
RISK MANAGEMENT AT THE MICRO WAQF BANK (BWM) BERKAH RIZQI LIRBOYO CITY OF KEDIRI

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ABSTRACT

Financial inclusion has been a policy focus in Indonesia for the last decade. To improve the financial inclusion index, the President of the Republic of Indonesia with OJK launched the Bank Wakaf Mikro (BWM). So far, 62 BWMs have been established in Indonesia with a total of 62 thousand beneficiaries and total financing of IDR100.6 billion. One that has successfully increased financial inclusion is BWM Berkah Rizqi Lirboyo in Kediri City, which received the 2019 TPAKD Award. BWM Berkah Rizqi Lirboyo uses the Qardh al-hasan contract. Although it is nonprofit, BWM must be able to manage risks or uncertainties. For this reason, there must be a risk management strategy to avoid default. By using a realist ethnographic qualitative approach, this research aims to get an overview of how risk management at BWM Berkah Rizqi Lirboyo is carried out and how the interaction between administrators and borrowers so that NPL are 0%. The findings in the field show that the risk management chosen by BWM Berkah Rizqi Lirboyo is to control risk and transfer financing risk. In addition, it utilizes social capital to reduce information asymmetry.

Keywords: Financial Inclusion, Social Capital, Risk Management, BWM

INTRODUCTION

Financial inclusion has become an issue and policy focus in Indonesia in the last decade. Financial Inclusion is defined as the availability of access to various financial institutions, products and services in accordance with the needs and abilities of the community as an effort to improve people's welfare (OJK, 2016). The goal of financial inclusion is to reduce the number of unbankable people who do not have access to basic banking services such as savings and loans.

The Financial Services Authority survey results show an increase in the financial inclusion index in Indonesia. The survey results in 2013, the financial inclusion index was 59.74%. In 2019, it increased quite drastically, reaching 76.19%. When viewed in more detail by region, the financial inclusion index in urban areas reached 83.60%. While in rural communities it is 68.49%. Based on gender, the male financial inclusion rate is 77.24%, higher than the female rate of 75.15%.

To improve the financial inclusion index, which in 2016 stood at 67.8%, the President of the Republic of Indonesia Mr. Joko Widodo together with OJK launched the Bank Wakaf Mikro (BWM). This policy aims to continue to expand the provision of financial access to middle and small communities, by providing access to capital or financing for people who are not yet connected to formal financial institutions. As well as empowering community-based communities as an effort to encourage the development of productive businesses, especially in the Islamic boarding school environment.

Data recorded as of May 29, 2023, there have been 62 BWMs in Indonesia with a total of 62 thousand beneficiaries and total financing of Rp100.6 billion. The amount of outstanding financing amounted to IDR13.5 billion with fourteen thousand customers (LKMSWBM, 2023). One of the 62 BWMs that has proven successful in increasing financial inclusion is BWM Berkah Rizqi Lirboyo in Kediri City. It received performance recognition in the 2019 TPAKD Award delivered by President Joko Widodo. BWM Berkah Rizqi Lirboyo distributes financing to the community, especially housewives who are members of small business

groups who get the convenience of providing financing without collateral and without profit sharing.

So far, BWM Berkah Rizqi Lirboyo has disbursed loans totaling Rp. 4,253,500,000 to 917 customers. Currently, its outstanding loans amount to Rp. 388,010,000 to 217 customers. In its operations, BWM Berkah Rizqi Lirboyo uses the qardh al-hasan contract. This is a system related to all forms of loans without remuneration based on the law of ai-qardh al hasan. In classical fiqh literature, the concept of qardh al hasan is categorized as aqad tathawwi or a helping contract and not a commercial transaction.

As an entity, BWM Berkah Rizqi Lirboyo, although nonprofit, will always face uncertainty. BWM Berkah Rizqi Lirboyo hopes to benefit the wider community. For this reason, there must be a risk management strategy so that no bad loans. Furthermore, this research aims to get an overview of how risk management at BWM Berkah Rizqi Lirboyo is carried out and how the interaction between the management and borrowers so that non-performing loans (NPL) are 0%.

LITERATURE REVIEW

Previous Research

To achieve the above objectives, this research uses several references to previous research as a guide. One of them is Nugrahana (2020) where in his research at BWM Berkah Rizqi Lirboyo found a strategy for its customers to survive the Covid-19 pandemic situation. The step taken by BWM Berkah Rizqi Lirboyo is to adapt to using a new system in its services, especially data collection of affected customers. They also facilitate installment payments, facilitate business development by utilizing online media, and synergize with other financial institutions. The existence of the Covid-19 pandemic is part of the risks faced by financial institutions such as BWM.

Another previous research is that of Bennouna et al (2019). In his research, he developed a Credit Scoring model to predict the probability of default of new credit applicants (either existing or new customers). The results show that it can be said that customer default in MFIs in Morocco is not only related to borrower characteristics (marital status, gender, education level, type of customer), but also to factors related to the institution (purpose of the loan, interest rate level, microloan insurance product), and customer behavior within the institution (number of loans granted, number of overdue loans, number of unpaid debts, repaid debts). For this reason, it is important to pay special attention to the examination of credit reports by considering the elements contained in the model. Credit offers should prioritize those with the least deficiencies.

Risk Management as Risk Mitigation for Islamic Microfinance Institutions

Risk is an event that arises because there are conditions of uncertainty (Hanafi, 2021). Risk is generally categorized into two. First, pure risk is a risk where the possibility of loss exists but the possibility of profit does not exist. Examples are accidents or fires. Second, speculative risk is a risk where there is potential for loss and profit. Both risks can befall Sharia MFIs as an organization. So, Sharia MFIs need to manage risks so that the value of the company's organization can be increased. Risk management is needed so that Sharia MFIs can create a system that can detect, evaluate and inform relevant risks and manage these risks.

Risk management can be carried out in various ways according to the costs required and efficiency in management. Types of risk management include avoiding, retaining, diversifying, transferring, controlling, or funding (Rahmanto, 2019). In terms of financing distribution, it is important for Sharia Microfinance Institutions to mitigate credit risk. Credit risk occurs when a counterparty fails to fulfill its obligations.

The concrete step to mitigate the financing risk is to conduct qualitative and quantitative assessment. Islamic financial institutions have a qualitative framework to assess the results of the use of credit provided, the ability of customers to repay loans, as well as the ability

of customers to bear the risk of uncertainty from the use of credit. In addition, the assessment is also based on the characteristics, capacity or ability of the customer to manage credit, as well as the capital or financial condition of the customer.

The quantitative framework is done by ranking and scoring the financing. Several loan portfolio management policies, securitization, collateral arrangements, and cash flow monitoring can also be done to avoid credit risk.

Legal Products Guiding the Implementation of Risk Management in Indonesia

As a regulator, the Government of the Republic of Indonesia has developed a legal product for microfinance institutions. The rules of the game are outlined in the Regulation of the Financial Services Authority of the Republic of Indonesia Number 19 /POJK.05/2021 concerning the Business Implementation of Microfinance Institutions (MFIs). It was drafted in order to make it easier for the community to obtain sources of financing and provide operational guarantees for the business activities of microfinance institutions, as well as to make microfinance institutions healthier and more accountable.

OJK requires that MFIs in carrying out business activities of channeling loans or financing, must analyze the feasibility of channeling loans or financing. If the distribution of loans or financing is deemed risky, the risk can be transferred by way of credit guarantee to a guarantor institution that meets OJK regulations. In addition, MFIs are prohibited from disbursing loans or financing in excess of the stipulated maximum limit, which is a maximum of 10% of capital for each customer. This is one of the measures to minimize financing risk. However, OJK still provides room for a higher loan disbursement ceiling of up to 20% of equity per customer. The condition is that the customer has a good track record with the MFI concerned and is accompanied by collateral or credit guarantee. The collateral must have an economic value of at least 120% of the loan or financing value. As for credit guarantee, the value of the guarantee must be more than 80% of the value of the loan or financing.

In addition to limiting the number of loans, in conducting risk management, MFIs are required to assess the quality of loans or financing disbursed into 3 (three) groups, namely current, doubtful, and loss, based on the accuracy of principal and/or interest/yield payments. Furthermore, calculate the ratio of non-performing loans or non-performing financing. Calculated by comparing loans or financing that have doubtful and non-performing qualities with total loans or financing provided to the community. MFIs with total deposits and/or loans received of more than Rp. 200,000,000.00 are required to form an allowance for loan or financing losses in accordance with the provisions.

Rules of Akad Used by Microfinance Institutions Based on Sharia Principles

This POJK also regulates the operations of microfinance institutions that use sharia principles. For deposit collection business activities, it is carried out using wadi'ah and mudharabah contracts. Meanwhile, financing distribution business activities can be carried out using mudharabah, musyarakah, murabahah, ijarah, salam, istishna, ijarah vomiah bit tamlik, qardh, or multi-service ijarah contracts. For consulting and business development services, ijarah or ju'alah contracts are used. Funding sources are possible through the acceptance of loans using qardh, mudharabah, or musyarakah contracts. Apart from those listed above, OJK still allows the use of other contracts as long as they are not contrary to sharia principles. In conducting business in the microfinance sector, OJK allows MFIs to use single or combined contracts. In addition, they can also manage social and benevolent funds in the form of zakat, infaq, sadaqah, and waqf in accordance with the provisions of laws and regulations. However, bookkeeping for the management of social and benevolent funds must be carried out separately.

METHODS

This research is exploratory in nature. For this reason, qualitative data is preferred in order to get an overview of how risk management at BWM Berkah Rizqi Lirboyo is carried out and how the interaction between administrators and borrowers results in 0% non-

performing loans (NPL). The author chose to use a realist ethnographic qualitative approach. This approach looks objectively at a condition with a third-person perspective. Furthermore, it reports objectively about the information learned from research informants in the field. (Creswell, 2012). The respondents selected were the chairman and management of BWM Berkah Rizqi Lirboyo, its customers, and OJK Kediri, which is the institution that supervises the performance of BWM Berkah Rizqi Lirboyo. Qualitative data was collected through unstructured interviews, observations, and focus group discussions integrated into the Weekly Halaqoh (Halimi). Data validity was checked using triangulation. This is a data validity checking technique that utilizes other data outside the data used. In this study, the check was carried out by comparing data with the results of interviews between research subjects.

RESULTS AND DISCUSSION

Operational of BWM Berkah Rizqi Lirboyo

BWM Berkah Rizqi Lirboyo is a financial institution under the auspices of the Lirboyo Islamic Boarding School. So that in its operations it obeys the dawuh of Masyayikh Pondok Lirboyo. At the beginning of the establishment in 2017, the Masyayikh ordered that BWM Berkah Rizqi Lirboyo must be independent in the policy of determining the contract in financing. As revealed by Mochammad Syaihul Izzat or Gus Izzat as Manager of BWM Berkah Rizqi Lirboyo:

"The consideration is that Lirboyo Islamic Boarding School can be independent in terms of determining contract policies and others. This includes why we use qard hasan because the direction from Masyayikh cannot be changed. It is not allowed to take profit."

Under OJK regulations, BWMs may use other contracts in financing as long as they are in accordance with the fatwa of the Indonesian Ulema Council. This means that BWMs may take profit when disbursing. The amount of profit sharing is allowed up to a profit sharing margin equivalent to 3% per year. As with BWM Amanah Makmur Sejahtera, which is also in Kediri City, it uses two contracts, namely qard hasan and mudharabah. As a financial institution, BWM Berkah Rizqi Lirboyo also complies with the rules issued by OJK. For example, the amount of funds that can be distributed to borrowers. Of the 4 billion rupiah given to BWM Berkah Rizqi Lirboyo, only a maximum of 1 billion rupiah can be disbursed. The rest is kept in deposits with Bank Mandiri Syariah, now Bank Syariah Indonesia (BSI). However, the management of BWM Berkah Rizqi Lirboyo prefers to disburse only 500 million rupiah. Because the proceeds from the profit sharing of these deposits are used as BWM Berkah Rizqi Lirboyo's operational costs. Such as employee salaries, electricity cost, etc. The management of BWM Berkah Rizqi Lirboyo consists of 1 manager, 1 admin or bookkeeper, and 3 field officers. At the beginning of its operation in 2017, the program was massively introduced to the recitation groups under Ponpes Lirboyo. However, in 2018 there was no socialization. According to Gus Izzat:

"I only socialized in late 2017 and early 2018 after that I never socialized. I had more than 500 customers and finally received an award. At that time, the development of customers was fast. One of the reasons for getting the award was because it accelerated financial inclusion."

The number of customers mentioned above are domiciled in Mojoroto district, which is the working area. All customers are MSME entrepreneurs as required by OJK. BWM Berkah Rizqi Lirboyo has a policy that financing is only given to women entrepreneurs. According to Aris, one of the field officers, the customers have diverse businesses. For example, in his area there are those who have salon businesses, grocery stores, laundry. Even 20-30% sell food and drinks at schools.

Risk Management of BWM Berkah Rizqi Lirboyo

After running for almost 6 years, BWM Berkah Rizqi Lirboyo has never experienced bad debts. Its NPL is 0%. There are several policies that they implemented until this figure was finally achieved.

Selection of Prospective Borrowers: Prioritizing Members of the Lirboyo Boarding School Study Program

In the initial process of fund disbursement operations, the management prioritizes the pilgrims of the Lirboyo Ponpes. This is one of the risk management measures they take. By channeling to parties whose character is known, the risk of adverse selection can be minimized. According to Gus Izzat's explanation:

"We prioritize *bolo-bolo* (friends) *jamiah*, *bolo-bolo* (friends) who are already in the community. Those who already know each other and are neighbors. Must be neighbors."

In addition to choosing those who are already familiar, the management also explains that the funds channeled are financing, not assistance. Although it is debt, BWM Berkah Rizqi Lirboyo does not take advantage of this financing. Information about the financing program without collateral and interest spread throughout Mojoroto Sub-district. Therefore, some of the applicants are not part of the recitation group at Ponpes Lirboyo. For cases like this, the management verifies the address of the prospective customer. They seek other references about the prospective customer's information from third parties. Management cross checks with close neighbors as well as the Head of RT and RW as a step to mitigate risk.

Use of Tanggung Renteng (Joint Responsibility) System

The process of applying for financing at BWM Berkah Rizqi Lirboyo is done in groups, not individually. One group consists of 5 people whose houses are close together. The 4 - 5 groups form a *Kumpi* or Community Business Group around the Indonesian Boarding School. The process is that each group submits an application. Then it will be verified by the management. After being deemed feasible according to OJK standards, these groups are required to attend Mandatory Group Training (PWK) for 5 days. This training contains business management and religion. It is compulsory to attend because it is an assessment of whether or not to get financing approval. If approved, the disbursement of funds in one group is not carried out simultaneously. But with a pattern of 2 members disbursed in the first week, 2 members in the second week, and 1 member in the third week Who gets their turn to disburse funds first is an agreement of the members. As stated by Gus Izzat:

"That's why it was explained at the beginning until it was clear. If you are sure, then register. When registering, the group leader must explain who the members are. After that, they were given five days of compulsory training. On the fifth day, they took a test until they were finally disbursed. So we prioritize those who are already in the community. We prioritize the members who are most in need of funds. There is more interaction, more deliberation."

The choice of group financing is a management strategy in managing risks, especially defaults. By using the joint responsibility system - according to the Big Indonesian Dictionary (KBB) is a legal term, bearing jointly (about costs to be paid and so on) - members are also responsible if other members are unable to pay installments. So the management always reminds the groups applying for financing to choose members whose character they already know. Rahmanto (2019) defines this step as managing transferred risk.

Along the way, not all customers paid installments smoothly. In fact, installments were paid weekly for 52 weeks. Aris, one of the field officers, shared his experience that he had encountered group members who were difficult to collect. As he said:

"I have encountered a group that is completely uncollectible. There were one or two people, but the group was active in collecting."

Some groups innovate to minimize the risk of other members having difficulty paying. Given that management also provides the doctrine that members' debts are also their debts. Finally, some groups created savings that they managed themselves. So that when a member is unable to pay the installment that week, they can take their savings. The case

with Kumpi in Lirboyo Village is different. This group did not create a savings mechanism, but directly helped other members who could not pay installments. Mrs. Siti, the group leader, said:

"If there are difficulties, the contributions are made at that time and paid immediately. Like yesterday someone died, sick to death. There are heirs who have not been able to cover (the installments), so all members will pay later."

In more detail, management also places people who are considered capable to become members of one of the groups. According to Gus Izzat, this selected person is not someone who has a goal for financing. This person is economically capable. As he explained:

"Because in the beginning, we were supposed to look for customers who were not well-off. But I put well-off people in the group. Sometimes these people just want to join the Quran."

This strategy is considered quite successful by the management. Selected people often help pay installments for members who are unable to pay installments. So there has never been a record of delinquent installments. Everything is resolved by the group mechanism. After the financing period is over, the group can apply for financing again. The amount can be greater than 500 thousand rupiah. The group members can be changed. For example, there is someone who died like the story above, or someone who is considered problematic. Management will allow it provided that other members agree. Because when there are problems later, especially in paying installments, the responsibility lies with other group members. As Aris said:

"Yes, we return it to them, if they want to be replaced, it's okay with the note that the group must be responsible if anything happens."

Even Faris, the administrator of BWM Berkah Rizqi Lirboyo, has recorded the names of problem customers. These problematic mothers were removed from the group and tried to join another group. These names would have been almost impossible to get approval for the next financing.

Weekly Halaqah (Halmi) as a Financing Evaluation Test

After the financing disbursement process is completed, the next step is billing. Unlike conventional methods or other Islamic financing, the collection at BWM Berkah Rizqi Lirboyo is integrated with a recitation program called Weekly Halaqah or Halmi. This recitation is led by field officers. Halmi is attended by 1 Kumpi. The location is agreed upon by the members.

Halmi is filled with reading salawat, and reciting the Arbain Nawawi book. It is a book containing forty-two selected hadith compiled by Imam Nawawi. This hadith does not specifically discuss debt and credit, but the basis of human life. The duration of Halmi is about 20 minutes to 30 minutes. It depends on the conditions and situation at the location. The order is also not the same among Kumpi. There are those who recite first and then pay the installment, and vice versa.

Halmi is not limited to recitation. More precisely, it is an installment pull. According to Gus Izzat, this method is to create a mind set that field officers come to the location as a recitation teacher, not a collector. During the Covid-19 pandemic, Halmi was not held. So that the collection of installments is collected at each group leader. Field officers come on schedule only to collect installments. Apart from collecting installments, field officers also use Halmi as customer monitoring. If a member is absent without a clear reason, the field officer gives a note as a consideration for the next disbursement. Aris said:

"Because we focus on that so that they and their neighbors also gather with each other. Because from our side we don't get anything. Da'wah is full."

For BWM Berkah Rizqi Lirboyo, da'wah is indeed the main foundation in this financing process. In terms of business, according to Faris, it is not profitable. They get income only from the profit sharing of the money deposited.

Utilizing Social Capital to Reduce Asymmetric Information

Social capital is defined by Putnam and Leonardi, (1994) as a sociological concept that refers to social networks, trust and norms that can increase economic efficiency through coordinated action. Deng (2019) states that social capital helps reduce information asymmetry, increase trust between related parties and enforce loan contracts, thus having a positive effect on firms' access to informal finance. What the management of BWM Berkah Rizqi Lirboyo does is in line with this. The selection of prospective customers who are members of the recitation program under the guidance of Ponpes Lirboyo is a form of risk management to reduce information asymmetry. The customers are part of the Ponpes Lirboyo network who obey and submit to the Kyai's dawu'he. Therefore, trust between the two parties, namely the financing recipient and provider, is maintained.

The customers who joined the group, which later became Kumpi, also formed a new collective network to help each other. In this group network, chemistry is formed so that if there are members who do not comply with the contract, then they are at the forefront of enforcing it by reminding them to close the installment if necessary. To make the bond even stronger, they make a pledge that serves as the norm in this group relationship.

"Bismillahirrahmanirrahim. We, the members of the clump, pledge: 1. Remind each other to always tell the truth, keep promises, be trustworthy, and be disciplined. 2. Help each other overcome the difficulties of fellow members. 3. Together with their husbands, strive to improve family welfare. 4. Utilize BWM pesantren funds to increase family income and return them on time. 5. Educate, send to school and pray for children to become smart, sholihin - sholihat, devoted to parents and serve only Allah SWT. Allah is the witness of our words and deeds."

The three social capitals of social network, trust and norms above, are the main keys for BWM Berkah Rizqi Lirboyo to keep its NPL at 0%. The strong brand of Ponpes Lirboyo is a smooth way to maintain this achievement. However, it is important to maintain this social capital. If there is a violation that causes a decline in trust, the potential for NPLs to break is very likely.

Risk Management with Risk Control

The financing process that begins with selecting prospective borrowers and utilizing social capital is a way of managing risk with risk control. By knowing the character of prospective customers, BWM Berkah Rizqi Lirboyo prevents or reduces the possibility of unexpected risks, namely bad credit. This method is often used by bank credit analysts who use the 5C framework, one of which is Character. The character of the borrower does not indicate the ability to pay, but rather the willingness to pay the loan. Members of the recitation program under the guidance of Pondok Lirboyo are chosen because they already know each other so they are believed to have a stronger commitment to fulfill their obligations.

Implementing Halmi as a financing evaluation room is also an effort by BWM Berkah Rizqi Lirboyo to control risk. By using da'wah as the main foundation of financing, collection carried out with a religious approach will increase positive character in the form of responsibility for customers so that the collection process can run smoothly.

Risk Management with Risk Transfer

The group selection method used at BWM Berkah Rizqi Lirboyo to minimize risk is diversification. Diversification is done by combining several female members who have different conditions, for example in terms of economic ability, so that the risks that may arise in one person will be covered by other members in one group. Risk management with a joint responsibility system is a risk transfer strategy. BWM Berkah Rizqi Lirboyo transfers the risk of bad credit to the group guarantor. That way, BWM Berkah Rizqi Lirboyo does not bear the risk.

CONCLUSION

From the discussion above, it can be concluded that the risk management chosen by BWM Berkah Rizqi Lirboyo is to control risk and transfer financing risk. In detail, the risk control policy they take is the selection of prospective borrowers by prioritizing recitation members under the guidance of Pondok Lirboyo and Halmi as a financing evaluation room. Meanwhile, the risk transfer policy begins with risk diversification and the utilization of the joint responsibility system. Another thing that is no less important in achieving 0% NPL is utilizing social capital to reduce information asymmetry. Given the large number of potential customers who want to benefit from this collateral-free and profit-sharing financing program, researchers suggest increasing the amount of funds distributed. Automatically, OJK must revise the implementation instructions and technical instructions for financing. Including increasing the funds that are endowed. In addition, increasing the number of deposits or providing space for capital utilization for more productive businesses. Because in business calculations from the profit sharing of retained funds deposits are not sufficient for operational costs. Even then, management is paid below the minimum wage of Kediri City. In addition, if the funds used for operations can increase, BWM Berkah Rizqi Lirboyo can insure its financing. This step is to mitigate the bad possibilities that will occur in the future. Moreover, in the rules issued by OJK, it is possible to carry out financing insurance.

LIMITATIONS

The research has limitations in that it only focuses on credit risk management. While in operational activities, BWM Berkah Rizqi Lirboyo faces various other risks. Future research can further examine using other risk approaches.

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