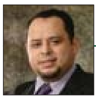
The birth of a new Islamic cooperative association in Indonesia



INDONESIA

By Farouk Abdullah Alwyni

The new Islamic cooperative association in Indonesia, Insan Koperasi Syariah Indonesia, or simply known as iKOSINDO, was officially launched on the 17th May 2016 during its first summit in Yogyakarta, Indonesia. This new association, grouping mostly Islamic cooperatives and Islamic microfinancing entities (or known widely here as Baitul Mal Wat Tamweel (BMT)), is committed to be a center where its members can learn, empower and protect one another. It is reported that over 200 managers of Islamic cooperatives and BMTs from all over Indonesia attended the summit.

> ***"One way to improve income distribution and close the economic gap is through facilitating access to finance to SMEs, including micro SMEs"***

iKOSINDO now has 140 members with total assets estimated at around US$100 million. It envisions that cooperatives should play a central role in developing the economy of the people, as manifested in the 1945 Constitution of the Republic of Indonesia. This is due to the fact that at the moment, the role of cooperatives is not very significant in the country. Cooperatives only contribute around 2% of Indonesia's total GDP, although the country has 212,135 cooperatives, which is the largest number in the world.

The legal entities of most, if not all, of the BMTs themselves basically are in the form of cooperatives. However, the difference between the BMTs and other cooperatives is that BMTs have two elements in one: they are both microfinancial institutions and Islamic financial institutions.

They have two main activities: firstly, they act as a Baitul Mal with social functions which can take Zakat, Infaq, and Sadaqat and then pass them on to those who need them. Secondly, they act as a Baitul Tamweel with normal business functions where they will finance and give technical assistance (for BMTs that are more developed) to microentrepreneurs to develop their businesses. They also act as deposit-taking entities through the promotion of the saving culture in society.

The issue of Islamic microfinance in Indonesia first gained momentum around 1999-2000. This was just after Indonesia had been severely hit by the Asian financial crisis. The crisis showed that the economy, which had a major gap in income distribution, was not just a moral issue but also a critical economic issue in itself. It was during this period that awareness to improve income distribution emerged. One way to improve income distribution and close the economic gap is through facilitating access to finance to SMEs, including micro SMEs.

The birth of iKOSINDO is expected to complement another important aspect of the development of Islamic finance in Indonesia: microfinance. In fact, with only 36% of the Indonesian population over the age of 15 having a bank account, the role of Islamic cooperatives in the financial sector and in microfinance institutions could be very important to deepen financial inclusion in the country, which in turn could create more equality in the economy.

Farouk A Alwyni is the chairman of the Jakarta-based think tank, the Center for Islamic Studies in Finance, Economics, and Development. He also serves as CEO of Alwyni International Capital. He can be contacted at faalwyni@alwynicapital.co.id.

IFN Country Correspondents

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president, Afghanistan Islamic Finance and Consulting Co

AUSTRALIA: Dr George Mickhail
senior lecturer, School of Accounting, Economics and Finance, University of Wollongong, Australia

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director of Islamic Finance Knowledge Center, Deloitte & Touche

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deputy managing director, Islami Bank Bangladesh

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INDIA: H Jayesh
founder partner, Juris Corp

INDONESIA: Farouk A Alwyni
CEO of Alwyni International Capital and the chairman of Centre for Islamic Studies in Finance Economics and Development

IRAN: Majid Pireh
Islamic finance expert, Securities & Exchange Organization of Iran

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partner and head of Jordan & Iraq offices, Al Tamimi & Co

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SWITZERLAND: Khadra Abdullahi
associate, Investment banking, Faisal Private Bank

SYRIA: Gabriel Oussi,
general manager, Oussi Law Firm

TANZANIA: Yassir Masoud
head, Islamic banking, retail banking, National Bank of Commerce

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investment communications director, Azzad Asset Management

YEMEN: Moneer Saif; head of Islamic banking, CAC Bank

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