Then *Rasulullah (saw)* stated that whoever buys the well and its water can be widely used by Muslims, his reward will be heaven. So, *Saidina Utsman* was willing to dig deep into her pockets to buy a well. From the hadith above it can be concluded that *Saidina Utsman* is the sponsor of the well house, so the profits from the well are not only for the benefit of the original owner's business, but the well is also planned to be built. to meet the needs of broader social life and wider society.

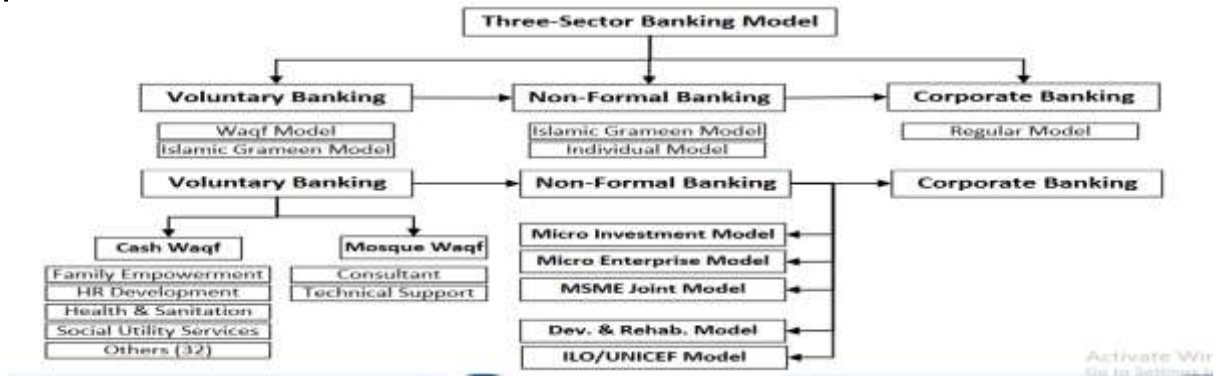
The history of the Ruumah Well did not end in the time of *Saidina Uthman* but continued until modern times. This well, which is located in the Medina area, has been protected and maintained throughout Islamic history by the government that controlled the land of Medina since the Umayyad, Abbasid and Ottoman dynasties, until now when the country of Medina is controlled by the Saudi Arabian government.

We can visit the House Well, a legacy of *Saidina Uthman* when we visit Medina. *Saidina Utsman* continued her social financial contributions during the *Abu Bakar Siddiq* era. Narrated by *Ibnu Abbas*, the Hijaz region was threatened with famine during the reign of *Abu Bakr*. Medina experienced hunger and difficulty finding food.

Meanwhile, trading activities on the market are taking place calmly. At that time, *Uthman bin Affan's* trade delegation arrived from Syria. The caravan consisted of 1,000 camels carrying wheat, olive oil, raisins, and more. The traders and middlemen immediately attacked *Uthman* and offered him five times as much. However, *Uthman* chose to give all his wealth and his camels to the people of Medina, because Allah had promised tenfold profits.

An example of the integration of commercial and sharia social financial activities implemented in LKS is the banking model. There are three sectors: voluntary banking, informal banking, and business banking. Banks voluntarily use the waqf model and the *Grameen Syariah* model is supported by waqf funds. Informal banking services, using the *Grameen Syariah* model and individual models for micro businesses.

At the same time, corporate banking offers conventional banking products and services. This three-sector banking model is implemented by *Social Islami Bank Limited (SIBL)* Bangladesh, which was founded in 1995. *SIBL* has developed a model of low-cost financing and cross-subsidies for micro-enterprises.



Currently, the practice of Baitul Maal in Indonesia is better known as Baitul Maal Wat Tamwil (BMT) and has a very different role in society (Hamzah, Rusby, & Hamzah, 2013). It is a financial institution that was first introduced by the Prophet Muhammad SAW and then continued by his companions.

Baitul Mal Wa Tamwil (BMT) is an independent and integrated business entity whose core is Baitul Mal Wa At-Tamwil with activities aimed at developing manufacturing and investment businesses to improve the quality of small and medium businesses by encouraging savings, activity and finance. economy . support (Ridwan, 2013).

Conceptually, BMT also presents itself as a zakat (Amil) organization. Baitul Maal collects Islamic social funds , such as zakat, infaq, alms and grants from donors, namely muzakki (zakat), munfiq (infaq/charity father) and wakif (sponsor). These social funds then become eight channels that we can rely on to fulfill the requirements, namely debtors (gharimin), free slaves (fir-riqaab), poor people (miskin), poor people (masakin), people who have recently converted. Islam (muallaf), people who are on the road (ibnu as-sabil), people who follow Allah's path (fi sabilillah) and people who manage zakat ('amil).

Zakat can be used for rehabilitation (debt repayment, basic needs), empowerment (training, working capital and investment) and development (such as social programs, da'wah and defending Islam) in an asnal manner. At the same time , non-zakat funds can be managed and used according to their intended purpose, in accordance with sharia law, for the benefit of the wider community.

Baitut Tamwil collects money between members and prospective members through core savings and mandatory savings (in the form of capital), as well as voluntary savings in the form of various deposits and savings (for example third parties), as in cooperatives in general. If third party capital is insufficient, BT can seek funding from Apex Bank, Islamic Bank or other sources.

BT then channels capital to members and prospective members primarily for productive purposes through various profit sharing (such as branding, mashrahah, muzara'ah, mukhabarah and mushaqah) and non-profit participation (such as murabahah, ijarah and ba'i bithaman, ajil contracts). Apart from that, BT also provides various microfinance services such as micro takaful, money transfers, bill payments, ATMs, mobile banking and internet banking.

Conceptually, BMT has two functions or roles (Andriani, 2005), namely: a. Bait at-tamwil (bait means house, at-tamwil means real estate development) is especially effective in capital investment and business development for micro and small businesses, including savings and financing. The result aims to reduce poverty (Adnan & Ajija, 2015). b. Bait al-mal (bait means house, maal means property) specifically accepts zakat, infaq and alms deposits and optimizes distribution according to the rules and mandate.



BMT is also a comprehensive financial broker, especially social inclusion carried out by the Baitul Maal management and financial inclusion carried out by the Baitul Tamwil management within the framework of its internal sharia spending.



2. RESEARCH METHODS

In this research, the factors that influence corporate social responsibility disclosure policies include: This learning includes a literature search by looking for theoretical references related to the cases or problems recorded. References to theories obtained through research and literature are used as the basis and main tools in research practice in this field.

The type of data used by the author in this research is secondary data, namely data taken from magazines, literary books and the internet. The data obtained was then analyzed using descriptive analysis methods. The descriptive analysis method is carried out starting from a presentation of the facts, followed by an analysis that does not just describe but also provides a complete understanding and explanation until a final conclusion is obtained.

3. RESULTS AND DISCUSSION

a. Integrating Islamic Commerce - Social Finance at BMT

BMT as Cash Waqf Nazir and LKS-PWU collect Cash Waqf through Wakif. The results will be recorded by BMT Baitut Tamwil. BMT can use cash starting from X% to be distributed to MSE members. The remaining (100-X) % , if any, can be invested in real or financial fields.



BMT seeks to free society from "evil", usury and usury, by applying Islamic values in the economic, social, educational and health fields by implementing the current Grameen Syariah model. BM while Nazir collects waqf from the Wakif. The funds obtained will be transferred as BT, which will be used for micro financing for BM-assisted MUs that have successfully completed the Qardh financing program with a shared responsibility model.

ASSETS	LIABILITIES
Cash	Wadiah Deposits
Bank Deposits	Investment Deposits
Receivables (<i>Murabahah, Qardh, etc.</i>)	Waqf Short-term Investment Deposits
Financing (<i>Mudharabah, Musharakah, etc.</i>)	Bank Financing
Long-term Investment	Waqf Equity
Fixed Assets	Capital

This waqf fund is classified as an Equity Waqf which is useful in strengthening BMT's capital structure and reducing dependence on loans from sharia banks. Annual profits are used each year to cover operational

costs. Use it every month to fund Baitul Maal's social programs. Baitul Maal also owns and operates an Islamic boarding school for entrepreneurship, where impoverished and passionate students change their destiny.

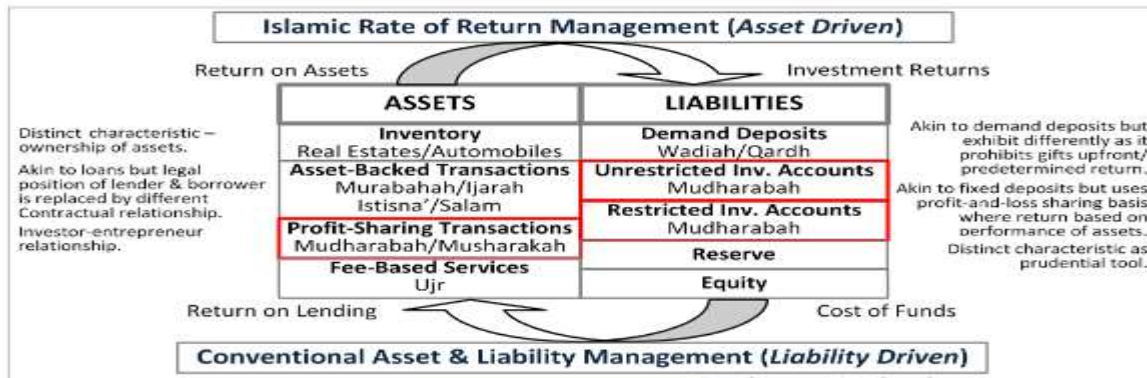
Baitul Maal offers a number of special social programs. Disaster Management, Education (TPA - Al-Quran Park, TKA - Al-Quran Kindergarten, Majlis Taklim - Islamic Study), Orphanage for the Dhuafa, Construction of Mosques, Cheap Basic Food, Providing free food and ambulance services, free ambulance services, planting cassava and rubber.

The benefits of BMT as Nazhir and manager of cash waqf will be maximized not only for the final alaih mauquf (i.e. beneficiaries of social service or activities supported by cash waqf income), but also for intermediary alaih mauquf (i.e. BMT and cash management). . BMT waqf members). Management of waqf funds will be more efficient because BMT can collect waqf effectively through Baitul Maal which is experienced in the field of zakat and infaq, has waqif potential from employees, members and other external stakeholders, as well as Baitul Tamwil which is experienced in microfinance distribution and practice. investment in the field.

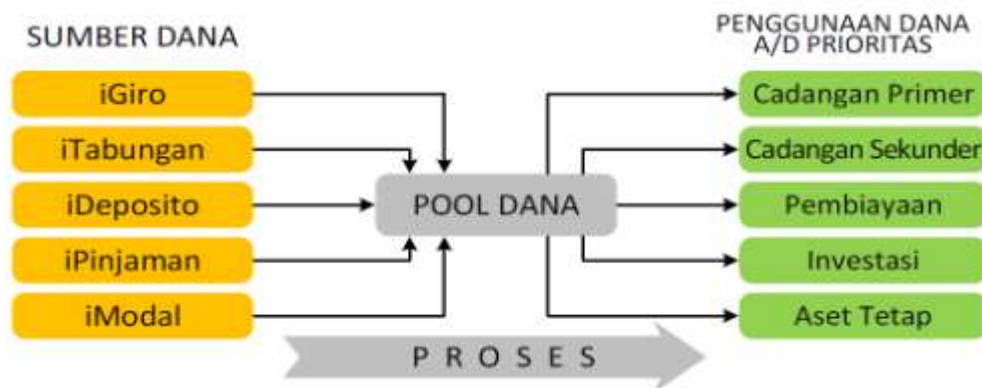
If BMT becomes Nazir and LKS-PWU, then BMT's obligations are fulfilled by increasing Waqf investment savings and including Waqf capital, so that over time bank loans will decrease, total liabilities increase, evaluate the amount of the three capitals in relation to total liabilities. will increase, liquidity will increase, skewness will decrease and the cost of capital will decrease.

b. Integrating Commercial and Community Finance in Sharia Banking

Sharia law throughout the world, including Indonesia, is starting to move away from the concept of "ideal" sharia banking and "approaching" and "imitating" regular banks. Approaching the ideal of an Islamic bank is "asset oriented" and " fund allocation ". In practice, this is similar to using "responsibility-based" and "combined" approaches like traditional banks.



Combined Approach



Process:

- Funds are collected into foundation funds .
- The money from the fund is then transferred to reserves, endowment funds, investments or fixed assets.
- The funding period is not linked to the funding period.
- High leverage and bubbles due to FRB system.
- Mismatch and liquidity problems.
- There should be a lender of last resort.
- Liquidity management is required.

Fund Allocation Approach



Process:

- Islamic banking accommodates financial demands by looking for sources of capital that are fit in terms of time and amount.
- First get an investment project in a real field, then find the required financial resources.
- Minimizes bubbles, asymmetries and liquidity management needs.
- Optimizing real broad funding.
- The model changed from Unmixed Group to Mixed Group (Fund Group and Fund Allocation).

Alternative Solutions



LKS such as Sharia Banks and BPRS, according to Law Number 21 of 2008 concerning Sharia Banking Chapter 2 Article 4, can integrate Sharia Commercial Financing and Sharia Social Financing by forming Baitul Maal to manage ISF management, because:

- Sharia Banks and UUS can carry out social functions in the form of baitul mal funds which receive zakat, infaq, alms, subsidies or other social funds and transfer them to zakat management institutions.
- Sharia banks and UUS can collect social funds from waqf in the form of collecting and distributing them to waqf managers (nazhir) in accordance with the wishes of the waqf giver (wakif).

ASSETS	LIABILITIES
Cash	<i>Wadiah</i> Deposits
Short-term Instruments	Saving Deposits
Receivables (<i>Murabahah, Qardh, etc.</i>)	Investment Deposits
Financing (<i>Mudharabah, Musharakah, etc.</i>)	Waqf Investment Deposits (30%)
Long-term Investments (60%)	Waqf Equity (30%)
Fixed Assets	Capital

The Sharia Bank with the name LKS-PWU, Baitul Maal, invests 60% of WU in sharia financial instruments. From a liability perspective, WU can be recorded as long-term "waqf investment savings" or "waqf shares" so that it is called "fund distribution". This 60% WU is long term (permanent), has never been used and the value continues to increase so that this does not happen and does not require liquidity.

In this way the BS will be healthier, its structure stronger and more resistant to external influences. From a macroeconomic perspective, Islamic banking will increase financial system stability. If the 0.5% waqf is applied to customer financing, the waqf funds will be accumulated every year. If 10% of customer savings are donated every year, then the waqf funds will accumulate in one year.

4. CONCLUSION

Sharia economic and financial development not only includes commercial aspects but also social aspects (such as zakat, infaq, waqf, and microfinance) both of which are an inseparable unit. Therefore, integration between the social and business sectors can not only reduce poverty, improve socio-economic welfare and increase access to global finance, but can also increase the stability of the financial system.

BMT is an LKMS that combines social financing (managing zakat, waqf, infaq and other Islamic charities) and commercial financing (providing microfinance services) to serve its members. ideal model for Islamic Financing. Organization to achieve the above goals on a micro scale.

BMT has a financial dependency problem (BMT always relies on external capital as a source of financing. Therefore, BMT is an ideal organization in cash flow management, which can bring benefits not only to the poor and underprivileged but also to the BMT community and its members.

Liquidity not only benefits BMT directly as a source of capital, but also reduces risk, liquidity and asymmetry, which in the long term will increase the stability and resilience of BMT's exposure to future external shocks. In particular, BMT and MSE members will benefit from cheaper microfinancing.

LKS such as Sharia Banks and BPRS in Indonesia, in accordance with the Sharia Bank Law no. Date 21, 2008 Chapter 2 Article no. 4, it is also possible to implement a BMT model that combines commercial and social finance, through the establishment of Baitul Maal, which aims to increase stability and sustainability as a contribution to stabilizing the financial system.

The authorities do not need to provide incentives but should introduce appropriate regulations for Islamic banks and ORUs interested in integrating Islamic social and commercial finance.

Sharia banks (and BPRS) while LKS-PWU receive cash waqf (WU) from Baitul Maal, write WU as Waqf Investment Deposits (WID) or Waqf Equity (WE) and WU investments in sharia financial instruments.

At the same time, Baitul Maal Syariah Bank or BPRS (as a social institution) can: 1) act as a source of cash votive waqf; 2) responsible for managing zakat, infaq and other social funds; and 3) providing micro financing in collaboration with BMT.

Islamic bankers' KPIs not only include commercial financial performance but also social financial performance, all based on *maslahah* (not just conventional quantitative measures), for example using the "Islamic Banking Maqashid Index".

5. SUGGESTION

In countries that adhere to a dual financial system, financial system stability can be improved through Islamic social finance, not only in the field of microfinance but also in the field of Islamic commercial finance, especially Islamic Banking. (IB) and Sharia BPR (IRB).

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