

**Indonesian Women and Islamic Economy:
A Case Study of Islamic Microfinance and
Women's Empowerment in Yogyakarta**

Inaugural Dissertation
to complete doctorate from the Faculty of Arts and Humanities
of the University of Cologne
in the subject Oriental Philology with the study focus areas Islamic
Studies

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Born on 01 June 1977
In Semarang, Central Java, Indonesia

Cologne, 22 January 2020

Acknowledgments

Women's empowerment has drawn my focus over the past decade. Having the opportunity to raise the issue as the central theme of my dissertation was a great privilege for me, and in many ways engaging with the complexity of 'women's empowerment' has shaped and continues to shape how I see the world and my identity. I consider myself blessed to have undertaken this research, the greatest intellectual adventure I have ever had.

This dissertation is an outcome of collaborative work involving many individuals and institutions to whom I owe sincere gratitude. Firstly, I would like to express my thanks to my principal supervisor, Professor Edwin P. Wieringa, who provided me with the best guidance and support I could have hoped for. I remember how, when I first started this project four years ago (April 2016), I had zero ability to do qualitative research, having previously only conducted quantitative research. However, my supervisor was very patient in guiding me doing my first qualitative study, even with my limitations. His unhesitating support of my work; his careful reading of my many drafts; his comments, suggestions, and critiques have all enabled me to clarify my results, hone my ideas, and develop the organization of my dissertation.

My gratitude also goes to Professor Arndt Graf, my second supervisor. I thank him especially for reading through my thesis and providing me with detailed feedback. I am blessed to have Professor Sabine Damir Geilsdorf as the third examiner of my work. I am grateful to have Professor Ulrike Niklas as the chair of my doctoral examination, and I thank her sincerely for opening her heart and allowing me to work at the institute of South and Southeast Asian Studies. I am also indebted to my colleagues Dr. Claudia Webber and Dr. Karl-Heinz Golzio for providing me with their best facilities and companionship while I was working on my thesis in the institute.

My studies in Germany would not have been possible without permission from the Rector of Universitas Islam Indonesia (UII), Yogyakarta, the dean of the Faculty of Economics, and the head of the finance and banking department. I therefore thank them for allowing me to temporarily suspend my duties as a lecturer in order to pursue my doctoral studies. I would also like to extend my gratitude to the Indonesian Endowment Fund for Education (LPDP) for their generous support, which made it possible for me to study in Germany as well as carry out fieldwork in Indonesia.

Several parts of this dissertation have been presented in conferences held in Leeds, United Kingdom (2018), Toronto, Canada (2018), Yogyakarta, Indonesia (2019) and Istanbul, Turkey (2019). Therefore, I would like to thank the conference participants for their helpful comments and remarks.

My doctoral studies have not all been about the academic atmosphere, but also part of a life journey that has enriched my inner experiences. I have met many genuine friends, who have in many ways become my family during my time

in Cologne. notably Hasbuna Kamila, *Mbak Ayu*, *Mbak Frieta*, Tonggi, Fathoni, and Alfa, thank you for your loving friendship over the years and I wish you all the best for your studies! Special thanks to my dearest friend, Jessica Schmauss; I cannot thank you enough for all that you have done for me, and for always being the first one to offer me help whenever I encountered problems in Germany. I also am thankful to my lovely friends, Daniella Sean and Erin, the first two PhD students I knew at the university and later part of my closest circle. Thank you for the beautiful friendship.

While collecting data, I greatly benefited from all those involved. To the research participants, particularly the *Baitul Maal wat Tamwil* (BMT) clients—the women traders in traditional markets—who welcomed and generously shared their experiences with me, I am tremendously indebted to all of you for opening your homes, lives, and hearts to me. I would also like to thank my colleague at UII, M. Bhekti Hendriato, who gave me access to key members of the BMT movement in Yogyakarta, as well as the BMT managers—especially *Pak M. Ridwan* (BMT BIF), *Pak Rama* (BMT Al-Ikhwan), *Pak M. Sobari* (BMT KUBE Sejahtera 19), *Ibu Ekantini* (Koperasi Syariah GEMI), *Pak Nasrudin*, and *Pak Edy* (Puskopsyah DIY)—who gave me valuable support during my field work. I thank you all from the bottom of my heart for your kindness, help, and hospitality.

During my academic life, I spent many years reading, thinking, worrying, analyzing, writing, revising, editing, reediting, ad infinitum. It was sometimes very painful. As such, I am greatly indebted to my loving husband, Adink Masduki, who was a pillar of support over my PhD journey. Thank you, my husband, for everything: your critical feedback, editing help, guidance doing qualitative work, incredible patience (especially when dealing with my mood swings and sleep problems). I fell many times during this process, and you always helped me get back up; you are the best part of me.

Finally, I am also extremely grateful to my parents (H. Harjo Waridi and the late Sumarti) and my parents-in-law (H. Baseran and the late Hj. Siti Khadijah) for their inspiration, motivation, and support. To my sisters, brother, in-laws (*Mbak Sri*, *Mbak Utami*, Lis, *Mas Toto*, *Mas Heri*, and *Wiwik*), and beloved nephews (Rico, Hendra, Ersas, Bara) and nieces (Caca, Frieta, Quinna), thank you for your continued support, love, prayers, and encouragement.

Cologne, 21 January 2020

Ninik Sri Rahayu

Abstract

Baitul Maal wat Tamwil (BMT), a model of Islamic microfinance institution (IMFI), has emerged in Indonesia in the last two decades. Although BMTs were not initially created for women, they have embraced women as their primary beneficiaries. The main objective of this study is to examine the link between BMTs and women's empowerment. More specifically, this study aims to address three main problems. First, to observe the origins of BMTs and their affiliation, it investigates their institutional missions and their ties with women's empowerment agendas. Second, it analyzes the particular patterns with which BMTs' empower women clients. Third, to investigate the effects of BMTs' services on women. Employing a qualitative approach, this study explores four BMTs operating in Yogyakarta Special Region, Indonesia. Data were collected through semi-structured interviews, focus group discussions, document review, and field observations. Participants included BMT managers, founders, and staffs, as well as women clients and experts.

This study has three main findings. First, although the majority of BMTs in Yogyakarta predominantly deal with women, from a historical perspective, there is no indication that the BMT movement in this region is related to a women's empowerment agenda. Moreover, none of the BMT institutions in this research specify women in their goals, objectives, or operations. Targeting of women as primary beneficiaries is merely intended for financial sustainability and not gender concerns. BMTs consider women to be 'a rational economic segment', who can enhance the efficiency of programs and contribute to organizational sustainability. Observing the four selected BMTs, it is found that the service orientation and character of each BMT is significantly affected by its primary affiliation. BMTs that are allied with Islamic mass organization are inclined to accentuate Islamic symbols, while BMTs that work with the government and/or international donors use such symbols less regularly.

Second, this thesis demonstrates that women's empowerment in BMTs follows various models, dealing with socio-economic, religious, and environmental issues. For socio-economic empowerment, BMTs employ individual and collective empowerment. Individual empowerment, called *jemput bola*, is widely used by BMTs as their main means of maintaining personal relationships and member loyalty, as well as to oppose the conventional banking sector. This scheme requires BMTs to arrange rigorous meetings between clients and BMT officers. Meanwhile, collective empowerment is generally facilitated through the creation of independent groups of women based on proximity of residency. BMTs also use religious activities as instruments to deliver their mission of *da'wah*, to attract new members, and to monitor members' business performance. Supported by its international NGO's partners, one BMT institution has pioneered ecological projects that are integrated at the strategic level into its organizational mission and goals.

Third, according to clients, the effects of BMT projects on their family and personal lives are mostly positive. Respondents reported that access to BMTs' programs and services have fostered socio-economic and psychological benefits for women. Economically, positive outcomes have emerged from increased income, savings, and ownership as a consequence of business growth. Meanwhile, access to credit has given women social advantages, such as increased social mobility. Involvement in BMT programs has expanded women's ability to travel to places outside the province. In addition, women's participation in BMT projects has also had positive psychological contributions. Most respondents reported having more self-esteem and dignity as a result of their economic growth. The involvement of women in BMTs' religious programs also improves their religious knowledge and practice. Nevertheless, this study also demonstrates that BMTs may have a negative effect on women; one of the most apparent harmful effects of women's engagement in BMTs is their continuing dependence on loans.

The importance of this study lies in several points: 1) It contributes a new understanding of the intersection between microcredit, women's empowerment, religious and cultural problems in a Muslim-majority society. 2) There has been lack of research into the connection between the Islamic microfinance movement and women's issues in a historical and political context; this study helps fill such gaps by expanding the interdisciplinary scope of Islamic microfinance in an Indonesian setting. 3) The findings of this study enrich discussions and debates on Islamic financing and women's empowerment. This work provides the insight that women's empowerment is a universal concept that is applicable to Muslim-majority societies. 4) There has been a dearth of qualitative study studies on BMTs in Indonesia; this study addresses this gap by undertaking a qualitative approach. Future researchers could extend the research findings and reflections of this research and continue discussion of how to develop and integrate the aspects of gender, Islamic values, and microfinance. While this study has investigated the effects of BMT programs on women's lives, particularly in a Javanese setting, future researchers could expand this to the broader location and include the perspectives of spouses and other family members.

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List of Abbreviations

AGM	Annual Gathering Meeting.
ASBISINDO	Asosiasi BPR Syariah Seluruh Indonesia (The Association of Sharia Rural Banks (BPRS) throughout Indonesia).
ASCRA	Accumulating Saving and Credit Association.
ASPPUK	Asosiasi Pendamping Perempuan Usaha Mikro (Association for women in micro business assistance).
BAZIS	Badan Amil Zakat Infak dan Shadaqah (Islamic Philanthropic Fund Collector).
BIK	Bina Insan Kamil.
BIF	Bina Insanul Fikri.
BKMT	Badan Kontak Majelis Taklim (Majelis Taklim Network Association).
BMI	Bank Muamalat Indonesia.
BMT	Baitul Maal wat Tamwil (Islamic Cooperative-based Microfinance).
BNI	Bank Negara Indonesia.
BPS	Biro Pusat Statistik (Indonesian Central Bureau of Statistics)
BRI	Bank Rakyat Indonesia.
BTN	Bank Tabungan Negara.
CDP	Corp Dakwah Pedesaan (Rural Preaching Corps).
CIDES	Center for Information and Development Studies.
CGAP	Consultative Group to Assist the Poorest.
CRS	Catholic Relief Service.
DD	Dompot Dhu'afa (The Poor's Pocket).
DDII	Dewan Dakwah Islamiyah Indonesia (Indonesian Islamic Da'wah Council).
DIY	Daerah Istimewa Yogyakarta (Yogyakarta Special Province).
DoSA	Department of Social Affairs.
FES	Forum Ekonomi Syariah (Sharia Economic Forum).
GAD	Gender and Development.
GBL	Group-Based Lending.
GEMI	Gerakan Ekonomi Kaum Ibu (Economic Movement for Women).
GTZ	The Deutsche Gesellschaft für Technische Zusammenarbeit or German Organization for Technical Cooperation.
IAIN	Institut Agama Islam Negeri (State Institute for Islamic Studies).
ICMI	Ikatan Cendekiawan Muslim Indonesia (Association of Indonesian Muslim Intellectuals).
ICRW	International Center for Research on Women.

IMFI	Islamic Microfinance Institution.
IMTAQ	Iman dan Taqwa (Faith and Piety).
INKOPSYAH	Induk Koperasi Syariah (Apex Islamic Cooperative).
KJKS	Koperasi Jasa Keuangan Syariah (Islamic Finance Cooperative).
KUBE	Kelompok Usaha Bersama (Collective Enterprise Group).
LAZIS	Lembaga Amil Zakat Infak dan Shadaqah (Islamic Philanthropic Fund Collector).
LEPMM	Lembaga Ekonomi Produktif Masyarakat Mandiri (Self-Reliant Community Productive Economic Agency).
LKW	Latihan Wajib Kumpul (Gathering Compulsory Training).
LPDB	Lembaga Pengelola Dana Bergulir (Revolving Fund Management Agency).
MFI	Microfinance Institution.
MUI	Majelis Ulama Indonesia (Indonesian Council of Religious Scholars).
MoSA	Ministry of Social Affairs.
MMQ	Metode Memahami Quran (Methods of understanding and practicing the Quran).
NGO	Non-Government Organization.
NPL	Non-Performing Loan.
NU	Nahdatul Ulama (Revival of the Ulama).
OJK	Otoritas Jasa Keuangan (The financial services authority of Indonesia).
PAKTO 88	Paket Kebijakan October 1988 (Policy Package of October 1988).
PBMT	Perhimpunan Baitul Maal wat Tamwil (BMT association).
PINBUK	Pusat Inkubasi Usaha Kecil (Center for Small Business Incubation).
PLS	Profit and Loss Sharing.
PPA	Pusat Pengembangan Agribisnis (Center for Agribusiness Development).
PPP	Partai Persatuan Pembangunan (United Development Party).
PUSKOPSYAH	Pusat Koperasi Syariah (Association of Islamic cooperatives).
PKS	Partai Keadilan Sejahtera (Prosperous Justice Party).
ROSCA	Rotating Savings and Credit.
SEWA	Self Employed Women's Association.
SHG	Self Help Group.
SMEs	Small and Medium-sized Enterprises.
STR	Sistem Tanggung Renteng (Group-Based lending system).
UII	Universitas Islam Indonesia.
UMY	Universitas Muhammadiyah Yogyakarta.
UNDP	United Nation Development Program.

USAID	United States Agency for International Development.
WAD	Women and Development.
WASH	Water, Sanitation, and Health.
WCI	Waste Clinical Insurance.
WID	Women in Development.
WWF	Working Women's Forum.
YP2SU	Yayasan Peningkatan dan Pengembangan Sumber Daya Ummat (The Foundation for the Improvement and Development of the Islamic Community).
ZIS	Zakat Infaq dan Shadaqah (Alms and donations).

Glossary of Islamic Terminology

The terms used in this glossary refer to the common tradition in Indonesia

<i>Aisyiyah</i>	The women's wing of Muhammadiyah which was founded in 1917. The organization is dedicated to empower women and other charitable works.
<i>Alhamdulillah</i>	Thank God
<i>Amana</i>	Act of trust.
<i>Amil</i>	A person who collects and administer <i>zakah</i> .
<i>Aqiqah</i>	The Islamic tradition of the sacrifice of an animal on the occasion of a child's birth.
<i>Arrahman</i>	To bring prosperity.
<i>Ashr</i>	Afternoon prayer.
<i>Baitul Maal</i>	House of wealth.
<i>BaitulTamwil</i>	Treasury.
<i>Bank sampah</i>	Waste bank.
<i>Da'i</i>	Islamic missionaries or preacher.
<i>Da'wah</i>	An act of calling people to the religion of Allah. It also means to invite non-Muslim to accept Islam.
<i>Dhamanah</i>	Save keeping with guarantee.
<i>Dhikr</i>	Remembrance of God.
<i>Du'a</i>	Prayer.
<i>Eid al-Fitr</i>	A religious holiday celebrated by Muslims worldwide that marks the end of Ramadan, the Islamic holy month of fasting.
<i>Eid al-Adha</i>	The second of two Muslim holidays celebrated worldwide each year, and considered the holier of the two. In commemoration of <i>Eid al-Adha</i> , an animal (goat or cow) is sacrificed.
<i>Faqir</i>	Destitute or the poorest.
<i>Fiqh</i>	Science jurisprudence of Islamic law.
<i>Ghahar</i>	Uncertainty, a future situation that cannot be predicted or unknown.
<i>Hajj</i>	An annual Islamic pilgrimage to Mecca, the holiest city for Muslims, and a mandatory religious duty for Muslims that must be carried out at least once in their lifetime by all adult Muslims who are physically and financially capable of undertaking the journey, and can support their family during their absence.
<i>Hibah</i>	A voluntary gift without consideration of property or the substance of thing by one person to another so as to constitute the done the proprietor of the subject-matter of the gift.

<i>Hijab</i>	A head covering scarf that some Muslim women wear in public. For many such women, the <i>hijab</i> signifies both modesty and privacy.
<i>Hiwalah</i>	An agreement by the BMT to undertake some of the liabilities of the customer for which the BMT receives a fee.
<i>Ijarah</i>	Leasing contract.
<i>Infaq</i>	Spend wealth for a certain purpose as guided by Islam.
<i>Insyallah</i>	The Arabic language expression for "God willing" or "if God wills". The phrase comes from a Quranic command which commands Muslims to use it when speaking of future events.
<i>Istithna'</i>	A sales contract between BMT and customer where the customer specifies goods to be made or shipped, which the bank then sells to the customer according to a pre-agreed arrangement.
<i>Jama'ah</i>	Congregational prayer.
<i>Jihad</i>	Striving or struggling, especially with a praiseworthy aim.
<i>Juz</i>	A part, it is one of thirty parts of varying lengths into which the Quran is divided.
<i>Madani</i>	An autonomous Muslim society.
<i>Majelis taklim</i>	A religious learning forum, it is also known as <i>pengajian</i> .
<i>Maqasid</i>	Goals or purposes. In an Islamic context, the term can refer to the purposes of Islamic faith, zakat (charity tax), pilgrimage, or of the Quran and Sunnah's text.
<i>Mawadah</i>	Affection.
<i>Muallaf</i>	A new convert to Islam.
<i>Muamalah</i>	Islamic teachings to guide how Muslims should conduct interrelationships among themselves and other parties in socioeconomic affairs such as financial transactions, trade and commerce.
<i>Mudarib</i>	Borrowers.
<i>Mudharabah</i>	Partnership between financial institution or bank and client through profit and loss sharing mechanism.
<i>Muhammadiyah</i>	The second largest Islamic organization in Indonesia. It was founded in 1912 by Ahmad Dahlan in Yogyakarta as a reformist socio-religious movement.
<i>Murabahah</i>	Trade transaction between financial institution or bank and client based on price mark-up mechanism.
<i>Musholla</i>	Praying room.
<i>Musyarakah</i>	Partnership between financial institution or bank and client through ownership of specific project or assets.
<i>Musyitari</i>	The clients or beneficiaries.
<i>Nazar</i>	Vow.
<i>Nahdlatul Ulama</i>	The Indonesian's largest Muslim organization, was established in 1926 in Surabaya as a response to the rise of <i>Wahabism</i> in Saudi Arabia and Islamic modernism in

	Indonesia.
<i>Qard Hasan</i>	A benevolent loan.
<i>Qurban</i>	An Arabic word which means sacrifice. The practice of <i>Qurban</i> is celebrated in commemoration of Prophet Abraham's renowned act of obedience to the commandment of Allah to sacrifice his own son but which was later replaced by a ram. <i>Qurban</i> is performed during the Hajj season in the first three days of the <i>Eidul Adha</i> . The animals allowed for <i>Qurban</i> are goat, sheep, cow, buffalo or camel. The meat from the <i>Qurban</i> are distributed among 3 categories of people: 1/3 for the poor and needy, 1/3 for family members and friends and 1/3 for the person doing the <i>Qurban</i> - and this portion can be given to non-Muslims.
<i>Rabb al maal</i>	Depositor or investor.
<i>Riba</i>	Usury practices in financial and trade transactions, such as charging interest and other illicit transactions.
<i>Rizq</i>	Whatever is of beneficial use and it also mean bestowal of something by Allah SWT.
<i>Sadaqah</i>	Worshipping Allah by giving money without that being made obligatory in Sharia.
<i>Sakinah</i>	Peace.
<i>Sharia</i>	Islamic law.
<i>Silaturahmi</i>	Strengthening relationship with friends, relatives and humanity.
<i>Sirka</i>	Partnership.
<i>Shukr</i>	Thankfulness.
<i>Sunnah</i>	Not obligatory.
<i>Ta'awun</i>	Mutual assistance and mutual help.
<i>Tabarru</i>	A voluntary donation or gift which is given by someone to meet the requirement in Islam to provide mutual help to others.
<i>Tahajud</i>	A special Islamic prayer which is recommended (but not compulsory) for all Muslims. The <i>tahajjud</i> is prayed after <i>Isha</i> (the obligatory nightly prayer) and before <i>Fajr</i> (the obligatory morning prayer).
<i>Takmir</i>	An organization that takes care of all activities that are related to the mosque, both in building, maintain, and prospering it.
<i>Tarbiyah</i>	Education.
<i>Tawhid</i>	Monotheism in Islam.
<i>Tijari</i>	A business financial approach in which the poor can obtain loans under commercial funds.
<i>Ukhuwah</i>	Brotherhood among Muslims.
<i>Ulama</i>	Religious clerics.
<i>Ummah</i>	Islamic Community.

<i>Umara</i>	Government leaders.
<i>Umrah</i>	Non-mandatory lesser pilgrimage made by Muslims to Mecca, which may be performed at any time of the year
<i>Ustadz</i>	Preacher.
<i>Ustadzah</i>	Female preacher.
<i>Zakah</i>	Compulsory almsgiving (generally equal to 2.5 per cent) that paid once a year on saving, gold, commodity production or monthly based on regular income.
<i>Zuhr</i>	The prayer after midday (but before the time for the Asr prayer).
<i>Wadiah</i>	The customer's deposit that must be kept and returned whenever the customer in question wishes. The bank is responsible for returning the deposit.
<i>Wakalah</i>	An authorization to the bank to conduct some business on the customer's behalf.
<i>Waqaf</i>	An Islamic endowment of property to be held in trust and used for a charitable or religious purpose.
<i>Warahmah</i>	Compassion.

Glossary of Indonesian and Javanese Terminology

<i>Abangan</i>	The traditional form of Indonesian Islam that promotes the fusion of Islam with local beliefs and the use of customary local law rather than Sharia law.
<i>Arisan</i>	A form of Rotating Savings and Credit Association (ROSCA).
<i>Berbakti</i>	Obedient.
<i>Buruh tani</i>	Farmhand.
<i>Bodo</i>	Ignorant.
<i>Buser</i>	Buru sergap (Hunt and ambush).
<i>Ceramah</i>	Lecture.
<i>Diuwongke</i>	Treated like human being.
<i>Gemi</i>	Frugal.
<i>Golkar</i>	Party of Functional Groups. It was the Indonesian ruling group from 1971 to 1999, under Presidents Suharto and B. J. Habibie.
<i>Gotong royong</i>	Mutual cooperation.
<i>Ibu</i>	Form of address for married woman or fairly mature female in formal situation and often followed by the person's first name. Married women are usually called by the husband's first name.
<i>Jaga</i>	Keep.
<i>Jawa</i>	Javanese.
<i>Jemput bola</i>	Proactively visiting or finding customers. <i>Jemput bola</i> is the most popular marketing system in BMT institutions. Through this model, the BMT officer conducting regular visit with existing or prospective clients to handle financial transactions.
<i>Konco wingking</i>	Friend in the back i.e. wife.
<i>Kristenisasi</i>	Christianization.
<i>Macak</i>	Javanese term means looking after her physical appearance.
<i>Manak</i>	Javanese term means delivering children.
<i>Masak</i>	Javanese term means preparing meals.
<i>Miskin</i>	Poor.
<i>Ngangsur</i>	Installment.
<i>Ngajeni</i>	Honor.
<i>Nggendong tenggok</i>	Carrying a basket in the back.
<i>Nguri-uri</i>	Carefully maintenance.
<i>Nyumbang</i>	Javanese term means to donate.
<i>Pak</i>	Abbreviation of Bapak (Mr), a form of address to Indonesian men who are married or fairly mature.
<i>Panti Asuhan</i>	Orphanage.
<i>Pengajian</i>	Islamic study forum.

<i>Penghulu</i>	Islamic expert living in rural villages.
<i>Pesantren</i>	Islamic boarding school.
<i>Posdaya</i>	<i>Pos Pemberdayaan keluarga</i> (Family empowerment post)
<i>Program Keluarga Berencana</i>	Family planning program.
<i>Rembug minggon</i>	Weekly meeting.
<i>Rembugan</i>	Open discussion.
<i>Rentenir</i>	Loan shark.
<i>Rukun</i>	Communal harmony.
<i>Sabar</i>	Derived from Arabic word <i>sabr</i> which commonly translate as patience or restraining the self from agitation when confronted with undesirables.
<i>Santri</i>	Pious Muslims.
<i>Sejahtera</i>	Prosperous.
<i>Simbah</i>	Javanese term means grandmother.
<i>Simpan pinjam</i>	Accumulating Saving and Credit Association or ASCRA.
<i>Songolas</i>	Javanese term means nineteen.
<i>Songo</i>	Javanese term means nine.
<i>Sawalan</i>	Celebration held at the conclusion of the fasting month (beginning of <i>sawal</i> , the tenth month of the Islamic calender).
<i>Warung makan</i>	Food stall.
<i>Watak wilangan</i>	Character of number.
<i>Welas</i>	Javanese term means compassion.
<i>Wibawa</i>	Honor.
<i>Wong cilik</i>	Javanese term means marginal person.

Chapter 1

Introduction

1.1 Background

In the preface to *Sustainable Learning for Women's Empowerment: Ways Forward in Micro-Finance*, Mayoux (2003, p.13) addresses key arguments that microfinance services can potentially provide significant contributions to women's economic, social, and political empowerment. Commenting on the selected papers written by activists and academics, Mayoux concludes that through access to credit and savings, women are able to increase their contributions to household income and family well-being. Similarly, by applying a gender perspective, Kabeer (2010, p.21) argues that financial services for women working in the informal economic sector have created social protection and replaced the failure of formal financial providers in empowering marginal women.

Consistent with the work of Mayoux and Kabeer, evidence from Asia reveals that empowering women through microfinance is crucial for both poverty alleviation and gender equality. Enabling women's access to microloans enhances their economic independence, which leads to advanced bargaining power in households and communities and subsequently results in higher prestige, self-esteem, mobility, networks, self-confidence, and knowledge. This, in turn, helps them get out of poverty (see Cheston & Khun, 2002, p.17; Roxin et al., 2010, p.5; Sarumathi & Mohan, 2011, p.9; Ahmed et al., 2011, p.715; Kato & Cratzer, 2013, p.51).

Universally understood as an approach towards poverty alleviation in the developing world, microfinance is found in various models across the globe. However, the contemporary microfinance movement is commonly credited to Dr Muhammad Yunus (Jacobs et al., 2012, p.167). Through Grameen Bank, Yunus' idea to provide poor women with a non-traditional credit program gained massive attention and support from international agencies. The Microfinance Summit, an influential international body, has promoted the Grameen Bank's model of

microfinance as a principal way of empowering women and achieving human-development goals (Roy, 2010, p.5).

Complementing the general sense that various models of microfinance have been used around the world, this study focuses on *Baitul Maal Wat Tamwil* (BMT), the original form of Islamic microfinance in Indonesia. BMTs are Islamic microfinance institutions that combine Islamic commercial finance in their *baitul tamwil* (treasury) functions and social finance in their *baitul maal* (house of wealth) functions (Ascarya, 2018, p.104). As *baitul tamwil*, BMTs provide financial intermediation by using a profit-loss sharing mechanism. As *baitul maal*, BMTs conduct socio-religious activities by collecting charitable donations from their communities to support poverty alleviation programs and enhance Muslims' religious devotion. This study attempts to advance the argument of Mayoux and Kabeer by investigating the interconnection between Islamic microfinance models and women's empowerment in an Indonesian context.

Referring to Mayoux (2003, p.5) and Kabeer (2010, p.21) women's empowerment is a central issue of global microfinance, particularly in developing societies. To examine how microfinance systems serve women clients, both scholars and social activists have widely used a gender perspective as a tool of study. Kabeer's study in some Islamic developing countries, such as Bangladesh and Pakistan, discovered that microfinance has a significant role and impact in socially and economically empowering women. This study aims to explore such a situation in Indonesia by focusing on BMTs as its case study.

Arriving from academic debates on the interplay between microfinance and women's empowerment (e.g., Kabeer, 2003, p.12 & 2010, p.21; Mayoux, 2003, p.5; Robinson, 2001, p.25), this study explores the practice of Islamic microfinance and links it with microfinance paradigms. There are three contrasting thoughts of microfinance: (1) the financial self-sustainability paradigm, (2) the poverty alleviation paradigm, and (3) the feminist empowerment paradigm (Mayoux, 2005, p.4; Rhyne, 1998, p.7; Woller et al., 1999, p.4). Each approach has its theoretical postulations, which arise from different values and political premises.

In the financial self-sustainability model, women are targeted due to risk and efficiency considerations (Mayoux, 1999, p.974). Focusing on women is believed to enhance the efficiency of programs and to contribute towards organizations' financial self-sustainability, as well as increase women's economic activities and ultimately their involvement in their countries' economic development (Kabeer 2001, p.69; Mayoux, 1999, p.974; Lakwo, 2006, p.35). The poverty alleviation paradigm assumes that, by addressing women's practical needs, they will be enabled to challenge gender inequity in ways they see fit (Mayoux, 2005, p.6). Meanwhile, the underlying concerns of the feminist empowerment theory are gender equality and women's human rights. This paradigm views gender subordination as a complex, multi-dimensional, and all-pervasive process affecting all aspects of women's lives and embedded in many different mutually reinforcing levels (Mayoux, 2005, p.6).

Unlike conventional microfinance, Islamic microfinance applies an empowerment concept to promote "family empowerment" by encouraging men and women to perform "balanced" roles in ensuring their families' economic and social well-being (Obaidullah & Khan, 2008, p.8). The concept of a "women only approach" applied by traditional microfinance institutions is alien to the Islamic religion and culture (Obaidullah, 2008, p.19) and potentially detrimental to family unity. As such, promoting family empowerment reduces the risk of family conflict and disintegration (Ascarya, 2014, p.53). In addition, Mannan (2007, p.12) maintains that family empowerment represents a paradigm shift in microfinance, one that can reduce poverty and promote growth with equitable distribution of income.

Moreover, the historical context of the development of Islamic microfinance institutions (BMT) in Indonesia is substantially different from that of conventional microfinance institutions in other developing countries. While conventional microfinance institutions use women's empowerment as a primary issue, in Islamic microfinance institutions the goal is to Islamize the economic system. The emergence of BMT as the first faith-based microfinance model in Indonesia was the outcome of the Islamic economic movement that began in the late 1980s. This

movement was driven by elite Muslim scholars, mainly those affiliated with ICMI¹. ICMI later contributed to the development of thousands of BMTs across the country (Choiruzzad, 2012, p.91).

The Islamic economic movement gained support from the Suharto regime, which had previously repressed Islamic groups as the president's political opponents (Evans, 2011, p.36). The movement managed to convince Suharto to establish the first Islamic bank, *Bank Muamalat Indonesia* (BMI), in May 1992 (Antonio, 2008, p.259). However, to guarantee profit generation, BMI could not reach the poor. Some key advocates of the bank, especially Prof. Amin Azis—who is acknowledged as the architect of the BMT system in the country—turned their attention to establishing an alternative model of Islamic microfinancing institution called *Baitul Maal wat Tamwil*.

The importance of studying BMTs in Indonesia is that this type of Islamic financial institution has become stronger over the past two decades. Why link BMTs with women's empowerment? The answer is that a large number of BMTs, including in Yogyakarta, are established near or within traditional markets, which are identified as women's territory. As a consequence, BMTs have high concentration of women clients. This phenomenon is particularly interesting as the BMT system is not exclusively designed for women.

This study focuses on the Yogyakarta Special Region (DIY). This province was selected for several reasons. First, the city is a special administrative region of Indonesia, and has distinctive socio-cultural, religious, and economic aspects. In this sense, I agree with Nazirwan (2015, p.55) that the mixture of Javanese culture and Islamic customs in this province has imbued people with the ideals of social harmony, cooperation, and mutual respect, all of which contribute to a cooperative ethos such as that seen in faith-based microfinance institutions. In the economic sector, informal businesses and semi-formal financial systems are slightly dominant

¹ *Ikatan Cendekiawan Muslim Indonesia* (Association of Indonesian Muslim Intellectuals). Founded in 1990 by Indonesian Secretary of Research and Technology B. J. Habibie. As opposed to traditional Islamic organizations in Indonesia such as the *Nahdlatul Ulama* (NU), ICMI supported Suharto's regime in turn for considerable influence in policy-making and administration. By 1994, ICMI had grown considerably, boasting as many as 20,000 members, who were largely Indonesia Muslim professionals, scientists, economists, educators and scholars.

in the city. Second, the majority of BMTs are located in Java, predominantly in the cities, townships, and villages of Central Java and Yogyakarta. Compared to areas such as West Java, East Java and Jakarta, BMTs in this region are more dynamic and have grown rapidly (Nazirwan, 2015, p.57).

Referring to the three paradigms of microfinance used in this study, I argue that the way BMTs target women explains their closeness to the theory of financial sustainability and poverty alleviation rather than to the concept of Islamic microfinance. Furthermore, this study reveals that the primary interest of BMTs is financial sustainability; introducing empowerment issues is not only incompatible with their goals, but also an additional agenda in which BMTs avoid investing.

Although women dominate BMTs clientele, their empowerment programs tend to be gender-blind, not focusing on the specific needs of women clients. BMTs' preference to serve women is not related to gender ideology, but rather a combination of business sustainability, pragmatic considerations, and poverty alleviation. By targeting women, as creditworthy clients, BMTs can sufficiently cover their operational expenses. As Robinson (2001, p.185) argues, creditworthy clients generate profits that can sustain microfinance programs over the long term and enable them to reach out to more impoverished clients.

This study identifies a dynamic approach used by BMTs in empowering their clients. In general, BMTs' empowerment activities embrace two mainstream issues, i.e. socio-economic and religious ones, which are in-line with their original vision. Through socio-economic empowerment, BMTs offer Islamic loan schemes to women clients using individual and collective approaches. Additionally, BMTs develop religious programs as a means to maintain personal closeness and loyalty with clients while simultaneously improving their religious awareness. Nevertheless, BMTs primary affiliation greatly affects the patterns of their socio-economic and religious programs. BMTs that are more strongly affiliated with Islamic organizations are more concerned with the issue of religious empowerment. In contrast, BMTs affiliated with government agencies are more pragmatic, and no longer concerned with the religious dimensions of their programs.

The present research also reveals the complex picture of women as they benefit from BMTs' programs and services. Women's motives for accessing BMTs are mainly due to economic needs and the desire to be economically independent. Surrounded by cultural problems, such as illiteracy and non-equal relations rooted in Javanese culture, most beneficiaries are both positively and negatively affected by BMTs' programs. Focusing their activities mostly on traditional markets, most respondents benefit from BMTs' services. They experience such positive outcomes as increased control over income and saving, ownership of assets, mobility outside home (particularly in non-income generating activities), self-esteem and religious awareness. However, BMTs' involvement can also have negative effects. Clients tend to become financially dependent and continue taking credit from BMTs for a long time.

1.2 Research Objectives

The main objective of this study is to examine the connection between BMTs in Yogyakarta and women's empowerment. Four BMTs—Bina Insanul Fikri (BIF), Al Ikhwan, KUBE (Kelompok Usaha Bersama or Collective Enterprise Group) Sejahtera 19, and Islamic Cooperative GEMI (Gerakan Ekonomi Kaum Ibu or Economic Movement for Women)—have been selected for this study. These BMTs have been chosen because they provide interesting points of comparison, especially in terms of their historical backgrounds, organizational platforms, and alliances. Focusing on these four BMTs, this study seeks specifically to address three main issues. First, it examines the BMTs' origins, institutional missions, affiliations, and link with women's empowerment. Second, it seeks to discover the particular pattern through which BMTs empower women clients. Third, it analyzes the effects of BMT services on women's lives.

1.3 Research Questions

The main focus of this study is to investigate the extent to which BMTs, as Islamic microfinance institutions in Indonesia, empower women. In particular, it examines three sub-questions, as follows:

1. What are the organizational platforms, actors, and motivational backgrounds behind the establishment of BMTs in Yogyakarta? To what extent do BMTs' missions intersect with women's empowerment?
2. What are the typical projects developed by the selected BMTs to empower women clients? What are the similarities and differences of selected BMTs' women-targeted projects?
3. What are the effects of women's involvement in BMT programs, including socio-economic, social, and psychological?

To address these questions, the qualitative approach is used for gathering and analyzing findings. This method will be discussed in Chapter 3.

1.4 Significance of the Study

The significance of this research lies in its novel contribution to studies of microfinance, Islamic microfinance, and women's empowerment both in an Indonesian and global context. More specifically, this study will contribute to the existing body of literature on women's empowerment in general and women's empowerment through Islamic microfinance institutions in particular.

Based on my observations, over the past two decades, more attention has been given to women's political and economic participation following the fall of authoritarian power in Indonesia in 1998. Consequently, academic investigations of women's rights in public areas have proliferated. However, Islamic microfinance and its connection with women's empowerment in Indonesia has yet to receive rigorous academic attention.

Earlier scholars have attempted to investigate the development of BMTs in Indonesia (Prawiranata, 2013, P.1; Yumna, 2014, P.4; Nazirwan, 2015, P.11; Holden, 2016, P.7; Riwayatanti, 2014, P.49; Effendi, 2013, P.4). Most of these studies have examined BMTs' performance, sustainability, implementation of Islamic practice, and its effectiveness. A few studies have also explored the connection between BMTs and women's empowerment (Ulfi & Kassim, 2015, P.90; Rahayu & Kusumaningrum, 2015, P.62; Yaumidin et al.; 2015, P.82; Sakai, 2010, P.413). Mostly employing a quantitative approach, these prior investigations have focused

solely on the effects of BMTs' programs on women beneficiaries' socio-economic lives.

As previously mentioned, the BMT movement in Indonesia has aimed to uphold an Islamic economic and financial system. In the context of Yogyakarta, the BMT system that is being promoted by the local Muslim middle class has not only provided faith-based microfinance institutions, but also carried out a spiritual mission to enhance religious devotion and address the complex socio-economic problems of Muslim society. From a historical perspective, there is no evidence that BMTs' campaigns in this region have been connected to gender issues. Nonetheless, though BMTs claim to support the idea of family empowerment, presently they are aggressively targeting women.

However, these issues have not yet been studied by many scholars. Thus, tracing BMTs' historical inventions and policies in the Indonesian socio-political context is critical to get a better understanding of how such institutions deal with women's issues, how they create empowerment models, and to what extent empowerment approaches affect women beneficiaries. Moreover, in the light of limited empirical evidence on the interlink between Islamic microfinance institution and women's empowerment, this study fills a critical gap.

Generally speaking, there is a gap between the theoretical concepts of Islamic microfinance and the empirical situation of BMTs in Indonesia. This study aims to bridge the gap by exploring this matter from both the perspectives of BMT institutions and clients. It is important to note that my professional setting as a lecturer in economics over the last ten years, and my engagement with the Center of Gender Studies at my university (Universitas Islam Indonesia) has influenced the choices and processes of this project. More importantly, this has also helped me access important BMT activists and leaders in Yogyakarta.

1.5 Thesis Outline

This dissertation is organized into seven chapters. Chapter 1 presents the research background, objective, and questions, as well as the significance and outline of the project. Chapter 2 explores conceptual debates of microfinance in

general and Islamic microfinance in particular, as well as the correlation between microfinance and models of women's empowerment. It also assesses earlier studies that have focused on microfinance and Islamic microfinance to situate the conceptual contribution of this study. Chapter 3 explains the methodology applied to answer the research questions identified in Chapter 1. It outlines the research process, explains the research methods used, and details what and how data were collected, validated, and analyzed.

Chapter 4 to 6 present description and analysis of this study's empirical findings. Chapter 4 overviews the history of the invention of BMTs. Discussion begins by underlining the two historical factors leading to these institutions' establishment, i.e. Islamization and the Islamic economic movement in the New Order era. This is followed by an outline of BMT movements at the national and regional level, particularly in Yogyakarta, where the present study takes place. This chapter continues with institutional analysis of BMTs. It explores the ownership, establishment, and policy orientation of the four BMTs, as well as their intersection with women's empowerment issues and their similarities and differences in empowering their clients.

Chapter 5 consists of three sections. The first section describes BMTs' model of socio-economic empowerment. The second focuses on BMTs' religious intermediary programs as a means to empower clients and fulfill religious missions. The third section overviews an exceptional case of women's empowerment in BMT, which integrates social, economic, and environmental issues.

Chapter 6 investigates the effects of BMTs socio-economic and religious programs on their clients. The main motives of women's involvement in the income-generating activities supported by BMTs are also discussed in this section. Finally, Chapter 7 summarizes the research findings and offers recommendations for further study.

Chapter 2

Islamic Microfinance and Women's Empowerment

2.1 Introduction

This chapter serves as a review of the two vital concepts used by this project: Islamic microfinance and women's empowerment. Arriving from academic debates on the interplay between microfinance and women's empowerment (e.g. Kabeer, 2003, p.12 & 2010, p.21; Mayoux, 2003, p.3; Robinson, 2001, p.242), this chapter will explore the intertwined concepts of microfinance and Islamic microfinance before linking this issue with the paradigms and models of women's empowerment through BMT. This chapter's exploration of these two central concepts serves as the foundation for the development of the present study's conceptual framework.

In its review, this chapter is organized into four sections: The first section provides an overview of microfinance development, encompassing the definition, paradigm, and portrait of microfinance institutions, as well as the microfinance movement within a global context. The discussion is followed by an assessment of three paradigms in the microfinance system: financial sustainability, poverty alleviation, and women's empowerment. Finally, the models of microfinance in developing countries, such as group lending, individual lending, credit unions, and self-help groups (SHG) are explored.

The second section discusses the relationship between women's empowerment and the normative and practical roles of microfinance within the broader realm of development policy, with a particular focus on the WID (Women in Development), WAD (Women and Development), and GAD (Gender and Development) approaches. These three competing approaches have shaped the common understanding of women's economic participation in developing societies. This section also explains the three dimensions of the empowerment process (agency, resource, achievement) as well as measures used for empowerment outcomes.

The third section reviews notions of Islamic microfinance institutions (IMFI), including the similarities and differences between IMFIs and conventional MFIs, the basic principles of Islamic finance, and the financial methodology practiced in Muslim Indonesia. The arrival and development of IMFIs in Indonesia will also be discussed. In this section, the expansion of *Baitul Maal wat Tamwil* (BMT), the original IMFI in Indonesia, will be highlighted. The fourth section assesses the key findings of past studies of IMFIs in Indonesia and identifies the gap in the previous academic works which this study will help fill. This section shows the urgency of this research

2.2 Microfinance: Definition, Paradigms, and Types

Microfinance refers to the provision of financial services, mainly in the form of savings and credit, to low-income people (Ledgerwood, 1999, p.1). The primary argument of the microfinance establishment is that formal banking institutions have failed to meet the financial demands and needs of the low-income population, especially in developing countries. Therefore, the development of small-scale finance providers makes it possible for poor people to engage in a range of different activities such as 'farming, fishing, or herding' or operating 'small enterprises where goods are produced, recycled, repaired, or sold' (Robinson, 2001, p.172). Until recently, microfinance focused primarily on providing microcredit. However, there is recognition that poor people need a variety of financial services, not just credit. As such, current microfinance has moved towards providing a range of financial services, including credit, savings, and insurance, to poor enterprises and households (UNDP, 1999, p.1).

Although microfinance is considered essential for poverty alleviation, Karlan & Goldberg (2006, p.26) argue that it does not cover all small and poor borrowers; rather, microfinance depends on the models, target groups, and services offered. In this sense, Prawiranata (2016, p.92) identifies seven commonly used features of microfinance: (1) small transactions, whether loans or savings; (2) loans for entrepreneurial activity; (3) collateral-free loans; (4) group lending; (5) focus on indigent clients; (6) focus on female clients, and (7) market-level interest rates.

Features differ from place to place, including in the value of small loans and savings, degree of poverty, legal aspects of collateral, monetary policy, and transaction costs to obtain market levels of interest.

In developing states such as Indonesia, there are various microfinance projects. These include, among others, association, bank guarantee, community banking, Grameen, cooperative, credit union, group, individual, NGO-driven projects, peer pressure, small business, and village banking models. These models are loosely related with each other, and though they have specific strengths and weaknesses, they have been shown to effectively provide financial services to the unorganized sector. Four models of microfinance lending will be discussed in detail: group lending, individual lending, credit unions, and self-help groups/associations.

(1) The first of these models is group lending, the practice of working with clients in small groups (typically three to seven neighbors). Loans are made to individuals, but the group as a whole is jointly liable should repayment difficulties arise (Armendáriz & Morduch, 1999, p.14). The group lending model was pioneered by the Bangladeshi Grameen Bank in the 1970s, an institution that mainly targets women (98% of its clients are women) on the basis that women repay their loans better than men and that women require more support due to oppression. Murray & Boros (2002, p.11) state that group lending is one of the best approaches to lend small amounts of money to a large number of clients who are unable to offer collateral.

Before acquiring a loan, the group self-selects its members. This self-selection process doubles as a screening device, due to the fact that individuals are more likely to select creditworthy peers that can repay the loan (Karlan, 2007, p.62). Loans are granted to selected member of the group first and then to the rest of the group. Group members usually meet weekly to collect repayments, which are ensured primarily through peer pressure and joint liability. The entire group will be disqualified and ineligible for further loans if even one member becomes a defaulter (Murray & Boros, 2002, p.11).

Because co-borrowers act as guarantors, they screen and monitor each other. In so doing, they reduce agency problems between the MFI and its borrowers. Moreover, the group lending method allows MFIs to minimize transaction costs (at least in the initial loan cycles). However, group loans also face several challenges. They often involve time-consuming weekly repayment meetings, and strong social pressure makes the process potentially onerous for borrowers (Attanasio et al., 2013, p.1). Another challenge is the inflexibility of the products. As individuals mature within the group, demand often shifts to new products that MFIs cannot provide. For example, if a client starts a business and it begins to flourish, the need for larger loans might arise (Karlan, 2007, p.57).

(2) The second model is individual lending. As the effectiveness of group lending has decreased, particularly as groups have matured and members have taken varying loan sizes, many MFIs have recognized that this model is too restrictive and not universally applicable (Karlan & Zinman, 2009, p.2). In addition, the microcredit industry is currently experiencing increased scale and professionalization. As a result, many MFIs have shifted towards various alternative models, including group-based loans with individual liabilities (where repayment is still done weekly, during group meetings), or personal liability loans (Attanasio, et al., 2011, p.2).

The individual model is, in many cases, part of a larger 'credit plus' program where socio-economic services such as skill development, education, and other outreach services are provided. This model is a straightforward credit lending model, wherein microloans are given directly to borrowers (Karlan & Zinman, 2009, p.2). Nonetheless, only a small number of conventional financial institutions provide individual loans to low-income individuals. This is simply because poorer clients are considered higher risk due to their lack of collateral; furthermore, because of the labor-intensive nature of loans, smaller loans lack profitability. Bank Rakyat Indonesia (BRI) in Indonesia and ADEMI in the Dominican Republic are examples of effective lenders that cater to individual indigent clients. However, BRI requests collateral and a loan co-signer, while ADEMI will take the best collateral it can (Murray & Boros, 2002, p.12).

(3) The third form are credit unions, grassroots entities that operate as membership-based savings and loan cooperatives (Poyo, 1995, p.2; Adams, 1995, p.1). Friedrich Wilhelm Raiffeisen is typically credited with starting the credit union movement in rural Germany in 1864. Such rural communities were usually overlooked by mainstream banks because of their low, seasonally dependent incomes. Raiffeisen helped them organize themselves and therefore help members achieve mutual goals while using their social ties and mutual guarantees to monitor each other and encourage each another to finish repayment. Credit unions arose in Canada and the United States as early as the 1900s; however, they only took off, particularly in rural areas, during the Great Depression, when commercial banks closed many of their branches. Credit unions continued to flourish in the post-war years (Prieg & Greenham, 2012, p.3).

For Prieg & Greenham (2012, p.3), credit unions must define a 'common bond,' i.e., a shared characteristic, between members. These common bonds are typically defined by the geographical area in which members can live or work, the jobs of members, the organizations that members work for, or the religion that members belong to. Members of credit unions pool their savings together; these savings then provide a pool of funds from which loans can be made. The demand for loans typically exceeds the supply of savings, so members' loans are typically limited. In most rural areas, credit unions are—together with the informal financial market—still the only source of deposit and credit (Murray & Boros, 2002, p.12).

(4) A self-help group (SHG), the fourth model discussed here, is an informal association of individuals who come together voluntarily to promote economic and social objectives (Singh, 2011 et al., p.91). The SHG system is mainly found in India, where it is used by both MFIs and banks. However, there are also some important users in Indonesia, other parts of Southeast Asia, Africa, and elsewhere (Harper, 2002, p.3). In West Africa, this model is widely known as *tontines* (Bouman, 1995, P.373), while in Indonesia is popular as *arisan*² (see Chapter V). SHGs are often female-dominated organizations where members save small

² A form of Rotating Savings and Credit Association (ROSCA). Generally *arisan* is a social gathering that takes place at a fixed interval, at each member's home in turn.

amounts and can borrow from the shared pool on a rotating basis (Murray & Boros, 2002, p.13).

In general, SHGs consist of ten to twenty members. The group formation process may be facilitated by an NGO or MFI, or it may evolve from a traditional rotating savings and credit group (ROSCA) or other locally initiated grouping. Harper (2002, p.2) suggests that the process of formal 'linkage' to an MFI usually involves several stages. The process may be spread over many years, or it may take place within a few months. Harper (2002, p.2) outlines the procedure as follows: (1) SHG members decide to make regular savings contributions, which may be kept by their elected head, in cash, or kind, or may be banked. (2) Members start to borrow individually from the SHG, for purposes, on terms, and at interest rates decided by the group themselves. (3) The SHG opens a savings account, in the group's name, with bank or MFI, as such funds may not be needed by members, or may be used in order to qualify for a loan. (4) The MFI makes a loan to the SHG, in the name of the group, which is then used by the group to supplement its own lending capacity.

The origin of the modern-day microfinance movement is usually attributed to Dr Muhammad Yunus, a Bangladeshi national (Jacobs et al., 2012, p.167). In the 1970s, Yunus designed an experimental credit program to serve people of Jobra, a tiny village in Bangladesh, for zero interest (Microcredit, 2016, p.1). The idea was to help the poor, especially women, using a collateral deposits-based way of banking. Yunus' experiment spread rapidly to hundreds of villages and, through the support of donors, the Grameen Bank was founded in 1983 (Microcredit, 2016, p.1). In 2006, Yunus and the Grameen Bank were jointly awarded the Nobel Peace Prize for their anti-poverty efforts.

Powerful international bodies such as the Microfinance Summit have sought to promote the Grameen Bank's model of microfinance as a prime way of achieving human development goals including as a way 'to reach and empower women' (Roy, 2010, p.5). This illustrates the position of the microfinance movement within the global context of development (Tanima, 2015, p.25). Since the mid-1990s, microfinance has become a key strategy for simultaneously addressing poverty

alleviation and women's empowerment. International conferences have promoted the idea that poor women—like members of the upper-class, who have the capability to afford such services—have a right to credit, savings, pensions, and insurance schemes.

In examining microfinance development, both academics and social activists have developed various paradigms as a tool of analysis. In microfinance literature, there are three opposing paradigms: (1) the financial self-sustainability paradigm, (2) the poverty alleviation paradigm, and (3) the feminist empowerment paradigm (Mayoux, 2005, p.6; Rhyne, 1998, p.7; Woller et al., 1999, p.1). Each model has its theoretical assumptions and allegiances arising from its values and political premises. Observing these distinctions is necessary to understand how various programs are structured and to consider the best means of addressing women's empowerment (Drolet, 2005, p.39).

2.2.1 The Financial Self-Sustainability Paradigm

The financial self-sustainability paradigm is the microfinance model that has been promoted by many prominent donor agencies, including the United States Agency for International Development (USAID), the World Bank, the United Nations Development Program (UNDP) Micro-Start Program, the Consultative Group to Assist the Poorest (CGAP), and the Micro Credit Summit Campaign (Drolet, 2010, p.217). This paradigm is related to the 'financial systems approach', which offers a commercial-oriented and minimalist package of financial services for the economically active poor. It includes a neo-liberal development model that supports the provision of credit to women as a tool for their empowerment, especially economic empowerment. The primary aim is to create programs that, in competition with other private banking institutions, are profitable and entirely self-supporting, able to raise funds from international financial markets rather than relying on funds from development agencies (Mayoux, 2005, p.4).

Programs under this paradigm focus exclusively on providing diverse financial services and underline the importance of sustainability. For this reason, the microfinance scheme is designed to reach out to creditworthy clients who are

able to repay loans at a commercial interest rate. In turn, interest payments must be sufficient to cover operational expenses and generate profits, thereby sustaining the microfinance program over the long term and enabling it to reach more impoverished clients (Robinson, 2001, p.133). This financial paradigm creates groups that are internally cohesive yet externally compliant with the systems of modern economies. It is argued that group lending is good business for banks that will enable individual entrepreneurship (Rhyne & Otero, 2007, p.98). SHGs, thus, are used as a means of reducing transaction costs and increasing net returns, thereby ensuring that financial services can be extended to new markets (Edward & Olsen, 2006, p.36).

In this paradigm, women are promoted as 'rational economic women' (Mayer & Rankin, 2002, p.806), and targeted primarily due to risk and efficiency considerations (Mayoux, 1999, p.962). Women (especially in the context of developing countries) are perceived as humble, compliant, and shy, and therefore more easily managed or controlled than men. As such, targeting women is believed to enhance program efficiency and contribute to organizational self-sustainability. It also increases women's economic activities and ultimately their involvement in the economic development of their countries (Kabeer 2001, p.69; Mayoux, 1999, p.962; 2002a, p.29 Lakwo, 2006, p.35).

Group formation, therefore, is seen as a process of educating women and training them to participate in the economy as responsible and reliable borrowers. Empowerment is thus seen as a process that educates women to be compliant and efficient actors within the established structures of an expanding market economy (Edward & Olsen, 2006, p.36). It is assumed that access to credit (through poverty targeting) and increasing numbers of female clients are sufficient to promote poverty alleviation and women's empowerment (Drolet, 2010, p.216). Also, it is held that increasing women's access to micro-finance services will in itself lead to individual economic empowerment by enabling women to decide about savings and credit use, set up microenterprises, and otherwise increase the financial capital under their control (Mayoux, 2005, p.7).

2.2.2 The Poverty Alleviation Paradigm

The underpinning philosophy of the poverty alleviation paradigm, often referred to as the Bangladesh Consensus or the Grameen Model, is derived from the supply-leading finance hypothesis and the widespread, subsidized credit programs that evolved in response to conditions after World War II (Robinson, 2001, p.71). The Grameen Bank's successful implementation of these theories led to the proliferation of massive and large-scale subsidized credit programs across the world (Roy, 2010, p.2). The Grameen 'model' has been copied in more than 40 developing countries and become the most widely cited development success story in the world (Hulme, 2008, p.3).

The main focus of the poverty alleviation paradigm is on depth, outreach and the impact of microfinance intervention to the poorest of the poor (Woller et al., 1999, p.24). Microfinance provides access to loans that enable the poor to earn a better income, as well as increase their capacity to save and own valuable assets, thereby reducing their vulnerability (Khandker, 1998, p.11). In addition, with the provision of complementary skills training, literacy, health, nutrition, and family planning, the poor are able to achieve a better standard of living (Robinson, 2001, p.72). The poverty alleviation framework further argues that poverty is complex in nature. Poor and lower-income households are generally uneducated, unskilled, lack valuable assets, have no access to the market, are socially marginalized, and heavily dependent on low-waged seasonal subsistence agricultural labor. Microfinance, thus, should be an integrated intervention, a mix of concessional loans and social empowerment programs (Nazirwan, 2015, p.32).

This model usually depends on subsidies to cover administrative costs, and (in contrast to the financially self-sustainable model) often provides training and social services to borrowers (Roy, 2010, p.5). Subsidy-based microfinance reaches out to the destitute segment of society and uses group-based lending methodologies to organize poor borrowers of similar socioeconomic and cultural backgrounds. This approach allows microcredit and empowerment program to be managed through a 'one size fits all' strategy and effectively involve a greater number of poor clients (Woller et al., 1999, p.19). Peer monitoring and joint liability are employed

in groups to overcome possible problems of screening, monitoring, and loan repayment (Sinha, 1998, p.2).

In this paradigm, women are the primary targets as they are seen as poorer than men, more likely to spend income on their families' welfare, and as central actors in the family structure (Mayoux, 2005, p.7; Woller et al., 1999, p.19). This approach to women's empowerment assumes that, by addressing women's practical needs, they will be empowered to challenge gender inequity in ways they see fit, and that household poverty alleviation is inherently synergistic with women's empowerment and wellbeing. As such, the involvement of women is part of a win-win process (Mayoux, 2005, p.7).

Though gender subordination is recognized as an issue, the main focus is on providing assistance to households. Similarly, in many programs, the term 'women's empowerment' is considered too controversial and political, and therefore something that is best avoided (Mayoux, 2005, p.12). It is assumed that increasing women's access to microfinance will increase women's decision-making power in the household, and that access to income (for both production and consumption) and improved social status will eventually lead to empowerment. Mayoux (2005, p.16) further argues that women's interests coincide with those of the household, particularly children. The household is thus viewed as a cooperative site, one where resources can be pooled and shared equally.

2.2.3 The Feminist Empowerment Paradigm

The feminist empowerment paradigm is rooted in the development of some of the earliest microfinance programs, such as the Self-Employed Women's Association (SEWA) and Working Women's Forum (WWF) in India (Drolet, 2010, p.28). The underlying concerns of this paradigm are gender equality and women's human rights. This paradigm views gender subordination as a complex, multi-dimensional and all-pervasive process, one which affects all aspects of women's lives and is embedded in many different mutually reinforcing levels (Mayoux, 2002b, p.15).

Micro-finance is promoted as an entry point for the broader strategy of women's economic and socio-political emancipation. From that view, empowerment is defined as the transformation of power relations throughout society, and women's empowerment is itself seen as an integral and inseparable part of a more comprehensive social transformation (Mayoux, 2005, p.6). Economic empowerment is seen as involving more than individualist issues; it also includes such issues as property rights, changes in intra-household relations, and transformations of macroeconomic contexts (Mayoux, 2002a, p.80).

The main target groups for programs with this paradigm are poor women and women capable of providing alternative female role models for change; increased attention has also been paid to men's role in challenging gender inequality (Mayoux, 2005, p.6). This feminist paradigm maintains that poor women need to organize themselves to escape their double oppression, both as women in the patriarchal gender order and as members of the working class (Mayoux, 2000, p.6). Therefore, it stresses the importance of improving awareness of the structural barriers that hinder empowerment in addressing empowerment-related concerns. The assumption is that, if given the opportunity, women would wish to challenge gender inequity in the ways envisaged by the wider international feminist movement (Mayoux, 2002a, p.80).

The three competing paradigms in microfinance have drawn attention to the different perspectives and understandings of development for women (Drolet, 2010, p.29). The financial self-sustainability approach seeks to establish sustainable programs that reach a large number of people, whereas the poverty alleviation paradigm—with its lower interest costs and reliance on subsidies—is designed for the impoverished clients. Drolet argues that only the feminist empowerment paradigm questions the standard narrative of whether credit is the missing piece in development. Hence, it arguably offers a broader approach, appreciating the connection between household, community, market, and state dynamics; and recognizing the need to address the structural (social, economic, political and legal) factors that impede women's abilities. Mayoux (2005, p.4) summarizes the three paradigms in the table below:

Table 2.1: Three Paradigms About Microfinance

	Financial Sustainability	Poverty Alleviation	Feminist Empowerment
Main Policy focus	Financially self-sustainable micro-finance programs which increase access to micro-finance services for large numbers of poor people	Microfinance as part of an integrated programs for poverty reduction for the poorest households	Microfinance as an entry point for women's economic, social and political empowerment
Target Group	The entrepreneurial poor	The poorest	Poor women, alternative role models
Underlying paradigm	Neo-liberal market growth	Interventionist poverty alleviation and community development	Structuralist and socialist feminist critique of capitalism
Role of Participation	Consultation and group formation to decrease cost and service delivery and increase commitment and innovation	Development of self-owned and self-managed people's organization for community development	Empowerment of women to articulate their collective interest and organize for change
Main Focus of Gender Policy	Providing the framework for equal access for women	Increasing women's participation in self-help groups	Gender awareness and feminist organization
Definition of empowerment	Transformation of power relations throughout society	Increased wellbeing, community development and self-sufficiency	Economic empowerment, expansion of individual choice and capacities for self-reliance
Underlying assumption	Increasing women's access to micro-finance will automatically lead to economic empowerment without other complementary interventions or change in the macro-economic growth agenda.	Increased well-being and group formation will automatically enable women to empower themselves.	Women's empowerment requires fundamental change in the macro-level development agenda as well as explicit support for women to challenge gender subordination at the micro-level

(Source: Mayoux, 2005, p.4)

These three paradigms are useful for this study as they enable the identification of the dominant model underpinning the current practice of microfinance in Indonesia, especially BMT model. The subsequent section will continue to examine the relationship between women and microfinance, this time within the broader realm of international development policy.

2.3 Perspectives of Women's Empowerment

2.3.1 Concepts of Women's Empowerment

The idea of women's empowerment was first introduced by feminists and women's organizations in the 1970s to depict the process of achieving women's equality by transforming social and political structures at the national and international levels (Bisnath & Elson, 2000, p.122). By the beginning of the 1990s, the term *empowerment* had become a vital jargon in development, and was most extensively used in the context of women and gender equality (Batliwala, 2007, p.11).

To explore women's empowerment within the context of IMFIs, it is essential to understand the fundamentals of empowerment as a concept. As Masabo (2015, p.30) stresses, the first element of empowerment, which distinguishes it from the WID, GAD, and WAD approaches, is the concept of "agency". Through this concept, women are placed as important players in the process of change, as the agents who can define their own ways and directions change their lives. Other parties, such as governments, institutions, and NGOs are merely facilitators in the process. The second essential dimension of empowerment is "process" (Kabeer 200, p.66; Oxaal & Baden,1997, p.6). No other concept—for example, "autonomy" (e.g., Dyson & Moore, 1983, p.45; Jeejebhoy & Sathar, 2001, p.687), "agency," "status" (e.g., Tzannatos, 1999, p.19), and "women's land rights" (e.g., Quisumbing et al. 1999, p.1)—explicitly encompasses a progression from one state (gender inequality) to another (gender equality) (Malhotra, et al., 2002, p.6).

Empowerment is a term widely used by various actors, including activists, feminists, and policymakers (Hennink et al., 2012, p.203). Although the term is not designed exclusively for the issues associated with women, it is nevertheless

frequently used in this context. The literature shows that there are many definitions of empowerment. For instance, Petesch et al. (2005, p.39) define empowerment as "increasing both the capacity of individuals or groups to make purposeful choices and their capacity to transform those choices into desired actions and outcomes". Speer & Hughey's (1995, p.730) definition, meanwhile, understands empowerment as the "expansion of asset and capabilities of poor people to participate, to negotiate with, influence, control, and hold accountable institutions that affects their lives".

Empowerment is also described as "the increasing of the spiritual, political, social, educational, gender, or economic strength of individuals and communities to deliver an authority or permission" (Floyd, 2005, p.25). A briefer definition is given by Kabeer (1999, p.437), who understands empowerment as the "expansion of people's ability to make strategic life choices in a context where this ability was previously denied to them". Of the various definitions, Kabeer's empowerment framework has been widely accepted and become the primary source for understanding the issue of women's empowerment. As noted by Malhotra, et al. (2002, p.4), Kabeer's definition considers empowerment as a process—a change from a condition of disempowerment—which requires agency: people are significant actors in the change process.

Malhotra, et al. (2002, p.6) argue that Kabeer's definition is especially attractive because it contains two basics which help distinguish empowerment from other closely related concepts: (1) the idea of the process, or change from a condition of disempowerment, and (2) the idea of human agency and choice. Furthermore, Malhotra, et al. (2002, p.6) reason that Kabeer offers a useful definition of empowerment that effectively captures what is common to these definitions and can be applied in a range of contexts. The present study applies Kabeer's concept of women's empowerment to explore to link between IMFIs and women's empowerment, holding that Kabeer's theory offers a good way to describe a broader empowerment process.

2.3.2 Three Approaches to Women's Empowerment

Perspectives of women's participation in development have generally fallen into one of three categories: Women in Development (WID), Women and Development (WAD), and Gender and Development (GAD). This section details these three approaches to women's participation in development and discusses how WID, WAD, and GAD have influenced women's empowerment in the economy through microfinance services over the past few decades.

(1) The first approach is Women in Development (WID). Before 1970, development programs and policies were regarded as gender neutral and thus benefiting both men and women equally (Masabo, 2015, p.28). This assumption was challenged by Esther Boserup in her study "Women's Role in Economic Development" (Podems, 2010, p.6). Boserup critiqued the modernization approach by suggesting that it did not pay attention to the needs of women, and argued for the integration of women as equal partners in the development processes. The work of Boserup built the foundation of the WID approach, which became popular in the 1970s and 1980s. The underlying logic of this approach is that women must be included in development projects and programs to improve their situation (Masabo, 2015, p.29).

During the first decade of the WID approach (1975–1985), governments and international organizations were urged to allocate funds for projects targeting women, and a large number of projects were initiated for women in developing countries (Drolet, 2010, p.213). This approach led to growing interest in the potential of credit as a development tool that could contribute to women's productive economic activity. Its primary aim was to integrate women into income-generating projects and thereby raise household incomes (Tanima, 2015, p.33).

(2) Second is the Women and Development (WAD) approach, which emerged in response to the WID approach by the second half of the 1970s (Bhavnani & Foran, 2008, p.321). The WAD perspective focuses on the relationship between women and the development process, rather than purely on strategies for integrating women into development (Rathgeber, 1989, p.9). It was argued that creating women workers did not necessarily empower women, as

patriarchal control within families often continued in workplaces. Therefore, WAD critiqued WID by asserting that women were already active workers, but their work remained invisible. It thus questioned whether women would benefit from entering the workforce (Dol & Odame, 2013, p.74).

Though WAD offers a more critical view of women's position than WID, it fails to undertake a full-scale analysis of the relationship between patriarchy, differing modes of production, and women's subordination and oppression (Rathgeber, 1989, p.10). The WAD perspective implicitly assumes that women's position will improve if and when international structures become more equitable. Rathgeber highlights another weakness shared by the WID and WAD approaches: they concern themselves with the productive side of women's work and lives while ignoring the reproductive aspect. WID and WAD interventions, therefore, have tended to concentrate on developing income-generating activities without taking into account the time burdens that such strategies place on women.

This emphasis on income-generating projects faced criticism, as such activities failed to raise income levels and, in some cases, burdened poor women (Drolet, 2010, p.214; Rahman, 1999, p.75). By the end of the 1980s, many programs began avoiding the term 'income generating', as it 'continued to conjure up images of women undertaking marginal economic activities far removed from a new development thrust toward gender issues and women's empowerment' (Drolet, 2005, p. 36).

(3) Thus emerged a third approach, Gender and Development (GAD), in the 1980s as an alternative to the two previous approaches, which treated women as a homogenous group (Dol & Odame, 2013, p.74). The GAD perspective was influenced by the experiences of and analyses by Western socialist feminists (Podems, 2010, p.9). While WID did little to question intra-household gender relations and assumed that women's entry to the productive economic sphere could increase their empowerment, WAD's radical feminist stance failed to appreciate the complexities of gender relations (Hargreaves, 1997, p.204). Rather than emphasize an exclusively female solidarity, something highly prized by radical feminists, the

GAP approach welcomed the potential contributions of men who shared concern for issues of equity and social justice.

GAD is not concerned with women per se, but rather with the social construction of gender and assignment of specific roles, responsibilities, and expectations to women and men. GAD also puts greater emphasis on the participation of the state in promoting women's emancipation, seeing it as the duty of the state to provide some of the social services that women in many countries have provided on a private and individual basis. The GAD approach sees women as agents of change rather than as passive recipients of development, and it stresses the need for women to organize themselves to ensure a more effective political voice (Rathgeber, 1989, p.13).

This section has explored the main trends in the way women's issues have been conceptualized in the context of development. The WID approach focuses on increasing women's participation. On the other hand, WAD—reflecting its Feminist-Marxist roots—emphasizes women's economic roles and class divisions (Hosgör, 2001, p.112). However, as with WID, it ignores women's domestic roles at home and overemphasizes class. Finally, GAD represents a socialist-feminist approach, one that uses detailed reviews of the intersection of household and public structures to discover "why women have been systematically assigned to inferior and/or secondary roles" (Rathgeber, 1990, p. 11). As Tanima (2015, p.38) points out, the debates which underpin various feminist theories in the international arena parallel the political debates in microfinance. These competing logics have shaped not only different notions of women's empowerment, but also contradictory conclusions about microfinance's potential to empower women (Kabeer, 2001, p.79). The next section will provide a deeper look into Kabeer's three dimensions of empowerment, which will be a tool for this thesis's analysis.

2.3.3 Agency, Resources, and Achievements

Empowerment can be explored through three closely interrelated dimensions: agency, resources, and achievements (Kabeer, 2005, p.13). (1) The first, agency, is the ability of an individual to set goals and act upon them (Kabeer,1999, p.438). It encompasses the exercise of choice, either tangible (as in decision making, bargaining, and negotiation) or intangible (as in motivation and the purposes behind choices) (Kabeer, 2005, p.14). In relation to empowerment, agency implies not only the active exercise of choice, but also the challenging of power relations (ibid.). Exercising agency and challenging power inequalities often changes how people see themselves, their sense of self-worth, and their capacity for action, as the beliefs and values that legitimize oppression are often deeply embedded in the mindsets of subordinate groups (Kabeer, 2003, p.21). In the context of women's empowerment, the idea of self-efficacy creates awareness that women are able to take control of their life choices (Narayan, 2002, p.339).

Agency is the essence of empowerment (Malhotra, et al., 2002, p.8). It matters because it has been hypothesized, and many times confirmed, that it can serve as a means to further development outcomes. Increased agency in one domain may have positive "spillover" effects on agency in other areas, and perhaps also on different aspects of well-being. The manifestation of women's agency, for instance, can be seen when women decide to join credit programs and gain access to microcredit. As a result, women may draw benefits in their income, discretionary spending, children's education, and healthcare.

(2) The second element is resources, i.e. the medium through which agency is exercised. Resources are distributed through the various institutions and relationships in society (Kabeer, 2005, p.15). They include not only materials, in the more conventional economic sense, but also various human and social resources that serve to enhance the ability to exercise choice. Access to such resources reflects specific rules and norms, which govern distribution and exchange in different institutional arenas. Certain parties are privileged in accessing resources, while others are prevented from claiming resources. More important than the resource itself, at least in empowerment, is how individuals gain access after previously

being denied access (Kabeer, 1999, p.447). For example, while employment gives women access to money, their greater public visibility and independence from familial structures of authority may prove more important than the resource itself; the expansion of their movement in the community may likewise prove more valuable (Ibid.)

(3) The third component of empowerment is achievement. Resources and agency constitute what Sen (2003, p.43) refers to as capability: the potential that people have to live the lives they want and achieve valued ways of being and doing. The way in which this potential is realized (or not realized) describes their achievements, i.e. the outcomes of their efforts. In an empowerment context, achievements should be seen in terms of exercised agency and the consequences of choices (Kabeer, 2005, p.449). For example, taking up waged work would be regarded as progress in women's empowerment. However, such evidence would be far more likely if action was taken up in response to new opportunities, rather than as a means of coercion and surviving everyday struggles (Kabeer, 2003, p.17).

2.3.4 Measuring the Indicators of Empowerment

Various attempts have been made to establish comprehensive indicators of empowerment. In Table 2.2, Malhotra, et al. (2002, p.14) synthesize and list the most commonly used dimensions of women's empowerment, drawing from the frameworks developed by various authors. Arguing that power relations operate at different levels, they divide the aspects of empowerment into three distinctive levels: household, community, and the broader arena (Mayoux 2000, p.9; Bisnath & Elson, 1999, p.8). Due to the scope of this present study, the following table will only outline the empowerment dimensions at the household level:

Table 2.2: Indicators of Empowerment in The Household Level

Indicator	Household
Economic	Women's control over income; relative contribution to family support; access to and control of family resources
Socio-Cultural	Women's freedom of movement; lack of discrimination against daughters; commitment to educating daughters
Familial (Interpersonal)	Participation in domestic decision-making; control over sexual relations; ability to make childbearing decisions, use contraception, access abortion; control over spouse selection and marriage timing; freedom from domestic violence
Legal	Knowledge of legal rights; domestic support for exercising rights
Political	Knowledge of political system and means of access to it; domestic support for political engagement; exercising the right to vote
Psychological	Self-esteem; self-efficacy; psychological well-being, religiosity

(Source: Malhotra et al., 2002, p.14; Floyd, 2005, p.25)

These frameworks suggest that women's empowerment must address the following issues: economic, socio-cultural, familial/interpersonal, legal, political, and psychological. Outcome measurement is a crucial aspect of initiating or evaluating development programs that seek to empower women. Malhotra, et al. (2002, p.14) maintain that empowerment has multidimensional aspects. As such, researchers must use care in constructing indices or scale variables related to empowerment, as they may involve distinct elements. The inappropriate combination of items relating to gender and empowerment may also mask the differential effects of component variables on outcomes. After all, a single indicator is not usually sufficient to measure even a specific dimension of empowerment.

Malhotra's framework is widely used to examine the use of MFIs in women's empowerment. Similar to previous findings, this study measures the impact of women's empowerment through Indonesian MFIs by referencing the work of Malhotra et al. (2002, p.14). In measuring such dimensions, it is important to acknowledge that empowerment encompasses various unique elements, as determined by its particular community setting. Given that the IMFI movement in Indonesia, especially in Yogyakarta, has had a religious mission—i.e., has sought to enhance the religious piety of its clients (Nazirwan, 2015, p.61)—this current study includes the religious element developed by Floyd (2005, p.25) as a

psychological outcome of empowerment. The next section will review IMFIs and their differences from conventional MFIs, both in the global and the Indonesian context.

2.4 Understanding Islamic Microfinance

2.4.1 Between Islamic and Conventional Microfinance

Microfinance and Islamic finance have much in common. Both emphasize the good of society as a whole, advocate for entrepreneurship and risk sharing, and believe that the poor should take part in such activities. Both also focus on developmental and social goals, promote financial inclusion, and involve the poor (Obaidullah, 2008, p.10). However, there are some important differences, as can be seen in Table 2.3.

Table 2.3: Comparison of Conventional and Islamic Microfinance

Category	Conventional Microfinance	Islamic Microfinance
Category of the poor	One category	Two levels : a) Deeply poor who do not need loans but social safety net and charitable fund b) Moderately poor who will be better off if they obtain credit for running micro enterprises
Basis of financing	Debt-based and interest based approach	Profit and Loss Sharing (PLS) approach, free of interest (riba) and uncertainty (ghahar)
Source of fund	External fund, saving of clients	External fund, saving of clients, Islamic charity fund
Approach/target of empowerment	The poor and women	The poorest and their family
Dealing with default	Group/center pressure and threats	Group/center/spouse guarantee and Islamic ethics
Social Development Program	Secular	Religious (Behavior, ethics, and social)

(Source: Obaidullah, 2008, p.12; Ahmed, 2002, p.41)

From Table 2.3, it can be inferred that microfinance, especially micro-credit, is not usually appropriate for the chronically poor and destitute. By contrast, in an Islamic system, far greater priority is given to the needs of the chronically

poor than the poor, moderately poor, or not-so-poor (Obaidullah, 2008, p.23). Islam includes a mandatory form of charity—*zakah*³, i.e. the third pillar of Islam—as well as many other voluntary forms. In terms of financing basis, conventional microfinance uses interest as a method of increasing income, while Islamic microfinance is required to use other schemes that remain compliant with Islamic laws (Rahman, 2010, p.624). In terms of liability, the funds of conventional MFIs come mainly from foreign donors (both multilateral and national agencies), governments, and the central bank. IMFIs, meanwhile, can also get funds from the religious institutions of *waqaf*⁴ and charity (Ahmed, 2002, p.36).

The majority of clients in conventional MFIs are women because they are perceived as the poorest of the world population and as using funds productively to improve their income levels (Kulkarni, 2011, p.10). Unequal access to financial services (credit, savings, insurance, and pensions) between men and women is another reason why MFIs target women. Accordingly, promoting women's empowerment through microfinance is crucial for both poverty alleviation and gender equality. Giving women access to credit will enhance their economic independence, which in turn grants them higher bargaining power in their households and communities. Ultimately, they gain higher prestige, self-esteem, mobility, networks, self-confidence, and knowledge, all of which help them to escape poverty. These assumptions mainly come from previous empirical findings in Asia (see, Cheston & Khun, 2002, p.17; Roxin et al., 2010, p.5; Sarumathi & Mohan, 2011, p.9; Ahmed et al., 2011, p.715; Kato & Cratzer, 2013, p.51).

By contrast, IMFIs target families, and their philosophy is one that promotes "family empowerment" by exhorting men and women to play their respective roles in seeking the economic and social well-being of all family members (Obaidullah & Khan, 2008, p.8). Family empowerment represents a paradigm shift in microfinance, one which is capable of reducing poverty and promoting growth with equitable income distribution (Mannan, 2007, p.17). Moreover, family

³ Compulsory almsgiving (generally equal to 2.5 per cent) that paid once a year on saving, gold, commodity production or monthly based on regular income (salary).

⁴ An Islamic endowment of property to be held in trust and used for a charitable or religious purpose.

empowerment reduces the risk of family conflict and disintegration (Ascarya, 2014, p.53). The family concept is supported by the contracts between the IMFIs and their beneficiaries. Both women and their spouses sign these contracts and are liable for the repayment of the funds (Ahmed, 2002, p.39).

The IMFIs' idea of family empowerment seems more acceptable in Indonesian culture than that of "women's empowerment" or "gender". For some Muslim communities, women's empowerment and gender are considered western concepts that might run contrary to Islamic values. Furthermore, the concept of family empowerment is already widely known in Indonesia. This is seen, for example, in the *posdaya* (family empowerment posts) program, which was developed by the Indonesian government to enhance family and community welfare as well as to promote poverty alleviation. The *posdaya* program is the result of revitalizing and developing family planning programs (*program keluarga berencana*), and is intended to stimulate the culture of *gotong royong* (mutual cooperation) in Indonesian society (Muljono, 2013, p.2).

Another prominent difference between IMFIs and MFIs is how they deal with arrears and default. Conventional MFIs use group and central pressure. When this fails, threats are sometimes made and, in extreme cases, assets are sold. IMFIs, meanwhile, employ an Islamic approach when dealing with arrears and defaults. The spirit of brotherhood and mutual help preached by Islam induce group members and central authorities to assist in paying arrears; spouses can also be approached. Furthermore, the Islamic doctrine that not repaying debts is sinful also motivates members to repay their dues (Ahmed, 2002, p.40). In the context of social development, conventional MFIs are secular in nature, while their IMFI counterparts have Islamic content.

2.4.2. The Principles of Islamic Microfinance

Generally, Islamic values underpin the basic principles and practices of Islamic microfinance. In brief, the general principles of IMFIs' operations are:

- 1) Prohibition of usury or *riba*. The word *riba* means an increase, addition, or growth. Technically, it refers to a 'premium' that must be paid, together with

the principal amount, by the borrower to lender as a condition for the loan (Walterst, 2012, p.265).

- 2) Prohibition of excessive uncertainty (*ghahar*). *Gharar* is prohibited, as it connotes a transaction based on incomplete information (or deception); such a transaction involves an unnecessary degree of risk and/or uncertainty (Garner, 2013, p.73).
- 3) All activities must be for permitted purposes (*halal*). When choosing enterprises in which they may invest, Muslims must not engage in, or derive benefits from, any activities that are prohibited by Sharia law. Such prohibited activities include "gambling and casino games, alcoholic beverages, pork consumption, pornography and prostitution, weapons/defense, and financial services dependent on *riba*" (Walterst, 2012, p.268).
- 4) Profit Loss Sharing (PLS). Islamic banks and their clients are partners, with both sides sharing risks and gains. The transfer of funds from clients to the bank (depositing) is based on revenue-sharing and usually calculated ex-post on a monthly basis. Similarly, the transfer of funds from the bank to its clients is based on profit-sharing (lending, financing). Walterst (2012, p.275) states that the most widely used of these include both profit-sharing models (*musyarakah* and *mudharabah*) and exchange contracts (*murabahah* and *ijarah*).

2.4.3 Models of Funding Management

In Islamic law, Islamic financial products are based on specific types of contracts. *Sharia's* compliant instruments comprise of funding mobilization and financing (Obaidullah & Khan, 2008, p.18). The following explains each method used in the Islamic financial model:

1. Funding Mobilization

- (1) The first source of funds for IMFIs is charities (*zakah*, *shadaqah*⁵, *waqaf*,

⁵ Islamic law that is used in regulating various aspects of Muslim life in the community.

⁶ Worshipping Allah by giving money without that being made obligatory in sharia.

and gifts, including both *hibah*⁷ and *tabarrus*). Ahmed (2002, p.58) suggests that IMFIs have an advantage over Islamic banks since they can use Islamic charitable funds such as *zakah*, *waqaf*, *infaq*⁸, and *shadaqah* as sources of funding. *Shadaqah*, *hibah* and *tabarru* have parallels in conventional microfinance, such as donations or contributions. Meanwhile, *zakah* and *waqaf*, which have a special place in the Islamic system, are governed by elaborate *fiqh*¹⁰ rules (Obaidullah, 2008, p.34). For example, *zakah* can only be distributed to certain parties such as *faqir* (destitute or the poorest), *miskin* (poor), *amil* (persons who collect and administer *zakah*), and *muallaf* (persons who recently converted to Islam).

(2) The second basis of funds in IMFI is savings and deposits. Two models fall into this category: *wadiah* and *mudharabah*, with the former being less popular than the latter. *Wadiah* savings contracts are usually combined with the concept of *dhamanah* (as *wadiah yad dhamanah* or guaranteed deposits). Under this mechanism, deposits are held as *amana* or in trust and utilized by the bank at its own risk. The depositor does not share the risk or return in any form, and as such any profit or loss resulting from the investment of these funds is accrued entirely by the bank (Obaidullah, 2008, p.44). Depositors, therefore, cannot expect a return, because returns are received at the discretion of the bank (Saad, 2012, p.28).

(3) The third model is a PLS-based *mudharabah* account, which the contract normally applies to a passbook savings, term deposits, investment accounts, and special investment accounts. The general terms of the agreement—for instance, the ratio of return and risk sharing, maturity, service fees, and penalties—are set in advance. However, for special investment accounts, contracts will also detail the specific rights and obligations of each party in order to ensure that the contract is fully binding under the Sharia system (Obaidullah, 2008, p.52). Technically speaking, PLS accounts are the most dominant source of funds for IMFIs, as they

⁷ A voluntary gift without consideration of property or the substance of thing by one person to another so as to constitute the done the proprietor of the subject-matter of the gift.

⁸ A voluntary donation or gift which is given by someone to meet the requirement in Islam to provide mutual help to others.

⁹ Spend wealth for a certain purpose as guided by Islam.

¹⁰ Science jurisprudence of Islamic law.

can be invested in riskier and longer-term projects that generate higher profits (Rahman, 2010, p.624). Recently, almsgiving management has been developed so that a portion of un-disbursed funds (e.g., donations) can be invested into productive, but less risky, ventures, thereby increasing IMFIs' capacity to reach out to poorer segments of the population and develop religious philanthropic programs.

2. Lending

The type of financing instrument used by IMFIs depends on the nature of the activities for which funds are granted. For instance, IMFIs' may offer several types of lending models, including partnership contracts (*mudharabah* and *musyarakah*), trade/sale contracts (*murabahah*), lease contracts (*ijarah*), and benevolent loans or *Qard Hasan* (see Chapter IV). Many scholars argue that *mudharabah* and *musyarakah* are the ideal products of Islamic banking, underscoring the socio-economic benefits of Islamic economics (Saad, 2012, p.29). In *mudharabah* partnership, the financier provides the capital, and the client has the expertise. In return, both parties agree to share profits, if profits are accrued. However, if there is a loss, the financier will bear the financial risk, while the client bears the cost of labor and efforts. By contrast, in *musyarakah*, both financier and client are responsible for decision-making, daily operations, and overall business performance (Nazirwan, 2015, p.41).

IMFIs can also provide trading contracts through *murabahah*. In this scheme, the IMFI acts as a seller, and the client acts as a buyer. Initially, the client requests that the financier provide particular goods, assets, or commodities. Based on the agreed terms and conditions—for example, goods specification, principal price, margin, delivery, and payment method—the financier searches for and buys goods, then directly delivers them to the client. The financier adds an amount of profit on top of the basic price, and payment can be made in cash or through a deferred system. In the case of deferred payment, installments should be set proportionally, with consideration of the basic price (principal) and profit. Although this aspect of the contract appears quite similar to traditional credit term payments, such profit should not be regarded as interest.

Ijarah is another Islamic financial approach that is widely practiced by IMFIs. It is basically a leasing arrangement in which the financier rents the required assets, property, or services to the client. In *ijarah* transactions, IMFIs buy the assets needed by their clients and lease these assets. As the lessor, the IMFI has ownership rights over the asset, and the micro-entrepreneur, as the lessee, should pay rental fees, as agreed by the two parties. At the end of the leasing period, the micro-entrepreneur can return the asset or buy it from the IMFI (Saad, 2012, p.31). IMFIs can also provide *qard hasan*, a scheme characterized primarily as a charity loan with very low returns; in some instances, it may even be free of charge. Such loans are used to finance start-ups and on-going microbusinesses, to support income equalization in poor households, and for other social purposes. Funding comes primarily from external philanthropic and lending institutions, as well as government grants. The practice of benevolent loans is separate from commercial activities; if the loan generates a return, it should be reinvested into the charity program (Khan, 2008, p.90; Rahman, 2010, p.624).

2.4.4 BMT as the Indonesian IMFI Model

As discussed in the introductory chapter of this thesis, *Baitul Maal wat Tamwil* (BMT) is commonly seen as the typical IMFI in Indonesia. The name of the institution represents its socio-economic mission. The following table summarizes the different functions of *baitul maal* and *baitul tamwil* within BMT.

Table 2.4: Distinctive Attributes of BMTs

<i>Baitul Tamwil</i>	<i>Baitul Maal</i>
Mobilize savings and deposits from members	Mobilize charitable funds from communities
Allocate the funds to finance profitable businesses run by the members	Distribute funds to particular beneficiaries
Provide other financial product and services	Organize socio-religious programs
Profit oriented	Non-profit oriented
Objectives – to improve the economic welfare of members and community, and to generate sustainable returns to founders/investors.	Objectives – to alleviate poverty, empower and enhance the religious lives of poor people and the whole community

(Source: Nazirwan, 2015, p.176)

As *baitul maal* (a house of wealth), BMT plays a role in collecting and distributing *zakah*, *infaq* and *sadhaqah* funds. Through this social function, it provides interest-free financing (*qard hasan*) to the deserving poor. In other words, as a *baitul maal* it conducts socio-religious activities by collecting charitable donations from the community to support poverty alleviation programs as well as enhance the piety of Muslims. While acting as a *bait tamwil* (treasury), meanwhile, the institution is essentially offering financial intermediation by managing savings and loans (Wulandari & Kassim, 2015, p.271).

The legal basis of BMT is an Islamic cooperative microfinance system (Koperasi Jasa Keuangan Syariah¹¹). Before the enactment of Law No. 1 of 2013 about Microfinance Institutions, there were three legal types of BMT: 1) BMTs that were established as cooperatives, under the supervision of the State Ministry of Cooperatives and Small Medium-sized Enterprises (SMEs); 2) BMTs that were established under foundations; 3) BMTs that were established under non-governmental organizations. Since the passage of the law, however, all microfinance institutions have had to choose one of two legal statuses: either as a cooperative or as an incorporated company (Masyithoh, 2014, p.19).

Although BMTs are not legally part of the formal financial sector, they may be placed in either the semiformal or informal financial sector (Siebel, 2007, p.7). However, from an economic development perspective, BMTs have played an outstanding role in fostering the dynamic growth of the informal enterprises and microenterprises, as well as household-based economies in regions where formal banks do not exist. As such, BMTs fill a niche segment, one perceived by commercial bankers to be high-risk and unprofitable (Nazirwan, 2015, p.267).

Over the past two decades, BMTs have been part of the emerging sector of Islamic economics in Indonesia. The first BMT in the country, *Bina Insan Kamil* (BIK), founded in 1992, less than one year after the establishment of *Bank Muamalat Indonesia*, the first Indonesian Islamic bank (Antonio, 2008, p.257). This

¹¹ Koperasi Jasa Keuangan Syariah or KJKS is regulated by the Cooperative Law and the MENEGKOP-UKM Decree No: 91/Kep/M.KUM/IX/2004 and its amendment, No. 35.2/PER/M.KUM/X/2007.

BMT was initiated by some of the elite Muslims in Jakarta who had been involved in the establishment of the bank. Professor Amin Azis, a pivotal ICMI and Muhammadiyah¹² figure, is credited as the "architect" of the country's BMT model.

This BMT was created to provide small capital loans to the destitute, who could not be reached by *Bank Muamalat* Indonesia. In the view of Amin Azis, the BMT system is a *jihad*¹³ to bring prosperity (*arrahman*) and to strengthen brotherhood among Muslims (*ukhuwah*). He emphasizes that BMT is a pathway to build an autonomous Muslim society (*madani*), one with strong spiritual devotion and socioeconomic development (Azis, 2006, p.15). The historical, socio-economic, and political setting of the BMT movement in Indonesia will be discussed further in Chapter IV.

2.5 Limitation of Studies on BMTs

The rise of the Islamic economy movement in Indonesia has enriched studies on the effectiveness of BMTs as instruments of poverty alleviation. A study by Riwijanti (2014, p.1) in East Java reveals that BMTs help reduce the poverty rate. Microentrepreneurs, as BMT members, experience a significant improvement in the value of their annual sales, net income, business expenditures, household expenditures, and employment. Similarly, Adnan & Ajija (2015, p.160) suggest that MFIs effectively reduce poverty. Most respondents were able to increase their income after receiving financing.

Furthermore, Effendi (2013, p.3) shows that BMTs are slightly more effective than conventional MFIs in reducing poverty. Previous studies have indicated that BMTs have a significant effect on poverty reduction. However, these studies have failed to consider gender aspects in analyzing poverty. This present study argues

¹² The second largest Islamic organization in Indonesia which was founded in 1912 by Ahmad Dahlan in Yogyakarta as a reformist socio-religious movement. The organization is not formally affiliated with a political party, rather it has socio-religious goals to promote Islamic values through a modern educational system and *da'wah*, including the provision of health services (Alfian,1989).

¹³ Striving or struggling, especially with a praiseworthy aim. It can have many shades of meaning in an Islamic context, such as struggle against one's evil inclinations, an exertion to convert unbelievers, or efforts toward the moral betterment of society, though it is most frequently associated with war. In the classic Islamic law, the term refers to armed struggle against unbelievers, while modernist Islamic scholars generally equate military jihad with defensive warfare.

that gender is a critical aspect of poverty, as seen in the fact that the majority of Indonesia's poor are women (Endarwati et al., 2009, p.3). Such poor women tend to concentrate on the informal sector, including micro-business and small trade.

As previously mentioned, IMFIs are not specifically designed for women. Nonetheless, women are the primary clients of BMTs in Indonesia. Earlier scholars, such as Ulfi & Kassim (2015, p.89); Rahayu & Kusumaningrum (2015, p.62); Yaumidin et al. (2015, p.80); and Sakai (2010, p.413) have investigated the links between women's empowerment and BMTs. In particular, these studies have concentrated on the socio-economic aspects of women's empowerment. Ulfi & Kassim (2015, p.99) note that BMTs improve various aspects of participants' socio-economic lives, giving them (for example) higher income and expenditures, as well as greater involvement in community activities, decision making, and children's education. Furthermore, Rahayu & Kusumaningrum (2015, p.71) demonstrate that women have more control over the savings and income that they manage than women who are not members of IMFIs. Female members of IMFIs are also more mobile and more actively involved in their households' decision-making processes.

Similarly, Yaumidin et al. (2015, p.114) confirm that BMTs influence women's bargaining power within the household, covering a broad range of decision-making concerns, including those related to children, health, finances, and social mobility. BMTs also enable women to participate in household decision making processes, which were considered part of 'men's domain' in the patriarchal system. Another study, by Sakai (2010, p.416), suggests that BMT services and products enhance the self-worth of women and their ability to attain economic independence.

Overall, it can be seen that, even though multiple studies have analyzed the correlation between BMTs and women's empowerment, none have investigated three critical issues:

- 1) The intersection of women's issue with the BMTs' missions, origins, and affiliations. As stated beforehand, although most BMTs serve women as their main clients, BMTs have not been developed particularly to empower them. As such, exploring BMTs' mission, origin, and affiliation is essential to get a better

understanding of how these institutions deal with women's issues. Such analysis would help identify which of the three paradigms on microfinance (self-sustainability, poverty, and feminist) is practiced in Indonesia.

- 2) The women's empowerment pattern employed by BMT institutions. Identifying the empowerment model of BMTs is important to shed light on how their Islamic approach influences their policies and strategies for women clients.
- 3) The impact of women's empowerment on religiosity. Initially, the BMT movement in Indonesia had not only a socio-economic mission but also a religious mission. As such, this study seeks to understand how BMTs religious programs affect women's empowerment.

Departing from the fact that BMTs in Indonesia, especially in Yogyakarta, have a mission to enhance the spiritual piety of their clients, this current study includes a religious element of empowerment, referencing Floyd (2005, p.25). The main reason for combining these frameworks is that both complement each other in their examination of how women are empowered in an Indonesian context. Furthermore, many BMTs provide spiritual and religious capacity building programs for their clients (Nazirwan, 2015, p.65). To the extent of my knowledge, the impact of such intermediary activities on the religiosity of clients has not been explored by many scholars.

It is suggested that there is a gap between the theoretical concept of Islamic microfinance and the empirical situation of the BMTs and their relations with women in an Indonesian context. This study fills this gap by providing a comprehensive investigation of BMT institutions and clients in order to understand the connection between BMTs and women's empowerment.

2.6 Summary

This chapter has provided overviews of the concepts of microfinance, Islamic microfinance, and women's empowerment. Moreover, it has assessed past studies of BMTs to position the contributions of this thesis.

The basic argument of microfinance development in developing countries is that formal banking institutions are unable to provide financial services to persons

with low income (un-bankable people). Universally assumed as a tool of social empowerment, microfinance primarily targets women as its clients. Building on this understanding, this chapter has discussed three paradigms of empowerment through microfinance: (1) the financial self-sustainability paradigm, which places women as 'rational economic actors'; (2) the poverty alleviation paradigm, which believes that women are poorer than men, more likely to spend income on the welfare of their families, and the central actors in the family structure; (3) the feminist empowerment paradigm, which promotes microfinancing as an entry point for a broader strategy of economic and socio-political empowerment.

Concerning Islamic microfinance, this chapter explains that IMFIs fundamentally differ from Western practices of finance. It argues that IMFIs meet the needs of the poor by targeting families (not just women) and attempt to reduce social marginalization and poverty as an element of poverty alleviation. This chapter has also introduced BMT as the IMFI model used in Indonesia and described its values, basic principles and practices.

The overall description of concepts in this chapter will be useful in analyzing the mission, motives/backgrounds, and services of BMTs in Yogyakarta, as well as their impacts on women clients (Chapter VI). By exploring previous ideas and concepts of Islamic microfinance and women's empowerment, I have come to understand that there remains a lack of concepts and approaches that explore the connection between IMFIs and women's empowerment in Muslim majority countries such as Indonesia. The three paradigms of empowerment through microfinance described in this chapter have been developed mostly in South Asia and covered MFIs in general, not IMFIs. As such, this study seeks to review the relevance of these three paradigms in other developing countries, with Indonesian BMTs as its case study.

Chapter 3

Research Approach and Methodology

This chapter explains what approaches were used to collect data as well as the challenges encountered during the process. While economic and financial studies usually use a quantitative methodology, the present study employs a qualitative approach instead. As mentioned in Chapter 1, there are very few qualitative studies of BMTs in Indonesia, particularly those that link BMT institutions with women's issue. This chapter will describe how qualitative methods were applied in this research. It provides a description of the research location, the research participants, methods, and analyses employed in this study.

3.1 The Qualitative Method

Generally, a study of microfinance implies a quantitative methodology. However, the present research is not a financial examination, but rather an exploration into how BMTs—Islamic microfinance institutions in Indonesia—empower their women clients. It explores the historical development of the BMT movement in the context of Indonesian socio-political dynamics to get a better understanding of how these institutions deal with women's issues, to what degree they create empowerment patterns, and to what extent their empowerment approaches affect women beneficiaries. Using a case study of four BMTs operating in Yogyakarta, this research observes how the BMT model differs, as a local variant, from the conventional global model of microfinance in terms of targeting women and empowering members.

Given those arguments, quantitative models, which rely on instruments such as extensively distributed questionnaires, might not generate the expected outcomes. As such, a qualitative method, relying on semi-structured interviews, field observations, document analysis, and focus group discussions were chosen for this study. Additionally, a qualitative approach was deployed to guarantee that the voices and stories of respondents, including their perspectives of the issues, are understood. This method reflects Liamputtong's argument that:

"It is only in qualitative enquiry which enables researchers to work closely with the participants, and which allows them to build trust and rapport with them. [...] the participants have opportunities to articulate their needs and concerns in great depth (2010, p.7)."

Qualitative research is defined as an activity to study things in their natural settings, thereby attempting to make sense of or interpret phenomena in terms of the meaning people bring to them (Denzin & Lincoln, 2005, p.3). It involves the collection of various empirical materials through fieldwork that describes moments and meanings in subjects' personal lives. In order to obtain in-depth understanding of an object of interest, be it a social or economic organization (Bryman & Bell, 2007, p.160), the case study method may be used. For this research, case studies are used to explore the history of the BMT model, its mission, and its activities that empower Muslim women (theoretically contradicting with the nature of the BMT model as a tool of family-based economic development). This study investigates the background of the selected BMTs in Yogyakarta, their motivations, their typical projects for women clients, and how their services advance the lives of their women clients.

3.2 The Research Location

The field study was conducted in Yogyakarta, the capital city of Yogyakarta Special Region (Daerah Istimewa Yogyakarta, DIY), which was the capital of Indonesia during the Indonesian National Revolution (from 1945 to 1949) (Wardani et al., 2013, p.105). It is the only region of Indonesia that is still governed by a pre-colonial monarchy, the Sultan of Yogyakarta, who serves as the hereditary governor of the region. The current sultan is Hamengkubuwono X.

Geographically, Yogyakarta is located along the southern coast of central Java. The total area of the province is 3,185.80 km² or 0.17% of the total area of Indonesia (1,890,754 km²). DIY is the smallest province, after the Jakarta Capital Region (BPS, 2014, p.3). DIY has four regencies and one city, namely: Yogyakarta City, Bantul, Kulonprogo, Gunungkidul, and Sleman Regency. According to a census by the Yogyakarta Bureau of Statistics (BPS), more than 92.2% percent of the province's population (3,355,990 of 3,639,745 residents) are Muslim (BPS,

2016, p.231).

Yogyakarta is the basis of Muhammadiyah, the second largest Islamic organization in Indonesia, which has 29 million members. The headquarters of Muhammadiyah is located on Ahmad Dahlan Street, close to the Sultan's palace, Kauman grand mosque, and Beringharjo (the largest traditional market in the region). Consequently, Muhammadiyah and the palace have significantly influenced the inception and growth of BMTs as a socio-economic and religious organizations in the region (Nazirwan, 2015, p.81).

3.3 Data Collection Techniques

This section describes the data collection process that I applied during three months of field studies, from October to December 2017, in DIY. Three methods were used to collect the data for this research: semi-structured interviews accompanied with focus group discussion/FGDs; field observation; and document collection.

The field study in Yogyakarta began with a discussion with Bhekti Hendrianto, my colleague at the Faculty of Economics of *Universitas Islam Indonesia* (UII), an expert in Islamic economics, member of the supervisory board of Puskopsyah¹⁴, and a key figure in the province's Islamic economic movement. Through Hendrianto and his strong relations with the BMT community, access to BMTs and related institutions was facilitated. From him, I gained access to Puskopsyah's director, Nasrudin, who gave further support during the data collection process and eased contact with key BMT figures in the province. Employing the snowball technique, which uses referrals to identify persons with information and knowledge on Islamic micro-finance, interviews and networking sessions were able to broaden access to key informants as well as access to relevant organizations. In my experience during field studies, respondents could be more

¹⁴ Pusat Koperasi Syariah (Association of Islamic cooperative). In this association, as many as 93 BMTs in Yogyakarta are under its supervision.

easily accessed through direct meetings rather than by sending formal letters to their institutions.

From intensive discussions with Puskopsyah and my own observations, I selected four BMTs. Each was selected for being special and unique, yet representative of general trends in Yogyakarta's BMTs: Bina Insanul Fikri (BIF), GEMI, Al-Ikhwan, and KUBE 19. Each of these institutions has a different background, including in terms of establishment, length of operation, area of membership service, affiliation with Islamic mass organizations, practical implementation of Islamic economic values, and empowerment programs. The main similarity between the four BMTs is their clients, 80% of whom are women.

3.3.1 Semi-Structured Interviews

Semi-structured interviews were employed by this study to explore the experiences and opinions of BMT clients. Interviews consisted of a number of open-ended questions developed based on the dimensions of women's empowerment promoted by Malhotra et al. (2002, p.14) and Floyd (2005, p.25). These open-ended questions covered six aspects: economic, socio-cultural, familial/interpersonal, psychological, educational, and religious. Using these questions as guidelines, I collected information on the knowledge and perceptions of women, as the beneficiaries of BMTs in Yogyakarta. Interviewees were selected based on their experience engaging with BMTs; all had been members of a specific BMT for at least two years. Based on information and suggestions from my first interviewees, I expanded my scope of sources and critical respondents. In this process, I was aided by assistants from the Center of Islamic Economic Studies, as well as Center for Gender Studies, *Universitas Islam Indonesia*, Yogyakarta.

Semi-structured interviews were also employed to gather data from BMT institutions and activists. Respondents consisted of BMT managers, staff, practitioners, and Islamic economic scholars. Interview materials covered BMTs' histories, origins, and affiliations, as well as their empowerment models, current issues in the province, and views on women's empowerment. In this, the snowball technique was employed to collect information.

More specifically, between October and December 2017, I interviewed 31 respondents: BMT clients, BMT managers and staff, practitioners, and Islamic economic scholars. The list of interviewees can be seen in the appendix 1 of this thesis. Because I maintained personal contact with respondents, especially those from BMT institutions, I was able to arrange additional interviews via video calls (WhatsApp) from Germany.

3.3.2 Focus Group Discussions

In addition to semi-structured interviews, focus group discussions (FGDs) were conducted to gain insights from BMT executives outside the four selected BMTs. An FGD is a type of in-depth interview accomplished in a group, with specific characteristics defined by their sizes, compositions, and interview procedures. The focus or object of analysis is interactions within the group. In this method, participants influence each other through their answers and contributions during the discussion. I chose to use an FGD because they are useful for gathering the subjective perspectives of key stakeholders, which may be more difficult to gather through other data collection methods.

FGD participants were the managers, founders, and key persons of Puskopsyah, who have vital experience and engagement in the development of BMTs in Yogyakarta. During discussions, I asked questions related to the following broad issues: motivations for BMT establishment, intentions in targeting women, regulatory problems, roles of women clients in supporting BMT development, policies, and programs related to women.

For this study, I organized an FGD with ten other BMTs from the five parts of DIY (Bantul, Sleman, Kulon Progo, Gunung Kidul, and Yogyakarta City). This activity was fully supported by Puskopsyah. A list of interviewees and FGD participants can be found in the appendix 2. The FGD was organized in mid-December 2017 and attended by the director and deputy director of Puskopsyah as well as representatives of ten BMTs: Surya Amanah, Giat, Bina Sejahtera, Ummat, Mitra Amanah Sejahtera, Niten, ISU, UMY, Surya Umbulharjo, and Bina Ummah.

3.3.3 Document Collection

During my fieldwork (October–December 2017), I collected documents related to BMTs, including audio records of semi-structured interviews that were transcribed by research assistants. Fieldwork documents included: photos of BMT activities, BMTs' annual reports, government regulations regarding microfinance, and BMTs' company profiles. Other documents included secondary materials, including books about the profiles and history of BMTs in Indonesia and academic articles on BMTs.

3.3.4 Field Observations

To complement the findings of semi-structured interviews, the FGD, and collected documents, I actively engaged in field observations. Direct observation helped me form close bonds with research participants and develop dialogic interaction with them. This assisted my understanding of women beneficiaries' experiences and choices as well as BMTs as institutions. In practice, I observed BMTs' key activities, both in their offices and with their clients; these included BMTs' executive meetings, membership meetings, and activities in the traditional market and customers' house.

Through observations conducted between October–December 2017, I was able to map the typical character of BMT offices as well as the lives of their women beneficiaries in a much more informal capacity and natural setting. For instance, visiting offices of the selected BMTs around Yogyakarta, Sleman, and Bantul helped identify the characteristics of each BMT as well as their daily operations. Attending a series of membership meetings gave me the opportunity to observe and document the interactions between women members, and between borrowers and fieldworkers.

In order to enhance such observations, I took photographs in these localities to capture the setting and maintained a journal to note and reflect on the observations I made. I also cross-checked information from my field visits with opinions of research participants on a regular basis to improve the reliability of my overall research findings.

3.4 Data Analysis

Data analysis involves document compilation, reduction, display, and conclusion. Generally, the data analysis process of this study follows Creswell (2003, p.183), which comprises four steps: (1) organize all empirical materials: transcribe interviews, type up field notes, and sort and classify various types of information on BMTs (history, actors, motives, and social-political context); (2) read all of the relevant materials carefully to obtain a sense of understanding and knowledge from both BMT institutions and clients; (3) complete analysis using a coding process by organizing materials, taking textual data, voices or pictures, and labeling them based on the actual terms of the informants. In this sense, I categorize materials into three types: BMT establishment, BMT service platforms and models, and effects of BMT services for women beneficiaries; (4) draw a conclusion, and link it with the lessons learned from past studies of microfinance and women's empowerment.

To verify the validity of the findings, this study employs the triangulation method. The aim of triangulation is to increase the credibility and validity of the research findings. I refer to four basic types of triangulation (Denzin, 2017, p.5): data (time, space, and persons); investigator (multiple researchers in an investigation); theory (using more than one theoretical scheme in the interpretation of the fact); and method (using more than one method to gather data, such as interviews, field observations, and documents).

Referring to this approach, I used two approaches to triangulation. First, I employed a triangulation of collected data using multiple methods (semi-structured interviews, FGD, document collection, and field visits). Second, I conducted ongoing dialogue with informants regarding their experiences through personal meetings during fieldwork and through social media. In addition, I repeated my visits to BMT offices in Yogyakarta.

3.5 Ethical Practice

Before starting each interview, I talked a little bit about myself and the objective of my research to all involved respondents. I emphasized that

participation and answering questions was voluntary and that confidentiality was guaranteed. As suggested by Gibbs (2007, p.12), interviewees were always asked for consent; if they did not feel comfortable with recording the interview, the device was not used. All respondents agreed to have their names mentioned in this thesis. However, to ensure that none of the interviews can be traced back to an individual informant, interviews are only represented by a number and do not reference women's names. Exceptions were made for expert interviewees.

For the FGDs and field observation, the ethics procedures were explained and the respondents' consent was recorded. Also, participants were informed that they were able to withdraw from the study at any time without any consequence. They were also given the addresses, telephone numbers, and emails of the principal supervisor and the institute office, and invited to make use of this information if they had any further questions about the research.

3.6 Obstacles in the Field

The main obstacles faced during the fieldwork were time management, accessibility, and lack of standardized reports. It was often not easy to make firm appointments with informants, particularly expert respondents; because of their routine assignments, arranged meetings often had to be rescheduled. Some key figures in the province, especially from outstanding BMT institutions, refused to be interviewed. Several BMTs were not interested in the study, citing confidentiality issues and business of management. As such, the initially targeted BMTs had to be changed.

However, many were supportive of my research, providing letters of recommendation, including introductions to other institutions or informants. Hence, by the end of the fieldwork, nearly all of the key informants had been interviewed. The four selected BMTs that agreed to be research participants showed positive responses and were very helpful during the process of gathering data. One BMT institution lacked institutional documents such as a company profile, leaflets, and annual report; as such, all information related to the organization was gathered through interviews with the BMT manager, founder, and reports of previous researchers.

Chapter 4

Baitul Maal Wat Tamwil (BMT): **History, Origin, Mission, and Affiliation**

This chapter provides both a description and an analysis of Islamic Microfinance Institutions (IMFIs) in Indonesia, focusing particularly on the Yogyakarta Special Region. This chapter seeks to understand the correlation between the ideas, origins, and affiliations of IMFI institutions. This section will present a history of the *Baitul Maal wat Tamwil* (BMT), the most common IMFI model in Indonesia. BMT is an IMFI which is formally registered as an Islamic cooperative. It combines Islamic social finance in its *baitul maal* division and Islamic commercial finance in its *baitut tamwil* division (Ascarya, 2018, p.104). This chapter's overview begins by highlighting the historical factors that led to the establishment of BMT, particularly the Islamization and Islamic economic movement in the late New Order Era. This is followed by an overview of BMTs at the national and regional level, with a particular focus on Yogyakarta, where the present study takes place.

Moreover, this chapter looks deeply into four selected BMTs in Yogyakarta; BMT Bina Insanul Fikri (BIF), BMT Al Ikhwan, BMT KUBE (Kelompok Usaha Bersama or Collective Enterprise Group) Sejahtera 19 (BKS 19) and GEMI Islamic Cooperative (Gerakan Ekonomi Kaum Ibu or Economic Movement for Women). Although GEMI does not use BMT in its name, this institution nonetheless performs the dual functions of *baitul tamwil* and *baitul maal*.

These four BMTs have been selected because of the remarkable range of histories, establishment, organizational missions, affiliations, and management of intersectional issues they represent. The discussion in this chapter is descriptive and analytical, based on information collected during field research in October–December 2017, which involved direct observation, documentation, and in-depth interviews with key BMT actors.

4.1. The History of BMT Development

From a political point of view, the invention and development of BMTs in Indonesia is central to the Islamic economic movement that emerged in the late Suharto era. Historically, the regime started to politically accommodate the Islamic movement in the late 1980s, as indicated by Islam's increased influence in many spheres of life. In the economic sector, Islamization was marked by the development of the first Islamic banks, which eventually promoted the establishment of IMFIs. This section summarizes the Suharto regime's political policy on Islam and Islamic economy as the background against which BMT arrived in Indonesia.

4.1.1 Islamization Movement

After Suharto came to power in 1965, political Islam was usually seen as a threat. In his first two decades of rule, Suharto set in place strict controls on Islamic political organization and ideology. Porter (2002, p.2) states that Suharto's heavy restrictions on Islamic political organizations successfully prevented the political resurgence of Islam. Rather, Muslim political interests were channeled into, and kept largely subservient within, an emasculated political party system that was dominated by the government's election machine-cum-party, Golkar¹⁵. Porter further points out that Suharto faced little organized Islamic opposition or dissent. The military's intelligence services kept Muslim organizational activities under close surveillance, and the military repressed any signs of Islamic militancy.

In the late 1980s, President Suharto's position on Islam shifted significantly. Departing from his previous policy of repressing Islamic groups as political opponents, he began to accommodate urges for Islamization, a movement that typically manifests itself through a push towards 'greater commitment to Islamic laws and values, with Islam playing a more central role in public and political life'

¹⁵ The Golkar Party or Party of Functional Group (*Partai Golongan Karya*) is a political party in Indonesia. It was founded as *Sekber* Golkar (*Sekretariat Bersama Golongan Karya*, Joint Secretariat of Functional Groups) in 1964, and participated for the first time in 1971 as Golkar (*Golongan Karya*, Functional Groups). At this point, Golkar was not a political party. In 1999, forced by the new election law, the groups reformed itself as a political party.

(Evans, 2011, p.36). After the regime's shift, Indonesia experienced an Islamic renewal characterized by the increased influence of Islam in both the political and social spheres. This was indicated, among many other things, by the emergence of an urban middle class with a high level of Islamic piety that promoted a certain concept of modernity.

In the context of Java, Ricklefs (2012, p.206) notes that elite Islamic schools were created in major cities for middle-class students, offering the national curriculum along with Islamic studies. Deepening Islamization continued through the education system. Religious education, an obligatory part of the national education system, was strengthened by a new education law in 1989. This law introduced a provision that religion must be taught in schools by an adherent of that faith. In principle, this guaranteed that Muslim children in Christian schools would be taught about Islam by a Muslim. Ricklefs (2012, p.209) believes that Islamic activists, mainly from Muhammadiyah and MUI¹⁶, encouraged such policies despite Christian objections.

Another signal of advancing Islamization was evident in an innovation at the tertiary level of education called IAIN (Institut Agama Islam Negeri, State Institute for Islamic Studies). These IAINs, the first of which was established in 1960, produced a large number of graduates trained in Islamic theology, art, law, and pedagogy (Hefner, 1997, p.88). By 1991, there were 2,200 teaching staffs at 14 IAINs throughout the country, and more than a hundred thousand students were enrolled (Ricklefs, 2012, p.209). Such mass education contributed significantly to the Islamic renewal. At a lower level of education, the government subsidized *pesantren*¹⁷ run by Nahdlatul Ulama (NU)¹⁸, while Muhammadiyah continued to provide Islamic learning through its schools.

¹⁶ Majelis Ulama Indonesia (Indonesian Ulama Council) is Indonesia's top Muslim clerical body. The council comprises many Indonesian Muslim groups including Nahdlatul Ulama (NU), Muhammadiyah, and smaller groups. It was founded by the Indonesian New Order under the Suharto administration in 1975 as a body to produce fatwa and to advise the Muslim community on contemporary issues.

¹⁷ Pondok Pesantren (Islamic boarding school). Most pesantren provide housing or dormitory living at low or no cost for the students (*santri*). All *pesantren* are led by a group of teachers and religious leaders known as *Kyai*. The *Kyai* is respected as teacher and devout man.

¹⁸ Revival of the Ulama (NU) is the Indonesian's largest Muslim organization, was established in 1926 in Surabaya as a response to the rise of Wahabism in Saudi Arabia and Islamic modernism in Indonesia.

These efforts in the education sector were accompanied by an equally impressive program of infrastructural developments, focusing on the construction of mosques, prayer halls (*mushola*), and Islamic schools (*madrasah*) sponsored by the Ministry of Religion. Hefner (1997, p.88) observes that, between 1982 and 1992, the number of mosques in Central Java almost doubled, from 15,685 to 28,748. By mid-1990, religion grew more fashionable. As such, Pranowo (1994, p.1) argues that the dichotomy of *santri*¹⁹ and *abangan*²⁰ became no longer relevant to understanding the religious life of Javanese Muslims. Pranowo further believes that the *abangan* had become a minority in Java.

Through the 1990s, the New Order progressively granted more support to Islamization. This was manifested most influentially in the establishment of the Ikatan Cendekiawan Muslim se-Indonesia (Indonesian Association of Muslim Intellectuals, ICMI) in December 1990. This marked an important milestone in the Suharto regime's political shift, and in subsequent years it became more open to the concerns of Muslim groups. The first chairman of ICMI was B.J. Habibie, the Indonesian Secretary of Research and Technology at the time. For Muslim activists, Habibie was an ideal figure, one who combined scientific and technological knowledge, Islamic personal piety, and closeness to Suharto. This new organization attracted a large number of Muslims from Muhammadiyah and NU, as well as NGO activists, theologians, scholars, and politicians from the Partai Persatuan Pembangunan (PPP, United Development Party); these groups had previously been unenthusiastic about the regime and proven vociferous dissidents (Ricklefs, 2012, p.242).

Despite the diversity in their backgrounds and views, many of ICMI's intelligentsia shared at least one common goal: to promote the Islamization of the Indonesian state and society. Although members did not necessarily consider ICMI the principal vehicle through which they could achieve their objectives, they

¹⁹ *Santri* represents a stress on the Islamic aspects of the syncretism and generally related to the trading element (and to certain elements in the peasantry as well). Students living in a *pesantren* are also called as *santri*.

²⁰ *Abangan* represents a stress on the animistic aspects of the over-all Javanese syncretism, and broadly related to the peasant elements in the population.

belonged to pro-establishment forces that viewed their collaboration with Suharto and his circle as an opportunity to influence the state (Porter, 2002, p.3). They perceived the state's enactment of Islamic family and court laws and the founding of Islamic banks, as well as other concessions to Muslim interests, as steps in the right direction, i.e. towards establishing a more Islam-oriented government and society (Porter, 2002, p.9). By 1993, ICMI had 11,000 members. It published its own newspaper, *Republika*, and established the Center for Information and Development Studies (CIDES) as think tank (Ricklefs, 2012, p.241).

4.1.2 Islamic Economic Movement

Further significant evidence of Islamization was provided by the Islamic economic movement, which was organized by individuals or groups that sought the Islamization of the entire economic system (Choiruzzad, 2012, p.97). The primary driver of change came from the peripheral Muslims, who constituted both the supply of and demand for Islamic modes of financing and other Islamic economic constructs. Indrastomo (2016, p.63) remarks that the Islamic economic movement was not solely a vocal attempt to bring "Islamic tradition and law" into socio-economic relations and sphere. Rather, it was influenced by the hope to realize a just and equitable economic system, which is more related to the *maqasid* or goal of *sharia*, rather than the formalistic interpretation of Islamic jurisprudence. One critical legacy of Islamic economics is the introduction of BMTs, the Indonesian model of IMFIs, that will be a central issue in this present research.

At the global level, the idea of an Islamic economic movement was first introduced in the late 1970s/early 1980s. It was signaled by the establishment of Islamic banking in a number of countries, including the Dubai Islamic Bank (1975), Islamic Commercial Bank of Abu Dhabi (1977), Faisal Islamic Banks (1977) in Egypt and neighboring countries, and Darul Mal al-Islami (DMI) in Malaysia (1981) (Choiruzzad, 2013, p.132). The first international conference in Islamic economics was also organized in this period. In 1976, A.M Saefuddin was one of five Indonesians delegated to the conference in Mecca. At the conference, he became aware that Islamic economics was developing into an academic field and

had stimulated movements in various countries. While working at the World Bank as its advisor for agriculture from 1978–1982, he established the Center for Agribusiness Development (Pusat Pengembangan Agribisnis or PPA) together with such Muslim scholars as Abdillah Thoha, Amin Aziz, Adi Sasono, and Dawam Raharjo—men who would later come to be known as leading figures behind the rise of ICMI in the 1990s. Although PPA was not designed to specifically focus on Islamic economic projects, the idea and agenda of an Islamic economic movement was nonetheless discussed in the center (Kelana & Mujianto, 2007, p.107).

Saefuddin's empirical experience with World Bank and Bank Indonesia made him understand that Indonesia's development policies were only benefiting a few people while neglecting the poor. His disappointment with the system prompted him to consider the Islamic economic percepts he had encountered and discussed at the 1976 conference. In early 1980, he initiated a campaign to develop an Islamic economy. However, responses from Muslim organizations were not always positive. For example, Islamic scholars in NU were debating the advantages and the disadvantages of banks that charge interest. A significant number of NU members did not consider interest to be usury (*riba*), and thus argued that it should be permitted (Coiruzzad, 2013, p.127). Saefuddin's campaign also received a negative response from the government, which considered his proposal a threat to economic stability. Furthermore, his employer, the Bogor Institute of Agriculture, warned him that he would be fired from his position because of his activism.

Despite criticism, the Islamic economic movement soon gained support, particularly among those who felt that Muslims had been economically marginalized. These sympathizers spread the idea of an Islamic economy by publishing articles and academic papers, as well as organizing group discussions within reputable universities in Bogor, Yogyakarta, Bandung, Jakarta, and Surabaya. As a result, the first National Conference on Islamic Economy was held at the Islamic University of Bandung in 1983 (Choiruzzad & Nugroho, 2013, p.958). After the conference, in 1984, supporters translated their ideas and concepts of development-oriented Islamic economics and finance into practices through the

establishment of *baitul tamwil*, a division of the Teknosa Cooperative in Bandung. This was the first experimental institution in Indonesia to introduce the concept of Profit and Loss Sharing (PLS) as a replacement for the conventional interest-based system.

The Islamic economic movement grew continuously through the 1980s. However, during this period, the government did not make space for Islamic banks in the national banking and financial system. Suharto made economic development and political stability as his most crucial priorities, and thus viewed the idea of reforming the economic system as a threat to his regime. However, following the dynamic change of Suharto's government in the late 1980s, ulama and Muslim intellectuals exploited the momentum to propagate their idea of Islamic banking. The regime's open attitude towards Islamic organizations coincided with the rise of the religious Muslim middle class. Within this era, the improved quality of education received by Muslim intellectuals (many of whom were educated abroad) forced the government to listen to the opinions, voices, and wishes of Muslim scholars. This gave Muslims increased bargaining power in their desire to establish Islamic banks in Indonesia (Effendy, 1998 in Sari et al., 2016, p.180).

In 1989, Amin Aziz, a PPA leader who had first promoted the establishment of Islamic banking in Indonesia, became a secretary at MUI. This position enabled him to include the issue of banking in Muslim society within the organization's agenda. One critical reason for this issue's propagation was the disappointment of intellectual Muslims with the government's Policy Package of October 1988 (Paket Kebijakan October or Pakto 1988). This banking policy promoted the emergence of new banks, many of which were owned by non-Muslims (i.e. Chinese). MUI was disappointed, as it believed that state funds were used to set up new banks that collected from Muslims. Through a discussion with its members, MUI decided to hold a two-day workshop about non-interest banking on August 19–20, 1990 (Kelana & Mulyono, 2007, p.51).

The results of this workshop were then introduced at the Fourth National Summit of the MUI in August 1990. The organization recommended the establishment of a team to create an Islamic bank. MUI decided to conduct

fundraising, and appointed Amin Aziz as the team's chairman. The program was attended by prominent government and business figures, and finally managed to raise IDR 110 billion. In 1990, this amount of money was sufficient for a new bank; per Pakto 1998, a new bank required a minimum of IDR 10 billion in capital (Prameswari, 2015, p.6). ICMI's establishment in December 1990 gave many supporters, including Amin Aziz (a board member), another platform to promote the Islamic economic movement. Amin Aziz successfully convinced Habibie to create teams to prepare for the establishment of an Islamic bank (Choiruzzad, 2013, p.143).

Although Habibie had his own vision for the economy and development, known as "Habibienomics", he accepted the Islamic economic proposal. Habibienomics represented Habibie's industrial nationalism, which favored high-tech industrial development and employed national rhetoric. Choiruzzad (2013, p.150) assumes that Habibie's support for the Islamic economic project was rooted in two factors: 1) The patronage relationship between Habibie and ICMI, formalized by his position as the association's chairman. 2) The conflation of economic perspectives within ICMI, which had mixed up three elements; Islamic economics (supported by Amin Aziz and A.M. Syaifudin), populist economics (supported by civil society activists such as Adi Sasono), and Habibienomics.

Through MUI and ICMI, the Islamic economy movement had access to Suharto. Many observers believe that Habibie, Suharto's most trusted aide since 1980s, determined their success in convincing the regime. The establishment of Indonesia's first Islamic bank received momentum when President Suharto opened the first meeting of ICMI. During this forum, Habibie—as ICMI's chairman—embraced the idea of establishing an Islamic bank as one of the association's programs. It was on November 1, 1991, with the blessing of Suharto, that Indonesia's first Islamic bank, the *Bank Muamalat Indonesia* (BMI) was incorporated (Choiruzzad, 2012, p.91). BMI began effective operations in May 1992, with a mission to reach low-income groups who lacked access to formal banking. Particular attention was given to small and medium business enterprises, as most had been exploited for decades by moneylenders who charged excessive

interest rates (Antonio, 2008, p.259). However, to guarantee profit, BMI could not offer sufficient funds to micro enterprises. Some of the bank's key advocates, especially Amin Aziz, then turned their attention towards establishing an Islamic micro-financing institution, *Baitul Maal wat Tamwil* (BMT), to offer smaller loans (Sakai, 2008, p.413).

4.1.3 Invention of BMT in Indonesia

Generally speaking, the BMT model—which in its operations mixes Islamic social finance and Islamic commercial finance—is associated with Amin Aziz. The idea of Islamic finance and banking had been pioneered in Indonesia by a number of intellectual Muslims since the 1980s. However, Aziz was the one who most persistently and consistently struggled for the development of Islamic microfinance. Compared to such scholars as M. Dawam Rahardjo, Adiwarmanto, Safi'i Antonio, and Nurcholis Madjid, Aziz had a distinctive paradigm, particularly in terms of how Islamic finance can reach the poor. He believed that the Islamic economic movement must be directed at the action level, a view that ultimately guided him to the idea of BMTs as complements to Islamic banking.

At the macro level, Aziz' Islamic banking strategy and concept was proven by the rapid growth of Indonesia's Islamic banking industry. At the micro level, his idea of using BMTs as instruments to alleviate poverty through Islamic guidance was manifested in the aggressive growth of such IMFIs, which have become one of Indonesia's emerging sectors in the past two decades (Prameswari, 2015. P.9). On the one hand, the ability of BMTs to provide microloans is paramount, as Islamic banks are unable to provide the very small-scale capital that Muslims at the grassroots require. On the other hand, the growth of BMTs has reflected the high demand for Muslims to be able to practice *muamalah*²¹ in an Islamic way.

The first BMT in Indonesia, *Bina Insan Kamil* (BIK), was established in 1992 (Antonio, 2008, p.255). Following its success, a vast number of BMTs were established in other regions. As the central figure behind the BMT movement, Amin

²¹ Islamic teachings to guide how Muslims should conduct interrelationships among themselves and other parties in socioeconomic affairs such as financial transactions, trade and commerce.

Aziz—through ICMI—has been involved in the establishment of thousands BMT throughout the country. In 1994, ICMI sponsored the establishment of 85 BMTs in Aceh and Lampung provinces. That same year, Dompot Dhuafa, a *zakah* management institution linked to the ICMI-affiliated daily *Republika*, launched a program to establish "1001 BMTs and Islamic Rural Banks" (Choiruzzad, 2012, p.91). In the mid-1990s, ICMI sponsored the establishment of BMTs in various provinces. Since then, the number of BMTs has grown progressively. Where between 1990 and 1995 there were only some 300 BMTs in Indonesia, 21 years later the number had reached 5,500, an increase of 1,733% (Table 4.2).

Table 4.2: The Development of BMT

No	Phase	Period	Number of BMT
1	Initial growth	1990-1995	300
2	Rapid growth promoted by PINBUK	1996	700
		1997	1.501
		1998/1999	2.470
3	Slowing-down of growth	2000	2,938
		2001	3.037
		2003	2.856
4	Growth	2005	3.101
		2006	3200
		2010	5200
		2013	5500
5	Decrease	2015	4500
		2018	4500

(Source: Siebel 2008, p.11; Rijawanti, 2014, p.114; Masyitoh, 2014, p.2)

In order to support the BMTs, President Suharto launched the BMT system on December 7, 1995. The success of Indonesia's first Islamic bank convinced the government that the BMT model could provide an alternative for poverty alleviation and be integrated into the national development plan (Nazirwan, 2015, p.152). To foster the BMT movement, Amin Aziz established PINBUK²² in 1995, which was tasked with providing assistance and capacity building to the BMT

²² Pusat Inkubasi Usaha Kecil (Center for Small Business Incubation). PINBUK is the most important promoter of BMT development in Indonesia which was established on 13 March 1995 by Amin Azis, a pivotal person of the Islamic economic project in the country. PINBUK acts as a facilitator of the establishment and licensing of new BMT, which usually receive first a certificate from PINBUK as a pre-cooperative (pra koperasi) or self-help group (kelompok swadaya masyarakat). Furthermore, PINBUK also provides basic, intermediate and advanced training, plus training of trainers for BMT communities.

sector. However, unlike Islamic rural banks, which provide up-to-date data, there is no official, accurate data on the total number of BMTs in Indonesia. Currently, more than 4,000 BMTs are under the supervision of the PINBUK (Wulandari & Kassim, 2015, p.271). Other BMTs are integrated into the BMT centers of organizations such as Dompot Dhuafa, Microfin²³, and Inkopsyah²⁴.

4.2. Portrait of the BMT Movement in Yogyakarta

Chronologically, the rise of BMTs in Yogyakarta is a continuation of the BMT movement designed by modernist Muslim elites in Jakarta, particularly those affiliated with ICMI. After successfully getting support from various parties, mainly Dompot Dhuafa and ICMI, the campaign continued in other areas. Supported by these two institutions, Islamic economic activists held training programs centering on the Islamic economy in a number of cities, including Semarang (1994) and Yogyakarta (1995). The training session held in Semarang from November 2–6, 1994, was also a milestone in the foundation of the Sharia Economic Forum (FES), initiated by Dompot Dhuafa in conjunction with ASBISINDO²⁵. Some of the BMT founders in Yogyakarta, including Mursida Rambe, are alumni of such training sessions (Dompot Dhuafa, 2016, p.1).

Dompot Dhuafa began its involvement with the BMT movement in Yogyakarta in 1993; indeed, the institution was established in response to the regional situation. The idea behind the creation of Dompot Dhuafa came when Parni Hadi, the chairman of *Republika*, met a group of students who were members of the *Corps Dakwah Pedesaan* (Rural Preaching Corps, CDP²⁶, p.1). Despite limited financial capacity, these students carried out socio-economic and religious programs in remote areas of Yogyakarta. Parni Hadi, moved by students' continued activities despite their financial limitations, then created Dompot Dhuafa. He asked all of *Republika's* employees to pay *zakah* from their monthly salaries. With the

²³ Sharia Microfinance Development Center.

²⁴ Induk Koperasi Syariah (Apex Islamic Cooperative).

²⁵ The Association of Sharia Rural Banks (BPRS) throughout Indonesia.

²⁶ The CDP was founded by HM. Djalal Mukhsin on October 24, 1988. The CDP has been attracted many Muslim students to involve in, including Mursida Rambe, the founder of BMT Beringharjo.

support of *Republika* readers, Dompot Dhuafa started to grow and gain more attention from the public (Dompot Dhuafa, 2016, p.1). Since its establishment, it has supported thousands of BMTs across the country, including BMT Beringharjo.

Established in 1994, BMT Beringharjo was the brainchild of Mursida Rambe, an alumnus of the training program in Semarang who had gained seed funding of IDR 1 million (USD 100) from Dompot Dhuafa. Through this very small amount of money, Rambe established BMT Beringharjo. When it first operated, BMT Beringharjo was located in the courtyard of Muttaqien Mosque in Beringharjo Market. Rambe's primary motivation to establish a BMT was her own experience growing up, when she witnessed how much private loan sharks burdened small traders. Rambe once saw a loan shark take possession of her friend's parents' home when they were unable to repay their loans.

The excesses of such private loan sharks, who were largely acknowledged as exploiting the low-income and poor through their usurious short-term loans, made her committed to eradicate poverty and establish social justice in the community (Sakai, 2010, p.415). Additionally, she wanted to introduce Islamic economics to the traders. Rambe often travelled around the market to persuade traders, most of whom are women, to pray at the mosque and borrow from the BMT she founded rather than the loan sharks. Slowly, the traders' economic behavior began to shift (Dompot Dhuafa, 2016, p.1).

Under Rambe's leadership, BMT Beringharjo has grown into the largest BMT in Yogyakarta. It has 15 branches, including in West Java, Central Java, East Java, and Jakarta (BMT Beringharjo, 2017, p.1). In early 2017, Rambe, as the pioneer of BMTs in Yogyakarta and her empowerment of petty traders in traditional markets, was recognized by *Republika* as an agent of change in Indonesia (KBK, 2017, p.1). This alumnus of the Faculty of Da'wah, Universitas Muhammadiyah Yogyakarta, is also an influential figure in the region's Islamic economic movement. Aside from her BMT activities, Rambe is also an activist with Aisyiyah, the women's branch of Muhammadiyah.

A year after BMT Beringharjo was established, Afifah Noor Hayati, an active Aisyiyah member who had participated in the Islamic economic training program

in Yogyakarta, founded BMT Bina Ummah. Supported by ICMI and Dompot Dhuafa, BMT Bina Ummah was established near the Godean Market and inaugurated by BJ Habibie, the chairman of ICMI at that time (Nuryanto, 2015, p.1). Hayati sought to help address the socioeconomic problems in her village, more specifically by eliminating the excesses of the loan sharks (FGD, December 13, 2017 in Yogyakarta). In this sense, Hayati shares a similar view with Rambe.

Loan sharks' exploitation over the poor has been a classic problem in the rural villages and traditional markets of Java. Nugroho (2001, p.17) states that, in 1990, the majority of traders and farmers in Java relied on loan sharks for credit. Nugroho notes that the Indonesian banking policy, which tends to favor the rich, forced farmers and small traders to borrow money outside of formal financial institutions. In addition, borrowing money from formal banking involved complicated procedures that cannot easily be completed small enterprises. Loan sharks, thus, became the primary source of financing for the poor.

However, the BMT movement in Yogyakarta has not only been triggered by the need to eradicate the loan sharks and introduce an Islamic economy. It has also been intended to counter Christian missionary activities, as seen in the activities of Muslim student activists. Take, for example, the *Corps Dakwah Pedesaan* (CDP), a religious movement that focuses on rural communities. CDP has targeted such areas because they often lack access to Islamic religious information and knowledge, and are thereby liable to convert to Christianity due to poverty (CDP, 2011, p.1). Hence, CDP preaches Islamic religious teachings in remote villages to counter the presence of Christian missionaries.

As mentioned by Nazirwan (2015, p.165), the Christian churches in Yogyakarta are quite active in assisting the rural poor. Many Muhammadiyah clerics perceive these churches' philanthropic programs as a means to influence destitute Muslims with Christian beliefs. Christian missionaries have been active in Java since the colonial era. Kruithof (2014, p.55) confirms that these missionaries focused on the poor and uneducated living in rural areas, because they were perceived as easier to convert than the more educated and devout. Kruithof further affirms that missionaries employed several strategies, including public

preaching, free medical aid, and material assistance.

Recognizing churches' philanthropic programs in Muslim communities, Dompot Dhuafa introduced the BMT system as a means to promote Islamic proselytization. Many believed that CDP and its generic activities were insufficient for countering Christian missionary programs, and urged the integration of poverty alleviation programs that could address the real problems of ordinary Muslims.

Concerning BMTs' involvement in religious matters, Nazirwan (2015, p.166) notes that the introduction of such programs not only empowers the needy by providing them with loans to start microenterprises, but also improves religious devotion. Nazirwan emphasizes the BMT movement was aimed to demonstrate that a non-interest system could challenge excesses of informal microfinance providers, especially loan sharks. The BMT model, therefore, not only provides faith-based microfinance services, but may also carry out a religious mission to address the complex social and economic problems of Muslim societies.

The inception of BMTs in Yogyakarta was not solely thanks to the efforts of Dompot Dhuafa. Rather, it was a collective collaboration with other supporters of the Islamic economic movement, including Muhammadiyah and local ICMI members. Although as an organization Muhammadiyah has no official relationship with the BMT movement, its influential clerics and intellectuals (many of whom are also active members of ICMI) have been involved in BMTs. In particular, local Muhammadiyah leaders have contributed enormously in advocating people's religious beliefs and trust in non-interest microfinance systems (Interview with Ridwan, founder and manager of BMT BIF, December 18, 2017).

Originally, the introduction of the BMT system and non-interest-based financial transactions in Yogyakarta was not well received by the majority of Muslims in local communities (*Islam abangan*), as they considered the different features of BMT products to be more complicated than conventional MFIs' (Nazirwan, 2015, p.173). Islamic clerics, with their leadership positions in their communities, are in a position to influence Muslims' perceptions of interest. These clerics also have the ability to convince people that BMTs offer an ideal economic instrument for promoting prosperity through an Islamic framework.

Equally important, Sri Sultan Hamengkubowono X has played role in BMT development in Yogyakarta, particularly in terms of public awareness. As a Muslim and charismatic sultan, he has been an important figure in raising public awareness of the BMT system. BMT activists acknowledge that Sri Sultan Hamengkubowono X has provided them with great moral support and contributed significantly to their movement. As the governor of Yogyakarta, he has led the regional government to incorporate the BMT system into its official anti-poverty programs. Erie Sudewo, the first leader of Dompot Dhuafa, affirms that the Sultan was critically important in ensuring the implementation of the BMT system within local communities (Nazirwan, 2015, p.169).

The Sultan has been impressed by the comprehensiveness of the BMT concept. Rambe, the founder of BMT Beringharjo, added that he attended the grand opening of her BMT's head office. Sri Sultan responded positively to the establishment of BMT Beringharjo and supported it as an example of sharia financial management (Kurniawan, 2015, p.1). Despite the Yogyakarta provincial government's limited budget, he strongly endorsed the administration's policy to allocate funds to provide the initial capital and technical assistance for establishing new BMT institutions in less developed villages and areas of chronic poverty (Nazirwan, 2015, p.170).

Inspired by the success of BMT Beringharjo and BMT Bina Ummah, BMTs have flourished in the province. However, at present, there are no precise figures about the number of BMTs currently operating in Yogyakarta. The fact that BMTs are not formally tied to the national monetary system, and controlled neither by the Bank of Indonesia nor the Ministry of Finance, makes it challenging to obtain accurate data. According to Nasrullah, the manager of Puskopsyah DIY, there are 310 BMTs registered with the Department of Cooperatives and Small/Medium Enterprises. Of these, 93 are currently under the supervision of Puskopsyah Yogyakarta (Interview, November 28, 2017). The remainder of the BMTs are

supervised by other associations, including PBMT²⁷, Inkopsyah, and PINBUK.

In short, the rise of BMTs in Yogyakarta has been paralleled by that of the Islamic economic movement in Jakarta. ICMI and Dompot Dhuafa elites brought the model to the region, where it found support by such major actors as Muhammadiyah, ICMI, Dompot Dhuafa, and Sultan Hamengkubuwana X. The establishment of BMTs was motivated mainly by three factors: 1) countering the influence of loan sharks, 2) empowering the poor and upholding the Islamic economy, and 3) countering Christian missionary activities. Two pioneering BMTs in Yogyakarta are led by women, both of whom are Aisyiyah activists and alumni of the Islamic economic training sessions hosted by Dompot Dhuafa.

4.3. General Characteristics of Selected BMTs in Yogyakarta

This section describes the general characteristic of BMTs in Yogyakarta, with a particular focus on four selected BMTs: Bina Insanul Fikri (BIH), Al-Ikhwan, KUBE Sejahtera 19 (KBS 19), and GEMI. This includes the process through which these BMTs were established, their organizational structure, and their division of *baitul tamwil* and *baitul maal*.

4.3.1 Establishment Process and Organizational Structure

The process through which BMTs are established resembles that of conventional cooperatives and includes several stages and administrative procedures. At the initial stage, the founder's role and commitment are critical, as they will determine the success of the new BMT. For more detail, the following diagram describes the process through which BMTs are established:

²⁷ Perhimpunan BMT or BMT Association.

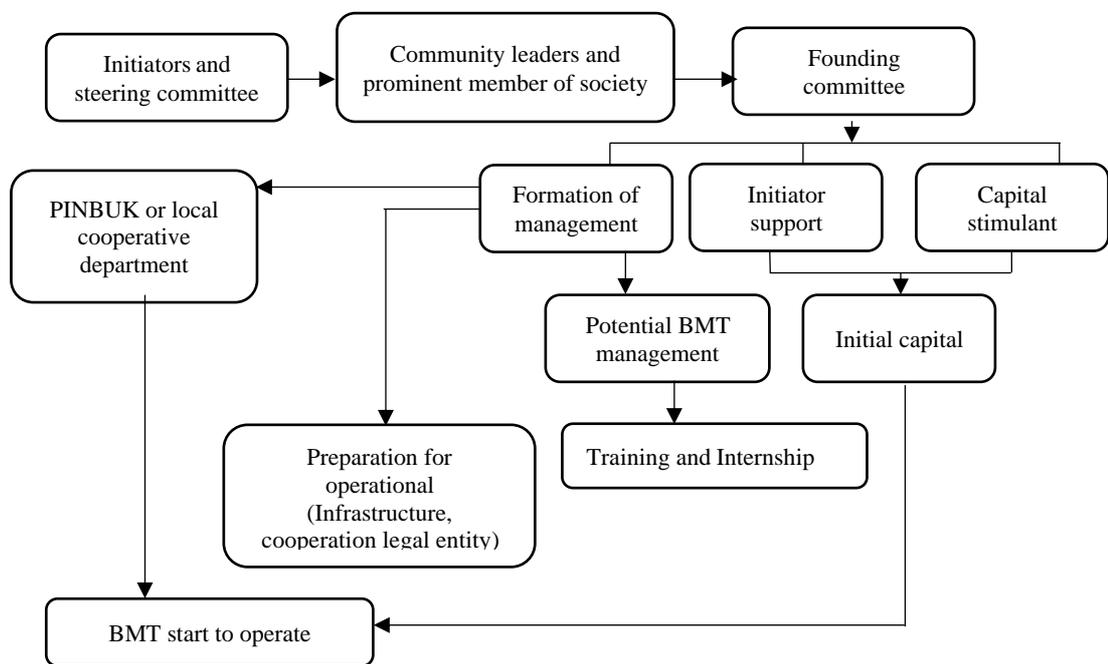


Figure 4.2: The Process of BMT establishment

(Source: Aziz, 2006, p.10)

Sequentially, BMTs must go through the following stages:

- 1) A group of initiators (Muslim leaders, entrepreneurs, teachers, and other influential people) commit to the BMT establishment.
- 2) The initiators disseminate the idea of BMT creation to community leaders and prominent social leaders. This may involve village officials and administrators, as well as activists with Islamic mass organizations, religious educational institutions, charitable organizations, ICMI, MUI, Indonesian Mosque Council, Islamic Religious Counselors, Young Da'i (Islamic propagators), Islamic social organizations, local NGOs, and benefactors.
- 3) After disseminating the idea of BMT development, the initiators create a small committee for BMT establishment. The core committee consists of three to five persons who are willing to dedicate the time and energy necessary for BMT establishment. It consists of a chairman, secretary, and treasurer, and has several tasks, including: a) extending support and ensuring the involvement of at least twenty local figures. The small committee and

founders subsequently define an *Anggaran Dasar* (Articles of Association, AD) and *Anggaran Rumah Tangga* (Bylaws, ART), the vision, mission, and objectives of the proposed institution, as well as its standard operating procedures (SOP). b) Collecting initial capital and donations from Islamic organizations, mosques, and other philanthropists. c) Raising funds in the form of mandatory savings, principal savings, and special principal savings. In this model, BMT founders provide capital of IDR 500,000 to IDR 1 million or more. This may be paid at the beginning of each month or in installments. In urban communities, a minimum of IDR 20–35 million is necessary to establish a BMT; in rural areas, the amount is between IDR 10–20 million.

- 4) The founders create a board, including a manager and staff, who are responsible for the daily operations of BMT. These individuals must participate in training and internship at a local PINBUK or the Department of Cooperatives and SMEs. The founders and the board prepare for operations by preparing an office building as well as supporting infrastructure, equipment, and essential office supplies; they also seek legal recognition of their BMT.
- 5) The BMT is ready to operate and receives an operational certificate from the local PINBUK.
- 6) Once a BMT has assets of IDR 75 million, it can request the legal status of "Islamic Cooperative" from the regional Department of Cooperatives and SMEs.

According to Article 25 of Law No. 22 of 1992 on cooperatives, an Annual General Meeting (AGM) is the structure with the highest authority in a cooperative. As such, for operations the AGM delegates authority to the management of the cooperative. To guarantee professional performance, the board appoints a manager to handle everyday business activities. BMTs that have the legal status of cooperative have an organizational structure as follows:

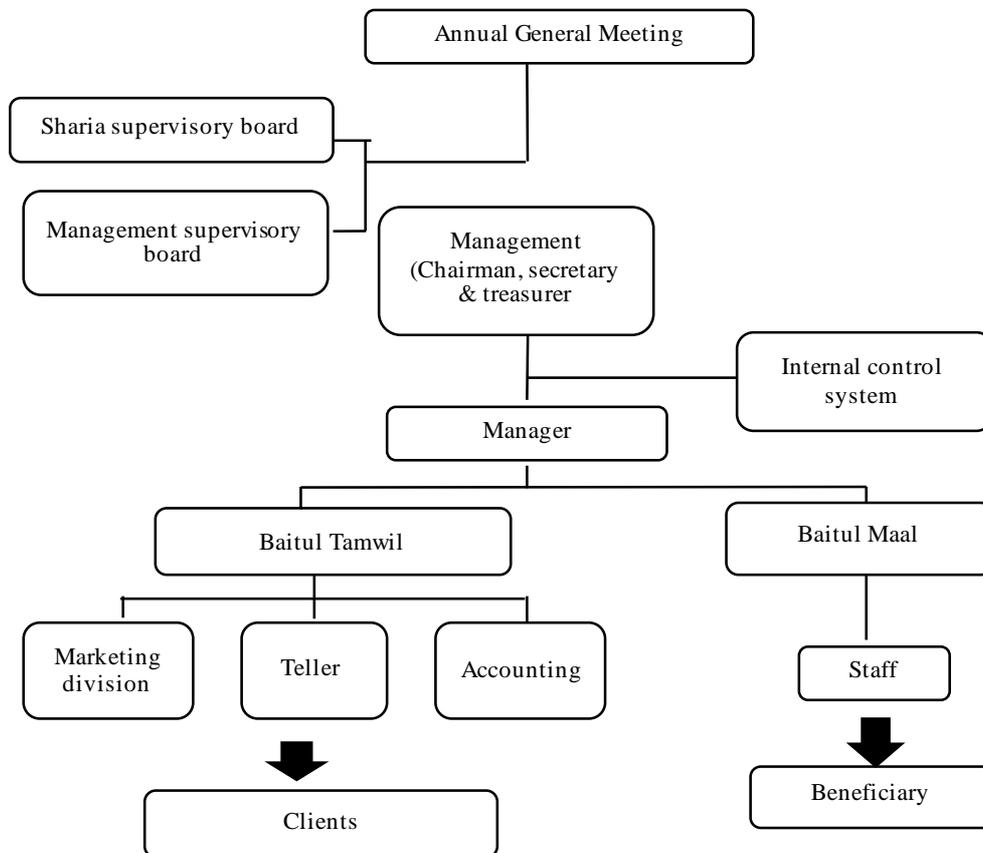


Figure 4.3: Organizational Structure of BMT
 (Source: Azis, 2006, p.19; Nazirwan, 2015, p.178; fieldwork, 2017)

As can be observed from Figure 4.3, BMTs have a relatively simple organizational structure that nonetheless embrace a modern organizational concept, with a clear division between governance, management, and operational functions. The AGM is an annual meeting that is attended by the founders and representatives of members. Usually, it makes such critical decisions as approving or rejecting the yearly financial report, the disbursement of dividends, and the appointment of management and supervisory board members. The AMG also appoints *sharia* supervisory boards that oversee the business activities of BMT and ensure that these activities are in-line with *sharia* principles. It also provides advice to the management, managers, and financial supervisors related to the *sharia* aspects of finance and reviews the financial products and services offered by the BMT. In addition, the AMG selects a supervisory board to oversee the implementation of the

BMT's operational principles.

Each BMT is governed by a management board, which is responsible for supervising and controlling the activities of the BMT, including its daily operations. Another principal responsibility of this board is to provide general directions and policy recommendations to the managers. To monitor the BMT's performance, the board regularly meets with BMT manager. At the AMG, it publishes and presents its annual management report. Under this board is a manager or director who supervises the BMT's daily operations and, more importantly, is responsible for balancing the *baitul tamwil* and *baitul maal* divisions.

In running the BMT's operations, the manager is supported by at least three functional staff. First, marketing is the primary profit-making unit, responsible for selling and marketing the BMT's savings and financing products. Marketing staff also conduct client screening, financing analysis, collections, and non-performing loan management. Second, there is at least one teller, who is in charge of handling cash transactions and serving clients or members. Third is the accounting staff, who are responsible for bookkeeping, reporting, and general administrative functions.

4.3.2 The Division of *Baitul Tamwil* and *Baitul Maal*

As previously outlined in chapter 2, BMT has two primary functions: *baitul tamwil* (treasury) and *baitul maal* (house of wealth). These two divisions show that the BMT system seeks to realize economic and socio-religious objectives using Islamic financial principles. The *baitul tamwil* division essentially offers financial intermediation by channeling funds between lenders and borrowers (Ascarya, 2014, p.56). In this, it acts as a cooperative, using a Profit-Loss Sharing (PLS) mechanism that involves mutual partnership (*sirka*) between depositors/investors (*rabb al maal*), the IMFI (*baitul tamwil*), and borrowers (*mudarib*). The BMT manages funding, saving, deposit and borrowing, then subsequently invests those funds into productive economic activities, primarily to finance microenterprises and low-income households. In return, all parties share the profit that is generated from the business (if it is profitable) or the losses of the business (if it fails). Meanwhile, the *baitul maal* division functions to collect and distribute funds from

zakah, infaq, and shadaqah (Wulandari & Kassim, 2015, p.271).

The selected BMTs have been involved in both business (through *baitul tamwil*) and social missions (*baitul maal*). However, there are differences in the scale and types of activities performed by the four BMTs, particularly in their *baitul maal*. The next section discusses the performance of BMTs in these two divisions.

4.3.2.1 Baitul Tamwil

1. Savings and Deposits

BMTs employ a unique marketing strategy to raise funds from potential depositors. Unlike in a conventional banking system, wherein prospective customers take the initiative to register themselves as customers, potential BMT clients are mostly passive. Many have previously had no access to formal financial institutions and live in rural or suburban areas. As such, BMT marketing staff must proactively approach prospective members, either as individuals or groups. Normally, information about potential customers comes from clients who are already BMT members. To further attract new members and depositors, BMTs use micro-marketing techniques by involving prominent local clerics and community patrons. As the government does not guarantee customers' deposits with BMTs, the presence of such influential Muslim figures serves to boost depositors' confidence in the security of their deposits (Nazirwan, 2015, p.178).

In addition, Islamic organizations—including community mosques, foundations, *pesantran*, and *majelis taklim*²⁸ groups—are important sources of funding for BMTs. As BMTs are IMFIs, it is relatively easy for them to establish mutual relationships and receive financial support from such religious organizations. BMTs also collect funding through *arisan*. Many use *arisan* groups as a means of empowering and developing personal closeness between members. When *arisan* groups operate, BMTs act as safe places for their money to be deposited (see Chapter V).

²⁸ A religious learning forum, it is also known as *pengajian*.

BMT places the funds it receives from its clients in savings accounts. There are two major types of savings accounts: 1) compulsory savings accounts, related to ownership and membership; and 2) voluntary savings and deposit accounts, the most popular of which are general savings and time deposit accounts. Products vary among BMTs, but their basic features are similar to Islamic banking products. The following table summarizes savings and deposit instruments in the four chosen BMTs.

Table 4.3: Description of BMT Saving and Deposit Instruments

NO	Products	Description
1	Term Deposit (Deposito Berjangka) : - SIMADA (Simpanan <i>Mudharabah</i> Berjangka, <i>Mudharabah</i> term deposit). - TAJAKA (Tabungan Berjangka, Term saving). - INANMI (Investasi berjangka Gemi or Term investment of Gemi).	Term deposit is based on <i>mudharabah</i> . The Deposit can be withdrawn within an agreed period (3, 6 or 12 months). Every term has a different ratio of return – the longer the period, the higher the rate of return.
2	General Saving (Tabungan Umum), the generic name is Tabungan <i>Wadiah</i> and Tabungan <i>Mudharabah</i> . Several products of general saving are: - SIWARDAH (Simpanan Berhadiah <i>Wadiah</i> , <i>Wadiah Prize savins</i>). - TAQUR (Tabungan <i>Qurban</i> ²⁹ , Saving for <i>Qurban</i>). - TAPEN (Tabungan Pendidikan, educational saving). - SIHAROH (Simpanan Haji dan Umroh, <i>Hajj</i> and <i>umrah</i> saving). - TAWAL (Tabungan walimah, saving for wedding ceremony). - SIWANI (Simpanan Wisata Rohani, Saving for spiritual tourism). - SEHATI (Simpanan Eksekutif Hari Tua Islami or Saving for Islamic retirement) - TADURI (Tabungan Idul Fitri or Saving for Eid al-Fitr) - SIMADU (Simpanan Mudarabah Umum or Mudharabah general saving).	Withdrawals of <i>Wadiah</i> and <i>Mudharabah</i> saving can be made any time; the initial amount and further deposits can be as low as IDR 5000; there is no monthly administration fee. By contrast, other types of saving product, especially which aims for a specific purpose can only be taken within the agreed period. The rate of return for general savers is very low, on average 5– 10 percent. Several BMT institutions offer prizes and incentives for loyal clients.

²⁹ An Arabic word which means sacrifice. The practice of *Qurban* is celebrated in commemoration of Prophet Abraham's renowned act of obedience to the commandment of Allah to sacrifice his own son but which was later replaced by a ram. *Qurban* is performed during the Haj season in the first three days of the *Eidul Adha*. The animals allowed for *Qurban* are goat, sheep, cow, buffalo or camel. The meat from the *Qurban* are distributed among 3 categories of people: 1/3 for the poor and needy, 1/3 for family members and friends and 1/3 for the person doing the *Qurban* - and this portion can be given to non-Muslims.

	- SIQAP (Simpanan <i>Qurban</i> , <i>Aqiqah</i> , dan Pernikahan or Saving for <i>Qurban</i> , <i>Aqiqah</i> and wedding)	
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(Source: Brochures and leaflets of BMTs institution, 2017)

As shown in Table 4.3, aside from providing term deposits, BMTs offer fairly diverse savings products, particularly for general savings. BMTs typically offer two kinds of general savings products: the first is associated with Islamic rituals such as *hajj*³⁰, *umrah*³¹, *aqiqah*³², and *Eid al-Fitr*³³. For example, BIF offers TAQUR (*tabungan qurban*, sacrifice savings), which is intended to assist clients in preparing for the *Eid al-Adha*³⁴ feast. The second type of savings products is not directly related to Islamic ritual, but it can be categorized as social activities that are influenced by Islamic teachings including wedding ceremonies, recreation, retirement, and children's education.

The majority of BMTs have savings products for educational purposes. However, only BMT Al-Ikhwan has created a saving product for spiritual tourism (SIWANI) and retirement (SEHATI). According to *Ibu*³⁵ (Mrs) Syaifullah, the founder of Al-Ikhwan, SIWANI is intended to enable members to experience spiritual tourism, which will improve their religious knowledge and work ethic. *Ibu* Syaifullah further explains that, through the SIWANI product, clients once visited the live television program *Mamah Dedeh*³⁶. Members have also partaken

³⁰ An annual Islamic pilgrimage to Mecca, the holiest city for Muslims, and a mandatory religious duty for Muslims that must be carried out at least once in their lifetime by all adult Muslims who are physically and financially capable of undertaking the journey, and can support their family during their absence.

³¹ Non-mandatory lesser pilgrimage made by Muslims to Mecca, which may be performed at any time of the year.

³² The Islamic tradition of the sacrifice of an animal on the occasion of a child's birth. It is widely performed by Muslims and it is considered sunnah to slaughter a sheep or goat for the baby and distribute the meat to the poor.

³³ Also known as *Hari Raya*. It is an important religious holiday celebrated by Muslims worldwide that marks the end of Ramadan, the Islamic holy month of fasting (*sawm*).

³⁴ The second of two Muslim holidays celebrated worldwide each year, and considered the holier of the two. In commemoration of *Eid al-Adha*, an animal (goat or cow) is sacrificed.

³⁵ Form of address for married woman or fairly mature female in formal situation and often followed by the person's first name. Married women are usually called by the husband's first name.

³⁶ A famous *ustazdah* (women preacher) who has an Islamic recital program in *Indosiar*, a private TV station in Indonesia.

in a spiritual tour to Istiqlal³⁷ Mosque in Jakarta. Another unique savings product offered by Al-Ikhwan is *SEHATI*, which is intended to ensure clients—especially those who work as entrepreneurs—to have access to welfare after entering post-productive age (Interview, December 17, 2017).

BMT institutions use many abbreviations that mix Arabic, Indonesian, and/or Javanese terms and phrases for their savings products. From a marketing perspective, these acronyms, which are simple and catchy phrases, help customers remember the names of products. The acronyms usually have a particular philosophy and positive meaning. *SIMADU* (see Table 4.1), for instance, alludes to the word *madu* (honey), which is associated with sweetness and health. Such acronym usage is typical in Javanese culture, mainly in Central Java which is known for its rich symbols. Such icons are often regarded as a means of understanding life. For example, it is believed that the word *Jawa* (Javanese) is an acronym of *jaga* (keep) and *wibawa* (honor). All Javanese, thus, are expected to *jaga wibawa* in their behavior (Tidar Heritage Foundation, 2017, p.1).

2. Loan Disbursements

As noted earlier, the core principle of BMT operations is to mobilize funding and subsequently channel funds to third parties, primarily microenterprises. Through financing activities, BMTs can generate profits and expand their business. Financing is intended not only to increase profitability, but also to consider to realize stakeholder interests. The following table summarizes the loan products of BMTs:

³⁷ The largest mosque in Southeast Asia which was built to commemorate Indonesian independence and opened to public in 1978.

Table 4.4: The Description of BMT Financing Products

No	Products	Description
1	<i>Mudharabah</i>	A profit-sharing partnership to which one contributes the capital and the other the entrepreneurship; or the bank provides the capital, the customer manages the project. Profit is shared according to a pre-agreed ratio.
2	<i>Musyarakah</i>	Equity participation, investment, and management from all partners; profits are shared according to a pre-agreed ratio, losses according to equity contributions.
3	<i>Murabahah</i>	A sales contract between BMT and its customers is mostly for trade financing. The bank purchases goods ordered by the customer; the customer pays the original price plus a profit margin agreed upon by the two parties. Repayment by installments within a specified period.
4	<i>Ijarah</i>	A contract under which the BMT leases equipment to a customer for a rental fee; at the end of the lease period, the customer will buy the stuff at an agreed price minus the rental fees already paid.
5	<i>Istithna'</i>	A sales contract between BMT and customer where the customer specifies goods to be made or shipped, which the bank then sells to the customer according to a pre-agreed arrangement. Prices and installment schedules are mutually agreed upon in advance.
6	<i>Wakalah</i>	An authorization to the bank to conduct some business on the customer's behalf
7	<i>Hiwalah</i>	An agreement by the BMT to undertake some of the liabilities of the customer for which the BMT receives a fee.

(Source: Brochure and leaflet from BMTs institution, 2017)

According to the four BMT managers, loans are generally for small amounts and short terms, reflecting the profile of client members. The vast majority of BMT loans are between IDR 500,000 and 5,000,000; however, BMTs normally increases the size of loans to accommodate loyal customers. Respondent 2, a BIF client for two decades, admits:

"I have been a member of BMT BIF since 1996. At the very first, I only got a loan of IDR 75,000 from *Pak*³⁸ Ridwan. Because BIF considers my business performance to be good, I can currently borrow up to IDR 10 million and pay installments every month (Interview, October 17, 2017).

³⁸ Abbreviation of Bapak (Mr), a form of address to Indonesian men who are married or fairly mature.

Generally, repayments are done on a daily, weekly, or monthly basis. In most cases, small loans are repaid daily or weekly, while larger loans are repaid over more extended periods (i.e. through monthly installments). The exception is GEMI, which requires members to pay installments every week.

Due to the contract's advantages, *murabahah* loans have dominated the portfolio of three BMTs: BIF, Al-Ikhwani, and BKS-19. *Murabahah* is an attractive and lucrative option for Islamic financial institutions because it carries a smaller risk. Therefore, IMFIs prefer raising the portfolio of *murabahah* products over other financing products (Adnan, 2005, p.161). Also, *murabahah* has lower risk than other loan instruments, as it is much more easily handled than traditional loans. As such, *murabahah* products are relatively easy to socialize and sell.

Under the *murabahah* contract, BMTs must buy goods and then sell them to the client with an agreed margin. The *murabahah* process includes following stages; (1) the client needs goods, but lacks cash; as such, the client submits a proposal to the BMT. (2) Both parties negotiate until they reach an agreement, (3) the BMT purchases goods from the supplier, as agreed in the contract, (4) when the deal is signed, control of the property shifts from the BMT to the client (5) the supplier may deliver the goods directly to the client, without any mediation from the BMT (6) the client accepts the property, pursuant to the agreement, (7) the client repays the funds to the BMT together with the agreed-upon profit, either in cash or in installments. Based on the *murabahah* scheme, the BMT purchases the items ordered by its clients, and the clients must pay the original price plus a profit margin that has previously been agreed upon.

As acknowledged by Ridwan, the manager of BIF, the *murabahah* contracts at BMTs are much more complicated than in Islamic banks, which may lead to the breaking of *sharia* principles. In banking institutions, the amounts and types of goods in *murabahah* transactions are usually limited. For example, as the clients of Islamic banks are mostly medium enterprises, they use *murabahah* contracts to purchase cars, machinery, or real estate. However, BMT customers are micro-entrepreneurs such as grocery sellers, who will generally order more than a dozen items. Hence, for practical reasons, it is quite common for BMTs to directly give a

specific amount of money to clients and authorize them to buy the goods they need without further monitoring. As a result, the misuse of funds is relatively common. Money may not be spent on supplies, as agreed upon, but instead for another purpose (Interview, December 23, 2017).

The following statement from one BIF client (respondent 3) illustrates the practice of mishandling loans:

"I told the officer that the money would be used to buy supplies, but then I spent some for other purposes (Interview, November 16, 2017).

Concerning the misuse of *murabahah* contracts, Sobari, the manager of BKS 19 responds that the issue often occurs because of the complexity of clients' problems:

"It is quite clear in the contract that the funds have to be used for productive activities. However, in practice, funds are used for financing children's education, motorcycle installments, and other consumption. Another thing is the culture of consumerism among women. If they see their friends or neighbor buying something new, they do the same thing without considering their financial ability" (Interview, November 27, 2017).

Sobari's statement indicates that the *sharia* principles of the *murabahah* scheme have not been properly implemented. A lack of monitoring from the BMT, which coincides with customers' diverse problems, contributes to the moral hazard. Nevertheless, efforts have been made to minimize improper habits in BMT institutions. Laina, the head of the financial division at BMT Al-Ikhwani, confirmed that her institution no longer allows clients to purchase goods by themselves (Interview, December 18, 2017).

The dominance of *murabahah* financing has caused the monetary sector to become more prominent than the real sector. This has the potential to threaten the objective of the Islamic economic movement, as most properties sold by *murabahah* are consumptive rather than productive (i.e. household appliances, mobile phones, motorcycles, etc.). The fact that *murabahah* dominates the loans portfolios of BMTs supports the findings of previous studies. Research by Adnan (2005, p.161), for instance, shows that Islamic financial institutions tend to

maximize financing under *murabahah* contract to maintain profitability, efficiency, and risk management.

Unlike the other BMTs discussed here, GEMI has *musyarakah* as its largest financing portfolio. Generally, product-based partnerships with PLS such as *musyarakah* are less developed than other loan instruments. IMFIs perceive *musyarakah*, which commonly require long-term financing, to be high-risk; as such, many avoid *musyarakah* (Balqis, 2017, p.15). However, distinguishing itself from its contemporaries, GEMI employs *musyarakah* contracts to provide capital for micro-entrepreneurs. Dewi, a finance staff member at GEMI, explains that the scheme is appropriate since loans are relatively small. Moreover, GEMI offers short-term loans to avoid further risk (Interview, December 20, 2017).

Unlike *murabahah*, which applies a margin to loans, the *musyarakah* arrangement is based on a PLS mechanism. Both IMFIs and clients contribute to the capital resources and managerial efforts of agreed partnerships. Profit generated by these partnerships is shared under the terms of the *musyarakah* contract. Losses are likewise shared in proportion to each contributor's share of the capital. This mode requires BMT to intensively monitor its clients' businesses to minimize the risk of Non-Performing Loans (NPL).

4.3.2.2 Baitul Maal

The main activity of *baitul maal* is to gather ZIS³⁹ (*Zakah, Infaq and Shadaqah*), and distribute these funds to nearby destitute and needy households. In essence, BMTs have two sources of charitable funds: internal and external. Internal BMT sources include the annual profits of BMTs, as well as the IMFIs' founders, boards, managers, staff, and their family members. External sources, meanwhile, include members, the nearby community, private businesses, state-owned companies, philanthropic organizations (LAZIS), and other donor institutions.

BMTs employ different approaches to raise funds for *baitul maal*. In this regard, Al-Ikhwan relies on brochures to attract funds from potential donators.

³⁹ Alms and donations.

Would-be donors have three means of giving donations. (1) The first is home service facilities: potential donors can contact Al-Ikhwan's office, and officers will come to collect the money. (2) Second, donors may also directly transfer their contributions to Al-Ikhwan's bank account. (3) Third, donors may come to Al-Ikhwan's office to donate. By 2016, Al-Ikhwan had allocated IDR 56.5 million to charity, including education, social, religious, economic, and disaster relief programs (Annual Report of BMT Al-Ikhwan, 2016, p.17).

Meanwhile, BKS 19 use personal approaches to persuade BMT members, especially affluent investors and borrowers. Alms may be collected by directly deducting deposits, savings returns, and/or during loan collections. For instance, BKS 19's loan installment forms include a specific column for donations (*ZIS*). BIF and GEMI have a broader range of potential donors, as they utilize their websites and online applications to draw external support. These two institutions also use other approaches, including sending proposals to donor institutions and networks as well as collecting small donations (*infaq*) from members.

Each BMT has a different priority in allocating social funds. To some extent, the primary affiliation of a BMT affects the orientation of its social and charity programs (see 4.4.4: The Main Alliance of BMT). Three BMTs (BIF, Al-Ikhwan, and GEMI) have established regular social programs. BIF and Al-Ikhwan use a higher percentage of social funds to promote education for poor children, while GEMI concentrates more on ecological issues. In comparison, the *baitul maal* activities of BKS 19 are less obvious. Its social program is more incidental, with a limited scale. Sobari, the manager of BKS 19 acknowledges that the total donations collected through *baitul maal* are insufficient for broader programs, and as such the organization focuses primarily on its members. Furthermore, he argues that the competition between BMTs and their desire to maximize profit has forced BKS 19 to concentrate more on business than its socio-religious mission (Interview, November 17, 2017).

Not all BMTs effectively perform a socio-religious mission through *baitul maal*. An FGD with BMT leaders in Yogyakarta gave a similar portrait. However, these social and religious purposes are the most crucial elements that distinguish

BMTs from conventional MFIs. Any BMT institution that does not engage in social and religious programs have departed from their initial purpose. As such, some BMT activists (including Ridwan⁴⁰, Kuswantoro⁴¹, and Nasrudin⁴²) classify the BMTs of Yogyakarta into two groups: first and second generation BMTs.

(1) First generation BMTs are generally those established between 1995 and 2005. Their founders are Muslims who emphasized the authenticity of *sharia*-compliant microfinance and aimed to balance their business and social missions. Many were affiliated with Muhammadiyah, had an understanding of Islamic economic systems, and were close to Amin Aziz, designer and central figure of BMT system in the country. Ridwan and Nasrudin specify that approximately 40% of the BMTs in Yogyakarta fall under this category. Kuswantoro adds that BMTs developed before 2005 were ideologically stronger because they were mainly driven by the spirit of *jihad*.

As stated by Ridwan, Amin Aziz directly supervised and transferred the BMT ideology to the founders of first-generation BMTs. Ridwan describes the process through which Amin Aziz and PINBUK strengthened their ideology through intensive training:

"I attended the training for ten days and was not allowed to come back home during the session. The training started from morning until late of night. The night session was for planting the ideology... 40 percent of the training was ideologization. Even though we slept late, Prof. Amin Aziz urged participants to wake up early to perform *tahajud*⁴³ prayer. He taught us by an example and began all processes with extraordinary efforts in order to create *mujahid*⁴⁴ in the economy. It resulted in such militant followers" (Interview, December 18, 2017).

Ridwan's statement reflects the view of Amin Aziz, who declared that BMTs were *jihad* for creating prosperity and brotherhood among the *ummah*. The following is an example of the rhetoric used by Aziz to motivate the followers;

⁴⁰ The founder and manager of BIF.

⁴¹ The director of PINBUK Yogyakarta.

⁴² The manager of Puskopsyah Yogyakarta.

⁴³ A special Islamic prayer which is recommended (but not compulsory) for all Muslims. The Tahajjud is prayed after Isha (the obligatory nightly prayer) and before Fajr (the obligatory morning prayer).

⁴⁴ Fighter for the faith (one who wages jihad).

"*Insha Allah*⁴⁵, every BMT can be a speck of light for the life of the *ummah*. The light will grow and be everywhere. If everything is well-established, one day, it will become a powerful force in building the civilization of the *ummah*. Thus, I invite you all to do *jihad* to develop a speck of light (Aziz, 2006, p.15)".

Aziz' influence on BMT activists in Yogyakarta is quite obvious. His position as a prominent figure in Muhammadiyah is another factor affecting BMT initiators' closeness with him. His influence is also marked by the fact that first-generation BMTs still hold his values and thoughts. Three BMTs in this study—BIF, Al-Ikhwan, and GEMI—can be categorized as first-generation BMTs. Nonetheless, of these three BMTs, the practice of Islamic values is most noticeable in BIF.

As I noticed, BIF promotes the value that "Allah is the only God; we work and struggle to serve Allah." This organizational value is framed in each room of BIF's office. Ridwan asserts that BIF always tries to implement the value in practice (Interview, December 18, 2017). This can be seen, for example, in the institution's commitment to support small groups of women in their religious programs. During my fieldwork in October–December 2017, I accompanied some officers to the Assakinah *majelis taklim* group in Berbah Village, about 15 km from BIF's central office. Taking place at a client's house, the *majelis taklim* has been held regularly for about 20 years. Although Assakinah has less than 20 active members, BIF officers regularly come and act as preachers. Saifu Rijal, a BIF Yogyakarta branch manager who has served as preacher, states that BIF's commitment is part of devotion:

"This is a part of our worship of Allah. If I think in merely economic terms, it is definitely not profitable. However, it is our commitment to assist and be role models for our clients. I asked five staff members to come here tonight to make sure that we are always there for our customers" (Interview, October 16, 2017).

In contrast, (2) second-generation BMTs are generally more pragmatic and maintain flexibility in their missions and operations. In this regard, BKS 19 can be categorized as a second-generation BMT. Sobari, the manager of BKS 19

⁴⁵ The Arabic language expression for "God willing" or "if God wills". The phrase comes from a Quranic command which commands Muslims to use it when speaking of future events.

acknowledges that many BMTs have slowly left their religious mission due to the intense competition between microfinance institutions and the lack of government support. Here is his remark:

"The government initiated BMT KBS. Ironically, it is this government that 'beats' us through its programs. How can we compete with government banks such as BRI, which also channel low-interest microloans to our segment? This situation has forced BMTs to do all possible things to survive and no longer be considered religious missions. In my opinion, BMTs' image as *da'wah*⁴⁶ institutions is only "lipstick" or a sweetener (Interview, November 18, 2017).

Supporting Sobari's view, Kuswanto maintains that, after the government and banking sector began aggressively disbursing microloans, the competition in the microfinance industry became tougher. As a result, BMTs have acted precisely like banking institutions, being oriented more towards profit and neglecting their empowerment missions in an effort to ensure their financial sustainability. Most of Yogyakarta's BMTs, thus, no longer operate in line with their original mission (Interview, November 30, 2017).

In brief, BMTs have the following characteristics; 1) establishment is relatively simple, requiring at least twenty local leaders who agree to share initial capital for the BMT. This process is similar to that for generic cooperatives, and involves several stages and administrative procedures. 2) BMTs have relatively simple organizational structures that nonetheless embrace modern organizational concepts; 3) BMTs' function as financial intermediaries is facilitated through *baitul tamwil*. Not all BMTs have equal performance in terms of *baitul maal*; first-generation BMTs tend to maintain a balance between the two divisions, while second-generation BMTs are inclined to focus on *baitul tamwil*.

4.4 The Four Selected BMTs: Their Origins, Missions, and Affiliations

This section provides a critical analysis of the four selected BMTs, based on their origins, motives, organizational missions and links to women's empowerment issues, and their main alliances. It is followed by a discussion of these BMTs,

⁴⁶ An act of calling people to the religion of Allah. It also means to invite non-Muslim to accept Islam.

similarities and differences in those dimensions

4.4.1 Origins and Motives for Establishment

The four BMTs show similar patterns in the motives for their establishment. They were intended primarily to counter the exploitation of loan sharks and practice of usury in society. BIF, Al-Ikhwan, and GEMI share the same view on this matter. Similar motives were also expressed by the two earliest BMTs in Yogyakarta, BMT Beringharjo and BMT Bina Ummah. Many BMT supporters agree that BMTs offer a means of liberating traders from illicit loan sharks (FGD, December 13, 2017). However, Sobari expresses his skepticism about the effectiveness of BMTs in this regard. He explains that loan sharks have an advantage over BMTs, in that they can act more quickly. The following is Sobari's comment;

"The loan sharks operate like *buser* (*buru sergap* or hunt and ambush). They have four ears, eight eyes, and carry a large amount of cash in a bag. They will provide loans regardless of the amount requested by the borrower. It is almost impossible to compete with the speed of loan sharks' operations" (Interview, November 18, 2017).

For poor households and merchants in traditional markets, loan sharks are still important sources of capital. They operate on a very mobile basis, and usually accept as collateral goods or services that formal financial institution would not. According to Ekantini, the manager and founder of GEMI, loan sharks of Batak origin, an ethnic group found predominantly in North Sumatra, are openly operating in many of Yogyakarta's traditional markets. Ekantini further states that Batak women are the ones who most often offer loans in the markets:

"Loan sharks are no longer men with big postures and grim faces. If you come to the market and see a beautiful young woman with a small bag and book going around from one merchant to another, she is *rentenir*. The majority of loan sharks are Batak. Although they are not Muslim, they wear a *hijab*⁴⁷ whenever operating in the markets. They work in the markets for hours in the morning and will come back in the evening. Usually, they will come to one merchant and say '*simbah, ngangsur*'—grandmother, the installment please" (Interview, December 20, 2017).

⁴⁷ A head covering scarf that some Muslim women wear in public. For many such women, the *hijab* signifies both modesty and privacy.

Hayati confirms that BMTs' toughest rivals are loan sharks of Batak heritage (FGD, December 13, 2017). Furthermore, Ekantini stresses that it is difficult to mitigate the influence of loan sharks because they live together with the society, are very friendly, and have more information on borrowers. Sometimes, they will operate by claiming a social motive. For instance, if a household is experiencing difficulty and needs money, a loan shark will come and offer help.

4.4.2 The Initiators of BMTs

1) BMT Bina Insanul Fikri (BIF)

BMTs are founded by figures from different backgrounds. In BIF, one of the oldest BMTs in Yogyakarta, members of the Muslim middle class who were affiliated with Muhammadiyah and ICMI played a critical role in the institution's establishment. One of its founders is Ridwan, the current BIF's manager and also an influential figure behind the development of BMTs in Yogyakarta. He is not only an important member of Muhammadiyah, but also a scholar who regularly gives lectures about Islamic economics at private universities in Yogyakarta. Currently, he holds several important positions: the chairman of Puskopsyah, the chairman of Muhammadiyah Yogyakarta's economic and entrepreneurial council, and the chairman of the Al Maun *pesantren*. He previously served as the chairman of the local PINBUK. Outside of his BMT and Muhammadiyah activities, he is pursuing a doctoral degree at the Faculty of Economics, Universitas Islam Indonesia.

The concerns on the excesses of loan sharks (*rentenir*) encouraged Ridwan and some Muslim activists to create a BMT as a financial alternative for the poor and micro sector. The majority of Muslims, particularly those affiliated with Muhammadiyah, support the idea of driving out loans sharks through a BMT system. Most Muslims believe that the practice of providing loans to the poor with excessive interest rates is a form of exploitation and leads recipients to over-indebtedness and even more misery. As such, it is contrary to the principle of justice. Introducing Islamic economics to society has been cited as another reason

for the establishment of BIF. BMTs are seen as part of a *da'wah* mission, particularly in the economic sphere. Ridwan argued that the BMT offers a path for *jihad* through the economic system (Interview, December 20, 2017).

The idea to establish BIF came a year after Muhammadiyah's national congress in 1995. During the congress, Muhammadiyah embraced the BMT system as a national strategy for empowering members and the broader community through both direct involvement and indirect support. This national program ultimately encouraged the organization's regional cadres to take the initiative to develop BMTs locally. At that time, Amin Aziz, a central ICMI figure, was also the chairman of the Muhammadiyah Central Executive Board. This prominent position enabled him to structurally push the BMT concept as one of Muhammadiyah's national program. Ridwan admits that the Muhammadiyah congress, to some extent, influenced the development of BIF (Interview, December 18, 2017).

The development of BIF began in early 1996, when Dr Meydi Saflan, the deputy chairman of the local ICMI branch, was asked by Ridwan to give a lecture at a religious meeting. During this event, Saflan presented the idea of empowering people by developing IMFIs. As a member of ICMI, Saflan was mandated by the organization's central leadership to develop BMTs in his area. This idea was welcomed by Ridwan, who had previously established a cooperative in an effort to protect street vendors from the predations of loan sharks. These two Muslim activists decided to begin preparing and strategizing.

The groundwork for BIF's establishment began with *silaturahmi*⁴⁸ in the mosques of Gedong Kuning. Both Meydi and Ridwan tried to convince the *takmir*⁴⁹ and *jama'ah*⁵⁰ of each mosque about the benefits of the BMT system. Their audiences, most of whom were Muhammadiyah members, finally supported the

⁴⁸ Strengthening of relationship with friends, relatives and humanity ; thus promoting peace and inspiring unity within each other. Example of *silaturahmi* acts are building communities, family reunion, and demonstrating kindness towards neighbor. It is regarded as the highest good deed in Islam, place within the same level as performing the *salat* and paying *zakah*.

⁴⁹ An organization that takes care of all activities that are related to the mosque, both in building, maintaining and prospering it.

⁵⁰ Person, community or group of Muslims who engage in the Mosque's activity.

notion. In March 1996, with an initial capital of IDR 2.5 million collected from Muhammadiyah figures from several mosques, BIF began its operations in a small (2 x 3 m) room. Initially, the Yaumid Mosque and ABA Aisyiyah Kindergarten were very instrumental in supporting its management. These two institutions allowed BIF to borrow their office equipment, including typewriters, tables, and chairs.

This newly established IMFI was managed by Saflan as manager and Ridwan as treasurer. A year after beginning operations, BIF obtained the legal status of Islamic finance cooperative (KJKS or Koperasi Jasa Keuangan Syariah). Ridwan states that the two agreed to share roles. Saflan was responsible for building external networks, while Ridwan took care of daily managerial tasks. Lobbying and efforts to gain external support began to show results. Several institutions, such as the Ministry of Cooperatives and the Central Bank of Indonesia, started partnering with BIF in community empowerment programs. For instance, in 1999 BIF received IDR 7 million from the central bank to channel through microloans. Ridwan emphasizes that ICMI played a significant role in facilitating BIF's cooperation with external parties (Interview, August 24, 2018).

BIF's success in managing the funds of third parties has a positive correlation with its reputation. As a result of its performance, many external institutions have invested capital. In 2001, for example, BIF received IDR 1 billion in funds from the government for a microcredit program in the agricultural sector. Currently, BIF is one of the largest BMTs in Yogyakarta. In 2008, it built a new operational office in Kota Gede, Yogyakarta. This office is located only 500 meters from the Gedong Kuning Traditional Market, where the majority of women traders serve as its clients.

2) BMT Al-Ikhwan

Unlike BIF, which was initiated by male Muhammadiyah figures, the embryo of BMT Al-Ikhwan came from a group of women, all members of the same *majelis taklim*, who were all traders at the Condong Catur traditional market in Sleman, in northern Yogyakarta. Like other traditional markets in Indonesia, the market in

Condong Catur is identified as women's territory. *Ibu* (Mrs) Syaifullah, a senior merchant and the leader of the *majelis taklim*, was the first one to propose creating an alternative means of savings and loans. She states that, at the time, receiving credit from formal financial institutions was difficult for small traders, and as such many traders borrowed money from loan sharks. When they were unable to pay their installments, the interest accumulated quickly, surpassing the principal. As a result, many traders lost their businesses (Interview, December 12, 2017).

At the market, *Ibu* Syaifullah is respected and exemplified by the other traders. Aside from her market activities, she is an active member of Aisyiyah. Her husband, *Pak* (Mr) Syaifullah, is an intellectual figure of the local Muhammadiyah branch. Such an arrangement (in which the husband is a Muhammadiyah activist and the wife is an Aisyiyah member) is quite common in Yogyakarta. Presently, *Ibu* Syaifullah is a member of Aisyiyah's economics and welfare assembly for Sleman. Her involvement with this organization influences her commitment to her fellow traders, particularly in protecting them from loan sharks.

Ibu Syaifullah states that twelve non-Muslim loan sharks of Batak heritage aggressively offered loans to traders at high interest rates. She further claims that these loan sharks controlled many of Yogyakarta's traditional markets. Almost every day she saw how small traders had to deal with tough situations after defaulting.

"Next to my kiosk, there was a middle-aged woman who made a living from selling chili peppers. That day, there was a Batak man carrying money in hand while saying, 'Who needs money?' As the woman desperately needed cash, she eventually borrowed IDR 100,000. However, she only received IDR 80,000, as the rest was used to pay interest. She had to pay installments every day. If she could not afford to do so, the loan shark would get angry and make the woman cry out in fear. I could not bear to see my Muslim sisters being oppressed. Thus I promised myself that I would help them" (Interview, December 12, 2017).

Ibu Syaifullah's concerns led her to seek the help of a nearby mosque. She met Mustamil, who managed BAZIS⁵¹ at the mosque. As *Ibu* Syaifullah was a BAZIS administrator, she spoke to him about the situation of women in the market

⁵¹ Badan Aman Zakat Infaq and Shadaqah, an Islamic philanthropic fund collector that manages alms, zakah and charity.

and expressed hope that the mosque could help them. After intensive discussion, Mustamil and *Pak Syaifullah Hasyim* (*Ibu Syaifullah's* husband) went to the market to conduct a survey. Based on their observations, the mosque—through BAZIS—approved *Ibu Syaifullah's* idea of creating a group of *simpan pinjam*⁵² and provided initial funding of IDR 800,000. To promote accountability, the mosque suggested developing an Islamic organization as a means of empowering women in the market. This was followed by the establishment of the *majelis taklim Al-Khodijah*, which included some 100 women traders. Since 1991, the group (under the leadership of *Ibu Syaifullah*) has organized monthly prayer recitals at members' houses or at the market (Interview, December 12, 2017).

The *majelis taklim* expanded its activities to focus not only on religious issues, but also on socio-cultural and economic programs. According to *Ibu Syaifullah*, its members responded very positively to its savings and loans program, and many sought access. As a result, the funds received from the mosque ran out quickly. *Pak Syaifullah*, the mentor of the *majelis taklim*, came up with the idea of raising donations. He managed to collect funds of IDR 800,000 from some of the mosque's leaders and gave the money to the *majelis taklim* (Interview, December 12, 2017).

The *majelis taklim* also actively accessed external funding. By 1998, it had managed to get IDR 75 million in funding from the Ministry of Cooperation through its LEPMM⁵³ program. This program was intended to provide stimuli and technical assistance to the micro sector and thereby reduce the impact of the ongoing economic crisis. This program emphasized "bottom-up planning", using a concept of empowerment that prioritized communities as subjects of development (people-centered development). Through the LEPMM program, the *simpan pinjam* division of the group proliferated.

Later, in the early 2000s, motored by *Ibu Syaifullah* and her husband, the recital group's economic division was developed into a BMT. The couple promoted the idea of BMT formation to the local community leaders, ultimately finding

⁵² Accumulating Saving and Credit Association or ASCRA.

⁵³ Lembaga Ekonomi Produktif Masyarakat Mandiri or Self-Reliant Community Productive Economic Agency.

twenty people who were willing to join and invest in the BMT. This new BMT took the name Al-Ikhwan, an Arabic term which means "the brothers". On March 2004, Al-Ikhwan officially gained legal status as a multi-purpose cooperative (*koperasi serba usaha*). Since the BMT's establishment, Al-Ikhwan has been led by Rama Widia Sentot, an alumnus of Universitas Islam Indonesia (UII). Aside from managing Al-Ikhwan, he is currently active in the organizational structure of Muhammadiyah's Sleman branch. Rama's position in Al-Ikhwan is related to his parents-in-law, *Ibu* and *Pak* Syaifullah. However, such family connections are relatively uncommon in the BMTs of Yogyakarta.

The Syaifullah family has played an influential part in Al-Ikhwan's growth. *Ibu* Syaifullah, who usually spends half a day in the market for her own business, is the organization's treasurer. In this position, she and her son-in-law are responsible for directing, monitoring, and evaluating the BMT's funds. Her younger brother, *Pak* Khairul, is also part of the organization's administration. The dominant role of the family is further indicated by the position of Pak Syaifullah, a retired Islamic high school (Madrasah Alyah Negeri) teacher, on the organization's sharia supervisory board. Such a situation runs contrary to Amin Aziz's expectations. Aziz emphasized that BMTs should be founded by at least twenty local community leaders, as this would help prevent nepotism and the dominance of particular families in their management (Aziz, 2006, p.17).

3) BMT KUBE Sejahtera 19 (BKS 19)

The third BMT in this study is BMT KUBE Sejahtera 19 (KBS 19). Unlike the BMTs discussed above, which were established by Muhammadiyah and Aisyiyah leaders, the idea for KBS 19 came from a government agency. KUBE stands for *Kelompok Usaha Bersama* or Collective Enterprise Group. Originally, it was a poverty alleviation program under the Ministry of Social Affairs (MoSA), which has been widely implemented since 1982. This program has four objectives: 1) To improve productivity, 2) To enhance harmony in social relationships, 3) To fulfill members' needs and resolve their social problems, 4) To be a medium for developing collective enterprises (Ministry of Social Affairs, 2018, p.4). Through

KUBE, the poor are organized, trained, and coached to conduct economically productive activities and promote social interactions, solidarity, and cohesion. Its final objective is to make the poor independent, capable of creating jobs and increasing income by running their businesses.

Between 2003 and 2011, a total of 145,012 KUBE units empowered 1,449,214 households across Indonesia using funds from the national and de-concentration budget (Nihayati, 2011, p.4). KUBE formation is based on several considerations: proximity of residence, members business types/skills, resource availability, and geographical circumstance. The project similarly requires that members have similar backgrounds, cultural lives, and motivations. KUBE targets persons who have shortcomings in income, housing, health, skills, education, and capital (Ministry of Social Affairs, 2018, p.3).

Any KUBE that meets the above requirements receives stimulus funds that are intended to establish productive economic businesses. In this sense, each KUBE (which consists of ten households) receives IDR 20 million in business capital. This capital aid comes with assistantship. The MoSA, supported by its regional office, monitors and evaluates the implementation of the program (Silaban, 2013, p.130). As the KUBE grows, the surrounding community and the KUBE itself are expected to facilitate the establishment of a microfinance or financial institution.

One KUBE in Yogyakarta that has successfully established a microfinance institution is the KUBE program of Tlogodadi, Sleman, which was initiated in 2003 by several groups of women working in microbusiness. According to Sobari, the establishment of the KUBE's microfinance institution, BMT KUBE Sejahtera 19 (BKS 19), began after the Department of Social Affairs (DoSA), Sleman, aimed to provide working capital to the urban poor in the form of revolving funds. One requirement for the disbursement of such loans is the existence of KUBE. After a positive evaluation, DoSA Sleman selected the KUBE in Tlogodadi to receive revolving funds. It gave initial funding assistance of IDR 180 million to develop a microfinance institution or cooperative. In 2005, with this assistance, the KUBE in Tlogodadi officially began operating its cooperative institution (Interview,

November 28, 2017).

The KUBE cooperative initially focused on women by following the Grameen model of empowerment. Through this system, it provided money to its client members based on a group lending approach, which emphasized group formation, compulsory training, mutual interest, and cohesion. However, Sobari admitted that this approach did not work well for KUBE, due to the high number of non-performing loans (NPLs). As such, KUBE changed its strategy to one of individual lending.

The popularity of Islamic microfinance in the early 2000s led KUBE to modify its business orientation and become an Islamic cooperation. Sobari recognized this shift as steeped in business logics:

"To be honest, it was not about ideology, but a matter of industrial trends. At that time, BMTs offered promising financial business, while the growth of conventional cooperatives was stagnating. BMTs, as new institutions, seemed acceptable for society. Hence, we changed our direction" (Interview, November 28, 2017).

The preparation for transforming KUBE's conventional microfinance institution into an Islamic one began with the creation of a founding committee, which consisted of twenty people, including administrators, supervisors (i.e. DoSA Sleman), managers, and some local figures. Afterward, representatives of founders contacted PINBUK Yogyakarta to request assistance. PINBUK is MoSA's official partner in establishing BMT-KUBEs, and has developed some 87 such IMFIs in nineteen provinces. As part of preparations, Sobari and two other staff members attended two weeks of training at PINBUK. This training sought to introduce BMT theory and practice, as well as MMQ (methods of understanding and practicing the Quran). Afterwards, PINBUK provided assistance for two years to ensure that BMT KUBE was self-sufficient and fully licensed (Interview, November 27, 2017).

On October 3rd, 2007, KUBE officially transformed into an IMFI under the name BMT KUBE Sejahtera 19 (BKS19). While many other BMTs have preferred using Arabic terms to highlight their Islamic identity, BKS 19 uses an Indonesian name— *sejahtera*, meaning "prosperous"—as a symbol of hope and future

prosperity. The number "19", meanwhile, indicates the sequence of its establishment in Yogyakarta. Before BMT KUBE 19 was founded, there were 18 other BMT KUBEs in the area of Yogyakarta. Furthermore, Sobari believes that "19" is a lucky number, one that could help BKS 19 become a successful IMFI (Interview, November 27, 2017). It seems that certain myths and aspects of Javanese culture influenced Sobari's view. In Javanese society, numbers are believed to have a certain character, or *watak wilangan* (Prabowo, 2010). For example, the number 19 is *songolas* in Javanese, a word that is derived from *songo* (nine) and *welas⁵⁴* (compassion). The word *welas*, thus, is a symbol of hope. When a human being reaches the age of nineteen, he/she is able to develop compassion (*welas*) for his/her environment (Tidar Heritage Foundation, 2017, p.1).

4) GEMI (Gerakan Ekonomi Kaum Ibu)

Similar to KBS 19, the fourth BMT examined in this study uses a Javanese term rather than an Arabic one. GEMI is an acronym for *Gerakan Ekonomi Kaum Ibu* or Women's Economic Movement. However, *gemi* is also a Javanese word that means "frugal" or "thrifty". In Javanese culture, parents often advise their children (especially their daughters) to be *gemi*, i.e. be careful in managing money and avoid unnecessary usage. Ekantini, the manager of GEMI, explains that the name's philosophy is based on the belief that women are the ones who take the most care of their families. For example, when a mother has money, she will use it to meet household needs. As such, Ekantini believed that the economic empowerment of women would have a "trickle-down effect" and thereby contribute to the improvement of their families' socio-economic standards and their children's education (Interview, December 10, 2017). This was also seen in the institution's initial vision of economically empowering women in rural areas by releasing them from the debt traps of loan sharks.

Ekantini is not only one of GEMI's most influential founders, but also its institutional symbol. An alumnus of the Faculty of Agriculture, Universitas Gajah

⁵⁴ Normally about the "teens" (11-19).

Mada, Yogyakarta, she is also a politician with the Prosperous Justice Party (PKS⁵⁵). Between 2010 and 2015, Ekantini was one of the party's elite female cadres, serving as the deputy treasurer of the Yogyakarta branch. In 2013, she was backed by the party as a legislative candidate (Antaraneews, 2013, p.1). However, after she failed to win the election, she decided to focus on developing GEMI.

Originally, GEMI was an economic empowerment program of *Yayasan Peningkatan dan Pengembangan Sumber Daya Umat* (Foundation for the Improvement and Development of *Ummah* Resources, YP2SU), a foundation established during the New Order era by graduate students from various universities in Yogyakarta (YP2SU, 2011, p.2). The inclusion of the word *ummah* in this organization's title indicates its focus on Muslim society. To date, YP2SU has developed three core activities: (1) economic empowerment, including GEMI, (2) environmental advocacy and (3) disaster risk reduction. These three programs were used to solve targeted communities' problems by improving their business capital, institutions, and market access (YP2SU profile, 2011, p.2). During the 2000s, YP2SU managed to gain extensive support from both national and international donor agencies, including GTZ⁵⁶, CRS (Catholic Relief Service), Mercy Corps, International Relief, UNDP (United Nations Development Program) and *Rumah Zakat*⁵⁷. As a result, it has been able to finance numerous activities, involving GEMI, which is one of its leading programs.

In the early stages of its establishment, GEMI was funded exclusively by YP2SU. However, following its transformation into an independent micro-finance institution, GEMI developed partnerships with various agencies and was able to obtain financial support from outside its mother organization (YP2SU, 2011, p.2). Since 2004, GEMI has been serving members in Yogyakarta City and Bantul regency. Unlike the three BMTs discussed above, GEMI adopted a group-based

⁵⁵ An Islamic-based political party that was founded by Muslims intellectuals and activists in 1998, shortly after the fall of authoritarian regime of Indonesia's second president Suharto.

⁵⁶ The Deutsche Gesellschaft für Technische Zusammenarbeit or German Organization for Technical Cooperation.

⁵⁷ A non-governmental organization that focuses on the management of *zakat, infaq, shadaqah and waqf*. Rumah zakat which founded in 1998 emphasizes its focus on education, health, community development and economic empowerment programs.

microcredit model or *Sistem Tanggung Renteng* (STR), which is more or less a replica of the Grameen Bank model. In this system, GEMI divided members into small groups. Ekantini argues that this model fit their core membership of rural and uneducated people. Such a model, moreover, was recommended by the international donor institutions that GEMI partnered with.

After two years of operations, the organization experienced a serious set-back in May 2006, when Bantul—where the majority of GEMI members earn their living—experienced a major earthquake. Although this natural disaster led to the destruction of most of its members' businesses, GEMI managed to overcome the problem through the support of its network. Such national and international agencies as UNDP, GTZ RED Program, International Relief, and the Indonesian *Waqaf* funds cooperated with GEMI on a disaster rehabilitation program. During this time, GEMI focused on helping members to recover their houses and their lives. In this sense, the activist backgrounds of GEMI's leaders was essential for serving members in this critical situation (YP2SU, 2011, p.2).

After the earthquake, in October 2006, GEMI formally changed its traditional microcredit project into a cooperative (*koperasi*). Two years later, it became an IMFI. According to Ekantini, the decision to convert into an Islamic institution was made after a long discussion. The GEMI team conducted fieldwork in East Java, where it studied a women's cooperative. Finally, GEMI altered its legal status in 2008.

"At first, we went to East Java Province for a comparative study with a women's cooperative. We learned about membership and management mechanisms, as well as the patterns of group-based loan programs. Afterwards, we tried to combine what we learned in East Java with the Grameen Bank system. At the same time, we studied the concept of Islamic microfinance systems. It ended with the conclusion that group-based loans have similarities with the Islamic loans system, particularly in its emphasis on justice" (Interview, December 20, 2017).

Ekantini's statement elucidates that GEMI's transformation from a conventional to Islamic system was based on exploration and religious considerations. Ekantini stressed that the value of social justice in Islamic economics and LPS resembles the concept of group-based loans. By implementing

this Islamic concept, she expected that GEMI would bring *barokah* (blessings) to its members. Nevertheless, Ekantini's profile as a Muslim activist and female PKS politician may have also affected the decision to change GEMI's ideological orientation. In this regard, there is a fundamental difference between BKS 19 and GEMI in terms of philosophical transformation. While pragmatic factors drove the alteration of BKS 19, the adoption of religious values led to the change in GEMI.

In brief, the four BMTs in this study have distinctive characters, as influenced by their initiators. Young Muslim activists affiliated with Muhammadiyah and ICMI initiated the establishment of BIF, while an Aisyiyah activist motored the foundation of Al-Ikhwan. BMTs in Yogyakarta have also been founded by persons with a background in Islamic NGOs, such as Ekantini, the founder of GEMI. Moreover, local governments have contributed to BMT development too, mainly through their creation of KUBEs. Thus, four critical groups have a role in BMT development: ICMI, Islamic mass organization (Muhammadiyah and Aisyiyah), NGOs, and local government. As for motive, the issues of loan sharks and poverty alleviation were the main factors driving the inception of BMTs in the province.

4.4.3 BMTs' Missions and Women's Empowerment

This section highlights the formal connection of the selected BMTs to the issue of women's empowerment. In particular, it reviews the organizational visions, missions, and external affiliations of BMTs within the context of women's issues. The table below summarizes the visions, missions, and clientele (number and composition) of the four selected BMTs:

Table 4.6: Organizational Visions and Missions

BMTs	Vision and Mission
Bina Insanul Fikri (BIF)	<p>Vision: To be an excellent and healthy Islamic finance institution in empowering <i>ummah</i>.</p> <p>Mission: 1) To implement Sharia (Islamic law) value for mutual prosperity. 2) To provide the best service in Shariah microfinance service. 3) To realize the life of an Islamic <i>Ummah</i>.</p> <p>Number of clients & its composition: 38,000: (75% women & 25% men)</p>
Al-Ikhwan	<p>Vision: Creating a strong and professional Islamic microfinance institution.</p> <p>Mission: 1) To empower people's economy through Islamic microfinance. 2) To provide the best savings and financing services and focus on micro, small and medium enterprises. 3) To provide assistance and consultation for the members 4). To perform <i>syiar (da'wah)</i> through BMT's activities. 5) To socialize Islamic economic activity.</p> <p>Number of clients & its composition: 3,000 (85% women & 15% men)</p>
BKS 19	<p>Vision: To be a healthy and trustworthy microfinance organization that is able to serve members and communities with full of salvation, peace, and prosperity</p> <p>Mission: Developing BMT KUBE as a means of liberation, empowerment and justice movement in order to realize safety, peace and prosperity for the people around BMT.</p> <p>Number of clients & its composition : 500 (80% women & 20% men).</p>
GEMI	<p>Vision: Improving productivity and prosperity of micro-entrepreneurs throughout Indonesia.</p> <p>Mission: 1) To provide the best quality of service for members and stakeholders 2) To develop and strengthening of the business core 3) To implement an effective and efficient management system and make continuous improvement. 4) Increase productivity of supervisors, managers, employees 5) Develop and apply appropriate information technology. 6) To develop social and environmental benefits</p> <p>Number of clients & its composition: 5,038 (99% women & 1% men)</p>

(Source: Compilation of BMTs documents, 2017)

In terms of vision, all the BMTs studied have a clear picture of their desired organizational achievements. From a practical perspective, the visions of BMTs are brief, memorable, and have certain purposes. BIF and Al-Ikhwan clearly state their Islamic financial identity in their visions. By contrasting, BKS 19 and GEMI do not directly indicate their positions as Islamic cooperative institutions in their visions. Interestingly, both of these institutions started out as conventional MFIs. As such, it appears that their transformation into IMFIs has not been fully reflected in their organization visions. Although these visions may include such keywords as Islamic microfinance, empowerment, prosperity, and micro-entrepreneurship, they do not explicitly invoke women's empowerment—despite women being their primary clients.

Of the four BMTs studied, GEMI has the highest percentage of female customers; women account for 99% of its 5,038 members. In the other three BMTs, women account for 75–85% of members. Focus Group Discussions (FGD) with BMT managers from Yogyakarta's five administrative districts (Yogyakarta City, Bantul, Sleman, Gunung Kidul, and Kulon Progo) also indicates a parallel pattern. FGD participants acknowledge that BMTs in Yogyakarta have significant representation of women clients. However, they agreed that this did not necessarily mean that BMTs were created specifically for women (FGD, December 13, 2017). Furthermore, Kuswanto asserted that the BMT movement in Yogyakarta is dealing more with critical idealism than gender issues (Interview, November 30, 2017). Kuswanto's argument indicates that the BMTs in Yogyakarta have no formal link to gender and women's empowerment.

Regarding the predominance of women, BMT managers presented various arguments. For instance, BIF argued that the institution originally aimed to provide capital to small traders in traditional markets who had been massively victimized by loan sharks. Traditional markets, where loan sharks most commonly offer credit, are well known as the domains of women, and women have benefitted most from BIF's services and programs as a consequence. A similar rationale was expressed by Al-Ikhwan; even though that institution's initiator was both an Aisyiyah leader and a woman trader, the BMT was not purposely formed for

women.

In the case of BIF and Al-Ikhwan, embracing women occurs naturally, without a specific plan. As such, it has nothing to do with gender ideology as practiced in many conventional MFIs, especially those that adopt a feminist empowerment approach. In the feminist empowerment approach, microfinance is promoted as an entry point in the context of broader strategies for women's economic and socio-political emancipation (Mayoux, 2005, p.6). The assumption is that, if given the opportunity, women would wish to challenge gender inequity in the ways envisaged by the international feminist movement (Mayoux, 2002a, p.80). Empowering women through microfinance, thus, is a critical point part of gender equality and poverty alleviation.

Similarly, GEMI—despite almost 100% of its clients being women and the organization's name meaning "economic movement for women"—tends to avoid discussing gender issues. This is reflected in the following statement by Ekantini:

"We are not dealing with gender issues, because it would be so tiring. The most important thing is that GEMI members are empowered and economically prosperous" (Interview, August 21, 2018).

Ekantini's perspective confirms the finding of Mayoux (2005, p.6), who states that in many microfinance programs, the terms 'women's empowerment' and 'gender' are considered best avoided and as being too controversial and political. The promotion of women's empowerment implies advocacy for cultural and social change, which some fear is an inappropriate imposition of western values on non-western societies.

Ekantini's opinion also indicates that preference for women clients is not based on an understanding of men and women having unequal access to productive and financial resources. Instead, she holds that women are targeted primarily because of the Grameen model adopted by GEMI. The fact that women are poorer than men, more likely to spend income on their families' welfare, and are central actors in the family structure (as believed in the poverty alleviation paradigm) are not the foundations for this institution's focus on women. The poverty alleviation paradigm assumes that, by addressing women's practical needs, they will be

enabled to challenge gender inequity in ways they see fit. In this paradigm, household poverty alleviation and wellbeing (as well as women's empowerment) are inherently synergistic and achievable through a win-win process (Mayoux, 2002, p.77).

Unlike the other three BMTs, KBS 19 has a more pragmatic reason for targeting women. Sobari describes women in the traditional marketplace as "diamonds" because of their ability to make daily cash transactions. He expressed this view in the below remark:

"Who are the main players in the traditional markets? No one can deny that they are women. Nobody doubts women's ability to manage money. In the very early morning, they are already at the markets making transactions. Thus, women are diamonds for BMTs" (Interview, November 27, 2017).

Other BMTs share the same perceptions of women's abilities and positive attitudes. For instance, Ridwan and Laina acknowledged women's assertiveness, as seen in the following quotes:

"Women are usually more persistent in running a business in the micro sector and carefully manage the money they receive" (Interview, December 23, 2017).

"I am not aiming to discredit any particular gender. However, based on our experience, male clients most likely have problems with non-performing loans" (Interview, December 18, 2017).

These statements indicate that "a cost-efficiency rational" is the main motive for targeting women. In this respect, the targeting of women can be explained through the self-sustainability paradigm. In this model, women are endorsed as rational economic beings (Mayer & Rankin, 2002, p.806), and targeted due to risk and efficiency considerations (Mayoux, 1999, p.162). Women, especially in developing countries, are perceived as humble, compliant, and shy, and as such more easily managed or controlled than men. Therefore, giving loans to female borrowers poses less of an economic risk.

It is also argued that women clients are credit-worthy, responsible, and more committed to using loans for livelihood activities (Aseanty & Hassan, 2013, p.92). Therefore, targeting women is believed to enhance program efficiency and contribute towards organizational self-sustainability; this, in turn, are believed to

further increase women's economic activities and ultimately their involvement in economic development (Mayoux, 1999, p.162; Kabeer, 2001, p.83; Lakwo, 2006, p.35). Although BMT supporters refuse to admit that these institutions are designed for women, they acknowledge that women play an important role in BMTs' growth, particularly as the forefront marketers in their communities. Ridwan confirmed that women who obtain funding from a BMT will share their experience with others, which in turn attracts new members to the institutions (Interview, December 18, 2017).

Furthermore, this study has discovered a unique phenomenon: BMTs that basically run contrary to the common standards of Islamic microfinance. As stated previously, Islamic microfinance differs from conventional microfinance in several fundamental aspects. One main difference is the target of empowerment. In an Islamic view, empowerment refers to "family empowerment", and as such encourages men and women to play their respective roles in guaranteeing the economic and social well-being of all family members. Therefore, the "women only approach" taken by conventional microfinance is out of place for the Islamic religion and culture (Obaidullah, 2008, p.12). Nevertheless, BMTs in Yogyakarta are quite inseparable from women. As such, there is a gap between the theory and practice of Islamic microfinance in the context of Indonesia. This study shows that the practice of empowering women through BMTs, which rationalize women as more creditworthy clients than men, is closer to the self-sustainability paradigm than the Islamic approach.

In addition, this study confirms that women are more likely to engage in the micro sector, which is the basis of BMTs. Data from the Ministry of Cooperatives and SMEs (2015) shows that 60 percent of Indonesia's 52 million SMEs are run by women (Hardianti, 2015, p.1). Similarly, the Asia Foundation (2013, p.9) noted that the number of small enterprises owned by women is growing 8% annually, while the number owned by men is currently declining. Additionally, it is reported that women enter the industry for survival reason. The informal sector is most accessible to women, as (unlike the formal sector) it does not require specific qualifications such as education, skills, and knowledge. Drawing from the fact that

women constitute a significant percentage in the micro sector, the idea of 'family empowerment' may not be relevant in the case of Indonesian MFIs.

To summarize, although BMT beneficiaries are primarily women, none of the BMTs surveyed include women's empowerment in their organizational visions. Instead, BMT supporters maintain that an Islamic ideology underpins their operations. The BMT system differs conceptually from the conventional one, wherein gender values underline the process. The current study, thus, reveals that BMTs' preference for women is more motivated by business and pragmatic considerations. By targeting women as creditworthy clients, these institutions can better cover their operational expenses and generate the profits they need to sustain their microfinance programs over the long term and reach out to more impoverished clients (Robinson, 2001, p.165).

4.4.4 BMTs' Affiliation and Its Impact

In managing their *baitul tamwil* and *baitul maal*, BMTs develop affiliations and cooperation with various organizations. BMTs' networks greatly affect the activities, programs, and orientation of these two divisions. The following table summarizes the BMTs affiliations and cooperation with other parties:

Table 4.7 BMTs' Main Affiliation

BMTs	Affiliation
BIF	1. Islamic mass organization: Muhammadiyah 2. BMT association: InkopSyah BMT 3. Islamic Banks: Bank Syariah Mandiri, Bank Muamalat & Bank BTN Syariah)
Al-Ikhwani	1. Islamic mass organization: Aisyiyah 2. BMT association: PBMT 3. Charity organization: Dompot Dhuafa
BKS 19	1. Local government: MoSA Sleman 2. BMT association: LPDB ⁵⁸ 3. Islamic Bank (Bank Syariah Mandiri & Bank BNI Syariah)
GEMI	1. International Donors: Unilever foundation, Nama foundation, water.org 2. Association of women :ASPPUK ⁵⁹ 3. BMT association: PBMT 4. Islamic Bank (Bank Syariah Mandiri)

(Source: Fieldwork, 2017)

⁵⁸ Lembaga Pengelola Dana Bergulir or Revolving fund management agency.

⁵⁹ Asosiasi Pendamping Perempuan Usaha Mikro (Association for women in microe business assistance).

BIF and Al-Ikhwan are similar, especially in their affiliation with Muhammadiyah—the second largest Islamic mass organization in Indonesia. Since BIF's infancy, Muhammadiyah intellectuals have been key actors in its development. Meanwhile, Al-Ikhwan was initiated by local Muhammadiyah and Aisyiyah leaders. BIF's affiliation with Muhammadiyah has significantly affected its *baitul maal* programs and activities. Currently, BIF and Muhammadiyah Gedong Kuning are developing a *pesantren* (Muhammadiyah Al-Amin) and orphanage (Al-Maun). Both the *pesantren* and orphanage are located near BIF's office, or, more precisely, next to Ridwan's house. The BIF *pesantren* integrates the concepts of Islam and science, and is targeted mainly at university students from the poor areas of Yogyakarta. Meanwhile, Al-Maun reaches students from the elementary to high school level. The Gedong Kuning branch of Muhammadiyah supports both the *pesantren* and orphanage by sending teachers and intellectual figures to facilitate the learning process. Meanwhile, BIF, through its *baitul maal* division, is responsible for the operational costs of the two institutions.

As maintained by Ridwan, these two institutions have been established for two reasons. (1) First is the failure of the *mudharabah* financing concept. Customers of IMFIs generally assume that *mudharabah* are debt contracts, rather than partnerships that require both parties to share capital, risks, and profits. These institutions, thus, aim to educate their students to have a strong spirit of Muslim entrepreneurship, and potentially become future partners of BIF (particularly through *mudharabah* contracts). (2) Second, this is a strategy to prepare BIF's next generation. Alumni are expected to become the next generation of Islamic economic drivers, and thereby manage the future of BIF (Interview, December 18, 2017)

Similarly, Al-Ikhwan has focused primarily on the field of education, and its charity programs further a major organizational goal of Aisyiyah. Presently, Al-Ikhwan is supporting the education of 32 students living at an Aisyiyah-run orphanage. In this residential institution, Aisyiyah cares for orphans and other

children in Sleman district who were separated from their biological families. *Ibu Syaifullah's* engagement with the Sleman branch of Aisyiyah has significantly influenced Al-Ikhwan's charity orientation. Aside from education, both BIF and Al-Ikhwan also allocate the social funds from *baitul maal* for poverty alleviation and religious programs.

Rather than develop a partnership with Islamic mass organization, BKS 19 has worked primarily with local government. BKS 19's connection with MoSA Sleman has been fostered since its establishment. Sobari states that MoSa serves as "a mother organization" for BKS 19. Explicitly, he recognizes KBS 19 as a *plat merah* (red plate, i.e. associated with the government) BMT. Here is his statement:

"Yes, we are a "red plate BMT". Government assistance programs of all forms, including disaster management programs, [as well as] empowerment for fishermen, cattle breeders, and organic farmers are all granted to BMT KUBE. That is the characteristic of the government. The closest ones benefit the most. The government is reluctant to look for new target objects because they are also pursuing the target of using up their budget. We have benefited greatly from that" (Interview, November 27, 2017).

While other BMTs are struggling to obtain capital from third parties, KBS 19's position as a "red plate BMT" has enabled the institution to easily access government funding. Further collaboration between the two agencies is also apparent in the insurance program that KBS 19 and MoSA Sleman are developing. It is obvious that this cooperation has a greater impact on the *baitul tamwil* division rather than the *baitul maal* division. This further confirms the categorization of KBS 19 as a second generation BMT, i.e. one which tends to ignore BMTs' original mission as institutions of *da'wah* and *ummah* empowerment.

Compared to the three other BMTs, GEMI has a wider support network for its programs. Through its networks and connections with international donors, such as the Unilever Foundation, the Nama Foundation, and Water.org, GEMI has developed some green projects. One of its most prominent projects is the *bank sampah* (rubbish banks) that operate in many rural areas of Yogyakarta. GEMI members act as key persons in these rubbish banks' management (see Chapter V). Aside from such environmental projects, GEMI has also promoted education by

creating a scholarship program for children. In addition, through a *qard hassan* (benevolent loans) approach, GEMI has taken part in poverty alleviation.

BMTs affiliation with external parties has, to some extent, influenced their organizational culture and symbols. The Islamic symbols of BIF and Al-Ikhwan, for example, are quite visible, especially in the designs and styles of their office buildings (which resemble those of Muhammadiyah). Meanwhile, in the two other BMTs surveyed, Islamic symbols are not visible. Figure 4.6 shows the offices of the four BMTs, which may illustrate how their main alliances affect their institutional symbols:



Figure 4.6: The BMTs' Office

From left (above): BIF, Al-Ikhwan, BKS 19 and GEMI

(Source: Fieldwork, 2017)

Picture 4.6 shows that an Islamic architectural style and the color green dominates the BIF office. For many Islamic organizations, including Muhammadiyah, NU and MUI, green is a favorite color, one that symbolizes peace and prosperity. BIF's green office building covers an area of about 300 square meters. The four-floor building looks luxurious compared to the offices of other BMTs. The first floor is used for financial services, while the second

and third floors are used for the manager, back office staff, archive/storage room, and meeting room. There is also a small library on the second floor where visitors, particularly those from universities, can access documents and books. On the fourth floor, there is a prayer room (mushola) that facilitates such religious activities as daily prayers, *majelis taklim*, and Quran recitations. The presence of this room reaffirms the Islamic atmosphere.

Further Islamic ambiance comes from the obligation for all officers to recite the Quran daily, either before operational hours or during breaks. Their Quranic reading activities are recorded in a diary (Figure 4.7)



Figure 4.7: Diary Book for Reciting Quran
(Source: Document of BIF, 2017)

As can be seen from Figure 4.7, the diary lists the date, *juz*⁶⁰, chapter, and verse of the Quran that has been read. There is also a column for indicating the person who witnesses this Quranic recitation. At the end of the month, BIF's manager will evaluate the performance of staff based on this religious activity. More importantly, the diary must be submitted to the finance department as a requirement for the disbursement of monthly salaries.

⁶⁰ Arabic word which means *part*. It is one of thirty parts of varying lengths into which the Quran is divided.

Similar to BIF, Al-Ikhwan's office also signifies its Islamic affiliation. The central office of Al-Ikhwan is located on Flamboyan Street, within the Condong Catur housing complex. It is about 400 meters from the Condong Catur traditional market and only 200 meters from the Muhajirin Mosque. Just to the left of the office is the house of *Pak* and *Ibu* Syaifullah Hasyim, the founders of Al-Ikhwan. Although the office is located in a residential complex, it can easily be distinguished from nearby buildings. The green nameplate and banner at the entrance of the office contribute to its distinct appearance. Upon entering the building, the Islamic atmosphere is quite visible. In the 50-square-meter service room, two young women in Muslim dress serve customers. As with BIF, Al-Ikhwan decorates its office with Islamic symbols, including calligraphy and Islamic posters.

Fealy (2008, p.17) suggests that the phenomenon of Islamic BMTs that accentuate Islamic values and symbols are a manifestation of 'religious commodification', i.e. a marketing strategy to attract the Muslim community. Harrigan & El-Said (2009, p.10) further argue that the adoption and integration of Islamic symbols and values into BMTs is part of a process of religious capital formation. From a broader perspective, Nazirwan (2015, p.188) implies that the BMT system and its dynamic internalization of religious elements can be seen as the 'Islamization of Muslims' and 'refinement' of traditional Islamic beliefs in order to cope with contemporary socio-cultural changes in society. Religious values and symbols not only create an Islamic image, but are also internalized in institutions' values, ethics, culture, and lifestyle.

Unlike those of BIF and Al-Ikhwan, the office of BKS 19 puts less emphasis on Islamic symbols, both in its exterior and interior. At first glance, the building looks like a private residence, as a nameplate or other indication of its institutional nature are not noticeable. Inside the building, Islamic or organizational symbols (vision, mission, corporate values, etc.) are not apparent. Sobari mentions that a BMT sign is not necessary for BKS 19, since all of its clients are already familiar with the building. Additionally, he stresses that financial transactions are mostly handled at clients' places of business, mainly in traditional markets.

Similarly, GEMI's office lacks markers of Islamic identity. The office is located on the first floor of an office complex. Although its administrative office does not indicate the organization's Islamic affiliation, GEMI's officials dress even more conservatively than other BMTs. Picture 4.6 shows a female employee, dressed in a long *hijab*, heading towards the entrance of the GEMI office. Such a *hijab*, generally associated with a conservative stream of Islam, is typical of the organization's female employees and managers. It seems that Ekantini, a cadre of PKS (a political party identified with traditional Islamic stylings), has greatly influenced GEMI's culture. Moreover, the founder's background in NGOs—known as open-minded entities—is also reflected in the office atmosphere. The manager and staff were very informative, assisting the researcher without any complicated bureaucratic processes.

Aside from their main affiliations, all of the BMTs surveyed have established networks with external institutions such as Islamic banks and BMT associations. This cooperation, however, is less significant in influencing the BMTs' organizational culture. Each of the four BMTs have networks with Islamic banks, and they will typically work together for capital loans, particularly in channeling microloans to segments that Islamic banks are unable to reach.

To summarize, the BMTs in this study offer a portrait of the BMTs in Yogyakarta. BIF and Al-Ikhwan are BMT institutions with strong ties to Muhammadiyah and Aisyiyah. Their affiliation with such Islamic mass organization has, to some extent, affected their corporate culture and program orientation. BIF and Al-Ikhwan present very visible Islamic identities, including in their use of Arabic names and their office architecture. BKS 19, which has a close affiliation with the local government, lacks such Islamic symbols. This is understandable, as BKS 19 was initiated through a government project that did not place Islamic values centrally. GEMI, meanwhile, represents a BMT that reaches beyond its traditional socio-economic and religious roles. The institution has expanded into environmental issues due to its ability to develop networks with international organizations that concentrate on ecological issues (Chapter VI). This

proves that GEMI's programs are connected to the missions of its allies.

4.5 Summary

In short, the rise of BMTs in Yogyakarta has paralleled that of the Islamic economic movement in Indonesia. This movement was dominated by Muslim intellectuals, particularly those with ICMI, a national organization of Islamic scholars. This section has shown that BMTs in Yogyakarta have been primarily supported by several actors, particularly Muhammadiyah, ICMI, Dompot Dhuafa, and Sultan Hamengkubuwono X, the king of Yogyakarta.

BMTs are established primarily for three reasons: 1) concern with the exploitive activities of loan sharks, 2) a desire to empower and uphold an Islamic economy, and 3) protection against Christian missionary activities. Two of Yogyakarta's pioneering BMTs are led by women, both of whom are Aisyiyah activists and alumni of an Islamic economic workshop hosted by Dompot Dhuafa.

In general, BMTs have the following characteristics: 1) the establishment process consists of several stages and administrative procedures, similar to that for conventional cooperatives; 2) the organizational structure is relatively simple, but embraces a modern organizational concept; 3) first-generation BMTs tend to maintain a balance between *baitul tamwil* and *baitul maal*, while second-generation BMTs are inclined to focus on *baitul tamwil* and have less commitment to social and religious empowerment.

Although women are the primary clients of BMTs, they do not intentionally address women's empowerment as part of their goals, objectives, or operations. BMTs' empowerment programs tend to be gender-blind, without considering the specific needs of women clients. Since BMTs' primary interest is financial sustainability, introducing empowerment issues is not only incompatible with their goals, but also an additional agenda in which BMTs avoid investing. This reveals that the dominance of women is not related to gender considerations, but rather business and pragmatic considerations. As such, the way BMTs target female clients further explains why they are closer to the concept of self-sustainability than that of Islamic microfinance.

BMTs' main affiliations prominently affect their organizational culture. BMTs affiliated with Islamic organizations are inclined to show Islamic symbols, such as by using Arabic names for their institutions and adopting Islamic architecture. On the other hand, BMTs that work with the government and international agencies do not use such Islamic symbols as perceptibly. Moreover, these organizations' main affiliations affect their policy orientations, particularly in the division of *baitul maal*.

Chapter 5

The Pattern of Women's Empowerment in *Baitul Maal wat Tamwil* (BMT): Socio-Economic, Religious, and Environmental Issues

This chapter provides a description and analysis of the pattern of women's empowerment in BMTs. To analyze this issue, it employs four data collection approaches: 1) interviews with key persons, including BMT managers, staff officers, and clients; 2) reviews of BMT documents and archives, including annual reports, leaflets, and websites; 3) focus group discussions (FGDs) with BMT managers in Yogyakarta; and 4) field observations of BMTs' engagement in empowering their members. Data were collected during fieldwork from October to December 2017.

The first part of this chapter describes the socio-economic empowerment model of BMTs. In general, BMTs employ two strategies: an individual and a collective approach. FGDs and interview with BMT managers revealed that the individual approach, called the *jemput bola* mechanism, is the most commonly used by BMTs in empowering their clients. *Jemput bola* involves proactive service to clients, with the BMT manager or marketing officer conducting regular visits with existing or prospective clients to handle financial transactions. On the other hand, the collective approach—which requires BMTs to organize members into small groups—is less popular. GEMI is the only BMT surveyed to have adopted a collective model, having created *rembug minggon* (weekly meetings) to serve members. However, some BMTs do mix the two strategies. For instance, aside from adopting an individual approach, BIF uses a self-help group (SGH) model called *arisan* as an important instrument for empowering clients collectively.

The second section turns its focus to how BMTs fulfill their religious missions. Religious education activities show how BMTs perform as spiritual intermediaries. Almost all BMTs in Yogyakarta use a *majelis taklim* as their main *da'wah* vehicle. The last part of this chapter explores the exceptional case of women's empowerment in GEMI. This institution integrates social, economic, and

environmental issues into one program. Moreover, concern for the environment is also apparent in its organizational goals and missions. Since adopting a green microfinance concept, GEMI has become the pioneer of green Islamic microfinance in the province. To achieve its environmental goals, GEMI offers financial loans that promote environmentally friendly activities and campaigns for pro-environmental behaviors. Gaining the support of international donors such as Water.org, the Unilever Foundation, and the Nama Foundation, GEMI has developed waste banks (*bank sampah*) in many parts of rural Yogyakarta, which are voluntarily managed by women in their *rembug minggon*.

5.1 Socio-Economic Intermediaries

As mentioned in Chapter II and III, BMTs perform as socio-economic intermediaries through their *baitul tamwil* and *baitul maal* divisions. The socio-economic intermediary processes of BMTs go through several levels, depending on clients' socio-economic statuses. In general, lower-to-middle income clients qualify for commercial financial services, and as such loans comes from the *baitul tamwil* division using the *murabahah*, *musyarakah* and *mudharabah* contracts. The destitute, who immediately need such necessities as food, medicine, skills training, and employment, will receive *shadaqah*.

Meanwhile, the economically active poor—those who have sufficient employment and income to meet their basic nutritional, housing, and health needs will get different financial treatment, known as *Qard Hassan* (QH). The funds for these social missions come from the *baitul maal* division. QH is a kind of fixed-period loan given to needy people without requiring the payment of interest or profit; however, service fees may be charged (Hossain, 2002, p.2). This scheme is typically appropriate for people who need small amounts of start-up capital, but they cannot readily receive commercial loans because they lack business experience. Three BMTs in this study, i.e. GEMI, BIF, and Al-Ikhwan use QH schemes as a strategy to alleviate poverty.

During my fieldwork, I accompanied *Pak Ali*, a marketing officer of BIF, to a *majelis taklim* in a slum area of Keparakan Lor Village, located about 6 kilometers from BIF's office. This is a highly populated urban residential area, consisting mostly of closely packed, decrepit housing units supported by limited infrastructure and inhabited primarily by impoverished persons. The members of this slum area's *majelis taklim* are poor women who have received a small amount of money from BIF through QH. Every two weeks, *Pak Ali* comes to the meeting and delivers an Islamic lecture to this group. Afterwards, he handles the financial arrangements of the women who are receiving QH loans.

One QH recipient is respondent 3, a 54-year-old widow who lives together with her daughter and grandchildren in a 50-square-meter house in Keparakan Lor. The recipient had never obtained a loan from any financial institution, and thus relied primarily on loans from neighbors or local loan sharks when urgent needs such as illnesses emerged. By 2015, the respondent and some other women in Keparakan Lor had received IDR 500,000 from BIF to start a micro-business. She acknowledged that this loan was too small. However, she was still able to manage by selling fried chicken and peddling it around the village. Even though QH financing is interest-free, she was advised to give an *infaq* of IDR 5,000 at the biweekly *majelis taklim* (Interview, November 16, 2017). This shows how BMTs teach borrowers to become grantors while simultaneously developing the dignity of the poor.

By extending credit to those who lack commercial microfinance, either due to a lack of collateral or lack of affordability, BMTs attempt to promote financial and social inclusion. It further implies that BMTs' socio-economic empowerment processes are determined by their clients' economic levels. Regarding financial services and the classification of the poor, Robinson (2001, p.21) has developed a schematic diagram of poverty alleviation, as shown in Figure 5.1:

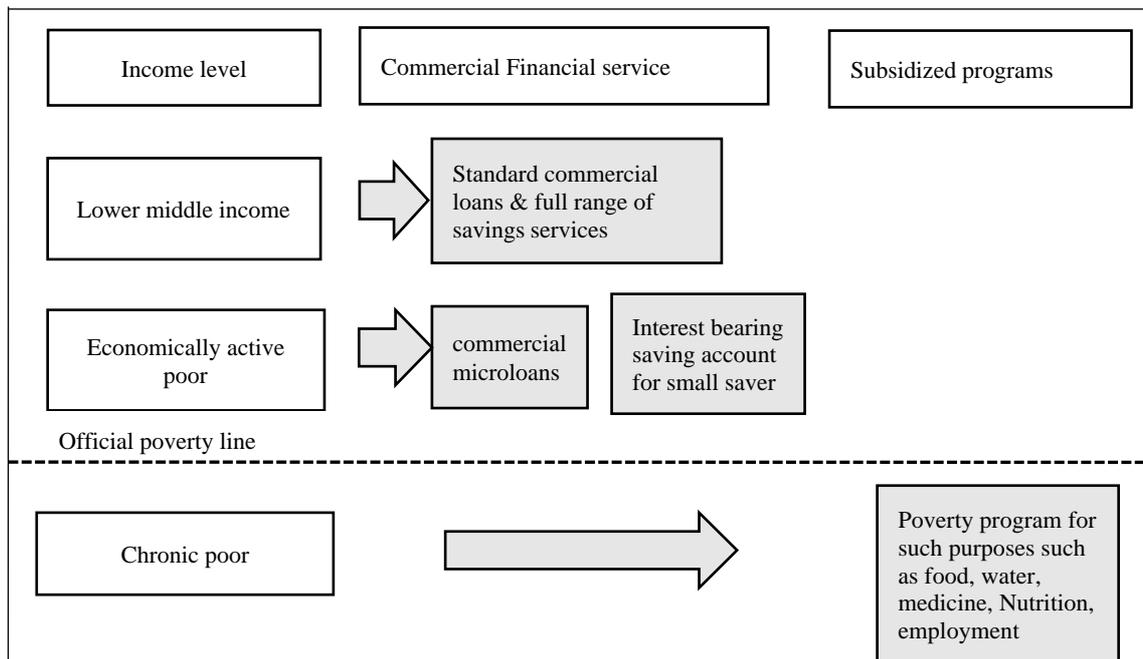


Figure 5.1: Financial Service in the Poverty Alleviation Toolbox
(Source: Robinson, 2001, p.21)

The first column in Figure 5.1 indicates three income levels: lower-to-middle income, economically active poor, and chronic poor. The second column indicates the financial services that are typically suitable for these income levels. Commercial microcredit is appropriate for both lower-to-middle income households and the economically active poor, including some below the official poverty line. Both groups tend to have some savings and, where possible, they emphasize nutrition, health, housing, and children's education (Robinson, 2001, p.22). In addition, these segments are understood as having entrepreneurial ability and the capacity to satisfy their needs. From an Islamic economic perspective, the poor in those categories should receive the *tijari*⁵⁷ approach. Through *tijari*, the poor receive supervision and training related to loans utilization. The third column indicates the non-financial poverty alleviation tools that are appropriate for those below the poverty line and essential for the extremely poor. At this level, the poor

⁵⁷ A business financial approach in which the poor can obtain loans under the contract of *murabahah*, *musyarakah* or *mudharabah*.

cannot immediately obtain *tijari*, but rather *tabarru58*, which is funded by *zakah*, *infaq*, *shadaqah*, and *waqaf* (Antonio & Nugraha, 2010, p.245).

The above description shows how several categories of poor are recognized. In line with this issue, Antonio and Nugraha (2010, p.246) summarize the stages of empowerment in the following figure:

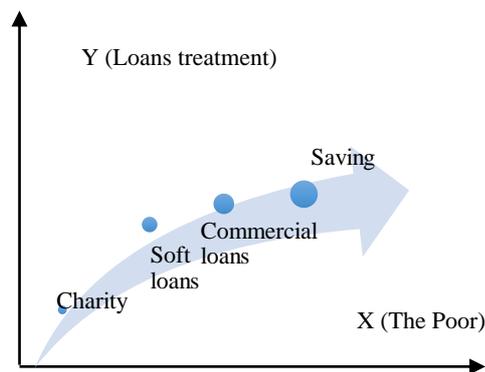


Figure 5.2: Empowering the Poor through Loans treatment
(Source: Antonio & Nugraha, 2010, p.246)

The vertical axis of Figure 5.2 represents loan treatments (Y), while the horizontal axis stands for the poverty level (X). This graph indicates a positive correlation between loan treatment and poverty level. In other words, the better the socio-economic status of a family, the lower its possibility to receive social funds, and vice versa. Figure 5.2 also shows that empowering the poor starts by giving charity to help the very poor access their immediate needs, including food, nutrition, water, and employment. Empowerment values, such as entrepreneurship potential and positive attitudes, are conveyed to the poor at this stage.

In the second stage, the poor have received entrepreneurial motivation and positive attitudes, and can thus receive benevolent loans in the form of QH (Antonio & Nugraha, 2010, p.246). In this case, it is necessary to provide beneficiaries with technical assistance and coaching, mentorship, and spiritual empowerment to ensure their loan performance and generate significant benefits to recipients. If

⁵⁸ A voluntary donation or gift which is given by someone to meet the requirement in Islam to provide mutual help to others.

beneficiaries are economically productive, at the next stage they may receive commercial financing such as *murabahah*, *mudharabah*, and *musyarakah*. The final phase is intended to teach the poor to have better financial planning by saving some of their income to anticipate their future needs.

The next section discusses two models employed by BMTs to empower clients. The first method is individual empowerment, in which intensive meetings are arranged at clients' business sites. The second is collective empowerment, in which BMTs create groups of women based on their spatial proximity.

5.1.1 Individual Empowerment

Bringing women together in groups will be more empowering than individual lending. However, Mayoux (2000, p.8) argues that the personal approach is more suitable when targeting women who are already working in the informal sector. She further explains that individual economic empowerment lies in the assumptions: 1) savings and loans enable women to set up new economic activities or expand existing ones to increase their income; 2) savings and loans and/or increased income enable women to improve their assets, including livestock, land, and houses; 3) women can control their increased income and assets. Mayoux (2000, p.8), as such, believes that improvements in revenues and possessions can contribute to other dimensions of empowerment. This can be used to directly enhance the well-being of the women and their children, as well as to strengthen women's ability to negotiate changes in gender relations within their households and broader communities.

Based on my observations, three of the BMTs surveyed—BIF, AL-Ikhwan, and BKS 19—use personal liability loans for their lending systems. The majority of BMTs in the province use a similar strategy (FGD, December 13, 2017). Funds are channeled through what is known as a *jemput bola* system. Okty, the branch manager of BIF Nitikan, explains that *jemput bola* is used by IMFI to develop the tradition of *silaturahmi* taught by the Prophet Muhammad. Performing *silaturahmi* is believed to prolong life and improve fortune. Okty's view of *silaturahmi* appears

to be referencing a famous hadith about friendship and good relationships recorded by Bukhari-Muslim:

"Anyone who seeks greater provisions and longer life, then let him relate and connect to friends" (Abdurrahman, S.K.H, 2009, p.3).

Silaturahmi also allows officers to freely explain the concept of Islamic financing as well as the systems and operational procedures to the community, who may still lack a solid understanding (Interview, December 23, 2017).

Sobari, the manager of KBS 19, views the *jemput bola* strategy as a very effective means of establishing closeness with customers, which in turns maintains their loyalty and trust. BMT officers spend their days riding motorcycles from one place to another to arrange and complete saving and deposit transactions, loan disbursements, and installment collections. During financial transactions, BMT officers also monitor the daily performance of their clients' businesses. On the other hand, from a consumer perspective, this service is highly satisfactory, as clients can arrange financial transactions on their premises. This was recognized by Respondent 6, a client of Al-Ikhwan in Condong Catur traditional market:

"Every day, during working hours, the BMT Al-Ikhwan officer comes to my kiosk to collect installments. If I need cash, I can easily withdraw from the officer. It saves time because I do not need to go to the BMT office" (Interview, December 18, 2017).

Okty also describes *jemput bola* as an effective strategy to defend the BMTs' niche market from competition from commercial banks. She acknowledges that current market conditions are sluggish for several reasons. (1) First, many commercial banks are launching microcredit programs with lower interest rates for micro-entrepreneurs, eroding the market share of BMTs. (2) Second, traders' sales turnover in traditional markets has declined because of the massive development of modern shopping centers and mini markets such as *Indomaret* and *Alfamaret* in Yogyakarta. The *jemput bola* system, thus, helps maintain customer trust by ensuring a personal approach. Okty further explains that, under the *jemput bola* mechanism, each BIF marketing officer is responsible for serving around 300 –350 clients per month (Interview, December 23, 2017).

During *jemput bola* sessions, marketing officers not only provide services to existing customers, but also attract new customers. In BIF, for instance, new clients are mostly those recommended to partake by other customers who have already joined and benefitted from its programs. For existing customers, financing disbursements are relatively quick, taking from one to seven days depending on trust and performance. Conversely, for new customers, the process takes several stages. In general, Okty describes the loan procedure as involving the following steps (Figure 5.3): loan application, borrower evaluation, loan analysis, approval and underwriting, and collection and monitoring (Interview, December 13, 2017).

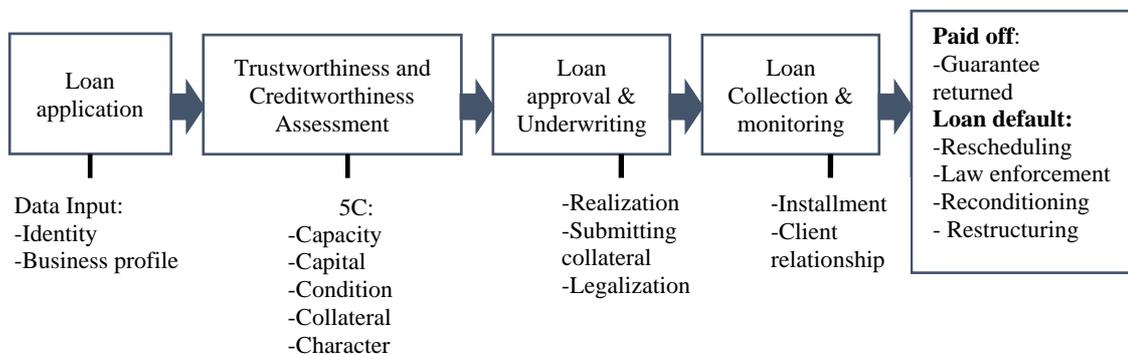


Figure 5.3: Loan Policy and Process
(Source: Field work, 2017)

In the first phase, the prospective customer must register as BMT member by filling out a registration form. As the BMT has the legal status of cooperative, members must pay compulsory and principal savings. In BIF, for example, each member pays of IDR 10,000 for both fees. During this stage, the marketing officer explains the BMT system and offers several loans schemes as well as funding products. Afterwards, the client completes a loan application form. New members may receive a maximum of IDR 2 million in loans, to be repaid within two years.

Next is the assessment of the client's trustworthiness and creditworthiness, a critical stage both for the BMT and for the client. Concerning this issue, Okty remarks:

"Despite the fact that it is a relatively small amount of money, we always try to be careful in disbursing loans to avoid NPLs (Non-Performing Loans). Thus, it is critical to implement the 5C principles. We send staff to do *silaturahmi*, to conduct field surveys, to assess the business feasibility of the

prospective clients, to examine the validity of the collateral document, and to do interviews to explore their character. In addition, we interview friends and neighbors to find out their track record, for example, to know whether they have other debts" (Interview, December 23, 2017).

Okty's statement indicates that BIF has applied the 5 Cs (Capacity, Capital, Condition, Collateral, and Character) as its core analytical framework for most small-business lending decisions. Each element is necessary for a borrower to obtain loans from the lender. Of these, the capacity to repay—the primary source of repayment, borrowing history, track record of repayment, and how much debt the prospective client can handle—is the most critical. BMTs are informal financial institutions that are not under the supervision of Bank Indonesia. As such, to check the borrowing history of potential clients, the BMT must conduct verifications through the financial services authority of Indonesia (*Otoritas Jasa Keuangan* or OJK). However, Okty admits that not all BMTs carry out this process (Interview, December 23, 2017).

The second of the 5 Cs is capital, the total assets owned by the prospective client. From clients' balance sheets, income statements, capital structures, profit-gain ratios (such as return on equity), and returns on investment, the BMT can assess how feasible it is to give a customer a loan. Given that most BMT clients are small entrepreneurs who have no tradition of recording financial statements for their business, this is a challenge for the BMT to analyze. Okty says that, because of the lack of financial documents, information is only obtained through interviews with prospective customers, which are then processed by staff into a simple financial report (Interview, December 23, 2017).

After verifying the capital dimension, the officer analyzes the conditional aspect, i.e. the intended purpose of the loan, whether it will be used for working capital, additional equipment, or inventory. The BMT will also consider local economic conditions and the overall climate, both of which could affect potential clients' businesses. If the business is sensitive to economic downturns, the BMT wants to know that the client is good at managing their productivity and expenses.

Subsequently, the BMT analyzes the character of future clients by collecting data about the prospective customer's personality, including personal traits, habits, way of life, circumstances, and family background. This is intended to determine whether the potential customer can fulfill his/her obligations. In performing this assessment, the loan officer usually uses a personal interview with open-ended questions. Cross-checking is then used to validate the information provided, including to investigate the potential client's reputation. The BMT also involves other key informants, such as neighbors, relatives, business partners, and other informal community leaders in assessing the would-be-borrower's trustworthiness and social reputation. In short, by evaluating the client's character and reputation based on information from different sources, the BMT can establish a sound and robust loan screening procedure.

The last of the 5 Cs is collateral, an additional form of security that the client can provide. Giving collateral means that the borrower pledges an asset he/she owns. According to Laina, the head of BMT Al-Ikhwan's financial division, most clients offer their vehicle registration, house, or land certificates as collateral. However, for customers who have long been BMT members, such collateral is no longer necessary (Interview, December 18, 2017). Three BMTs in this study—BIF, Al-Ikhwan, and BKS 19—ask that potential borrowers offer collateral. By contrast, GEMI replaces physical collateral with a group-based system.

Based on the 5-C analysis, the officer decides to approve or reject the loan application. If the prospective client's business is feasible, the officer will determine the loan amount, the type of loan scheme (*musyarakah*, *mudharabah*, or *murabahah*) and the repayment schedule. The BMT manager will then make a final review of the loan application. In cases where the loan amount is over the authority limit, the determination process involves the BMT's management board. The loan underwriting procedure at BMTs is quite simple, usually registered as non-legal binding agreements and it only includes the documentation of loans contract.

The last phase is the daily monitoring of clients' credit performance and collection of loan installments using the *jemput bola* system. In this regard, the loan officer simultaneously serves three different functions: collecting loans

installments, monitoring credit performance, and maintaining a good relationship with the client. From a risk management perspective, it is clear that such monitoring activities enable BMTs to achieve better loan performance and reduce loan defaults. Where loan defaults occur, the BMT officer commonly employs a persuasive approach by conducting intensive visits and offering win-win problem-solving strategies, such as repayment rescheduling, rather than enforcing legal sanctions. As an example, one KBS 19 client (Respondent 10), a petty trader at the traditional market, affirmed that BMT's approach is entirely humanistic. When she was sick for months and unable to work, the manager of KBS 19 came to her house to provide moral support and rescheduled loan repayments until she recovered from her illness. BMTs' policy on loan defaults caused by unexpected factors reflects the risk sharing mechanisms of Islamic microfinance systems.

5.1.2 Collective Empowerment

The other model of economic empowerment used by BMTs is collective empowerment. For instance, BIF and Al-Ikhwan regularly empower members through monthly *arisan*, while GEMI has more intensive weekly meetings (*Rembug Minggon*) with its members.

5.1.2.1 Arisan

BMT members are generally engaged in community activities that are supported by the BMTs, such as *arisan* group. For BMTs, such groups are important sources of funding. While *arisan* groups operates, BMTs act as institutions where funds can be safely deposited. Indonesian households have a strong tradition of participating in *arisan*, and millions of *arisan* groups are believed to exist in Indonesia (Martowijoyo, 2017, p.6). In rural areas, *arisan* have become increasingly crucial as economic institutions due to the intense need for cash resources (Geertz, 1962, p.245). Each *arisan* is made up of a group of people who live in the same neighborhood or who are members of the same club, social organization, political party, or school association. While traditional *arisan* in Indonesian villages are most often formed based on geographic and residential

proximity, in urban areas "ideological factors, the bases of the clubs, play a more important role" (Geertz, 1962, p.248).

The most likely *arisan* participant is a married woman, of middle age, who has completed at least a primary education, is not below the poverty threshold, and lives in a rural area (Dagnelie & Lemay-Boucher, 2011, p.7; Handa & Kirton, 1999, p.179; Weinberger & Jutting 2001, p.1391; Lasagni & Lollo, 201, p.6). Women are more likely to participate in *arisan* because they require less collateral; due to the tradition that rarely grants property rights to women, they are generally less able to borrow from banks (Varadharajan, 2004, p.4). In most cases, women will be involved in several *arisan* groups. By joining these groups, they are able to meet a wide variety of needs, including household savings and financing (Anderson & Baland, 2002, p.963). Furthermore, Besley et al. (1993, p.793) also demonstrate that *arisan* is more efficient than autarchic savings and improves the individual welfare of those excluded by formal credit markets.

However, women do not solely join *arisan* for financial reasons. As I observed, other dimensions are seen by members as more critical. The practice of *arisan* shows how every member cooperates and helps each other as a part of solidarity. For instance, members work together during preparations. In addition, members use *arisan* as fora for exchanging information, developing networks, and maintain *silaturahmi*, which in turn strengthens their social capital. This finding is mainly consistent with that of Geertz (1962, p.243), that "... the primary attraction of the *arisan* is not the money you receive, but the creation of *rukun* (communal harmony) which occurs, the example of *gotong royong* (mutual assistance) which is demonstrated." Similarly, Anggraeni (2009, p.2075) suggests that *arisan* strengthen members' security and help meet their financial and social needs. Furthermore, Cahyandari (2014, p.7) also explains that *arisan* provide a means to represent a specific identity that is shared by members.

Arisan groups usually meet on a regular basis, be it weekly, biweekly, or monthly, and share food and drink in a social atmosphere. This gathering is hosted by a different member of the group each time, usually the person who won the *arisan* during the previous meeting. Each *arisan* has an organization, consisting of

a leader and treasurer who organize and manage the money. Each individual contributes a fixed amount of money. At the end of the session, the leader will announce the winner by drawing a name (lottery). This process continues until every member of the group has received money once. Most *arisan* in Indonesia are ongoing; they do not end with just one rotation, but continue with more or less the same set of individuals.

In *arisan*, members also collect voluntary social funds. These funds are used by the treasurer for social activities such as for donations when a member is sick. Additionally, *arisan* facilitate members in saving money, the amount of which varies depending on their financial ability. The savings collected from members are kept and accumulated in a pool for a specific time, then redistributed to the members. The standard period is one year, so that members can withdraw money to pay for education, religious ceremonies, or social activities (Bouman, 1995, p.378). Any *arisan* that linked to a BMT will save the pooled savings in the BMT through an officer who attends the event.

For BMTs, *arisan* are not only substantial sources of deposits, but also means of establishing personal relationships with members and attracting new members. *Arisan* are useful tools for financial intermediaries, as they enable the arrangement of saving and deposit transactions, loan disbursements, and installment collection. Many BMTs, such as BIF and Al-Ikhwan, integrate *arisan* with *pengajian* under the name *arisan pengajian* (religious *arisan*). For BMT clients, such fora are more motivating since they will benefit not only financially but also religiously. Related to this, one BIF member (Responden 4) said:

"Initially, it was only a forum for *pengajian* created by BIF for its members. Then we proposed adding an *arisan* to motivate members to attend the *pengajian*. This is exciting, since I get two benefits at once. In my view, *arisan* are a matter of economic life, but *pengajian* are a matter of the hereafter" (Interview, November 28, 2017).

Arisan are not only media for financial intervention, but also religious teaching. One *arisan* group I attended was located in a remote area of Berbah, Sleman Regency. This *arisan* took place at the house of *Ibu* Supriati, the winner of the previous *arisan*. *Ibu* Waginem, a senior BIF client, leads the group. Every

month, she organizes the *arisan* and collects members' installments, which are distributed through the group by BIF. Generally, loans range from IDR 500,000 to IDR 1 million; however, considering her lengthy membership, BIF has allowed *Ibu* Waginem to borrow more than IDR 10 million. She has been a member of the BMT for more than twenty years and demonstrated good business performance.



Figure 5.4: Group of *Arisan* for BIF members, in Berbah Village, Sleman.
(Source: Fieldwork, 2017)

Figure 5.4 shows the *arisan* activity of BIF members in Berbah Village. This meeting was attended by twenty participants, consisting of BMT officers and clients. Okty states that her participation in the *arisan* is to strengthen her personal relationship with members. She further points out that the *arisan* functions as social glue to strengthen community bonds (Interview, December 13, 2017). The *arisan* meeting started with prayers led by *Pak* Saifu Rijal, the treasurer of BIF. While enjoying a meal, members paid an *arisan* fee of IDR 10,000. As twenty people were participating, the winner of the *arisan* would receive IDR 200,000 and become the host of the next meeting. After this session, BMT provided financial transactions to members who sought to deposit or withdraw money, repay their loans, or propose new loans. It is necessary to point out that, although *arisan* is a group, the lending system in BIF is nonetheless based on individual delivery rather than a joint liability system.

Furthermore, BMTs utilize *arisan* to monitor the business developments of their members. Casual discussions with members help BMTs identify the problems they face and offer solutions. As I noticed, the relationship between BMTs and their members goes beyond professional partnership. Instead, they are personal relations. Members do not only consult BMTs about their business performance, but also about their family, children, and individual problems. Ridwan asserts that one advantage BMTs have over other financial institutions is their ability to develop personal closeness with their clients (Interview, December 23, 2017).

5.1.2.2 Rembug Minggon

Another model of collective economic empowerment is used by GEMI, which replicates the Grameen Bank's system. GEMI organizes members into small groups, which consist of three to ten persons and are led by a chairperson. Group formation is based on proximity of residence, with the assumption that members have known each other beforehand. These groups serve as "social filters" in the recruitment of new members, as well as media "binding" members within a joint liability or *sistem tanggung renteng* system (YP2SU, 2011, p.1). These groups also serve as "social collateral", replacing physical collateral. They conduct meetings known as *rembug minggon*, a Javanese term that means weekly discussions. Each *rembug minggon* typically involves five to eight groups and is led by an elected central chairperson and secretary. These officeholders are not given any remunerations for organizing the group or *rembug minggon* activities.

Without a formal guarantee, GEMI relies on a rigorous process of socialization. New members must, for instance, go through an intensive three-day training program called *Latihan Wajib Kumpul* (LKW, or compulsory gathering training). This program serves to acculturate recruits with GEMI's philosophy. At this point, members are required to commit themselves. *Pak Jayeng*, a GEMI staff officer, states that in this program, members' discipline is critical. For example, if one member is unable to attend the training, other members will automatically be disqualified (Interview, November 30, 2017). The way GEMI empowers its member is in line with the argument of Edward & Olsen (2006, p.36), who state

that in the financial self-sustainability paradigm, empowerment is seen as a process that educates women to be compliant and efficient actors within the established structures of an expanding market economy.

While attending training sessions, prospective members are required to bring IDR 30,000 on the first day and IDR 20,000 on the next day. These funds are used as down payments for GEMI membership. Since GEMI has the legal status of cooperative, each member must pay IDR 100,000 in basic fees and IDR 2,000 in dues. Every member pays the basic fee only once, while the dues must be paid each week during the *minggon rembug*. After members give a deposit of IDR 50,000 during training, they can pay the rest over three months.

After training, new members make a group and select a leader who will represent the group in every *rembug minggon*. Loans are issued to individual group members if they conform to GEMI's code of conduct. Initially, only two group members are eligible for loans. Once they begin to repay the money, other members of the group become eligible for a loan. Initial loans for new members are capped at IDR 2 million; this amount must be repaid in equal weekly installments over 25 weeks. If any member defaults, the whole group becomes ineligible for additional loans from GEMI. As such, although credit is given to individual members, the group is ultimately responsible for repaying loans, as well as for maintaining financial and social discipline. The fact that group members' ability to borrow depends on others' payments provides an effective, and informationally efficient, enforcement mechanism, one based on the advantages of peer monitoring (Haldar & Stiglitz, 2016, p.461). Moreover, Shatrangom (2012, p.9) suggests that, if a group is well coordinated and able to overcome free-riding incentives, joint liability schemes can improve social welfare as members act as each other's guarantors. For MFIs, joint liability is useful in reducing transaction costs as well as default rates.

Currently, there are 472 *rembug minggons* spread across four districts of Yogyakarta Special Region and Magelang, Central Java. GEMI officers, commonly known as facilitators, supervise these weekly meetings. During the *rembug minggon*, the facilitator collects payments and assists members with problems related to their usage of microcredit.



Figure 5.5: *Rembug minggon* Sidodadi, Bantul, Yogyakarta
(Source: Fieldwork, 2017)

Figure 5.5 shows the meeting of *rembug minggon* Sidodadi, Bantul, the southern part of Yogyakarta Special Region; most *rembug minggon* include the name of their village to differentiate them from other units. Unlike at many other community meetings, food and drink are not served during the *rembug minggon*. Ekantini states that the majority of GEMI members come from lower income families. Hence, the *rembug minggon* avoid creating additional costs (such as food and drink) that may financially burden members. Ekantini also points out that *rembug minggon* are held modestly. For instance, members can freely express themselves, without any specific requirement to dress neatly (Interview, December 20, 2017).

As seen in Figure 5.5, several women represent their groups at the meeting. *rembug minggon* Sidodadi is held every Thursday at 1 p.m. and hosted by *Ibu Dwiyani*, the chief of *rembug minggon*. Together with the group leaders, she monitors loan utilization on a daily basis. Group leaders are also responsible for collecting repayments and handing them over to the GEMI officer every week. Similarly, borrowers are also expected to monitor each other to see who can pay or not pay. Monitoring can take several forms, such as observing loan repayments, visiting another's business to verify that it is in operation, and showing receipts to demonstrate that goods were purchased with loan money. Borrowers are generally

already familiar with the activities in which they want to invest. Consequently, GEMI does not have to provide any training in that regard.

The *rembug minggon* always starts by reading the GEMI membership pledge. In some groups, such as *rembug minggon* Sidodadi the pledge is written in Javanese to accommodate members who are illiterate and do not speak Indonesian. However, other *rembug minggon* read the pledge in Indonesia as written in their passbooks. *Ibu* Dwiyani leads the ritual of reading the pledge in Rembug Minggon Sidodadi. While she is reading the text, the other members will follow her. Figure 5.6 shows the GEMI pledge document, which is written in Javanese.

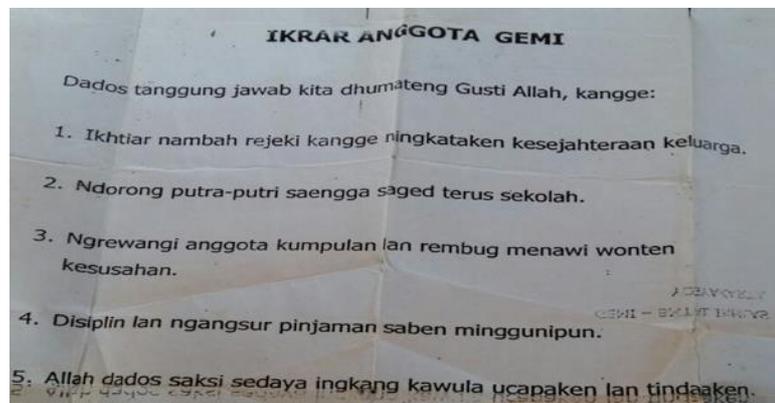


Figure 5.6: The pledge of GEMI members.

(Source: Fieldwork, 2017)

Ibu Dwiyani mentioned that she has been saving the pledge document for more than 11 years, since she first joined GEMI. Now, the document is no longer used, because all participants have memorized the text. The pledge itself reflects the organizational values of family welfare, education, teamwork, and discipline, all of which the institution wants to transfer to its clients. In detail, the pledge contains the following commitments:

"It is our responsibility to Allah to 1) seek the fortune to improve family welfare, 2) encourage our sons and daughters to continue their schooling, 3) help other members when they experience difficulty, 4) be disciplined in paying loans installments every week. 5) Allah will be the witness to all that I say and I do".

After the member finish reciting the pledge, GEMI's facilitator for Rembug Minggon Sidodadi, Pak Jayeng, answers the pledge in Javanese, as follows:

"Kawula pendamping GEMI, dipunamanatkan biantu keluarga ingkang kerso usaha lan ikhtiar tambah rejeki tanpo mbedhake suku, agama lan paham politik. Ing tugas meniko kulo mboten angsal nompo opo mawon sinongso naming segelas toyo pethak, Allah ingkang dadi saksi sedoyo ingkang kawulo ucapaken lan tindakan – I am GEMI's companion, mandated to help families who are willing to work and seek to increase their livelihood, regardless of ethnicity, religion, and political understanding. In performing this task, I am not allowed to accept anything, even if it is just a glass of water. Allah will be the witness to all that I say and do."

The ritual of reading the pledge at the weekly meeting helps create a shared identity among members. Furthermore, it aims to internalize and implement GEMI's underlying philosophy. For instance, the third verse of the pledge is about the importance of promoting primary education for children. As mentioned by Ekantini, the idea of fostering education lies in the assumption that investing in children's education will break the poverty cycle. Here is her statement:

"If I hear that a child of a GEMI member has dropped out of school, I will go to her house, discuss with the family, and help find a way for her son/daughter to return to school. This is critical since if the children do not get enough education, they will have difficulty getting out of poverty" (Interview, December 20, 2017).

Ekantini's remark clarifies that, by giving women access to savings and credit, it is expected that they will take a more significant role in their households' economic decisions. Women will be able to increase expenditures for their own well-being and their children's education. By bringing them together regularly, the *rembug minggon* facilitates women's exchange of information and promotes mutual learning on issues such as family, children's education, business, and social and religious affairs. At the same time, the forum helps GEMI identify problems faced by members as well as mitigate the ex-ante moral hazard by inducing borrowers to monitor each other's choice of projects.

The facilitator's answer also implies that the BMT is committed to serving all people who want to improve their lives, regardless of ethnicity, religion, and political affiliation. Regarding this, Ekantini stresses that, even though GEMI is an

Islamic microfinance institution, it is open to all, including non-Muslims. As she stated:

"Five percent of GEMI's customers are non-Muslims. There are several areas such as in Muntilan (Magelang, Central Java), where almost all members are non-Muslim and they live around the church. We also have unique segments. For example, we have members who live behind Melia Purosani Hotel, near Malioboro. We call it the "women's village" because most of them are widows; their husbands have passed away, and their children are mostly women. The majority of women living in this area are ethnic Chinese. There are indications that they work in *Pasar Kembang*, a red-light district in Yogyakarta. However, we are committed to serving them because when we do surveys, they have their own businesses" (Interview, December 20, 2017).

The unique feature of *rembug minggon* is the transparency of transactions at meetings. Most transactions, including loan proposals, repayments, and compulsory savings, are cooperatively discussed in the presence of group members. This approach reduces the problem of moral hazard and adverse selection and therefore minimizes the risk of voluntary default. Furthermore, all transactions are well documented and open for stakeholder scrutiny. However, all other decisions—margin, profit and loss sharing (PLS), repayment installments, and sanctions—follow specific rules or guidelines. For example, if a member does not attend the *rembug minggon* three times, the loan cap for the next period will be reduced. Moreover, the *rembug minggon* exhibit such character traits as *gotong royong*, transparency, discipline, and responsibility. This forum further helps create leadership and encourages members to express their opinions.

Like other BMTs, GEMI considers savings mobilization an integral part of lending. Each member is required to save regularly in various accounts, including a group fund. This group fund is self-managed and can be used for mutually agreed upon purposes. Unlike their individual savings, group members cannot reclaim their group fund contributions. However, they can borrow money from this fund, for example, to repay loans with the approval of fellow group members. Requiring borrowers to save promotes financial discipline and provides an alternative source of financing. It also acts to prevent group collusion, since part of the savings is lost

if the group disbands, and protects both borrowers and lenders against disasters, crop failures, or illness (Khandker, et al., 1995, p.13).

At GEMI, repayment of loans is eased by splitting the loan amount in small weekly installments. Installments are composed of principal, *infaq*, and PLS. GEMI encourages members to give *infaq* at every *rembug minggon* through what is called *krenceng*, a can used to store coins donated by members. Pak Jayenk mentions that the collected money is deposited at GEMI and intended for social activities, such as giving *shadaqah* to the extremely poor or people who are not capable of meeting their primary needs (Interview, November 30, 2017). Voluntarily contributions show a unique principle of GEMI, wherein borrowers transform into donors from the very first time they receive loans. This feature provides an example of solidarity among the poor.

To sum up, in performing their function as socio-economic intermediaries, BMTs employ two strategies. The first is individual empowerment, wherein intensive meetings are conducted at clients' business sites. This strategy is mainly intended for women traders in traditional markets. The second category is collective empowerment, involving both *arisan* and *rembug minggon*. Through this strategy, BMTs create groups of women based on their proximity. Each group organizes regular meetings under the supervision of a BMT officer.

5.2 Religious Intermediaries

As discussed earlier, the emergence of BMTs in Yogyakarta has not solely been motivated by socio-economic issue, but also by a religious mission to reaffirm the teachings of Islam, especially among the traditional economic players that constitute their main basis. Within this framework, many BMTs translate their *da'wah* mission into religious activities. BMT figures in Yogyakarta, such as Ridwan and Ekantini, mention that BMTs are instruments of *da'wah* and the initial BMT movement in Yogyakarta was strongly compelled by this motive (Interview, December 18 & 20, 2017).

The Arabic word *da'wah* means "invitation". In the context of Islam, it means an invitation to the way of Allah (Don & Awang, 2009, p.63). In a broader context, it also signifies social welfare and missionary activities. Although the concept of *da'wah* includes efforts to convert non-Muslims to Islam, it primarily refers to activities aimed to strengthen and deepen the faith of Muslims and help them lead their daily lives in conformity with Islamic principles (Meuleman, 2011, p.276).

Da'wah activities and organizations in Indonesia have grown rapidly since the country gained independence, particularly after the rise of the New Order regime. Meuleman (2011, p.239) observes that the Islamic *da'wah* movement is connected with the New Order's restriction of Islamic political organizations. Facing the regime's oppression, Muslim activists were forced away from political activism and turned their focus to the *da'wah* movement. However, this was not the only cause. Another reason was competition with Christianity. The closeness of the New Order regime with Christian groups, who controlled the economic sector, was resented by many Muslims. The increasing popularity of Christianity in the country was related to the fact that it offers concrete acts for those who suffer from material and social deprivation, rather than giving an abstract worldview (Vredembregt, 1969 in Meuleman 201, p.239).

Many Muslims saw the progress of Christian groups as a wave of *kristenisasi* (Christianization). This view became a particularly strong driver in the development of Indonesian *da'wah*. The countering of the spread of Christianity and the emulation of Christian missionary methods became major features of Islamic *da'wah* (Meuleman, 2011, p.239). One institution that has actively combated *kristenisasi* in Muslim-majority areas is *Dewan Dakwah Islamiyah Indonesia* or DDII (Latief, 2012, p.225). Where *da'wah* had formerly been limited to preaching activities, which later became known as *da'wah bil'lisan* (with the tongue), it developed into *da'wah bil'hal* (with deeds or by example). Following the fall of the Suharto regime, a number of organizations began to interpret *da'wah* as community development. The organizations led by the late Tutty Alawiyah, the female leader of a nationwide network of *majelis taklim*, is the best example of this

phenomenon. Such organizations were subsequently developed by many BMTs to accommodate their *da'wah* programs.

5.2.1 *Majelis Taklim*

The most prominent approach used by BMTs to realize their *da'wah* mission is the organization of *majelis taklim*, religious institutions that are deeply rooted in the Muslim society. In Indonesia, *majelis taklim* are also known as *pengajian*; the two terms are often used interchangeably. *Majelis taklim* are religious learning fora, involving public preaching and Islamic and/or Quranic studies, as well as private gatherings for religious teachings (Winn, 2012, p.3). In this section, I will use the term *majelis taklim*, as it is more relevant to describe the groups of women who have studied Islam with BMT support.

Aside from offering religious lessons, *majelis taklim*, as informal religious institutions, have offered a means for creating dialogue and *silaturahmi* between *ulama* (religious clerics)/*umara* (government leaders) with their *jama'ah* or audience (Safei, 2016, p.951). These diverse labels illustrate the varied character of the activities that occur in the *majelis taklim*, as well as their widely different scales and settings. They may range from public lectures by popular preachers at major city mosques, attended by thousands of people, to intimate groups of friends conversing together in private dwellings.

Majelis taklim groups are among the largest religious-based women's groups in Indonesia (Muttaqin, 2008, p.124). Members tend to be connected with specific neighborhoods or communities. Almost every Muslim woman in Indonesia participates in one or more *majelis taklim* group. For instance, Respondent 3, a BIF member, gave her view as follows:

"In one week, I usually attend three *majelis taklim* around here. However, if there is any great *ustadz* preaching at another place, I will attend it, even if it is far away. By joining such activities, I gain more knowledge about Islam, and I can have *silaturahmi* with other *jama'ah*" (Interview, November 9, 2017).

As community-based Islamic educational institutions, *majelis taklim* have strategic roles in supporting a "learning society", wherein one continues learning

regardless of age, gender, education, marital status, and social position (Basit, 2010, p.256). The activities of *majelis taklim* vary greatly depending on their socio-cultural contexts, as well as the economic conditions and needs of the congregation. Contemporary *majelis taklim* do not only operate and discuss religious rituals. They also play an active role in handling social and community problems, including improving the economic conditions of members. With a strategic role in developing the religious lives of community members, *majelis taklim* have experienced an enrichment of their traditional religious roles and functions.

This study finds that BMTs in Yogyakarta utilize *majelis taklim* as a *da'wah* strategy which is combined with economic activities (FGD, December 13, 2017). Activities usually take place at centers of economic activity, such as traditional markets or areas populated by members. For instance, BIF and Al-Ikhwan supervise several *majelis taklim* for their members, which are conducted regularly, either biweekly or monthly. The first *majelis taklim* established by BIF was the As-sakinah *majelis taklim* in Berbah, Sleman. Ridwan initiated this religious forum in 1996 as a medium of *da'wah* and of introducing Islamic finance to members. Every month, BIF sends an officer to preach at As-sakinah. Ridwan mentions that every staff officer serves as a *da'i* (Islamic missionary or preacher) for BMT members (Interview, December 18, 2017).

Al-Ikhwan also organizes regular religious activities for members. Unlike BIF, which sends its staff as preachers, Al-Ikhwan invites professional preachers for its *majelis taklim*. GEMI and KBS 19, meanwhile, have more incidental religious activities. Their religious programs are organized for particular occasions, such as to welcome the fasting month of Ramadhan, to celebrate *sawalan*⁵⁹, or to commemorate the anniversary of their founding. In these two institutions, *majelis taklim* do not meet at members' homes or at traditional markets (as in the case of BIF and Al-Ikhwan). Rather, they meet at the BMTs' offices or a rented hall. An FGD with BMT leaders showed a similar pattern. In general, BMT managers acknowledged that *majelis taklim* are a vital tool for BMT institutions to accomplish

⁵⁹ Celebration held at the conclusion of the fasting month (beginning of *sawal*, the tenth month of the Islamic calendar)

their religious agendas. In addition, BMTs exploit such fora to recruit new members. To illustrate how BMTs engage with *majelis taklim*, the following paragraph describes my direct observations of the Al-Khodijah *majelis taklim*, the partner of BMT Al-Ikhwan.

The members of Al-Khodijah are women, mostly petty traders in the Condong Catur traditional market. This *majelis taklim* was founded in the early 1990s by *Ibu Syaifullah*, a senior trader and active Aisyiyah member who later become one of Al-Ikhwan's founders. The primary purpose of Al-Khodijah's establishment was to promote *da'wah Islamiah* to traders. At the time, many of the traders at the market were Islam *abangan*, i.e. who did not perform the five daily prayers. *Ibu Syaifullah* mentions that, when it was first formed, Al-Khodijah's activities were intended primarily to teach the practice of prayer to the *jama'ah*. Another motivation for its inception was to provide a *simpan pinjam* organization as an alternative source of loans for traders who had previously borrowed from loan sharks. This group eventually became the embryo for Al-Ikhwan (Interview, December 17, 2017).

Simpan pinjam, like *arisan*, is an endogenous form of financial self-help that has developed in rural Indonesia (Shigetomi, 2004, p.98). Unlike in *arisan*, where funds are immediately withdrawn, in *simpan pinjam* the pooled savings is kept and accumulated over a specific period of time, typically six to twelve months. After the group has saved enough money, it can start giving loans to its members. These loans can be paid back in installments, or in whole, either free-of-charge or with additional interest. The Al-Khodijah *simpan pinjam* did not charge interest on its loans, instead asking borrowers to pay administrative fees. These fees serve as extra sources of income that can be used to cover the costs of running the group or to pay members the income from their savings. This *simpan pinjam*, as an economic division of Al-Khodijah, later became the embryo for BMT Al-Ikhwan.

Since its establishment, *Ibu Syaifullah* has led this religious group together with two other members, *Ibu Zainal* and *Ibu Marzuki*, as secretary and treasurer. These three administrators are respected figures in the market, both due to their positions as middle merchants and their completion of the hajj pilgrimage. Furthermore, these women are the wives of local Muhammadiyah leaders and come from the upper-

middle social class. Currently, Al-Khadijah has a *jama'ah* of some 100 petty traders, all of whom know each other from their market activities (Figure 5.7). Nearly all members of Al-Khadijah are married women; a few younger women are involved. Members are generally aged between 30 and 60. The *jama'ah* of Al-Khadijah are also the members of Al-Ikhwan.



Figure 5.7: *Majelis Taklim* Al-Khadijah, Condong Catur.
(Source: Fieldwork, 2017)

During the third week of every month, the *jama'ah* of Al-Khadijah gather in a *mushola* (small prayer room) within the traditional market. Occasionally, it may also arrange meetings at a member's house; this generally occurs when a member wants to fulfill a *nazar* (vow), which is usually linked to successful business outcomes. Activities usually start after *ashr* (afternoon prayers), around 3:00 p.m., when business activities in the market are over. At the gathering, women are seated on mats on the floor, circled around two small boxes. Each individual places a small amount of money (*infaq*) in the boxes upon their arrival. The accumulated *infaq* is later deposited with Al-Ikhwan. In addition, *Ibu Syaifullah* also took the initiative to make an "IDR 100 per day movement". She collects money from the *jama'ah* in the market on a daily basis. While the *infaq* funds are allocated for social activities, the funds from this movement are intended for religious tourism programs. *Ibu Syaifullah* mentioned that the last time she brought the members to Bandung, West Java, to visit *pesantren Daarut Tauhid* owned by

Aa Gym⁶⁰ (Interview, November 17, 2017).

Normally, the *majelis taklim* is attended by some 70 members. However, during the meeting I observed, only half of the *jama'ah* appeared, which *Ibu Syaifullah* justified as probably due to the heavy rain. *Ibu Syaifullah* opened the *majelis taklim* by explaining the minutes of the event and reporting the total amount of *infaq* accumulated from the previous activity. She also mentioned the theme of the *ceramah* (lecture) that would be given by Hj⁶¹. Mahsunah Syakir, an *ustadzah* (female preacher) who regularly speaks at Al-Khodijah. Hj. Mahsunah is a local Aisyiyah leader who currently serves as the chairwoman of Aisyiyah's culture department. Her closeness with *Ibu Syaifullah*, a fellow Aisyiyah activist, has enabled the *majelis taklim* to invite her frequently. *Ibu Syaifullah* stated that Hj. Mahsunah is unwilling to receive payment for her sermons, as she believes that it is a part of her mission to provide *da'wah* to marginalized women. Generally, *Ibu Syaifullah* gives her a parcel of fruit or food from the market.

The opening ceremony was followed by the reading of Quranic verses and their meaning by the secretary, *Ibu Zainal*. Afterwards, Hj. Mahsunah began her sermon, titled "Become Traders like the Prophet". The method of *da'wah* in *majelis taklim* is simple; it involves connecting religious teachings with the everyday lives of the *jama'ah* as traders. On that day, Yogyakarta experienced heavy rainfall, which left traditional markets nearly empty. The *ustadzah* responded to the situation by saying;

"Rain is a blessing. Even though today's sales are decreasing, we must remain optimistic, grateful, and honest. These are the principles taught by the Prophet in trading. If the vegetables you sell have withered, do not sell them, but give them to neighbors in need. *Inshallah*, blessings and fortune will come" (Interview, November 28, 2017).

While listening to the lecture, the *jama'ah* enjoyed food and drink provided by Al-Ikhwan. On this occasion, *Pak Khoirul*, a representative of Al-Ikhwan, was

⁶⁰ Yan Gymnastiar (born January 29, 1962), better known as Abdullah Gymnastiar or Aa Gym (lit: elder brother Gym), is an Indonesian Islamic preacher, singer, author, businessman and founder of the *Da'arut Tauhiid Pondok Pesantren* in Bandung. Gymnastiar became popular by introducing a unique way of preaching by theatrical style with practical messages of Islamic propagation that can be commonly applied to everyday life.

⁶¹ Abbreviation of Hajjah, It is often used as a form of address for women who has made such a pilgrimage to Mecca.

participating in the *majelis taklim*. Unlike BIF, which offers financial transaction after religious meetings, Al-Ikhwān uses this forum to strengthen *silaturahmi*, thereby maintaining the loyalty of its members and fulfilling its religious mission. Since Al-Ikhwān's staff go to the market almost every day, the BMT does not need to handle financial matters during *majelis taklim* meetings.

The core practice of Al-Khodijah is religious study; however, the *majelis taklim* also embraces social and economic issues. *Ibu Syaifullah* explains that Al-Khodijah has expanded its role. This informal religious institution does not only address Islamic matters, but also helps respond to members' daily problems. For instance, in mid-2017, some 50 *jama'ah* of Al-Khodijah went to Magelang, Central Java, to donate IDR 5 million and groceries to an orphanage. This religious group also plays an essential role in reducing the role of loan sharks in the Condong Catur traditional market. As stated by *Ibu Syaifullah*, after Al-Khodijah began providing a *simpan pinjam* program for its members, the numbers of traders who borrowed money from loan sharks decreased significantly. *Majelis taklim*, thus, are not only means of shaping members' religious knowledge, but also means of women's empowerment. Participating in *majelis taklim* allows women to access public space, actualize themselves, and increase their knowledge of a range of social issues. In addition, *majelis taklim* provide room for discussions between members and preachers. This space for dialogue gives women the opportunity to gain experience and articulate their views.

5.3 Environmental Intermediaries

Environmental issues have rarely been directly linked with microcredit programs. However, the emergence of MFIs with ecological responsibilities underlies the concept of green microfinance (Hall et al., 2008, p.4 & Rippey, 2009, p.1). This notion is based on the fact that small-scale credit, coupled with needs-based skill development training, will help people sustainably manage their immediate ecosystem and natural resource base (Hall et al., 2008, p.4; Rippey, 2009, p.2) rather than merely create alternative income sources. As a relatively new and developing field, green microfinance institutions provides soft loans to

individuals or groups of individuals who work directly to support green and sustainable social development, create green jobs, and offer progressive environmental solutions for environmental degradation and pollution (Rouf, 2012, p.149).

Another rationality underlying the implementation of green microfinance is that microentrepreneurs, as the majority of microfinance clients, are among the drivers and main affected actors of environmental degradation (Forcella & Huybrechs, 2016, p.4). They carry out a wide variety of business activities, which involve production (e.g., burning or mining), productive input (e.g., inorganic fertilizer and pesticides), inefficient production technologies (leading to overutilization of natural inputs), and waste (e.g., litter, diesel smoke); these contribute significantly to environmental deprivation (Hall et al., 2008, p.2). Although the impact of single microenterprise may be an insignificant, the massive number of microenterprises that operate with low levels of technology and lack regulatory supervision and supporting infrastructure has a significant cumulative impact on the environment. Microenterprises and the (frequently) poor who operate them are both the agents and victims of environmental deprivation. Furthermore, the poor in rural areas are more vulnerable to environmental degradation, because they rely greatly on natural and ecosystem resources for their livelihoods (Moser & Gonzales, 2016, p.243).

MFIs have reached thousands of clients, including microenterprises and the poor. Having demonstrated that microenterprises can impact the environment, MFIs can play a role in responding to environmental matters. Hall et al. (2008) emphasize that there are several arguments why this industry should become an agent of green issues. (1) First, a microcredit summit at the end of 2004 reported that nearly 92 million microenterprises, mostly in developing countries, are clients of the microfinance sector. It is reasonable, therefore, to expect this industry to make a serious effort to improve its environmental responsibility and mitigate its environmental impact.

(2) Second, environmental issues can affect the profitability of MFIs by increasing risk. Poor people, who are more dependent on natural resources,

frequently use natural resources as input for their production. The depletion of these resources negatively affects business sustainability and borrowers' ability to repay loans. Since MFIs often support sectors where many clients are engaged in similar activities, natural resource depletion can put their loan portfolios at risk.

(3) Third, MFIs' access to funding or donors is often determined by environmental criteria. The promoters of green microfinance usually emphasize that environmental responsibility is closely intertwined with MFIs' social mission: to provide financial services to vulnerable populations that are excluded from traditional banking and potentially contribute to poverty alleviation (Hall et al., 2008, p.13; Triodos, 2009, p.9). These authors claim that, by engaging in environmental issues, MFIs can more effectively contribute to poverty alleviation and sustainable development. Responding to environmental concerns, some MFIs have started to adopt new strategies, such as designing financial products to promote environmentally-friendly activities and pro-environmental campaigns.

As mentioned in the previous chapter, GEMI (one IMFI in this study) has enriched its role by addressing environmental development programs. The engagement of GEMI in ecological issue is an exceptional and unique phenomenon of BMTs in the province. This institution has integrated ecological issues at a strategic level by embedding environmental concerns in its mission and organizational goals. During an interview, Ekantini pointed out that three factors—social responsibility, differentiating the institution from other competitors, and gaining access to new funding sources—drove the decision to go green;

"By tackling environmental issues, we want to take part in social sustainability projects that other (competitors) do not do. We want to build a sustainable movement. Such a movement is expensive work. Thus, we have developed alliances and networks so that we can start working on the subject" (Interview, December 20, 2017).

Supported by Water.org under the Water, Sanitation, and Health (WASH) program, GEMI began offering green microcredit to its clients. This process was initiated by designing a financial product that promotes environmentally-friendly activities. It further began screening loans applications using environmental criteria. Ekantini explained that GEMI disburses financing to members for

sanitation development, such as the creation of healthy latrines and water channels, especially in chalky areas. In addition, through the WASH program, GEMI campaigns for pro-environmental behaviors (Interview, December 20, 2017).

Another environmental program initiated by GEMI is the *bank sampah* (waste bank) program, i.e. an intermediary institution to transform trash into cash (Wulandari & Narmaditya, 2017, p.37). This program has adopted a banking system that enables people to save and borrow money equivalent to the value of the waste deposited in the bank. Waste banks will buy the trash collected from clients and sell it to various partners (Salim, 2013, p.1). According to Ekantini, these waste banks were inspired by the success of Waste Clinical Insurance (WCI) in Malang, East Java, a brainchild of Gamal Albinsaid⁶² (Interview, December 20, 2017).

In 2015, with the support of the Unilever Foundation and Nama Foundation, GEMI began its green project in Kulon Progo District. By empowering 70 members of its *rembug minggon*, GEMI created its first waste bank, which was managed voluntarily by members. Currently, numerous waste banks are operating under the supervision of GEMI in two other parts of Yogyakarta, namely Bantul and Gunung Kidul. Ekantini explains that the waste bank initiative comes from the concept of making cash from the trash and creating clean communities. As such, being a waste bank customer is not only about preserving the environment, but also about creating economic opportunities for households. Using the slogan "Blessed Waste: Garbage to Pay for School, Electricity, and Household Needs", GEMI has raised member and community awareness about the economic value of waste (Interview, December 20, 2017). Ekantini's view elucidates that waste banks are aimed at providing economic, social, and environmental benefits, which aligns with the concept of a triple bottom line: people, planet, and profit.

⁶² Gamal Albinsaid is a doctor, health innovator, and social entrepreneur who first sparked the idea of Garbage Clinical Insurance for the poor.



Figure 5.8: Waste Bank in Kolon Progro, Yogyakarta
(Source: Document of GEMI, 2017)

Picture 5.8 shows a group of waste bank customers and administrators in Kulon Progo. The administrators of the waste bank are *rembug minggon* leaders and GEMI staff. In general, dropping points are located at empty spaces near GEMI members' houses, including unused cattle pens. Several waste banks have received the support of local village officials, who have established warehouses to store the garbage collected.

In practice, waste bank customers are responsible for managing waste at the household level. They collect, sort, and classify litter. Organic waste will be recycled as fertilizer, while non-organic waste is separated based on the type of material (plastic, glass, tin, paper, and other similar recyclables). Every month, at the appointed time, the customers deposit the sorted garbage at the waste bank. As the intermediaries between customer and junk collectors, the waste bank administrators will weigh and record the amount and nominal value of the waste deposited by the customers. In exchange for bringing trash to the waste bank, customers receive a savings "passbook" to record their earnings, much like a standard savings account. The waste banks then sell any suitable waste for recycling or reuse. Members can periodically withdraw the value of the garbage they have deposited as cash, thereby creating a monetary incentive for members to participate.

Waste banks do not only act as dropping points where community members can throw away their waste and where producers can collect recyclable materials as input for further production processes. They also empower members in managing waste. For example, GEMI provide training and workshops to help people reduce, reuse, and recycle waste. Through waste banks, women have access to means of improving their skills and producing recycled creations from salable inorganic waste. Furthermore, waste banks also help alter members' perceptions of waste. Instead of perceiving waste as something dirty, they see it as a lucrative resource from which they can make a living.

Moreover, waste banks promote women as active actors or ambassadors in sustainably managing the problem of waste through an intensive system. As such, waste banks advantage communities in: 1) the environmental health dimension, as they reduce the habit of burning and piling waste; 2) the socio-economic dimension, as they add extra cash and establish social relationships within society; 3) the educational dimension, as they change the waste management habits of the local population.

For an IMFI, GEMI's creation of waste banks is a breakthrough and places this institution as the pioneer of Islamic green microfinance in Yogyakarta Province. GEMI's going green would, therefore, fulfill its social commitment to alleviating poverty and promoting sustainable human development. Furthermore, by addressing ecological issues, GEMI has gained access to and support from environmentally sensitive donors such as Water.org, the Unilever Foundation, and the Nama Foundation, which could help it expand its activities and eventually reduce its capital cost. In addition, GEMI has been able to improve its public image and thereby foster staff motivation and extend its external relations.

5.4 Summary

In short, the women's empowerment models of BMTs may be summarized as in the following table:

Table 5.1: The Pattern of Women's Empowerment in BMTs

The Pattern	BMTs	Programs	Activities
Socio-Economic	All BMTs	Individual empowerment	<i>Jemput bola</i>
	BIF and GEMI	Collective empowerment	- <i>Arisan</i> - <i>Rembug Minggon</i>
Religious	All BMTs	Preaching	<i>Majelis taklim</i>
Environment	GEMI	- WASH - Waste Management	- Green microcredit - Waste bank

(Source: Fieldwork, 2017)

Generally, women's empowerment in BMTs focuses on two mainstream issues: socio-economic and religious. Both align with these BMTs original visions. Meanwhile, only one BMT has expanded its concern to cover environmental aspects. Through socio-economic empowerment, BMTs distribute Islamic loan schemes to women clients. This microcredit is accompanied by the supervision and monitoring of clients' business performances. BMTs have applied two for socio-economic empowerment: individual and collective empowerment. Individual empowerment, referred to as *jemput bola* and involving clients being met at their places of business, is the most popular strategy for BMTs. Meanwhile, collective empowerment is generally facilitated through the creation of groups of women based on their proximity of residence, as seen in *rembug minggon* and *arisan*.

Religious activities facilitate BMTs' religious empowerment function. *Majelis taklim*, a religious institution with deep roots in Indonesia, serves as an instrument of *da'wah* for most BMTs. This study has also found that one BMT in Yogyakarta has enriched its role by developing the capacity to tackle environmental issues. Driven by ecological responsiveness and competitiveness, GEMI has pioneered green projects, most importantly waste banks, in some rural areas of the province.

Chapter 6

***Baitul Maal wat Tamwil* and Women's Empowerment: Evidence from the Clients**

This chapter investigates the impact of the services and programs provided by the four selected BMTs (BIF, Al-Ikhwan, BKS 19, and GEMI) on their women clients. Using women's empowerment as an analytical framework (Chapter II), this chapter examines both the successes and failures of the selected BMTs in empowering women beneficiaries in Yogyakarta, Indonesia. This chapter consists of three sections. The first provides a demographic profile of the selected respondents, including basic information on their ages, educational levels, and economic activities. This section also highlights three key issues related to women's experiences with BMTs: illiteracy, gender inequality in the Javanese context, and women's migration in the trading sector.

The second section observes the motives of the clients participating in income-generating activities supported by BMTs. The third section explores the diverse impacts of clients' engagement in BMTs' projects. In this section, this study examines four types of impacts, which may be considered positive or negative: economic, familial/ interpersonal, psychological, and religious. From semi-structured interviews, document reviews, and field visits, a complex picture of women beneficiaries was obtained. Surrounded by socio-cultural problems, such as illiteracy and culturally rooted inequality, most beneficiaries have been both positively and negatively impacted through their connection to BMTs' programs.

Focusing their activities mostly on traditional markets, most respondents benefit from BMTs' services. In detail, they enjoy such positive outputs as increased control over income and savings as a consequence of business development; and increased ownership of assets, mobility, and activities outside the home, particularly non-income generating ones. Unlike in prior studies concerning other countries than Indonesia, most respondents have had no issues related to decision making in the family before and after becoming BMT members. However, their

engagement with BMT projects correlates with an increase in the frequency of joint decision-making in the household.

Women's participation in BMT programs also has a negative impact. It is expected that women who borrow from BMT institutions will, at one point in time, be able to grow their businesses and move on to formal financial institutions. However, there is a tendency for "dependence on microcredit", in which the clients remain loyal long-term members of BMTs. Both clients and BMT institutions contribute to this "dependency". From the client's side, factors such as personal closeness, satisfaction with BMT services, and fear of losing a source of credit are major drivers for continued borrowing. On the other hand, client dependency is also motored by the fact that most BMTs promote clients' continued membership to promote sustainability.

6.1 Profiles of Selected BMT Clients

To understand the connection between BMT institutions, their services, clients, and overall societal environment, a demographic exploration is needed. The demographic pictures presented here detail sixteen women, each of whom is actively engaged with one of the four selected BMTs. The sample size in this study follows the concept of saturation, i.e. a criterion for discontinuing data collection. It is commonly taken to indicate that, on the basis of the data that have been collected, further data collection is unnecessary (Saunders et al., 2018, p.1893). It because the collection of new data does not shed any further light on the issue under investigation (Bernard, 2000, p.394). These sixteen selected participants are considered sufficient to understand the complexity, depth, variation, and context of women's involvement in BMT programs.

Participants were selected based on two criteria: marital status and duration of membership. Married women were selected in order to understand how engagement with BMTs has affected their bargaining in the household and their families' welfare. The duration of membership criterion, meanwhile, is used to ensure that women have been clients long enough for them to consider their membership successfully. Table 6.1 below highlights a profile of selected BMT

clients. Particular focus is given to eight indicators: age, education level, family status, children, year of membership, BMT of origin, and type of business.

Table 6.1: The Profile of Some Selected BMT Clients

No	Age	Level of education	Number of Children	Years of Membership	BMT	Business Type
1	51	<i>Sekolah Dasar*</i>	3	17	BIF	Trading
2	58	<i>Kejar paket A*</i>	3	21	BIF	Trading
3	54	<i>Sekolah Dasar</i>	2	7	BIF	<i>Warung makan*</i>
4	46	<i>Sekolah Menengah Atas*</i>	3	12	BIF	Trading
5	57	<i>Sekolah Menengah Atas</i>	2	13	Al-Ikhwan	Trading
6	47	<i>Sekolah Menengah Atas</i>	3	10	Al-Ikhwan	Trading
7	59	<i>Sekolah Menengah Atas</i>	4	13	Al-Ikhwan	Trading
8	56	<i>Sekolah Dasar</i>	3	13	Al-Ikhwan	Trading
9	43	<i>Sekolah Menengah Atas</i>	3	11	KBS 19	Trading
10	55	<i>Sekolah Dasar</i>	2	10	KBS 19	Trading
11	47	<i>Sekolah Dasar</i>	3	10	KBS 19	Trading
12	55	<i>Sekolah Menengah Pertama*</i>	1	10	GEMI	Home sewing business
13	41	<i>Sekolah Menengah Pertama</i>	2	11	GEMI	<i>Warung makan</i>
14	37	<i>Sekolah Menengah Atas</i>	2	4	GEMI	<i>Warung makan</i>
15	43	<i>Sekolah Menengah Atas</i>	4	11	GEMI	<i>Warung makan</i>
16	63	No formal education	4	11	GEMI	Trading

(Source: Fieldwork, 2017)

**Sekolah Dasar*: Elementary school

**Kejar Paket A*: Informal school targeted those who have never received formal education. This program is equivalent to elementary school

**Sekolah Menengah Pertama*: Junior High School

**Sekolah Menengah Atas*: Senior High School

**Warung makan*: Small food stall, normally established to serve the lower class income

The table shows the key characteristics of BMTs' women clients. Clients range in age between 37 to 63 years. As such, 54 percent of respondents fall into the category of prime working age (25–55). Meanwhile, 44 percent of respondents

are of mature working age (55–64), or beyond prime working age. These women are still socially productive, but may potentially retire, leading to economic inactivity and leaving the workforce.

In terms of educational background, this table shows that nine women completed junior and senior high school. Six others completed the lowest level of education: elementary school or equivalent. One respondent did not receive formal schooling and is illiterate. Most of the respondents who only completed an elementary education, as well as the unschooled respondent, were over the age of 50.

This table further indicates that respondents have children in their households, ranging in number from 1 to 4, as well as other dependents. These dependents include grandchildren, younger siblings, nieces, nephew, in-laws, as well as parents. Based on field observations, respondents' dependents and biological children share the same house. For instance, Respondent 3 said that she shares a dwelling with her daughter and grandchildren. Although her daughter is indirectly involved in the business, she does not receive any wages. As such, she and the other members of the household are economically dependent on the respondent for their livelihoods.

Most respondents have been long-term members of the BMTs, and may be considered a loyal BMT members. On average, respondents have participated in BMT services for 11.5 years. It is important to note that membership duration is closely related to the history of their BMT's establishment. For instance, BIF has been operating in Yogyakarta since 1996. Thus, the organization has many loyal clients who have been members for two decades. Similarly, a significant number of women have been members of GEMI since 2006, two years after the microfinance institution was established. They joined shortly after a big earthquake hit Yogyakarta, in the aftermath of which GEMI and its international networks played an essential role in economic recovery projects and the empowerment of women entrepreneurs in the affected area. A similar tendency is also seen in Al-Ikhwan and KBS 19.

The last column in Table 6.1 indicates that women beneficiaries are involved in several economic sectors, including food service, home industry, and trading. However, the highest percentage of BMT clients are small traders who work in the traditional markets around Yogyakarta, Sleman, and Bantul. Some women generate income from food sales. Usually, they have *warung makan* (food stalls) in their village or in front of their homes. Meanwhile, one participant is in the home-industry sector; she operates a small sewing business out of her house.

Observing Table 6.1, three points are apparent from the demographic profile of the respondents. (1) First, nearly half of the women have minimal formal education, and one is illiterate; to some extent, this affects their financial and managerial skills. In Indonesia, although the number of uneducated people has dropped drastically, illiteracy has remained a problem for decades. In 2017, for instance, as many as 3.4 million people—2.7 percent of the country's total population—was illiterate. This represented a significant decrease from 9.7 million in 2012. Yogyakarta, despite being branded as *kota pendidikan* (city of education), is no exception. In 2017, it was home to 29,000 illiterate people, 60% of whom are women (Kharisma, 2017, p.1).

Concerning the prevalence of illiteracy in Yogyakarta, it is no surprise that most BMTs must deal with this issue. The existence of uneducated clients was confirmed by Okty, the branch manager of BIF:

"Our clients in the market who are already *simbah-simbah* (older people) are mostly illiterate, but they can count money. Thus, they always receive special treatment, as we have to explain in more detail, particularly when it comes to the contract" (Interview, December 23, 2017).

The FGD with BMT leaders in Yogyakarta revealed similar issues. For instance, Uwangwari, the manager of BMT UMY (a BMT under the Muhammadiyah University of Yogyakarta), remarks:

"We have a religious program to teach women in the traditional market to recite Quran. It is not easy as many of the *bakul* (women traders) are older and illiterate" (FGD, December 13, 2017).

(2) The second issue in the demographic profile of selected women clients is gender inequality. Differences in roles and responsibilities between men and women in family, society and culture determine the resources they can access. The household resources are allocated in the favor of sons due to their productive role. It is commonly understood that men are responsible for providing their families' financial resources (Tambunan, 2011, p.77). Male members of the family are given better education and are equipped with skills to compete for resources in public arena, while female members are imparted domestic skills to be good mothers and wives (Chaudhry & Rahman, 2009, p.175).

Respondent 16 in this study confirms that her lack of schooling is connected to an old Javanese tradition that regarded women as *konco wingking*, friend in the back i.e. wife. She was raised within the context of this view, which positioned formal education as unnecessary for women, as their main responsibility was seen as being in the domestic sphere. She further used the phrase *macak, masak, dan manak* (looking after her physical appearance, preparing meals, and delivering children) to explain women's primary duties as *konco wingking*. However, as noted in the field, the term *konco wingking* does not represent her actual situation. Since her husband, who had previously worked as a *buruh tani* (farmhand), began suffering from leg paralysis, she has been her family's main breadwinner.

Due to her illiteracy, this respondent faces various challenges in her daily life, including in learning what is happening in wider society by reading. Illiteracy has also created a situation of social dependency, which has limited her prospects for empowerment. Due to her lack of skill, the respondent typically does not use modern instruments such as calculators in her daily activities. She tends to do her calculations mentally, and keeps every transaction in her memory. Although she is able to keep accounts in her head, her ability to interact with the formal sector will always be limited.

Moreover, as a non-literate woman, the respondent has felt isolated and left out of mainstream society. Following Samant (1996, p.3), non-literate people tend to perceive themselves as "empty pots" or "hollow boxes". They do not see themselves as fully participating, contributing members of society. They do not

consider their duties as mothers, wage earners, and housewives as "real work", even if their salary is the only thing keeping their families fed and sheltered.

Indonesia has made substantial progress in promoting gender equality. This is shown, among other things, by the improvement of the ratio, participation and literacy of women as compared to men, women's contribution in the non-agricultural sector, and the increased participation of women in politics and legislative activities (Surbakti & Devasahayam, 2015, p.3). However, gender inequality continues to persist. Policies and laws in Indonesia, to some extent, contradict to the spirit of achieving gender equality. For example, Indonesia's 1974 Marriage Law, which has remained in use, stipulates that the main duties of women are to take care of their husbands, children, and homes, while men are responsible for activities outside of the home, including economic activities (Rif'ah, 2004, p.12). The law also explicitly designates women as the 'managers' of the household and men as the 'heads' (Article 31 and 34).

These idealized gender roles are also embedded in the national development ideology known as "state *ibuism*", a creation of the state that has symbolized the position of women within the context of the patriarchal system developed in the New Order era (Ida, 2001, p.24). In this sense, a woman's official role covers five principal duties: 1) to be the faithful wife and mate of her husband; 2) to manage the household; 3) to produce the nation's future generations; 4) to be the mother and educator of her children; and 5) to be a good citizen (Ida, 2001, p.24).

Moreover, the popular interpretations of what is considered 'Islamic law' further support the state's institutionalization of female subordination within marriage. The Quran (Surah 4, An-Nisa verse 34) textually states that men are the leaders of women. This verse is often interpreted as meaning that men have the right to dominate women in all spheres of life and to lead their households (Rif'ah, 2004, p.17). In practice, Rif'ah argues that *penghulu* (Islamic experts living in rural villages) always advise couples during wedding ceremonies about the duties and responsibilities husbands and wives share within the family. The *penghulu* always stress that wives are obligated to respect their husbands, and should concentrate their interest on their households. On the other hand, husbands' primary concerns

are identified as external matters.

However, the normative concept of women and men sharing roles, as institutionalized by the state and religious belief, does not always happen in real life, particularly in lower income families. During my visits with BMT clients, I found that a large number of women work outside the home due to their economic needs. Women's engagement in revenue earning implies a dual workload, combining both reproductive and productive tasks. Even though women work largely out of their homes, they must also allocate time and energy for their household tasks. The interviewed women asserted that they are usually responsible for keeping their households in order, as well as for cooking and for caring for their children. At the same time, they are involved in income-generating activities that directly contribute to their families' economies. Overall, their involvement in the economic sector helps their husbands meet their families' needs and pay the cost of tuition. At the same time, it breaks down the classic and gender-biased understanding of parents' shared roles.

(3) The third issue evident in this profile of respondent is related to economic activity. A higher percentage of BMT clients work in the traditional market, with activities involving the small-scale selling (and buying) of basic goods and services, ranging from agricultural produce to imported consumer goods. Most traditional markets are located in eastern Yogyakarta, northern Bantul, and western Sleman. There are three categories of women traders in these markets: small merchants, middle merchants, and wholesalers. The majority of BMT clients are small traders. However, this study also found some middle-merchant respondents.

Traditional markets are among the favored places for women to earn a living. Supangat (2012, p.11) notes that the dominant representation of women in the market has been present since the 19th century. Adaya (2007, p.121) adds that women's prominence in the market is often touted as a "Southeast Asian". For instance, Adaya claims that, during the colonial period, interactions between Dutch representatives and local women, both villagers and elites, were significant aspects of daily life at virtually every trading post. These preceding studies help explain why, in every Indonesian marketplace, women have become the leading actors. For

many women, the market is their livelihood and life. It is a second home, a place to earn money, to keep handling some household duties, and to socialize with other people (Supangat, 2012, p.10).

The noticeable population of women in the market can also be explained through an anthropological approach. Boserup et al. (2007, p.11) found that, initially, both rural women and men worked in agriculture. The introduction of technology and the opening of opportunities for men to enter the formal sector in developing countries has reduced the role of women in agriculture. As a consequence, women have changed their livelihood strategies, becoming traders in urban or suburban areas. The migration of women to the trading sector is not merely a result of being excluded from the agricultural field. Tradition also influences their participation in trading agricultural products. Further, psychological and economic reasons motivate their participation. It is important to point out that all of the microcredit borrowers in this study are Javanese women, and as such have certain traditional roles. According to Dewey (1967) and Stoler (1975) in Supangat (2012, p.12), while Javanese women were traditionally involved in agriculture, they also had a dominant role in managing family finances and household decision-making processes. As such, women's dominance in managing household finances has been an important influence on their decisions to start trading in the markets.

The economic role of women outside the agricultural sector is vital, since (unlike agriculture) their income is more sustainable and does not depend heavily on the season. As such, women's generating activities in the market are crucial for the welfare of their households, especially when the productivity of crops decreases (Abdullah, 2000, p.119). Compared to men traders, women are more skillful, flexible, and patient in their transactions. Alexander (1987, p.52) reports that women traders in Javanese rural markets utilize their social skills to gain economic benefits. Usually, they will bargain and negotiate while joking, gossiping, and 'confiding' to make a price agreement.

From a psychological perspective, Kutanegara's (2006, p.27) study in Beringharjo Market, Yogyakarta, reveals that trading activities open a new world to women, one that enables them to escape their household routines. Women consider markets to be places for recreation and acquiring the latest information. Furthermore, in such large marketplaces as Beringharjo (the biggest market in Yogyakarta), women establish networks and social groups that provide further space for them to express themselves. More importantly, Supangat (2012, p.16) states that one primary function of trading activities is to create and provide opportunities for women to have autonomy, which they may not experience if they remain at home as housewives. By having their own income, women have more power in household policymaking, and generally are more respected by their husbands.

To summarize, more than 50 percent of respondents are of productive age. Around 60 percent of respondents have achieved a secondary level of education, while the rest have less formal education. Respondents share their dwellings with their children and dependents, including grandchildren, younger siblings, nieces, nephews, in-laws, as well as parents, who may be indirectly involved in their business. The majority of respondents earn a living in the traditional market, and have been clients of their BMTs for more than a decade. From the demographic profile of the respondents, there are three issues that emerge mainly related to education, gender inequality and women's economic activity.

6.2 Motives of Women's Engagement in Income Generating Activities

From semi-structured interviews and field visits, this study found that two main motives that lead women to be involved in micro-industry: family circumstances/economic needs and desire to be independent. Of these, family circumstances/economic needs are the most prominent. For example, one respondent stated:

"My husband does not have a permanent job, so I have to earn money to feed my three children. Every day, I wake up at 3 in the morning to prepare a meal for my family members. Then, after *subuh* prayers, my husband takes me to

the market with his motorcycle. I sell vegetables and agricultural products bought from the village's communal garden" (Respondent 2).

Similarly, other respondents stated:

"Since my husband is no longer working, I am the backbone for the family. I spend the day in the market selling foodstuffs such as rice, oil, eggs, and other things" (Respondent 6)

"My husband works as a tire repairman. It earns a little income, just enough to buy cigarettes. Thus, every day, from 5:30 to 16:00, I work in the market, selling snacks. This does not generate much money, but it is enough to meet my family's needs" (Respondent 9).

Their situation as the primary earners of their families drive women to become involved in micro-industry and to access BMT services. According to Gnanadhas and Jesurajan (2011, p.2), women's engagement in the economic arena is motivated by "push" factors, i.e. elements that encourage women to start business enterprises to meet the financial and survival needs of their families. This is consistent with studies by Geertz (1960, p.22), who assert that Javanese women have an economic responsibility to support their families, often as their households' primary income earners.

The important contributions of Javanese women to their families' income is also emphasized by Ford & Parker (2008, p.4), who state that "for a married woman, searching for a brighter future is about helping her husband earn more money for the family first". Consistent with earlier scholars, this study also finds that women's economic activities are aimed at helping their husbands improve their families' welfare:

"I feel satisfied, because I can help my husband earn money. Moreover, my family and surroundings appreciate me because I can contribute to my family's income and meet my own needs" (Respondent 5).

Apart from economic needs, the motivation for women's engagement in income-generating activities is the desire to be independent. Being economically independent, women have more control over their income and become more flexible in spending money as they wish. For example, one interviewed woman stated that self-employment and economic independence has allowed her to share

her income with her parents and relatives. In Islamic culture, providing a portion of one's income to ensure the welfare of one's parents is a manifestation of filial piety:

"The income of my husband as a teacher is indeed enough for my family's essentials, but I want to have income so that I can help my family. As a daughter, I want to remain *berbakti* (dutiful) to my parents. Thus, every month, I send money from my own income to my parents, who live in another city. Sometimes, if a relative needs cash, I can lend it to them too" (Respondent 4).

Another respondent also mentioned similar reason:

"Being economically independent, I can do charity and *shadaqah* with my income without asking my husband for money" (Respondent 7).

From the respondent's perspective, she also linked motivation to earn a living with religious teaching such as giving *shadaqah*. However, I found that the motivation to be economically independent is more dominant.

6.3. Implications of BMTs for their Clients

In examining the implications of BMT projects for their women clients, the present study adopts a framework of women's empowerment derived from Kabeer, (2000, p.66); Malhorta, et al (2002, p.14) (Chapter 2). The dimensions of empowerment comprise: increased control over income and savings, ownership of assets, participation in decision making, mobility and activities outside the home, self-esteem, and religiosity. These elements can be classified as economic, social, and psychological implications.

6.3.1. Economic Implications of BMT Services

1. Control Over Income

Control over income refers to the ability of women to exercise greater control over the income and saving within the household financial portfolio (Kato & Kratzer, 2013). This study found that the majority of the interviewed women have control over earnings generated through their businesses without spousal intervention. Respondent 13 (a GEMI client) explains her experiences:

"Though I always consult with my husband, he never intervenes in my income from my business, I can use the money the way I want. He knows that my

income is used to meet family needs and develop my business" (Respondent 13).

As women have control of their income, they acknowledge being more economically empowered. Their capacity to manage their business and entrepreneurial skills also improves. Typically, after accumulating sufficient capital, they withdraw a portion of their earnings and invest elsewhere. Some GEMI and BIF clients asserted:

"In 2006, there was a big earthquake. My house was destroyed. I received assistance from the government to rebuild my house, but I no longer had money to start a business. Luckily, GEMI staff members came to us and offered a small loan. I got a small loan of IDR 500,000 from GEMI, which I used to set up a street food stall on the side of the highway" (Respondent 13).

"*Alhamdulillah* (Thank God), my business is well developed, and now I have a permanent stall. Lately, I borrowed IDR 5 million. Using the loans and my savings, I built several rooms behind my house to rent to factory workers around here" (Respondent 13).

"As my business has grown, I have invested my income into another small business. Combining my own money and a IDR 6 million loan from BIF, I have developed a small grocery in front of my house. At the moment, my oldest son manages the business. I am continuing my own business in the traditional market" (Respondent 2).

These statements reveal that BMT clients' individual initiatives to generate new businesses reflect their ability to manage their first loan. Based on my observations, although most interviewed women have handled their micro-business by themselves and think little about the need for a growth strategy plan, their capacity to manage their businesses has increased and they have been able to expand their work into more profitable lines of business. Their intensive meetings with BMT officers, particularly when they collect repayments, allow them to consult about their businesses' progress. It is necessary to point out that women's control over their income does not mean that they spend money on themselves. Lont (2000) argues that Javanese women believe in social norms that expect them to consider the needs of other household members before thinking of their own. Wives are comparatively less concerned with their own consumption needs, but are primarily concerned with providing food for their families.

2. Control Over Savings

Observing the daily business activities of the interviewed women, the most straightforward evidence that women are able to save money comes from the recognized fact that they can repay the loans. During interviews, some respondents admitted that, before becoming BMT clients, they had no tradition of saving money, a fact that they attributed to their income only being enough to meet their families' basic needs. If they had more cash on hand, they used it to purchase gold and other valuables like equipment or animals. Since become BMT members, however, women have had more options to save their excess money, namely in savings accounts. In this sense, BMTs' loan repayment systems encourage women to save money. One BKS 19's customer testified:

"Every day, a BMT officer comes to my market stall to collect installments. I will hand over IDR 20,000 to him; IDR 13,500 to pay installments and IDR 6,500 for saving. The savings are mandatory. In case I am unable to repay the loan, the BMT staff will take the money from my savings account. Also, if I need urgent cash, I can use the savings" (Respondent 9).

The savings mechanism used by several BMTs—i.e., the daily visits (*jemput bola*)—also contributes to women's discipline. The interviewed women asserted that they are proud to have their own capital as well as savings they can rely on. They further said that saving money requires current sacrifice, but offers a future reward. For many women, savings facilities are as crucial as loans in increasing amounts of income and assets under their control. Moreover, the ability to control their savings allows them to handle unexpected expenditures. This implies that accumulated savings serves as a buffer for both expected and sudden expenses, such as home repairs, life-cycle celebrations, or the loss of their husband (Vonderlack & Schreiner, 2002, p.16). In other cases, women save money to anticipate expected future needs, such as education, social/religious events, and future investment opportunities.

In addition, the respondents viewed putting money in financial institutions as much safer for them. This finding is parallel to that of Beverly et al. (2003, p.148), who maintain that cash saved at home is probably more convenient and liquid, but it is easier to "withdraw" and spend than cash at a bank. Money kept at

home is also vulnerable to theft and daily temptation. Furthermore, saving with BMTs allow women to protect their savings from their families and their other relatives.

3. Increased Ownership of Assets

Another positive impact of BMT services for women beneficiaries is their increased ownership of assets. The possession of assets refers to a woman's ability to control her own assets and enjoy the benefits that accumulate from them (Pereira et al., 2017, p.1). As such, control over and ownership of assets is a critical component of well-being (Meinzen-Dick et al., 2011, p.1). As long-term stores of value that have multi-dimensional benefits, assets can be productive, tangible, or intangible. Productive assets may produce products or services that are consumed or sold to generate income. Tangible assets, such as buildings and houses, may both provide services as well as generate rent. Meanwhile, intangible assets like social capital and education can be converted into marketable connections and skills (Berhman et al., 2012, p.2).

Asset ownership is also a vital component of an individual's fallback position, or how well off that individual might be in case a household dissolves due to separation, divorce, or death (Deere et al., 2019, p.3). Supporting those earlier studies, this study shows that increased income allows women to increase their assets. Women are able to make purchases that they could never afford previously. Respondent 12, a member of GEMI, said:

"I used the BMT loans to buy a new sewing machine and other supported equipment. With the new machine, I can work faster. Thus, I receive more orders from my clients" (Respondent 12).

This indicates that the expansions of asset and property ownership reduces economic risks and helps women realize their full economic potential. By controlling assets and owning property under their own names, women are in a better position to improve their own lives. When financial crises occur, women can also use their assets as collateral for credit, invest in small businesses, or participate

in other income-generating activities. Respondent 4 stated that she has been able to buy a small building as a result of her increased income and financial access:

"I bought a small kiosk in the market from my own savings, plus a loan of IDR 15 million from the BMT. This kiosk is registered under my name. I am blessed by being economically independent, and my husband is proud of me." (Respondent 4).

Some other respondents admitted that, with their increased income, they have been able to purchase consumption assets and jewelry.

"Since I have more income, I am able to buy jewelry, cellphones, and household items such as refrigerators, stoves, and rice cookers without asking my husband for money." (Respondent 11).

From all of the above statements, it can be concluded that control over assets gives women greater bargaining power in their economic relationships within their families. In terms of economic freedom, women also experience autonomy; however, to a certain extent, they always put their families' interests first. This finding is somewhat different from that of ICRW (2005, p.4), which argues that women experience economic autonomy and freedom to pursue actions of their choice as a result of property ownership.

This present study also reveals that the pattern of ownership of household assets is different. For instance, jewelry appears to be a female-typed asset, while property such as land, houses, and vehicles are generally under the husband's name. Regarding asset possession in Indonesia, Brown (2003, p.632) states that, although the marriage law formally adopts a concept of co-ownership, the majority of land acquired during marriage is only registered in the name of the male head of household rather than in the names of both spouses. However, the name on the title certificate for the marital property does not indicate that one spouse is the sole owner of the property. In this sense, Respondents 14 and 15 explained:

"In principle, there is no such thing as 'this is mine, that is yours'. All assets belong [to us] together" (Respondent 13).

"Even though I am the backbone of the family, the items I buy are the assets of my husband too. There is no distinction" (Respondent 15).

Overall, this section shows that BMTs can empower women clients by enabling them to earn cash income through various types of entrepreneurial activities. These activities then increase their ability to economically help their families, as well as increase women's assets, economic contributions, and control over the allocation of economic resources.

6.3.2. Social Implications of BMT Services

In addition to economic effects, women's access to credit has social implications, namely active participation in family decision-making and increased mobility outside the home.

1. Involvement in Family Decision-Making

Participation in household decision-making refers to the extent women are able to participate in formulating and executing decisions regarding financial, child-welfare, reproductive health, and socio-political matters in conjunction with other family members (Parvee & Leonhäuser, 2004, p.3). However, decision-making is only one aspect of family power relations. White (1984, p.25) stresses that, in decision-making, the most important aspect may not be who makes the decisions, but rather who influences those decisions, who has the power to delegate decisions to a spouse and to overrule them in cases of conflict, and whose interests are ultimately served by the outcome of those decisions. Similarly, Srinivasan & Sharan (2005, p.1) indicate that decisions are not made in isolation, but are rather the products of influence and confluence of social correlates. Women's perception and own experiences therefore influence household decision-making.

Earlier studies of women's empowerment in the economic sector, especially in developing countries, have reported that women experience an increase in their decision-making power in areas that have traditionally been dominated by men, such as family planning, marriage of daughters, schooling, and buying and selling property (Cheston & Kuhn, 2002, p.17; Kulkarni, 2011, p.10). Those previous studies have generally assumed that, before joining the microfinance sector, women have less participation in household decision-making. This postulate may relate to

the feminist theory, which believes that the inferior status of women is due to societal inequality (Turner & Maschi, 2015, p.157).

Moreover, Hashemi et al. (1996, p.638) found that success in microfinance does not only enhance women's participation in decision-making processes, but also increases the involvement of women in political activities outside the home as well as in public advocacy. In line with earlier scholars, Turner & Maschi (2015, p.158) believe that the political, economic, and social power relations shape the personal status of women. In the context of microfinance, feminist scholars encourage women to reclaim power to the greatest extent possible in society, express their anger, and build their self-confidence and self-efficacy.

Conversely, this current study's findings partially contradict those of previous studies. No noticeable change is found in women's involvement in decision-making at the household level. All women beneficiaries stated that they have been equally engaged in decision-making with their husbands, even before they joined a BMT. They also confessed that they are often the sole authority on domestic things such as cooking, small purchases, and children's clothing. Some respondents also acknowledged that, prior to their engagement with BMT services, they had the freedom to visit their relative's homes and participate in *arisan* or *majelis taklim*. This finding largely agrees with that Geertz (1960, p.34), who report that Javanese women enjoy strong and shared decision-making power with their spouses within the household. This contrasts with the situation of women in other Asian developing countries, such as India and Bangladesh, where household autonomy levels are substantially lower.

In making decisions about children's education, it appears that women are more influential on this issue, though they admit that decisions are made jointly. Respondents 2 and 16 expressed their views in the following statements:

"My parents used to say that it is unnecessary for women to pursue higher education. They thought that, at the end, the role of women is only to *nggendong tenggok* (carry a basket on her back). However, I do not want my daughter to inherit such a view. I want her to go to higher education" (Respondent 2).

"Our children should have better lives than their parents. I do not want my children to experience the same things that I have. Therefore, I want them to

pursue an education. *Wong tuo ora iso nyangoni bondo sing penting iso nyangoni ngilmu* (the parents cannot give them property, but the most important thing is that we can provide them with good education for their future journey)" (Respondent 16).

Field observations also revealed that important decisions regarding family and business matters are made cooperatively by the wife and husband. Although women are capable of handling their own business matters, they discuss things with their husbands as a way to honor their spouses' positions as the heads of their families. In this regard, Javanese culture and Islamic values may be influential. In Javanese tradition, within the family, a husband and wife must show affection and love (*tresna*) for each other. A wife must also show respect towards her husband (*ngajeni*), as he is assumed to be older than his wife. Hence, the involvement of a husband in his wife's business is understood as an expression of *ngajeni*. Most interviewed BMT clients noted that their husbands' support contributed to the success of their businesses. Regarding this, respondents 4 and 1 commented:

"Before making a decision about my business, I always have a *rembugan* (open discussion) with my husband. We decide everything together" (Respondent 4).

"I am always honest and discuss everything with *bapak* (my husband). There are no secrets between us. For example, before taking loans from my BMT, I first consult with *bapak*. Getting permission from my spouse is important to anticipate any unexpected things" (Respondent 1).

Other than Javanese influence, the involvement of husband is administratively promoted by IMFIs through their loan contracts. Unlike the conventional approach, which tends to encourage women to make independent decisions about loans and businesses, IMFIs directly involve women's husbands. Signing a loan agreement indicates that a decision has been made jointly between wives and husbands. On the other hand, this also reflects the universal mission of IMFIs to encourage 'family empowerment' rather than 'women's empowerment'.

2. Increased Mobility Outside the Home

Mobility refers to women's ability to freely move to different places alone, without being restricted or worried (Kato & Kratzer, 2013, p.44). Microfinance is believed to be an effective instrument for changing gender roles. Mayoux (1999, p.974) argues that women who previously had no access to income set up economic activities which, in turn, lead to significant changes in their mobility outside the household. Hashemi et al. (1996, p.648) also found that credit programs increase women's movement within their villages by requiring them to join regular meetings. Furthermore, accessing credit from MFIs introduces women to public spaces and create opportunities for them to travel outside of their villages, such as during visits to local program offices and occasional training programs (Kato & Kratzer, 2013, p.44; Lyngdoh & Pati, 2013, p.3; Schuler et al., 2010, p.151). For instance, in Bangladesh, women's mobility is traditionally restricted due to observance of *purdah* (the Muslim custom of veiling and segregating women). Kabeer (2001, p.65) reported that, following their engagement with microfinance projects, women experienced increased mobility and autonomy.

Nonetheless, the situation of women in Indonesia is notably different than in other developing countries. In terms of mobility, Muslim women—especially Javanese women—have no cultural restrictions on their movement, in the sense that they are free to venture out of the house independently. Women generally have ample opportunities to work and earn income (Lont, 2000, p.91). When women are able to attain such freedom, they are considered more empowered. Concerning mobility, all of the interviewed women said that they already had mobility in their everyday lives due to their economic activities, even before they received BMT services. However, after becoming BMT members, they experienced increased movement, particularly for non-income generating activities. For instance, GEMI's *rembug minggon*, which takes place at members' houses, has propelled clients to frequently travel within the village and interact with others outside their communities. The leaders of *rembug minggon* travel even more often, particularly when they represent their groups at workshops, training sessions, or annual meetings at the BMT office.

Also, the mobility of BMTs' clients—especially those of BIF and Al-Ikhwan—increases as members participate in religious meetings, which are regularly held at clients' homes. Furthermore, during specific events, BMTs will invite clients to attend events at their office. During our interview, one BMT client stated:

"[My] BMT often involves me in various activities. For its *milad* (anniversary), for example, I was invited to attend a *majelis taklim* at BIF's central headquarters. At the event, I met with other customers" (Respondent 1).

BMT clients also experience greater mobility because they are not only engaged in religious activities, but also in other programs. This mobility enables them to socialize themselves and develop networks. While visiting new places, women have the opportunity to meet and converse with other people, which in turn helps increase their motivation, social relations, and knowledge. One BMT client testified that she has established new friendships with other female beneficiaries from nearby villages. These friendships offer them new sources of mutual social support and material assistance in the form of small loans or food, which can be relied on during times of financial difficulties. One respondent explained:

"I attended a healthy walk organized by the BMT, with hundreds of clients. I was delighted to meet other members from the neighboring village, and now we have become friends. Moreover, it was also a nice moment because the BMT provided many door prizes for participants. Above all, I am very blessed that the BMT considers me a family member" (Respondent 2).

Members' exposure through BMT programs increases their opportunities to travel to other cities and province. A savings product called *siwani* (*simpanan wisata rohani*, savings for religious tourism), offered by Al-Ikhwan, illustrates how women clients experience more frequent mobility. For women with *siwani* accounts, BMT organizes religious tours to other regions. As testified by clients, Al-Ikhwan has brought women to the Islamic boarding school (*pondok pesantren*) of AA Gym in Bandung, Istiqlal Mosque in Jakarta, and Demak Grand Mosque. Similarly, GEMI arranges annual recreational programs for its clients. A GEMI client stated about this activity.

"Before joining GEMI, I had never experienced visiting a tourism site in another city. Now, it has become possible for me. At every *rembug minggon*, I give IDR 5,000 to the officer for the leisure program. At the end of the year, I travel together with other members for sightseeing. Recently, GEMI took us to *taman kyai langgeng* in Magelang" (Respondent 13).

However, in contrast to social mobility, women's arrangement with BMTs have no significant effect on their business mobility. The fact that all BMT clients were engaged in economic practices outside the home before joining their BMTs explains this trend. As I noticed in the field, women travel almost every day to the market and other places by motorcycle or bicycle for their business.

In short, one positive impact of women's access to BMTs is the opportunity for mobility outside their usual circumstances. Women's physical mobility will improve their access to public information, and enable them to take advantage of economic changes (Hashemi et al., 1996, p.636).

6.3.3. Psychological Implications of BMT Services

This study shows that, aside from economic and social impacts, BMT programs and services also have psychological effects on women. Two implications are examined here: increased self-esteem and religiosity as positive effects, and dependence on credit, which is considered as negative effect.

1. Increased Self-Esteem

Self-esteem is defined as an individual's judgment of self-worth, which is derived from self-evaluations based on competence or attributes that are culturally invested with particular values (Bandura, 1997, p.193). In the business world, the significance of nurturing customers' self-esteem will substantially contribute to their net worth. Furthermore, Moteleng (2015, p.4) argues that microfinance is a critical part of providing financial access to the poor, not only due to their material effects but also their psychological ones. Therefore, microfinance affects the day-to-day lives of the poor, how they feel about themselves, their achievements, and their self-esteem. Moteleng further found that the provision of microfinance is positively related to recipients' self-esteem and self-efficacy.

Moteleng (2015, p.4) maintains that the critical benefits of microfinance are far more than financial, and cannot be measured on a balance sheet. The real benefits of microfinance are self-esteem and dignity, along with family and community respect. This observation is echoed in the United Nations' (2012, p.6) statement on the multiple impacts of microfinance: "the greatest contribution of microfinance is that it empowers people, providing them with confidence, self-esteem, and the financial means to play a larger role in development".

Consistent with the prior research, this study shows that BMT projects are powerful catalysts for building clients' self-esteem. Most of the female beneficiaries indicated that, when their income increased as a result of BMT credit, they were able to make different contributions to their households and their felt self-worth. During semi-structured interviews, one respondent said:

"Although I am only a small trader, I am proud to be able to send my children to school. Two of my three children have even managed to enter university. By sending the children to higher education, they will elevate the status of their parents" (Respondent 6).

Marginalized women often have low self-esteem and lack assertiveness. As such, it is difficult for them to participate productively in economic activity (Schwindt-Bayer & Mishler, 2005, p.408). An interview with another woman revealed that her receipt of BMT services has helped her to gain more respect and prestige from community members. This testimony further implies that women's self-perception and perceptions by others change after BMT membership. According to Kabeer (1999, p.462), this change affects the way people see themselves, their sense of self-worth, and their capacity for action. Those are essential factors in the empowerment process. Regarding self-esteem, Respondent 2 expressed her feelings in this following remark:

"I am only a *wong cilik* (marginal person), but after getting acquainted with [my] BMT, I felt more *diuwongke* (treated like human being). For example, when the son of *Pak Meidy* (founder of BIF) married, my husband and I were invited to the wedding party. Likewise, when my daughter married, *Pak Ridwan* (BIF's manager) came with his family" (Respondent 2).

In addition, business growth and increased income correlate positively with heightened feelings of self-esteem and dignity. BMT members generally feel proud of their economic activities and their being self-employed. Respondent 5, for instance, confessed that she feels more empowered and respected by her family due to her ability to contribute financially to the household:

"I am proud that I can contribute more to my family as my income increases. For instance, when my husband bought a motorcycle, I could contribute money. When our children enter university and need a lot of money, I am able to help my husband with the tuition fees" (Respondent 5).

Participation in BMT programs also generates friendship networks, which have positive spillover effects on women's self-confidence and self-esteem. One woman from a *rembug minggon* group confirmed that she enjoys considerable prestige and empowerment as a result of her engagement:

"Because the BMT often invites me to take part in programs at its office, like training and workshops, I have a lot of friends. Through a friend I met at the BMT, I once became a participant of a *majelis taklim* program in local television. I was pleased because it was a live program and my family could see my face on television" (Respondent 11).

Most women beneficiaries asserted that having the opportunity to own economic assets increased their self-confidence and self-esteem. The women stated that owning property has given them the confidence, mobility, and ability to help others. Respondent 3 cited a specific example of how property ownership has improved her self-esteem:

"For years, a bicycle was my means of transportation to the market. After buying a second-hand motorcycle, I became more mobile. Moreover, by owning a motorcycle, I can offer help to others. When I ride my motorcycle and find a woman walking on the street, I ask her if she wants to go with me" (Respondent 3).

This statement clarifies that, with confidence and self-esteem, women clients may help other persons. Being able to help others means that women are strong and resourceful (Nussbaum, 2000, p.123). Hence, it can be argued that having self-esteem and self-confidence further produces other social benefits, i.e. women can help others because they become more resourceful.

2. Increased Religious Awareness

Religiosity refers to the practices carried out by those who profess a faith (Doyle, 1992, p.310). According to Brandt (1996, p.84), religiosity involves belief systems and a range of personal, familial, and work-related commitments to those systems. In academic studies, religiosity is commonly used interchangeably with spirituality. In this study, I agree with Brandt (1996, 84), who argues that spirituality is a somewhat broader concept than religiosity. While religiosity has an element of acting on one's belief system or religious tradition, spirituality is thought of as beliefs and values that pervade one's perceptions of life.

The two terms are closely linked in the sense that spirituality has been rooted in religions. Many benefits of spirituality are also found in religiosity. While spirituality in Islam is measured from one's basic knowledge of the Quran, prayers (*du'a*), trust in God, paying *zakah*, thankfulness (*shukr*) to God and people, remembrance of God (*dhikr*), and forgiveness (Grine et al., 2015, p.53), religiosity is the practice of this knowledge. Religious worship, such as prayers, fasting, charity, and pilgrimage, are used to enhance Muslims' relationships with God and society; otherwise, these would become empty rituals devoid of value. This present study uses the term religiosity as a broad indicator of the psychological effects of BMTs religious programs. Using a psychological perspective, Brega and Coleman (1999, p.237) associate religiosity with faith in people, subjective well-being, life satisfaction, happiness, depression, and self-esteem.

Previous examinations have documented that religiosity and spirituality influence economic performance. Mardhatilah & Rulindo (2008, p.330) report that religiosity has a high correlation with the performance of Muslim women entrepreneurs. Women entrepreneurs who attend religious activities are more satisfied with their businesses. These activities help them manage stress and persuade them to be more persistent to achieve success. Mardhatilah & Rulindo (2008, p.329) also demonstrate that a higher level of spirituality and religiosity will increase their passion and patience. It was also noticed that higher levels of spirituality improve good characteristics such as discipline, work ethic, and human

relationship management, all of which are important for women's businesses. Several other studies have claimed that spirituality exercises a significant effect on people's lives (King & Crowther, 2004, p.83). Furthermore, spiritual and religious values have important effects on the way people behave, live, and work (Osman-Gani et al., 2012, p.1).

In the context of IMFIs, several attempts have also been made to investigate the link between spirituality, religiosity, and economic performance. Cokro & Ismail (2008, p.61) maintain that the Islamic financing programs offered by BMTs enhance clients' religious and spiritual quality of life. Khan & Phillips (2012, p.3) found that faith motivates borrowers to repay loans. Other researchers, such as Hadisumarto & Ismail (2010, p.69), suggest that IMFIs' religious treatments improve clients' business performance. Masyita et al. (2014, p.1) have proven such an impact on clients' behavior and business performance. Moreover, Wediawati et al. (2018, p.12) claim that religious intermediation has a positive and significant effect on IMFI sustainability in Indonesia.

This study considers religiosity part of the psychological dimension of women's empowerment. This research demonstrates that BMTs that regularly provide religious programs enhance the religiosity of their clients. Participants asserted that Islamic intermediary program, particularly *majelis taklim*, offer a way to improve their level of piety and religious knowledge. The following quotes illustrates such views:

"Initially, my main motivation to join the BMT was because I was interested in the *majelis taklim* program. I and other *ibu-ibu* (married women) idolized *Uztad* Suyanto from the BMT, who often performed Islamic outreach in this village. My goal in attending the religious lecture was to increase *iman dan taqwa* (faith and piety). As I've gotten older, I have realized that I must increase my worship so that my life is more directed" (Respondent 1).

"The BMT often invites us to attend the *majelis taklim* program. Even if it takes place outside of my village, I will come. First, I know that I am *bodo* (ignorant). Thus, I want to increase my religious knowledge. Second, after listening to the recitations, I feel that I have many sins. As such, I always pray to Allah to forgive all of my sins" (Respondent 3).

"I feel that my religious knowledge has improved after participating in the BMT's *majelis taklim*. *Pak Uztad* usually gives a short speech, but it is easy

to understand and practice. When I arrive home, I share what I learn from the forum with my husband" (Respondent 2).

Additionally, most respondents, particularly the clients of BIF and Al-Ikhwan, recognized that their practice of religious rituals such as prayers and Quranic recitations have improved after they became involved in their BMTs' religious programs. As Hawa (2004) in Grine et al. (2015, p.44) suggests, spirituality cannot be maintained unless all of the religious rituals of fasting, pilgrimage (*hajj*), and *zakah* are observed regularly. Muslims are commanded to discharge these rituals, which provide them with daily, weekly, and yearly nourishment for their spirits, strengthen and renew their beliefs, and cleanses sins from their hearts.

Relating to religious rituals, some BIF and Al-Ikhwan members commented:

"The *ustadz* recommends that, whenever I am in trouble, I should pray and recite *lahaulawalakuwataillabilla*, ask Allah to make my *rejeki* (*rizq*) easier" (Respondent 2).

"As a human, I can only pray and believe Allah will help me. When I face difficulty, I will do *tahajud* prayers and read *Surah Yasin* in the hope that Allah will give me a way and space" (Respondent 7).

"We have a *musholla* in the market. As such, many members of the Al-Khodijah *majelis taklim* (clients of Al-Ikhwan) perform *dhuha* prayers in the morning while working. We believe that, by doing *dhuha*, Allah will open our *rizq*" (Respondent 4).

"Every Friday, I study Quranic recitation with BIF employees. Now, my ability to memorize short *surah* is much better" (Respondent 3).

"I practice, one day one *juz*. In the afternoon, after *zuhr* prayers, I read half a *juz* of the Quran. At night, before sleeping, I read another half *juz*". I also do 1000 *dhikrs* every day, and I feel peace and happiness afterward" (Respondent 5).

Other interviewed women conveyed that, as their religious knowledge has increased, they have practiced voluntary (*sunnah*) fasting (*puasa Senin–Kamis*, or Monday–Thursday fasting). Moreover, the respondents considered *sunnah* fasting to be a way to get closer to Allah. Two respondents, respectively members of BIF and Al-Ikhwan, said the following:

"We try to follow the *sunnah* of our Prophet. Alhamdulillah, my family regularly practices Monday–Thursday fasting. Thus, every Monday and Thursday, there is no lunch at my house" (Respondent 1).

"If I am not having my period, I do Monday–Thursday fasting. From the *ustadz*, I have understood that all my deeds are presented to Allah on these two days. I want my deeds to be presented while I am fasting" (Respondent 6).

Some participants also exemplified the importance of spiritual values in encouraging them to pay *zakah*, give charity (*infaq* and *shadaqah*), and practice *qurban*. Participants mentioned that performing such religious rituals has helped them achieve happiness and peace in their daily lives. Two respondents, respectively BIF and Al-Ikhwan clients, said:

"It was Pak Ridwan (BIF's manager) who first taught us to give *infaq* and *shadakah*. He gave me a small can and asked me to put coins inside for charity contribution. After a month, he came to take the money. I felt pleased and honor, as I was able to give a small donation" (Respondent 2).

"Every *Ied al-Adha*, we also give *qurban*. We realized that *qurban* is a symbol of sacrifice and *sabar*⁶² that is strongly recommended for Muslims. Together with some members of the Al-Khodijah *majelis taklim* in the market, I collected IDR 10,000 every day for the *qurban*. Then, I saved the money with Al-Ikhwan. A few days before the feast, I withdraw money from the BMT and distribute it to other members so that they can buy a goat or sheep for the *qurban*" (Respondent 6).

Giving *shadaqah* and *infaq* is a matter of conscience; even Muslims with high income will not guarantee their willingness to make social contributions. In this context, BMT clients' willingness to remain committed to donating *infaq* and *shadaqah* can be considered an effect of their interactions with the BMTs, particularly these IMFIs' emphasis on habituating charity.

Finally, the religious interventions of BMTs have also influenced clients' ability to experience a spiritual journey by performing the *hajj* pilgrimage. For many Muslims, especially those who are financially capable, the *hajj* is the foremost spiritual journey and expression of devotion to Allah. A loyal BIF client, for instance, stated that she would feel completer and more perfect as a Muslim if

⁶² Derived from Arabic word *sabr* which commonly translate as patience or restraining the self from agitation when confronted with undesirables.

she were able to fulfill the fifth pillar of Islam. Here is the testimony of one BIF member:

"I do all of the four pillars of Islam (*shahada*, *salah*, *zakah*, and *fasting*), except the *hajj*. Of course, I really want to perform the *hajj*, or at least *umrah*. As such, I am saving money with BIF for the *hajj* program, but the amount of money is still far from enough" (Respondent 1).

It is important to note that Respondent 1 can be categorized as a lower-middle income family. As such, her desire to perform *umrah* is economically possible. Aside from financial capacity, completion of the *hajj* is also a matter of "calling". This means that not all wealthy Muslims who are financially capable of performing the *hajj* are willing to do so; they require spiritual awareness. From Respondent 1's comment, it can be seen that a desire to comply with religious teachings has driven their efforts to save money for the *hajj*.

By contrast, BMTs that do not regularly provide such activities may not affect their clients' spiritual lives. Most of these BMTs' clients see religiosity as a personal matter. Some GEMI and BKS 19 clients stated:

"For me, religious life is private. I have not felt any different about spiritual matters since joining GEMI. The reason I joined GEMI was merely its flexibility and ease compared to other financial institutions. For example, if I borrow IDR 3 million from BRI, the procedures and all related documents are too complicated. At GEMI, getting IDR 5 Million is easy and does not require collateral. Thus, I chose GEMI. It has nothing to do with religious concerns" (Respondent 12).

"My involvement with BMT has not affected my level of spirituality. I keep doing *salah*, wearing the hijab, doing good things, and avoiding those that are forbidden in Islam. It is definitely similar to before I joined the BMT" (Respondent 11).

"For me, everything is the same. Once a week, I attend the *majelis taklim* in the mosque, but there is no connection with BKS 19. The most important thing for me is that I can pay the installments. If I do not pay off a debt, I am afraid that I will not be able to enter heaven. This what I believe" (Respondent 8).

In short, it can be argued that BMTs that are concerned with the spiritual development of their clients are more likely to enhance the spiritual lives of their members. The religious enhancement of BMTs' client as a result of their

engagement is also related to the types generations of BMTs in the province. As discussed in the previous chapter, the first generation of BMTs in Yogyakarta tend to maintain a balance between their socio-economic and religious missions. By contrast, second-generation BMTs are more practical and merely focus on economic dimensions, which results in clients experiencing insignificant spiritual enhancement.

6.3.4 BMTs and Loan Dependency

As argued by Mayoux (1997, p.1), microfinance programs' effects on women are not always positive. Increased income for women can come at the cost of heavier workloads and repayment pressures. Loans may be used by men in the family to set up enterprises, where sometimes women end up becoming unpaid family workers. Furthermore, increased income can lead to the withdrawal of male support and decrease in male contributions to household expenditures. Similar findings emerged in studies by Yang & Stanley (2012, p.15) and Alam (2012, p.18), who documented the harmful effects of microfinance on women. These findings demonstrate that advancing loans to the poor can cause more harm than good. The accumulated debt that must be repaid may lead already poor people into further impoverishment, creating a possible cycle of debt and over-indebtedness resulting from multiple borrowing.

Similar to preceding studies, this study found that one of the most apparent negative effects of women's engagement in BMTs is their dependency on credit. As stated previously, the women beneficiaries in this study have been involved with BMT services for more than ten years; one has even been a BMT client for 21 years. Most clients seem to stay with a BMT and seek microcredit throughout their lifetimes. Respondent 2 expressed her lengthy experience and dependence on her BMT, as follows:

"I have not been able to stop taking loans. First, because I have a good relationship with my BMT. It is like my family. We know each other personally. Second, there is always a reason to take more credit. Since 1996, I have borrowed much money, starting from IDR 50,000 and increasing to IDR 10,000,000. When my loan is paid off, I borrow again and again, as there is always a need for more. For example, I needed loans for my children's

schooling. After they graduated, I needed another loan to find jobs for them. After the children got jobs, I needed another loan for their wedding parties. Afterwards, I borrowed money to renovate my house" (Respondent 2).

From a business point of view, loans will be productive if they generate financial benefits and are able to increase assets. The case of Respondent 2 clearly indicates that not all loans are used for productive purposes, i.e. some money is used for wedding celebrations. Organizing festive weddings has become a tradition among Javanese and in Indonesian society in general. It is very common for wedding parties to require large budgets that are partly financed by debt. Although there is a tradition of *nyumbang*, in which invited guests will contribute some money to help cover the cost of the ceremony, this is not a "donation". Rather, it is more of a "debt transaction", because the same amount must be returned when the donor hold a similar celebration.

Experience during fieldwork revealed that BMT clients' desire to continue taking new loans can be attributed to demand and supply-side factors. From the demand side, clients' inability to resist the temptation of credit is influenced by three reasons. (1) First, their satisfaction with BMTs' services. If BMTs' service and products do not meet their needs, clients will quickly leave the institutions. Loyal membership over an extended period of time, as well as multiple loans, denotes that clients are satisfied with BMTs' services. The use of the *jemput bola* system, which does not require clients to leave their business locations to handle financial arrangements, contributes to this satisfaction. Moreover, loyal members who have been positively assessed by BMT officers can access loans without collateral. It is also worthy to note that BMTs' clients also benefit from loan rescheduling when they default or delay repayment.

(2) Second, personal closeness with BMT staff. Maintaining interpersonal relationships is a popular strategy for BMTs to gain and develop customer loyalty. As declared by Ridwan, a main advantage BMT institutions have over commercial banking is their ability to maintain individual relationships with customers (Interview, December 18, 2017). This personal relationship motivates customers to engage in long-term BMT membership.

(3) Third, fear of losing access to a source of financing is another reason why clients stay with microfinance institutions. This factor induces recipients to make recurrent loans and then transferring money to other family members. This situation puts women at risk, particularly in cases of default.

"Although I no longer need capital to develop my business, I do not want to leave GEMI's *rembug minggon*. In case I need urgent funds, there is a financial institution that I can ask for help. Recently, I borrowed IDR 5 million for my husband to pay an annual rent of his kiosk. He is responsible for the weekly installments" (Respondent 11).

From the supply side, the tight competition between BMTs in Yogyakarta contributes to their clients' debt dependency. As a consequence of this rivalry, most BMTs have to make extra effort to retain members' loyalty through maintaining personal relationships. The competition between BMTs was confirmed by Okty, BIF's branch manager:

"Nowadays, it is challenging to find new customers, as more and more BMTs are operating in this city. In addition, the government issues microcredit through commercial banks that target our main customers. Hence, what we can do is *nguri-uri*—careful maintenance—so that members remain loyal and do not leave BIF" (Interview, December 23, 2017).

Apparently, BIF's strategy is in step with Guenzi & Pelloni (2004, p.365), who believe that interpersonal closeness is the key to a company's success. They also claim that personal relationships play a critical in fostering customer satisfaction and loyalty, as well as in reducing customers' tendencies to join their fellow customers in switching to other service providers. By applying this strategy, BMTs deploy extensive information, lobbying, and additional services to loyal clients, ultimately creating a state of 'dependency'.

The primary idea of microfinance intervention is to provide small credit to micro-entrepreneurs to develop their businesses. It is expected that, as their businesses flourish, clients will no longer need microfinance institutions, but will instead switch to a commercial bank where larger loans can be obtained for further business expansion. Clients' dependency on credit, in this perspective, reflects BMTs' failure to move their clients up the social and financial ladder. Credit dependency can be explained by referring to the concept of credit addiction. Peprah

& Koomson (2014, p.2) argue that credit addiction is linked to the social and financial mobility of people in the capitalist era. The following figure depicts how microfinance interplays with social and financial mobility:

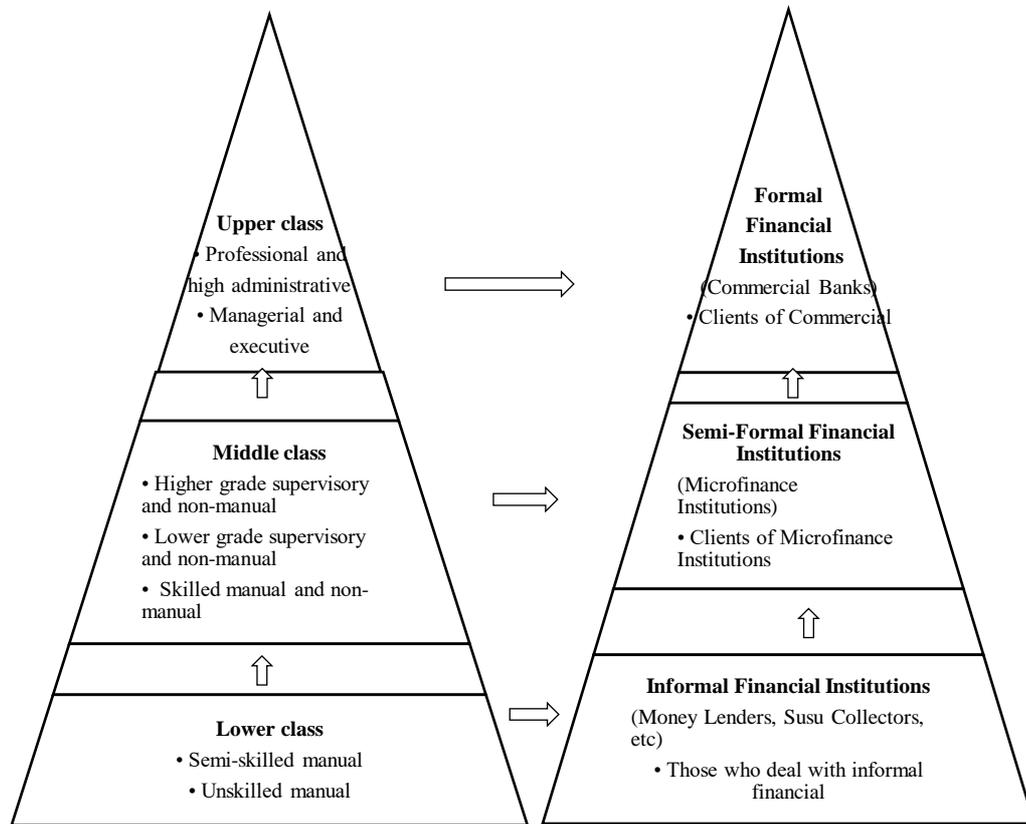


Figure 6.1a: Social Mobility **Figure 6.1b: Financial Mobility**
 (Source: Peprah & Koomson, 2014, p.4; Prais, 1995, p.56)

Social mobility is the transition of an individual or social object or value from one social position to another level. The pyramid nature of Figure 6.1.a shows that MFIs enable unskilled and semi-skilled people who borrow from informal financial institutions with credit and skills to work and improve their lives and become part of the middle class. Middle-class clients, for example, will use their increased profits and further loans to reach the upper class, and therefore begin borrowing from commercial banks (Peprah & Koomson, 2014, p.2).

As with social mobility, financial mobility is the transition of an individual from one financial structure or level to another (higher/lower) level (Figure 6.1.b). Individuals move financially upward or graduate from informal financial

institutions through MFIs to formal financial institutions. It is expected that individuals who borrow from informal financial institutions at one point in time will be able to realize profits on these loans and graduate to become clients of MFIs. As everyone strives for an upward financial mobility (become wealthier than they currently are), these clients are again expected to move on (with huge portfolios) to become clients of formal financial institutions (Peprah & Koomson, 2014, p.5). Clients' stagnation at either the lower or middle level of the financial structure, thus, can be perceived as MFIs' failure to help members move up the social structure. Clients' failure to graduate is what in this study refers to as financial dependency.

6.4 Summary

Influenced by Javanese and Islamic culture, the empowerment of women through MFIs has both positive and negative effects. Some positive outcomes occur in the socio- economic dimension, especially in terms of increased income, savings, and ownership as a consequence of business growth. Moreover, the women in this study have experienced more mobility, particularly in non-economic activities. The findings thus support the women's empowerment framework initiated by earlier scholars (Kabeer, 2003, p.12 & Malhotra, et al., 2002, p.14)

Unlike previous findings, however, this study finds that women's engagement in microfinance has no significant impact on their participation in their families' decision-making processes. Participants, with their Javanese cultural background, argue that they have no problems in the household decision-making process. They further confirm that all important decisions have been jointly with their spouses, even before they became BMT members.

However, as their businesses grow, the intensity of the joint decision-making process increases. Although women are economically independent and contribute significantly to family income, they always discuss their business decisions with their husbands. In this sense, Javanese and Islamic values influence the interactions of women and men in the household. This evidence partially contradicts the expected outcome of women's empowerment through microfinance. By participating in microfinance services, it is expected that women can make

autonomous decisions regarding their businesses. Again, this result is different with earlier advocates of women's empowerment through microcredit.

Women's participation in BMT services also affects them psychologically. Increased religiosity following participation in BMT services is another positive psychological outcome. Most respondents reported that they had gained more self-esteem as their finances have improved as a result of microcredit access. Clients who are regularly exposed to religious programs provided by BMTs over a long period experience religious enhancement, and vice versa. Nevertheless, women's accessing credit through IMFIs also have harmful effects. Clients tend to become financially dependent and stay longer with BMTs. This also indicates BMTs' failure to elevate their members' social and financial mobility to the advanced position.

Chapter 7

Conclusion

This thesis has explored the complex roles and impacts of *Baitul Maal wat Tamwil* (BMT), the typical model of Islamic microfinance institution in Indonesia, in empowering women. It has answered the research questions and the study objectives relating to their origins and link to women's empowerment, their empowerment approaches, as well as their influence on women. The first part of this chapter reiterates the key findings. The second part identifies the theoretical implications of the study and future research directions.

7.1 Understanding Women's Empowerment in BMT

Studies of Indonesian BMTs over the past two decades have grown with a main focus on BMTs' general performance and sustainability in the competitive environment of conventional microfinance practices in Indonesia. This thesis develops previous investigations on BMTs by exploring their roles, programs, and impacts on women's empowerment. Departing from the notion, common among academics and social activists, that the development of microfinance is commonly associated with the poor—mostly women—this project revisits this notion with Indonesian BMTs as a case study.

At the very beginning, when I chose this topic, it was challenging to link the universal concept of women's empowerment commonly used in conventional microfinance with BMTs' engagement with women clients. The main reason was related to the fact that Islamic microfinance institutions are generally understood as family-based empowerment projects, which do not position (married) women as individual actors. As I found in the literature on Islamic economics, BMTs concentrate on the issue of poverty alleviation, with the family as central to empowerment. The term women's empowerment is considered part of a Western concept, which may not be readily accepted in Islamic communities. As such, the

term is often rejected by BMT communities and activists. Nonetheless, in this study, I found a close link between BMTs and women's empowerment.

As shown in Chapter 4, the invention of BMTs in Indonesia was politically part of the broader interests of Suharto, the second president of Indonesian, as he embraced Islam in his political and economic policies. The establishment of the Association of Indonesian Muslim Intellectuals (ICMI) in the mid-1980s laid the foundation for pro-Islamic political approaches, including the promotion of BMTs throughout Indonesia; this included Yogyakarta, the focus of this research. As institutions that symbolize Islamic economic practices within Muslim societies, BMTs were initially motivated to provide Islamic financial services to poor Muslims who had long been neglected by the conventional banking sector. However, as demonstrated by this study, these institutions' motives, as well as their modes of service, have evolved in a manner influenced by their initiators, who come from various associations. Changes in institutions' motivations, as well as intervention from external organizations, has also affected the approaches through which BMTs serve women as their biggest clients, and consequently had different effects.

Evidence in this research shows that, despite making no official reference to empowering women, BMTs in Yogyakarta have significantly empowered women in various aspects beyond their economic needs. Blending Islamic rituals and educational activities in every membership meeting, BMTs' services to their clients enhance women's self-esteem as well as their social mobility of the key persons who maintain family harmony.

7.2 Origin, Mission and Affiliation of BMTs

The introduction of BMTs to Yogyakarta has politically paralleled the campaign for Islamic financing in Indonesia. In their early years of their development, BMTs in Yogyakarta have been encouraged mainly by several elements, particularly Muhammadiyah, ICMI, Dompot Dhuafa, and Sultan Hamengkubuwana X. BMT establishment has been primarily motivated by three goals: 1) To reduce the influence of loan sharks; 2) to introduce and implement an

Islamic economic system; 3) to counter Christian missionary and philanthropic activities in impoverished areas by offering similar services. In practice, BMTs aim to help the poor escape poverty and ideologically seek to defend against Christian missionary activities.

From a historical perspective, there is no indication that the BMT movement in this region is linked to women's empowerment issues. However, in its development, most BMTs in Yogyakarta have predominantly served women recipients. BMTs, as their service area, are involved mostly in traditional markets, the domain of women working in the informal sector. Nonetheless, no BMT institutions address women in their goals, objectives, and operations. BMT policies and programs tend to be gender-neutral, without distinguishing targets, participants, or beneficiaries by sex.

This study reveals that women are targeted primarily for financial sustainability. The preference for women beneficiaries is not related to gendered ideological concerns, such as promoting BMTs as instruments to challenge gender inequality in society. Rather, this preference is rooted in business and pragmatic considerations. BMTs consider women to be 'a rational economic segment', which can enhance the efficiency of programs and contribute to organizations' financial self-sustainability. As such, the way BMTs target women may be explained by financial sustainability theory rather than the concept of Islamic microfinance.

Observing the main offices of the four selected BMTs, I can say that there is a link between the character of BMTs with their primary alliance. BMTs which develop networks with Muhammadiyah and Aisyiyah tend to accentuate Islamic symbols, mainly in form of architecture, interior design, and the use of Arabic in institutional branding. There are thus similarities between BMTs and their allies. On the other hand, BMTs that collaborate with institutions without Islamic roots, such as local governments and international donors, do not use such Islamic symbols.

7.3 From Economic to Environmental Patterns: A Different Approach

Driven by various collaboration with external parties, the four BMTs in this study have managed to develop programs and services beyond the classical models of Islamic microfinance. This thesis demonstrates that women's empowerment in BMTs involves various issues, including socio-economic, religious, and ecological ones. BMTs have applied two approaches for this socio-economic empowerment: individual and collective empowerment. Individual empowerment, called *jemput bola*, is widely employed by BMTs as an effective approach for maintaining personal relationships and members' loyalty as well as a strategy to oppose the conventional banking sector. This scheme requires BMT institutions to organize gatherings between clients and BMT officers. Meanwhile, collective empowerment is generally facilitated through the creation of independent groups of women based on proximity of residency, as seen in the *arisan* and *rembug minggon*.

Apart from economic empowerment, BMTs use their activities as instruments to deliver the *da'wah* mission, to attract new members, as well as to monitor members' business performance. *Majelis taklim*, a non-formal religious institution which has strong roots in Indonesian society serves as the main means through which BMTs fulfill their religious commitments. One of the BMTs in this study also address environmental issues. For instance, supported by international donors and private Indonesian corporations concerned with ecological issue, GEMI has developed a series of programs to improve women's capacity to tackle ecological problem. GEMI has integrated conservation issues at the strategic level by embedding environmental concerns into its organizational mission and goals. Through the development of waste banks, which are managed by women beneficiaries on a voluntary basis, GEMI has pioneered green projects in some rural parts of Yogyakarta. This shows that concern for ecological issues is a strategy through which BMTs can maintain and gain support from environmentally sensitive patrons.

7.4 Between Benefits and Dependence

From the perspective of women clients, the effects of BMT projects on their family and personal lives are mostly positive. Respondents reported that access to BMTs' programs and service have had socio-economic and psychological benefits for women. Economically, positive outcomes have included increased income, savings, and ownership as a consequence of business growth.

In addition to economic effects, women have enjoyed social advantages as a result of their access to microfinancing. Much evidence supports the view that microfinancing promotes the involvement of women in household decision-making processes. However, unlike previous studies, this research found no significant change. Being located within the context of Javanese culture, all women beneficiaries have stated that they have been equally engaged in decision-making with their spouses, even before joining BMTs. However, as their businesses have flourished, the frequency of joint-decision making has increased, since women always consult their spouses about the future of their business. Women recipients acknowledged this as a way to honor the position of men as the heads of their families.

Unlike previous studies conducted in other developing countries such as India, Sri Lanka, and Bangladesh, this research finds no significant changes in women's economic mobility of women. Within the context of Javanese culture, women have no restrictions on their movement, in the sense that they are free to leave the house independently. All interviewed women stated that, even before joining BMTs, they had been mobile in their economic activities and at the traditional markets. Nonetheless, respondents admitted that their BMT membership has enhanced their social mobility. Their involvement in BMT programs has given them the opportunity to travel to places outside Yogyakarta.

Moreover, the participation of women in BMT projects also has positive psychological contributions. Most respondents reported that they had more self-esteem and dignity as their financial situations improved as a result of microcredit access. In addition, women's involvement in BMTs' religious programs has improved their religious knowledge and practice, such as performing prayers,

reciting the Quran, and voluntary fasting. Participants mentioned that performing such religious rituals has helped them achieve happiness and peace in their daily lives.

Nevertheless, this study has also demonstrated that BMTs have negative effects on women. One and the most directly harmful effect of women's engagement in BMTs is their dependence on credit. On average, women beneficiaries have been involved with BMTs for more than ten years, and most continue to seek microcredit. BMT clients' inability to resist the temptation of credit is due to demand- and supply-side factors. From the demand side, their satisfaction with BMT services, personal closeness with BMT staff, and fear of losing access to financial resources are main reasons for clients to continue taking new loans. From the supply side, the fierce competition between BMTs in the province contributes to clients' dependence. As a consequence, instead of embracing new customers, BMTs prefer to maintain the loyalty of their existing customers by continuously offering them credit.

7.5 Implications and Future Research Directions

Much prior research has focused on the debate about microfinance and women's empowerment in the context of developing countries; however, insufficient attention has been given to the Islamic world. This study broadens this issue in the context of developing Muslim countries setting and highlights how Islamic microfinance institutions empower women.

The importance of this thesis lies in its contribution to a new understanding of women's participation in Islamic microfinance programs and services. It is unique because of the emphasis given not only to the voices of women participants in microcredit, who are the intended beneficiaries of the program, but also to BMTs as service providers. Drawing on gender and development studies, this study advances knowledge of the intersection between microcredit, women's empowerment, and religious and cultural problems in an Islamic-majority society.

No previous research has explored the pattern of women's empowerment in BMTs. My empirical work demonstrates that empowerment patterns are greatly affected by BMTs' main affiliations. In the case of Indonesia, women's empowerment has not been underpinned by an understanding of meeting women's gendered needs, either practical or strategical. Rather, BMTs act as extensions of their affiliated organizations to implement economic, social, and religious missions that are not directly related to women. This finding provides a new understanding, illustrating that women's empowerment agendas are not solely driven by gender ideologies but also influenced by complex organizational interests.

The majority of previous research into Indonesian BMTs has concentrated on their performance and link with poverty alleviation. To date, very little research has investigated the connection between women's empowerment and Islamic microfinance. Studies that have been undertaken (for example, Rahayu, & Kusumaningrum, 2015, p.163; Ulfi, I., & Kassim, 2018, p.90) have primarily focused on the impact of women's engagement in Islamic microfinance programs. None, aside from this one, has traced the relationship between the Islamic microfinance movement and women's issue with its historical and political context. This study helps bridge this gap by enriching the interdisciplinary scope of Islamic microfinance in an Indonesian context.

It is largely assumed that Islamic microfinance institutions deal with families instead of just targeting women. Islamic microfinance institutions seemingly shift focus from "women's empowerment" to "family empowerment". This idea is based on Quran 6: 32, which is understood as meaning "Men and women shall have a share of that which they have earned". As such, men and women each need to play their roles in ensuring the economic and social well-being of their families (Obaidullah, 2008, p.19). The "women-only" approach typical of conventional microfinance, which is rooted in gender ideology, is therefore not suitable in such an Islamic society. However, this stipulation does not appear to hold true in every cultural circumstance. My work indicates that women's empowerment is a universal concept that is applicable in Muslim societies, and therefore opposes the view that women's empowerment, understood as a Western

concept, is not appropriate for such societies. Thus, these findings contribute to the new understanding of women's empowerment in Islamic community. Moreover, the results of this study show that women's empowerment in Indonesia's BMTs can be seen as a mix of individual empowerment, which increases women's well-being, and family empowerment. It thus enriches the discussion and debate on women's empowerment and Islamic financing.

There has been a dearth of qualitative study studies on BMTs in Indonesia; this study addresses this gap by undertaking a qualitative approach. It opens up various avenues for future research, using a qualitative model, on Islamic microfinance and women's empowerment in the Muslim world. Future researchers could extend the research findings and reflections in this study and continue discussions on how to develop and integrate the aspects of gender, Islamic values, and microfinance.

While this study has investigated the effects of BMT programs on women's lives, future researchers could further extend this to include the perspectives of spouses and other family members. Due to this study's focus being one Javanese city, it cannot be claimed these findings represent a complete picture of BMTs and women's empowerment in Indonesia. Future research could expand to several areas where BMTs are operating to map out a more comprehensive portrait of BMTs and women's empowerment in Indonesia.

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1. Appendix 1

List of Interviewees

No	Name	Institution	Position
1.	M. Ridwan	BMT BIF	Founder and chief manager
2.	M.Syaifu	BMT BIF	Branch manager
3.	Yudany Okti	BMT BIF	Branch manager
4.	M.Ali	BMT BIF	Staff officer
5.	Mrs. Syaifullah	BMT Al-Ikhwan	Founder
6.	Rama Widia S	BMT Al.Ikhwan	Manager
7.	Laina	BMT Al.Ikhwan	Staff officer
8.	M.Sobari	BMT KUBE 19	Manager and founder
9.	Ekantini Basuki	GEMI	Manager and founder
10.	Esa Putri	GEMI	Branch manager
11.	Dewi	GEMI	Staff officer
12.	Jayenk	GEMI	Staff officer
13.	Nasrudin	Puskopsyah DIY	Director
14.	Edyono	Puskopsyah DIY	Vice director
15.	Edy Kuswantoro	PINBUK DIY	Director
16.	M.B.Hendrianto	Universitas Islam Indonesia	Expert
17.	16 clients from the four selected BMT		

2. Appendix 2

List of BMT Institution Participating in Focus Group Discussion

No	Institution	Registered Location
1.	BMT Binna Ummah	Jl.JAE Sumarta No.24, Godean, Sleman.
2.	BMT Surya Amanah	Jl. Kaliurang Km.6, Pasar Colombo, Depok, Sleman.
3.	BMT GIAT	Wates, Kulonprogo.
4.	BMT Bina Sejahtera	Kasih, Ngentakrejo, Lendah, Kulonprogo.
5.	BMT Ummat	Jl.Pramuka No.30 Wonosari, Gunung Kidul.
6.	BMT Mitra Amanah Sejahtera	Jl. Somanu Utara 04/35, Semanu, Gunung Kidul.
7.	BMT Niten	Jl. Bantul No.KM. 6, Nyemengan, Tirtonirmolo, Kec. Kasihan, Bantul
8.	BMT Insan Sadar usaha	Jl. Flamboyan 232, Sewon, Bantul
9.	BMT UMY	Kampus Terpadu UMY, Ring road barat, Bantul
10	BMT Surya Umbulharjo	Jl. Glagahsari Umbul Harjo, Yogyakarta.
11.	Puskopsyah DIY	JL Glagah Sari, Celeban Baru UH 3 / 817, Warungboto, Kec. Umbulharjo, Kota Yogyakarta.

3. Appendix 3

Interview Guide for BMT Managers, BMT experts, BMT Clients and the guide line for FGD.

Interview Guide for BMT Managers

1. What is the history of this BMT's establishment?
2. What are the BMT's vision, mission, and values?
3. What is the procedure for moneylending and funding in your BMT?
4. How does your BMT manage the balance between *baitul tamwil* and *baitul maal*?
5. In general, BMTs has various characters, as IMFI institutions, community empowerment institutions, social institutions, and *da'wah*. Which character best describes the BMTs in Yogyakarta today?
6. The BMT movement in Yogyakarta was initially intended as an Islamic missionary institution and as a tool for empowering people. To what extent does this mission still apply? If it still applies, how is empowerment done? If not, why?
7. Who are the BMTs in the main alliance of BMT institutions?
8. Many BMTs are established within or close to traditional markets, which are identified with women. What is the main consideration?
9. Most BMT clients are female. How important is the role of women (clients) in BMT development? Are there specific policies related to women? What is your perception about women's empowerment through BMT?
10. What is the pattern of women's empowerment in BMT?

Interview Guide for BMT Expert

1. What do you know about the history and motive of the BMT movement in Yogyakarta?
2. To what extent was the BMT movement in the early 1990s linked to the Islamization movement?
3. Who were the main actors involved in BMT development in the region?
4. What are the current developments, issues, and prospects of BMT institutions in the province?
5. In general, BMTs has various characters, as IMFI institutions, community empowerment institutions, social institutions, and *da'wah*. Which character best describes the BMTs in Yogyakarta today?
6. The BMT movement in Yogyakarta was initially intended as an Islamic missionary institution and as a tool for empowering people. To what extent does this mission still apply? If it still applies, how is empowerment done? If not, why?
7. Many BMTs are established within or close to traditional markets, which are identified with women. What is the main consideration?

8. What factors cause women to be the most common clients of BMT institutions?
9. To what extent do BMTs' engagement with women intersect with gender issues?

Interview Guide for BMT clients

In the following section, the dimension of women's empowerment (economic, socio-cultural, familial/interpersonal, psychological, and religiosity) are "translated" into more concrete questions.

1. What is your main motivation for engaging in income generating activities?
2. How long have you been a BMT client, and why did you choose a BMT as a source of financial support for your business?
3. Sources of income and women's roles in income generation: What are the main sources of income in the household and what are women's and men's respective roles? Have sources of income, their relative importance, and the roles of men and women in these activities changed after participating in the BMT? Has the BMT provided economic benefits specifically to women?
4. Time use in productive and reproductive work: In what types of household activities and employment do women and men engage and spend most of their time? Has the BMT affected these time schedules and workloads in any way? Have workloads and time allocation changed after the joining the BMT?
5. Access to productive resources: What type of productive resources (training, workshop and education) can women can access at BMTs to enhance their skills? Have they enhanced women's skills?
4. Control and decision-making over productive assets: Who in the household (or outside the household) owns assets and property? Which household members make decisions regarding the use and sale of household assets or property and how are decisions made? Does decision-making vary according to the size or importance of the asset or property? Have these patterns changed after participating in the BMT?
5. Control and decision-making over cash expenditures, savings, and transfers from the BMT: How do household members make decisions regarding household cash expenditures, savings, and transfers from the BMT?
6. How is the transfer spent: is it treated differently from other income? Who in the household uses and benefits most from the transfer?
7. Perceptions of women's economic roles: What are the general perceptions of women's ability to earn and manage money and make economic decisions in the household? Have these perceptions changed after joining the BMT?
8. Control and decision-making on reproductive matters and children's education: Who in the households decides when to send children to school? Is decision-making about sending children to school different for girls and boys?
9. Empowerment, self-esteem and dignity: Have there been any perceived and/or actual changes in beneficiaries' sense of self-confidence, self-esteem and dignity since the joining the BMT, particularly among women?
10. Social networks: Has the BMT fostered the creation of new networks?

11. Leadership and influence in the community: Who in the household participates in public decision-making and speaks in public on social protection investments? Has any of this changed after the joining the BMT?
12. Islamic knowledge: Is there any difference in term of Islamic knowledge after joining the BMT?
13. Islamic practice: How frequently do you perform ritual prayers (*salat*), alms-giving, charitable acts, fasting, wearing hijab, and reciting the Quran? Has there been any improvement lately? If you have enough money, do you want to go to Mecca for a pilgrimage?
14. Moral practices: How important are truthfulness, honesty, keeping promises, courage, self-respect, generosity, steadfastness, forgiveness, patience, and fairness to you?
15. Self-discipline: Are you the kind of person who can follow through a well-planned work? Tell me more. Is it any different after joining the BMT?
16. Responsibilities and obligations: As a Muslim, what do you think your responsibilities are as parents, children, spouses, close relatives, neighbors, and guests? Has your engagement with the BMT affected your perception?
17. Feeling of presence/sense of connectedness with Allah: When you face difficulty, do you ask Allah for help? How does it work for you? Do you feel closer to Allah since joining the BMT?

The Guideline for Focus Group Discussion

1. To what extent was the BMT movement in the early 1990s linked to the Islamization movement?
2. In general, BMTs has various characters, as IMFI institutions, community empowerment institutions, social institutions, and *da'wah*. Which character best describes the BMTs in Yogyakarta today?
3. The BMT movement in Yogyakarta was initially intended as an Islamic missionary institution and as a tool for empowering people. To what extent does this mission still apply? If it still applies, how is empowerment done? If not, why?
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