

Moderating effect of social capital on the relationship between Micro Waqf Banks on Sharia Financial Inclusion of micro business

Rosyeni Rasyid^{1*}, Erni Masdupi², Muthia Roza Linda³, Rizky Prima Skati⁴

^{1,2,3} Universitas Negeri Padang, Padang, Indonesia

² University of Bahrain, Zallac, Bahrain

* Corresponding author: [e-mail: rosyenirasyid@gmail.com](mailto:rosyenirasyid@gmail.com)

ABSTRACT

This study aims to analyse the impact of Micro Waqf banks on the Islamic financial inclusion of micro and small business actors in the pesantren environment and examine the role of social capital as a moderating variable in the relationship between Micro Waqf banks and financial inclusion. The population is micro-businesses located around the Al Kautsar Modern Islamic Boarding School, Sarilamak, Limapuluh Kota Regency, using purposive sampling, obtained a sample of 150 micro and small businesses. The analysis technique uses SPSS and the Process Macro (Hayes, 2017). The results confirm that Micro Waqf banks significantly impact Islamic financial inclusion. Furthermore, social capital moderates the relationship between micro waqf banks and sharia financial inclusion. Therefore, social capital plays an essential role in improving the relationship of Micro Waqf banks in relation to sharia financial inclusion.

Keywords: Micro waqf bank, financial inclusion, social capital, Islamic boarding school, Micro and Small Enterprises

INTRODUCTION

One of the fundamental problems as regards micro and small enterprises (SMEs) in rural areas is related to capital. Micro and small business actors have not been able to access banking because it requires several formal requirements. This requirement is due to the application of the precautionary principle by banks, one of which is the use of collateral (collateral), that micro and small businesses cannot fulfil. Consequently, many micro and small business actors (UMK) still rely on the services of moneylenders to meet their business capital needs. Based on the BRI survey titled: 5 Million Small Enterprises actors are Still trapped by Money lenders (Rika, 2021)

Reflecting on these problems, the government must provide fast, precise and efficient solutions. Micro Waqf Bank has been established as a solution to answer the problems faced by the community. Micro Waqf Bank is a Sharia microfinance institution established in collaboration with the Financial Services Authority (OJK) with the National Amil Zakat Institution for Bangun Sejahtera Mitra Ummah (Laznas BSM Ummah), whose legality is like a savings and loan cooperative. Micro Waqf banks were established to improve the welfare of small communities by way of community empowerment programmes based around the pesantren. The purpose of establishing this specific MWB is to develop a Sharia financial inclusion ecosystem in Islamic boarding schools that have not previously been exposed to financial products. Moreover, Micro Waqf Bank targets people who have not yet obtained formal access to financial services. A further benefit is to eradicate moneylenders who are troubling the community through complex collections and debt schemes (OJK, 2019).

The existence of Micro Waqf banks in several Islamic boarding schools is a breakthrough in relation to increasing Islamic financial inclusion. Considering that Indonesia's Sharia inclusion rate is

currently still low, as of 2020, it was only 9.1% (OJK, 2020). Hence, the presence of Micro Waqf banks is expected to increase Islamic financial inclusion. Financial inclusion can save actors operating Micro, Small and Medium Enterprises from bankruptcy (Maadi, 2018), not only by disbursing financing for people who are not yet connected to financial institutions, but also by providing assistance and training (Mannan, 2018). The presence of Micro Waqf banks is believed to increase financial inclusion, so that it is expected to improve the community's economy through the financing provided (Tempo, 2018).

The Al Kautsar Modern Islamic Boarding School (PPM) Micro Waqf Bank in Lima Puluh Kota Regency, West Sumatra, is the first BWM in West Sumatra, operating since 3 May 2018. Micro Waqf Bank is a microfinance institution and a community-based pesantren that empowers communities around Islamic boarding schools by encouraging business development through loan funds for productive community business groups. This Micro Waqf Bank is expected to further strengthen the Sharia financial inclusion ecosystem in West Sumatra.

A Micro Waqf Bank at the Al Kautsar Islamic boarding school is expected to help facilitate access to capital provision for the community and micro along with small businesses around the pesantren, so as to increase Sharia financial inclusion later and then empower micro and small business around the pesantren. The results of previous studies ascertained that Micro Waqf banks can increase financial inclusion and empower micro-businesses around Islamic boarding schools (Faujiah, 2018 ; Nur, 2019)

The success of the Micro Waqf Bank programme in increasing Islamic financial inclusion cannot be separated from social capital in the form of abilities that arise from trust in a community (Fukuyama, 2002). According to the Deputy Governor of West Sumatra, Audi Joinaldi, armed with social capital in the form of solid communal ties, the Micro Waqf Bank business model fits two characteristics of the Minangkabau community, namely having stable relations with the closest community and the community's adherence to Islamic law based on "Adat Basandi Syarak, Syarak Basandi Kitabullah (Hendartyo, 2021). The purpose of the study was to analyse the role of Micro Waqf banks in increasing Islamic financial inclusion, as well as the role of social capital in moderating the relationship between Micro Waqf banks and the Islamic financial inclusion of micro and small business actors (UMK) in Islamic boarding schools in West Sumatra.

LITERATURE REVIEW

Micro Waqf Bank

Waqf can be a force for the development of the welfare of the people. Habib (2007), proposes a waqf-based Islamic microfinance institution. Micro Waqf Bank is a Sharia Microfinance Institution to facilitate financing for underprivileged communities and MSMEs who do not have access to formal financial institutions, especially in Islamic boarding schools (OJK, 2014). Micro Waqf runs a joint responsibility system and offers several mentoring programmes (Nurhayati, 2019). Seven principles are applied in implementing the Bank programme, namely: 1) empowerment of the poor; 2) assistance under Sharia principles; 3) group financing cooperation (Ta'awun); 4) ease (Sahl); 5) Amanah; 6) programme sustainability and 7) blessing (Maadi, 2018).

Sharia Financial Inclusion

Islamic financial inclusion is any attempt that aims to eliminate all forms of obstacles in accessing Islamic financial services through Islamic financial institutions. Islamic financial inclusion is the ease of accessing Islamic financial services. Islamic financial institutions include banking as well as the non-Islamic financial industry. Additionally, financial inclusion is related to the ease of accessing and using financial services (Sarma, 2015). Financial inclusion is an attempt to encourage the financial system to be accessible to all levels of society. According to the Financial Services Authority (FSA), financial inclusion is all efforts aimed at eliminating all forms of price and non-price barriers to public access in utilising financial services to provide significant benefits to improving people's living

standards. Several factors lead to the importance of inclusion, namely; (a) Inability to access financial services may lead to the exclusion of financial entities from obtaining capital, (b) Lack of access to safe and formal savings can reduce their incentive to save, (c) Lack of credit products means an inability to invest and improve their livelihoods, (d) Lack of remittance products makes money transfers difficult and high risk, and (e) Lack of insurance products means lack of opportunities for risk management and levelling welfare (Shankar, 2013). To determine the extent to which financial inclusion activities have developed, a performance measure is necessary. From several references, indicators that can be used to measure a country in developing financial inclusion are, first, availability/access, which measures the ability to use formal financial services in terms of physical affordability and price, second, measures the actual use of financial products and services (regularity, frequency and duration of use), third, quality, which counts whether the attributes of financial products and services have met customer needs and fourth, welfare which measures the impact of financial services on the level of life of service users (Demirguc-Kunt & Klapper, 2012 ; Sarma, 2012)

Social Capital

Social capital is part of social organisation, such as networks, beliefs, value systems and norms, which can improve community efficiency by facilitating coordination and cooperation for mutual benefit. Social capital is defined as features of social organisation, for example networks, norms and social trust that facilitate coordination and collaboration (Putnam, 2000) . A different opinion states that social capital is capital that arises from the existence of trust in a community and that it is also a collective good from shared norms and values, confidence and reciprocity (Fukuyama, 2002). The perspective of social capital consists of four parts: communitarian view, network view, institutional view and synergy view. The communitarian view emphasises the participation of members in various group activities as a measure of social capital. This network view understands that strong group ties will give community members awareness of group identity and ultimately grow a sense of togetherness to pursue a common goal. The institutional view, which sees the strength of a community's network, lies in the political, legal and institutional environment. The synergy view realises that the State and society can work together to benefit from the cooperation (Woolcock & Narayan, 2000)

Social capital can play a role in increasing financial inclusion (Guiso & Zingales, 2004 : Khaki & Sangmi, 2016) . The existence of this element of cooperation can increase financial inclusion. In general, financial inclusion is heavily influenced by status or position in the group and attendance at social activities. The involvement of religious leaders in the pesantren environment has a positive impact and can influence whether or not someone borrows. The more community members actively involve themselves in social capital, the more they open their horizons, particularly in the financial sector. Furthermore, because their minds are open, people engaged in social capital will be more willing to be educated.

Micro Waqf Bank and Financial Inclusion

Micro Waqf Bank is a government programme in collaboration with the OJK to provide access to capital or financing for people who are not connected to formal financial institutions, in particular those in Islamic boarding schools (OJK, 2019). Financial inclusion refers to access to various financial services, at a reasonable cost, for people who are considered unbankable. Therefore, those who run a business in Micro Waqf banks can help the poor take advantage of Islamic financial service products. Micro Waqf banks can increase the financial inclusion of small and micro enterprises (SMEs) (Faujiah, 2018; Nugroho & Hilal, 2019). In their implementation, Micro Waqf banks can be implemented with seven programme principles, namely: Empowerment of the poor, Assistance under Sharia principles, Group financing cooperation (Ta'awun), Ease (Sahl), Amanah, programme sustainability and blessing [10]. With the implementation of the seven programme principles, it is expected that a Sharia financial inclusion ecosystem will be developed. Therefore, the presence of Micro Waqf banks can have a positive effect on the Islamic financial inclusion of micro and small enterprises (SMEs).

H1: Micro Waqf Bank positive impact sharia financial inclusion

Moderating Role of Social Capital

Armed with social capital in the form of solid communal ties, the Micro Waqf bank's business model fits two characteristics of the Minangkabau community in West Sumatra: strong ties to the closest community and people's adherence to Islamic law (Amanda, 2021). Social capital is a person or group who believes in knowledge, understanding, norms, rules and expectations related to critical roles with interpersonal relationships and membership and connecting social networks implemented in collective action (Shaikh & Shafiai, 2017). Social capital is expected to strengthen the role of Micro Waqf banks in the development of the Sharia ecosystem of the people of West Sumatra. Social capital is expected to be an alternative to strengthen the development of Islamic financial inclusion. The existence of social capital can encourage individuals to behave better to achieve the goals of a business (Guiso & Zingales, 2004). The existence of social relationships based on trust generates a high spirit of togetherness (social solidarity). It has a positive impact on increasing the financial inclusion of micro and small business actors in the pesantren environment.

H2: Social capital moderates the relationship between micro waqf banks and sharia financial inclusion

METHODS

To answer the hypotheses developed in this study adopted a cross-sectional research design. The study population is small and micro-businesses located in the Al-Kautsar Modern Islamic Boarding School, Sarilamak, Limapuluh Kota Regency, which are 415 Micro Waqf Bank customers. The sampling technique used is purposive sampling (Sugiyono, 2017). The criteria are: Micro and small businesses with 1-5 employees, have been operating for more than two years, and are willing to complete questionnaires and be interviewed, so that a sample of 150 Micro and Small Enterprises (SMEs) is obtained.

This study employs quantitative methods, using primary data obtained by means of questionnaires. All questions in the questionnaire were measured using a Likert scale. The questionnaire was adopted from previous studies. Sources of secondary data in this study were derived from books, journals, website articles, online news, previous research, and other relevant sources. Definition of operational variables. The variables associated with Micro Waqf Bank are Islamic Boarding School-based Microfinance Institutions, which are conceptualised based on the values in relation to implementing the programme, namely: 1) Empowerment of the poor; 2) Assistance under Sharia principles; 3) Group financing cooperation (Ta'awun); 4) Ease (Sahl); 5) Trust; 6) Programme sustainability; and 7) Blessing (Maadi, 2018). Furthermore, the financial inclusion variable was measured based on the dimensions adopted from (Alliance for Financial Inclusion, 2011; International Finance Corporation, 2011; Consultative Group to Assist the Poor, 2011). Finally, the social capital variable is the ability that arises from the existence of trust in a community, which is conceptualised based on networks, beliefs, value systems and norms (Fukuyama, 2002).

Validity and reliability tests were conducted on each of the questions in the questionnaire. Content validity was ensured by using expert views on the questions included in our questionnaire. The reliability of the instrument was determined based on the Cronbach Alpha value. The results of the reliability test revealed the Cronbach's alpha value of Micro Waqf banks (0.92), Cronbach's Alpha in relation to Islamic financial inclusion (0.91) and Cronbach's Alpha as regards social capital (0.89). The results demonstrated that all the variables studied had reliability with an alpha coefficient above 0.70 as recommended by (Nunnally & Bernstein, 1994). In addition, the researcher also verified all instruments obtained in the field to check for inaccurate assessments and questions that respondents did not answer. Subsequently, the raw data were processed using the SPSS program and filtered for data entry errors, outliers and normality tests as recommended by (Field, 2005; Hair, 2010). To

determine whether social capital moderates the relationship between Micro Waqf banks and Islamic financial inclusion, Hayes' Process Macro for SPSS (Hayes, 2017) is used.

RESULTS AND DISCUSSION

Data Description

The influence of Micro Waqf banks on Islamic financial inclusion mediated by social capital is performed by analysing respondents' answers to the questionnaire. Questionnaires were distributed to micro and small entrepreneurs in the pesantren environment. The principal reason for selecting the sample was that micro and small entrepreneurs in the pesantren environment better understood the value of religious culture that had become entrenched and necessary in the pesantren. Concerning the questionnaires, 150 micro and small enterprises (SMEs) actors responded with the following characteristics shown in Table 1 below.

Table 1. Respondent characteristics

Variable	Level	No	%
Education Level	Elementary	45	30,0
	Junior high school	47	31,3
	Senior High School	51	34,0
	Diploma	4	2,7
	Bachelor	3	2
Types of business	Production and Selling	56	37,3
	Agriculture	42	28,0
	Trade	36	24,0
	Services	16	10,7
Initial capital	≤ 1 million	84	56,0
	> 1 million - 3 million	30	20,0
	> 3 million – 5 million	20	13,3
	> 5 million	16	10,7
Sales turnover/month	≤ 1 million	46	30,7
	> 1 million - 3 million	62	41,3
	> 3 million – 5 million	28	18,7
	> 5 million – 10 million	8	5,3
	> 10 million	6	4,0

Preliminary Analysis

The correlation matrix for all variables along the mean and standard deviation is presented in Table 2 below:

Table 2. Means, standard deviations and Pearson correlation coefficient

Latest Variable	Mean values	Standard Deviation	Sharia Financial Inclusion	Micro Waqf Bank	Social Capital
Sharia Financial Inclusion	3,57	0,36	1,00		
Micro Waqf Bank	3,92	0,24	0,752**	1,00	
Social Capital	3,78	0,30	0,737**	0,452**	1,00

Note: ** Correlation is significant = 0,01 level (two-tail)

Pearson correlation analysis shows that the correlation value between variables is relatively low. In line with the results of the correlation matrix, the value of the variance inflation factor (VIF) indicates that there is no serious multicollinearity between the independent variables (Hair, 2010). Furthermore, the correlation r between Micro Waqf Bank and social capital is 0.452, signifying that both variables have a positive correlation. The level of the relationship included in the strong category. Then the correlation r -value between Micro Waqf banks and financial inclusion is 0.752, implying that the two variables have a positive correlation with the level of the relationship included in the strong category. This indicates that the higher an individual's understanding of Micro Waqf banks, the greater their participation in social capital and that their level of financial inclusion will increase. Furthermore, the correlation r -value between social capital and financial inclusion variables is 0.737, suggesting that the two variables have a positive correlation with the level of the relationship included in the strong category. Therefore, social capital can strengthen the relationship between Micro Waqf banks and Islamic financial inclusion.

Moderation Analyses

Data analysis was carried out with the help of SPSS for Windows version 22. The researcher used Process Macro modelling to test this hypothesis to determine the effect of moderator variables on the relationship between independent and dependent variables based on the estimates of three models (Hayes, 2017). The first model (basic model) aims to test the significance of the direct effect of the independent variable (Micro Waqf Bank) on the dependent variable (Islamic financial inclusion). In the second model, the researcher introduces a moderator variable (Social Capital) to test the direct effect of this variable in the model, while the third model (full model) aims to examine the interaction between Micro Waqf Bank and social capital on Islamic financial inclusion. Hayes' Process Macro in SPSS software is used to test the moderating effect. The results of the analysis can be seen in Table 3 below:

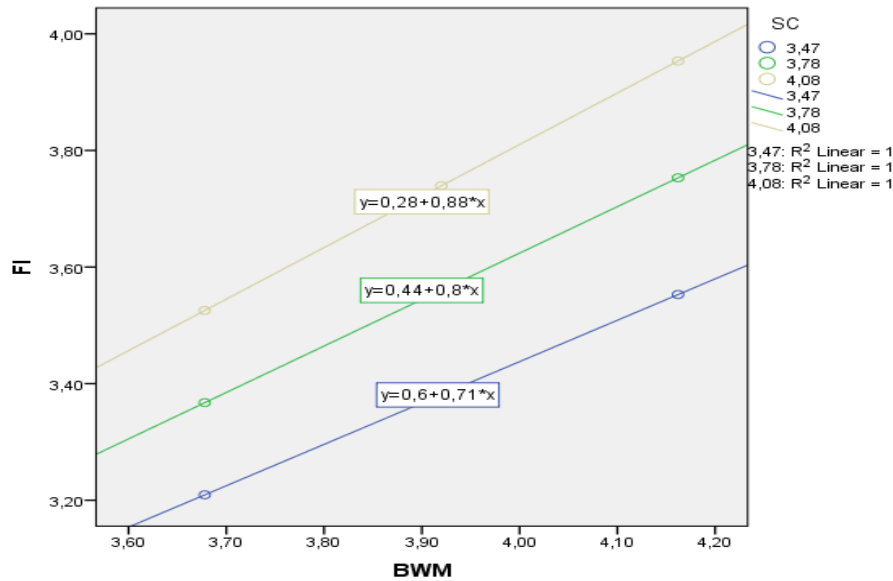
Table 3. Moderating Effect Testing

	Sharia Financial Inclusion		
	Model 1 Coeff (Std Error)	Model 2 Coeff (Std Error)	Model 3 Coeff (Std Error)
Constant	-.83 (.32) ^{***}	-1.75(.25) ^{***}	2.44(2.13)
Micro Waqf Bank	1,12 (.08) ^{***}	.78(.06) ^{***}	-.28(.54)
Social Capital		.59(.05) ^{***}	-.53(.57)
Int_1			.28(.14) ^{**}
R^2	.56	.76	.77
Prob>F	.00	.00	.00
R^2 change (intr)			.01
F	192,16	238,92	162,39

Significant level: $p < 0.1$; ^{**} $p < 0.05$; ^{***} $p < 0.01$

From Table 3 it is evident that the basic model is statistically significant, at a 0.00 significance level. The results confirm the significant direct effect of BWM on Islamic financial inclusion (H1), with an impact of 56%. Furthermore, social capital also has a significant impact on Islamic financial inclusion. Lastly, social capital significantly moderates the relationship between Micro Waqf banks and Islamic financial inclusion, increasing to 77%.

Moderation Effects in Graphics



The graph above illustrates three levels of social capital. Micro-enterprises with different levels of social capital have different levels of financial inclusion. Micro-enterprises with a high level of social capital have a high level of financial inclusion and vice versa.

Discussion

Micro Waqf Bank is a Sharia microfinance institution with a specific business model established in Islamic boarding schools. It aims to provide access to capital or financing for small communities with no formal access to financial institutions. The results indicated that Micro Waqf banks had a positive and significant effect on increasing Islamic financial inclusion. This indicates that the better the implementation of the principles of the Micro Waqf Bank programme, the more the Islamic financial inclusion of micro business actors in the pesantren environment will increase.

Increasing the inclusion of Sharia finance is due to the implementation of micro waqf banks at Al Kautsar Modern Islamic Boarding School, that use qardh financing facilities, which do not require any compensation with the borrower's obligation to return the loan principal at once or in instalments within a certain period. Besides that, it also carries out joint responsibility financing, which is defined as a shared responsibility. The existence of assistance has implications for the blessing and welfare of micro and small business actors in the pesantren environment. This is in line with Artea Pericoli's opinion that Islamic finance in the charity sector plays a role in increasing Islamic financial inclusion (Pericoli, 2020). Micro Waqf banks play a role in increasing financial inclusion. Additionally, the results of this study are in line with (Shaikh& Shafiai, 2017; Faujiah, 2018; Nugroho, 2019) Therefore, a better implementation of the Micro Waqf Bank programme will increase the Islamic financial inclusion of micro and small business actors around the pesantren.

The results of this study also uncovered the role of social capital on Islamic financial inclusion. By using Moderation Process Analysis (Hayes, 2017), we obtained a significance value (p-value) of 0.04, which means a (p-value) <0.05, proving that social capital plays a significant role in moderating the relationship of Micro Waqf banks to Islamic financial inclusion. Based on data analysis, the t-value is 1.98, which denotes that the moderating role of social capital will strengthen the relationship between Micro Waqf banks and Islamic financial inclusion. This indicates that the higher the social capital, the stronger the role of micro waqf banks in increasing the Islamic financial inclusion of micro and small entrepreneurs around the pesantren. The results of this study are in line with Bongomin, who produced evidence of the strong influence of social capital in increasing the level of financial inclusion (Bongomin, Ntay,& Nkote, 2016).

Establishing social relationships with other parties in Islam is known as friendship. Islam teaches that friendship, in addition to prolonging life, can also increase sustenance. The Hadith

narrated by Imam Bukhari, taken from Anas (RA), explains that the Rasulullah of Allah (SAW), said, "Whoever wants to broaden his sustenance and extend his life, then let him strengthen the relationship (Nawawi, 2012; Istianah, 2016).

Armed with social capital in the form of solid communal ties, the Micro Waqf bank's business model fits two characteristics of the Minangkabau community: having stable relationships with the closest community and the community's adherence to Islamic law on "Adat Basandi Syarak, Syarak Basandi Kitabullah". The social capital owned by Al Kautsar Modern Islamic Boarding School, Sarilamak, Limapuluh Regency, West Sumatra City is related to trust, cooperation and values. Trust is built on responsibility and care. The belief is then performed adequately based on sincerity by means of expecting the pleasure of Allah SWT.

The existence of a series of processes of human relations that are supported by networks, norms and social trust that allow for the efficiency and effectiveness of coordination and cooperation for mutual benefit. This proves that the community has an impact on increasing the role of Micro Waqf banks in increasing Islamic financial inclusion. This result is consistent with the opinion of (Guiso & Zingales, 2004), which asserts that social capital influences financial development. Moreover, it is also in keeping with previous research (Khaki & Sangmi, 2016), which understands that the amount and quality of social capital make it easier for micro-entrepreneurs to access various financial sources to increase Islamic financial inclusion.

CONCLUSION

The Micro Waqf Bank exists as a Sharia-based public financial institution that aims to assist access to capital for Small and Micro Enterprises (SMEs) who have difficulty obtaining funding from banks. The financing scheme in the Micro Waqf Bank at the Al Kautsar Modern Islamic Boarding School, Sarilamak, Limapuluh Regency, West Sumatra City, is based on qardh financing, in conjunction with mentoring by providing training accompanied by joint responsibility financing under Sharia principles, the existence of group financing cooperation (Ta'awun), Ease (Sahl), Trust and Blessing. So that the Micro Waqf Bank plays an incredibly important role in increasing the financial inclusion of the community around the pesantren. The better the implementation of the Micro Waqf Bank programme, the higher the level of Islamic financial inclusion. This will certainly be one of the strategies in increasing Islamic financial inclusion in Indonesia, which is currently still considered low.

To increase the inclusion of Islamic finance, the development of Micro Waqf banks in the pesantren environment can also be strengthened by social capital in the pesantren environment. The research findings also reveal that social capital can enhance the impact of Micro Waqf banks as regards the Islamic financial inclusion of micro and small business actors around Islamic boarding schools. This indicates that the social capital owned by Ponpes Al Kautsar Muhammadiyah Sarilamak in West Sumatra is in the form of trust, cooperation and values. Trust is built on responsibility and care. The trust is then performed adequately and based on sincerity by expecting the pleasure of Allah SWT. Cooperation built on communication, involvement and coordination from the community around the Islamic boarding school will strengthen the role of Micro Waqf banks in increasing Islamic financial inclusion.

This study only discusses the role of Micro Waqf banks in increasing Islamic financial inclusion and the role of social capital in strengthening the relationship between Micro Waqf banks and Islamic financial inclusion. The results of this study are valuable in relation to policies for developing Islamic financial inclusion via Micro Waqf banks based on Islamic boarding schools, where the values that exist at the Al Kautsar Modern Islamic Boarding School, Sarilamak, Limapuluhkota Regency, include discipline, hard work, togetherness, simplicity, patience and tolerance. Likewise, the values associated with the Al Kautsar Modern Islamic Boarding School,

Sarilamak, Limapuluhkota Regency have received considerable attention as support in building togetherness. However, this study has not explored in-depth the Micro Waqf bank programme and the dominant characteristics of social capital to increase Islamic financial inclusion. Hence, further research is needed.

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