



Potential Solutions to Financing Problems among the Poor: A Case of *Baitul Maal Wa Tamwil* (BMT) in Indonesia

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Abstract

Many people in the poor category do not have access to most financial services, especially from formal banking institutions. For example, in Indonesia, as of 2020, there are approximately 91.3 million Indonesians who still do not have access to financial or banking services in the country. Given the difficulties to access financing to undertake their economic activities, the poor have been economically unproductive and remains in poverty. There is a need for non-banking financial institutions (NBFIs) to play a role in reaching people who are still disconnected with the banking system. Several models of NBFIs can be engaged to solve the problem. Indonesia, as a country with the largest Muslim population in the world, has a very well-known NBFI, namely *Baitul Maal wa Tamwil* (BMT). With a business model that focuses on the lower-middle-class economy and the MSME sector, it is hoped that BMT is able to provide a solution to the problem of access to financial services for the poor. This study aims to determine the issues and challenges of BMT in providing financial service solutions to the poor in Indonesia. In addition, this study provides alternative solutions to the problems faced by BMT in their efforts to improve financial inclusion in Indonesia. The study adopted a qualitative method based on a review of literature from research journals and other types of publications. The study hopes to provide enriching inputs in the development of the Islamic microfinance industry in Indonesia and other countries.

Keywords: access to finance, financing, poor, Baitulmal wa Tamwil, Indonesia

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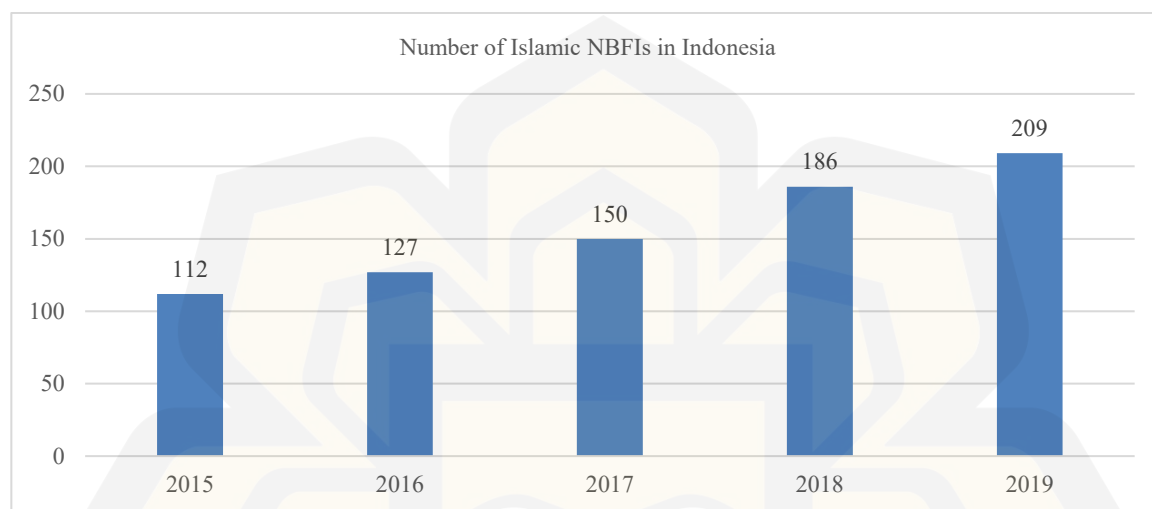
1. Introduction

1.1 Background of the study

With the founding of the People's Credit Bank and *Lumbung Desa* by the government in the late nineteenth century, Indonesia's first formal microfinance began. These two organizations were created to help farmers and laborers to free themselves from loan sharks. The People's Credit Bank was upgraded to the Village Bank in 1905, and its services were broadened to include all small business activities (Rokhman, 2013). Microfinance, together with social protection and community empowerment program, is one of the most important tools for reducing poverty in Indonesia. It is given through bank microloans and the formation of savings and lending groups (The Asia Foundation, 2014). Furthermore, this industry creates opportunities for poor and microenterprises (Tamanni, 2019). The poor, who accounted for 80 million individuals in the country, or around 10% of the population, are the focus of this essential instrument (BPS, 2016). Microfinance clientele has recently been estimated to number around 50 million people, with 80% of them receiving loans from non-bank institutions (Sutiyo et al., 2020). Living in poverty entails more than just a lack of clothing, food, and shelter. Poverty, on the other hand, requires having limited access to resources and productive assets, such as research, knowledge, technology, and capital, to attain necessities (Jayengsari and Husaeni, 2021). According to Ayu et al. (2019), poverty refers to low-income citizen that cannot fulfil their basic need. In addition, these people have lack of productivity due to capital problems such as financial or skill problem. The purpose of

Islamic microfinance is to provide financial services to the poor and the poorest people in the informal economy, which is usually funded through third-party sources such as charity (*infaq* and *sadaqah*¹) and compulsory Islamic taxation (*zakat*). Islamic microfinance is essentially interest-free microfinance because it offers funds without charging interest to adhere to *Shariah* requirements. In addition, Islamic microfinance maximizes social services by utilizing *zakat*, *infaq*, and *sadaqah* to meet financial requirements (Wulandari and Kassim, 2016). Here are the number of Islamic non-bank institutions based on OJK (2019).

Figure 1: The number of Islamic non-bank institution (NBFIs) in Indonesia



Source: OJK (2019). The data is processed by the researchers

Baitul Maal wa Tamwil (BMT) is one of Indonesia's non-bank Islamic financial institutions (NBIFIs). As an Islamic microfinance institution, BMT is an intermediary financial institution that operates in the microfinance sector. Based on KNKS (2018), approximately 4500 BMT institutions have been established and scattered throughout Indonesia. However, not all BMT are under OJK as some Islamic microfinance institutions are under the Ministry of Cooperative, Indonesia. Some BMT institutions do not apply the license from the OJK; thus, they are under the jurisdiction of the Ministry of Cooperative, Indonesia.

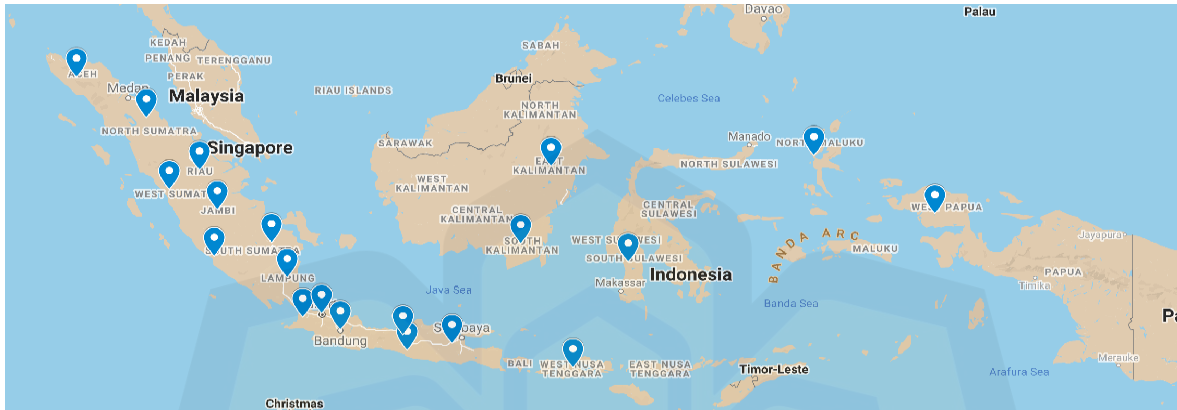
BMT takes deposits from excess units and disburses them to customers in need of credit (deficit units). As a *Shariah* intermediary financial institution, the BMT follows *Shariah* in its operations. The revenue generated by BMT will be partly distributed to the depositors (*shahibul mal*), while the remaining part will be BMT's income (Mawardi and Widiastuti, 2018).

BMT plays a unique role as *Baitul Maal*, which functions as an *amil* that manages, collects, and distributes *zakat* and acts as a financial intermediary by managing funds, savings and providing financing (*Tamwil*). It serves a dual purpose as a business and social entity (Hadisumarto and Ismail, 2010). BMT's social function is carried out through the provision of *qardhul hasan* (an interest free loan) financing. Besides that, BMT also offers other contracts based on profit-loss sharing principles contract under Islamic values. BMT performs vital tasks as cooperatives based collective operations to decrease risk aspects under Islamic norms. In mitigating the credit risk, BMT promotes spiritual and moral support with collective activities among members, which are

¹ *Infaq* is derived from the Arabic word *anfaqa*, which means to spend (possession) for particular importance. *Infaq* is voluntary spending done by a Muslim regardless of the threshold and the person who gives the *infaq*. *Sadaqah* is derived from the Arabic word *ash-sadaqah*. It means to spend (possession) to those in need, such as the poor. Both *infaq* and *sadaqah* do not require a specific amount and type of gift. The purpose of *sadaqah* is to help those in need, and it is broad. While *infaq* is a gift given when someone receives the sustenance and blessing of Allah.

different risk mitigation mechanisms from banking institutions. Islamic counselling and regular meetings are two activities that encompass Islamic spirituality and practice as part of credit risk mitigation (Wulandari and Pramesti, 2021).

Figure 2: Distribution of BMT based on provinces in Indonesia



Aceh	2	DKI Jakarta	1	Jawa Timur	18	Maluku	1	Sulawesi Selatan	1
Banten	3	Jambi	1	Kalimantan Selatan	1	Nusa Tenggara Barat	1	Sumatra Barat	2
Bengkulu	2	Jawa Barat	14	Kalimantan Timur	1	Papua	1	Sumatra Selatan	2
DIY	3	Jawa Tengah	21	Lampung	4	Riau	2	Sumatra Utara	1

Source: OJK (2021). The data does not cover the exact number of BMT in Indonesia because not all BMT is under OJK.

1.2 Problem statement

Indonesia has the largest Muslim population in the world, poverty issue continues to rise as the number of the poor does not decrease significantly, and people still experience a lack of access to finance. According to the Central Statistics Agency (BPS, 2020), the percentage of Indonesia’s poor population grew by 0.97 percent because of the COVID-19 pandemic, or 2.76 million people, from 24.79 million in September 2019 to 27.55 million in September 2020. Poor people are not just poor in terms of cash but also in terms of access to fundamental requirements such as education, health care, safe drinking water, and decent sanitation. The most significant barrier to impoverished individuals rising out of poverty is a lack of credit to run their businesses for various reasons. There are many challenges in getting credit from a formal banking institution. First, banks require collateral. Second, they favor consumers with high incomes. Third, the bureaucratic policies and procedures involved in obtaining loans which sometimes lead to complicated policies. In their effort to alleviate the poverty, microfinance institutions (MFIs) face a set of challenges (Kassim et al., 2018). Like one of the Islamic microfinance institutions, BMT has some problems to provide financing to the customers, which are: funding problems, infrastructure problems, people’s awareness, market problems (Wulandari and Kassim, 2015; Mu’tadi, 2019; Kurnia, 2017; Rusydiana and Devi, 2013). Hence, this study aims to explore the potential solutions to finance the poor by BMT in Indonesia.

1.3 Research objectives and questions

Based on the problem statement above, this study has two research objectives: First, to analyze the problems of poor financing faced by BMT in Indonesia, and second, to propose possible solutions to tackle the problems. Based on the stated research objectives, the study poses the following research questions: What are the financing problems among the poor faced by BMT in Indonesia? Furthermore, what are the possible solutions to these problems?

2. Literature Review

2.1 Islamic financial inclusion in Indonesia

World Bank (2014) defines financial inclusion as providing financial access at an affordable cost to low-income segments of society. Hannig and Jansen (2010) stated that financial inclusion strives to help unbankable people access the formal financial system, allowing them to access financial services such as savings, insurance,

financing, payments, and other financial services. Another purpose of financial inclusion is to provide simple access to financial services to everyone, especially the middle- and lower-income people. The ease with which the public can gain access to the banking system will enhance the country's economic growth.

Indonesia's financial inclusion programme began in 2010 (Jayengsari and Husnaeni, 2020). The National Strategy for Financial Inclusion (NSFI) programme was launched by Bank Indonesia (the Central Bank) to increase public access to financial services (Jayengsari and Husnaeni, 2020). Currently, financial services have not reached 32% of the population or 76 million people. In addition, 60-70% of Micro, Small, and Medium Enterprises (MSMEs) lack access to banks' services (Jayengsari and Husnaeni, 2020). In contrast, almost 53 million poor people employed in the MSME sector have enormous potential to eliminate unemployment and poverty as well (Husnaeni, 2017).

Financial inclusion has been implemented in Indonesia in various ways, including the development of *Baitul Maal wa Tamwil* (BMT) and the provision of People's Business Credit (KUR). KUR is a specific business credit scheme for MSMEs and cooperatives that have met the business feasibility criteria but lack collateral in accordance with strict bank requirements (Jayengsari and Husnaeni, 2020). Aditya and Cut (2014) stated that the government seeks through the KUR program to enhance the access of banks to MSME business credit by increasing the guaranteed companies' capacity. On November 5, 2007, the KUR program was officially launched.

The launch followed the signing of a Memorandum of Understanding (MOU) between the government and the banks on credit guarantee or financing to MSMEs and cooperatives on October 9, 2007 (Jayengsari and Husnaeni, 2020). According to Aditya and Cut (2014), the implementation of the KUR program is based on three main pillars, which are as follows:

1. The Government is to assist, encourage, support the distribution of credit, credit guarantees, as well as the preparation of the prospective debtors.
2. For example, the credit guarantee institutions, PT Jamkrindo dan PT Askrindo, serve as a representation of the government and act as a guarantor for bank loans.
3. The banking institution acts as the recipient agency of guarantee, distributing credit using internal funds credit to MSMEs and cooperatives.

According to the World Bank survey in 2014, 60% of Indonesians borrow money, but only 26% borrow from microfinance institutions (MFIs) or banks. Particularly, banks serve only 17%, and semi-formal financial institutions serve the remainder (9%). The remainder of the loans received by the Indonesian population comes from the informal sector (34%), which includes loans from family, friends, and neighbors. While the unserved population remains relatively large at 40%, of which 60% are deemed ineligible for loans due to their mild poverty or extreme poverty.

2.2 *Baitul Maal wa Tamwil* (BMT)

Soemitra (2009) mentioned that BMT refers to an Islamic financial institution (IFI) that was established to fulfil Islamic social obligations while also seeking profit following *Shariah*. BMT represents *baitul maal* (the house of wealth) and *baitul tamwil* (the house of wealth development). BMT was founded as an Islamic financial intermediary focusing on micro and small enterprises (MSMEs). Thus, BMT is also known as Indonesia Islamic micro-finance institution; hence, BMT has become an alternative financial services provider in Indonesia.

BMT is an IFI modification of *baitul maal* during prophet Muhammad (ﷺ) period. In addition to collecting and distributing *zakat*, *sadaqah*, *infaq*, and *waqf* for social welfare, BMT can also act as a financial intermediary, similar to Islamic bank, to seek profit in a variety of ways that are in accordance with *Shariah* (Soemitra, 2009).

There are four activities that can be conducted by BMT (Utami and Setiawan, 2006; Soemitra, 2009; Widiyanto and Ismail, 2010). Those activities are collecting and distributing of *zakat*, *infaq*, *sadaqah* and *waqf* (Soemitra, 2009), and financing activities and service activities (Widiyanto and Ismail, 2010). For funding activities, BMT applies *wadiah* (depository principle) and profit-sharing principle, especially *mudharabah* (Utami and Setiawan, 2006); while for the service activities, BMT provides services like *kafalah* (guarantee),

hiwalah (transfer of debt), *wakalah* (delegation) and *rahn* (pawn) (Karim, 2004).

Figure 3: The Conceptual Framework of the Study

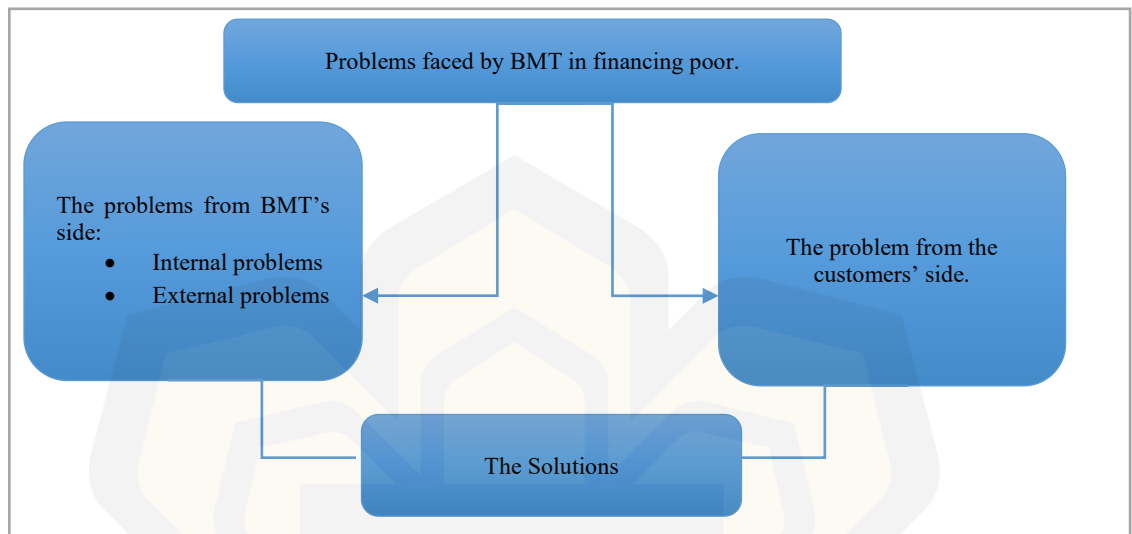


Figure 3 above illustrates the conceptual framework of the study. The study explores the problems faced by BMT in financing the poor in Indonesia. From the analysis, it is divided into two divisions. The first is the problems coming from the issuer; in this case, the BMT. The problem consists of internal and external problems of the institution. Another part is the problem raised from demand, which is from the customers' side. With the problem identified, the study proposes some solutions to the problems faced by BMT in providing financing, especially to the poor people.

3. Research Methodology

This study is a qualitative study with a secondary research approach where the data and information have been gathered by reviewing literature from research journals and the various types of publications (Martins et al., 2015; Nomran and Haron, 2020). The literature source is ranged from 2009 up to 2021. From the collection of the theme of the study, there are 30 papers from various journals, 4 books and 3 unpublished theses. This study also refers to the secondary source which the reports obtained from the documents published by the relevant authorities; *Badan Pusat Statistik (BPS)*, *Komite Nasional Ekonomi dan Keuangan Syariah (KNKS)*, and *Otoritas Jasa Keuangan (OJK)*.

4. Finding and Discussion

4.1 The problems of financing the poor (BMT)

In the agenda to assist poor society to obtain financial services, BMT emerged as a solution for the problem faced lower-income people. However, in meeting its agenda, BMT faces problems whereby it can be divided into the problem coming from BMT itself (internal) and the problem from the customers (external). In this regard, fund sources and infrastructure are related to the internal problem, and people awareness and market problems are associated with external problems (Wulandari and Kassim, 2015; Mu'tadi, 2019; Kurnia, 2017; Rusydiana and Devi, 2013).

4.1.1 Funding sources problem (internal)

In principle, BMT has the same operation as Islamic banks in providing financing. Generally, BMT has sources of funds and other services in its operation. Sources of funds BMT involves the following (Buchori, 2009; Pujiyono, 2013):

- Principal asset. It is a capital between members in the form of *musharakah* contract.
- Mandatory asset. It is a cooperative capital where the amount is determined through discussion, and the amount is deposited monthly.
- Voluntary asset. It is an investment from members having more funds to be deposited in BMT, either in the form of *wadiah* or *mudharabah*.
- Investment from other parties. It is funded by other parties such as Islamic banks in order to develop BMT, either by *musharakah* or *mudharabah*

BMT, nonetheless, cannot rely solely on the internal funds because of its limited capital, subsidies in the form of cash are needed from the government. Without subsidies, BMT will not survive in the future (Wulandari and Kassim, 2015). However, not all BMT are subsidized by the government (Riwajanti et al., 2020).

All Islamic microfinance institutions (IMFIs), including BMT face funding problems as their customers are poor or near-poor. This is especially when their savings are not enough to fulfil the demand for microfinancing. Hence, BMT must rely on subsidies or other sources of funds for its survival (Ascarya, 2018). Ascarya (2017) analyzed the weakness of BMT where its funding is highly dependent on external sources because some of its members are poor and, due to this, rely on bank financing, which is costly for BMT. The high demand for financing from the lower-income people makes the problem worse. The situation is indeed recorded by Nofinawati (2016) in her interview with BMT customers (*Padangsidimpuan*). She found that many poor people applied for financing from BMT (*Padangsidimpuan*), but BMT could not meet all the requests due to limited capital owned by the institution. Hence, external funding is crucial to support the financing needed by the poor people.

Additionally, BMT is also in need of cash in terms of funding subsidies from the government. Kassim and Satar (2019) explained that the additional cash subsidy will significantly reduce the financing rate charged to the poor by BMT. They further suggested that for small-sized BMT, funding subsidy is crucial to prevent the institution from collapse.

4.1.2 Infrastructure problem (external)

In the effort to serve the poor society, the infrastructure of BMT is becoming more crucial. Pujiyono (2013) found that just a few BMT have online facilities such as e-BMT. He suggested that the existence of e-service such as e-BMT and ATM is required to boost customer mobility. In relation to the e-service, online services nowadays are a requirement. Hardi (2020) argued that BMT needs to capitalize on technology to offer efficient services to its customers. Efficiency is important for IMFI, such as BNT, to manage its business. Mu'tadi (2019) commented that despite some BMT in Indonesia having online services, the services are not sufficient and should be improved further by offering new innovations such as the display and features of the e-services. Sakti (2013) reported that in terms of infrastructure comprehensiveness, BMT's is gradually improving; nonetheless, it is not functioning optimally. This impedes the performance of BMT.

4.1.3 People awareness (external)

Financial inclusion is to provide easy access to formal financial services to the unbanked people (Joshi and Rajpurohit, 2016). However, the limited knowledge of the unbanked people among the poor impact the success of financial inclusion. The knowledge owned by someone influences his/her decision. In the context of financing, when applying for financing, a customer tends to use a product and services that he/she is familiar with and will provide utmost satisfaction, subject to the customer's risk profile (Risnaeni and Wulandari, 2020). Therefore, the awareness and the understanding of the products offered by BMT are important for their customers.

According to Kurnia (2017), some people in the society still do not know that besides having savings products, BMT also has financing products. Hamzah et al. (2013) highlighted that BMT's inability to introduce its products (services) to the society will create low awareness in its services, and this has been identified as an external obstacle or barrier of the IMFI as BMT. The understanding of products offered by BMT, therefore, is a necessity. Hasan and Ilahi (2018) conducted an interview with a manager in the BMT *Jati Baru Padang* and found that many customers are not aware of the products offered by this BMT. This is attributed to the limited number of brochures given to customers. Risnaeni and Wulandari (2020) explained that the understanding of

customers significantly influences the decision for applying financing at BMT.

4.1.4 Market problem (external)

The discussion about the market problem is related to the competition among BMT itself and other microfinance institutions such as cooperative or Islamic banks that offer microfinance services. In practice, the highest competition occurs between BMT with Islamic banks offering microfinancing services (Rusydziana and Devi, 2013). Islamic financial industry is growing fast since most Indonesians are Muslims. This situation, however, creates high competition among the players (Islamic banks and IMFIs) since they are targeting the same market, i.e., Muslims in the country. This situation affects BMT externally, leading BMT to strive and survive to sustain its business (Haque et al., 2021). With the high number of conventional and Islamic FIs involved in providing credit financing to the MSMEs, this might be the challenge for BMT in improving its position in the sector. Further, with the high number of IFIs in the market, the understanding of the society towards the role and function of BMT is crucial for its survival (Ngulfa, 2018). Having said that, those are the problems arising from the BMT's perspective. Nonetheless, the problems may also be contributed by the BMT customers, which creates serious challenges for BMT. The problem is related to customer credit unworthiness.

There are certain criteria determining the feasibility of the customers (Micro Enterprises - MEs) applying for financing from BMT. The criteria involve credibility (honesty/*akhlahaq*), business competence, experience in business, collateral, and business worthiness. Furthermore, a customer should have the legal capacity to enter a contract. The criteria are important to avoid customers' default (Hadisumarto and Ismail, 2010).

One important aspect of financing is the business competence of the customers, as it leads to the profitability of BMT (Wiratama, 2018). However, if this criterion is not met, the risk of default in the future cannot be avoided. Hence customers should be competent in their businesses to minimize the risk of default. Adnan and Ajija (2015), in their study on BMT (*Sidogiri*), revealed that the BMT adopted the competence aspect in their evaluation before deciding to provide financing to the MEs. In fact, the customers' capability in running their business is set as the most prioritized criteria by BMT (*Sidogiri*) in the selection process of financing.

4.2 The potential solutions to the problems

The problems explained above cause the role of BMT as an IMFI not maximized. A potential solution, therefore, is needed to overcome the problems. The following outlined the possible solutions that BMT can implement for it to have a significant impact in increasing the financial inclusion of Islamic financial products in Indonesia.

4.2.1 Synergy with zakat institutions

One of the problems of BMT is the lack of funding to be channeled to low-income communities due to a lack of support from relevant agencies in the development of the financing products. Many Muslim communities are poor and need business capital assistance (Dehotman and Yusrialis, 2016). They cannot access finance from Islamic banks because they do not meet the requirements (unbanked). So, there is a need for funding support to BMT so that it can provide financial access to a broader range of poor people. The funding support can be promoted by having synergy between BMT and *zakat* institutions in Indonesia. It is because *zakat* institutions can give financial assistance without collaterals attached (Kareem and Bankole, 2016). Apart from collecting *zakat*, *zakat* institutions in Indonesia also have a role in distributing *zakat* funds. The distribution process is divided into two categories, namely consumptive *zakat* and productive *zakat* (productive *zakat* is a strategic mechanism to help alleviate poverty from the *zakat* given). However, unfortunately, the practice of productive *zakat* is still very rarely done in Indonesia. This is because *zakat* institutions still do not have the infrastructure and systems to mentor and monitor businesses. In fact, according to research by Ali et al. (2015), productive *zakat* can increase *mustahik's* (*zakat* recipient) income by 32.33%, while consumptive *zakat* can only increase *mustahik's* income by 13.38%.

Seeing these potentials and problems, according to Riyadi et al. (2021), the synergy between BMT and *zakat* institutions can be created and achieved through *zakat* fund distribution cooperation. *Zakat* institutions have sizable *zakat* funds for distribution, while BMT has an MSME financing and empowerment program. Combining these together will create synergy and an impactful force to assist the poor not only in business financing but mentoring as well through empowerment programs. Realizing the potentials, Riyadi et al. (2021), in their research, have proposed a synergy collaboration between BMT and *zakat* institutions. Riyadi et al. (2021) proposed the synergy collaboration of the *zakat* fund for the Islamic microfinancing program. The

collaboration is explained in detail as follows:

1. Part of the *zakat* funds in *zakat* institutions is distributed to Islamic microfinance institutions/ (BMT).
2. BMT then manages and distributes it to the poor and MSME entrepreneurs in three stages. BMT can make agreements with beneficiaries to commit to improve their standard of living and make BMT a partner for their efforts. BMT can carry out the following three stages:

a) *Distribution of zakat funds*

The first stage is the provision of *zakat* funds aimed at beneficiaries (poor people). BMT and *zakat* institutions collaborate and provide *zakat* funds for consumptive and productive purposes. This arrangement is the first step for beneficiaries to engage in productive business with the assistance and monitoring of BMT. This form of assistance will channel the *zakat* funds for productive purposes and beyond consumption. This initiative will also empower the poor to be in businesses.

b) *Qardhul hasan*

The *qardhul hasan* fund is the second stage to be implemented after the beneficiaries become productive, but not yet maximized. *Qardhul hasan* will also be distributed to MSMEs, especially to those with limited capital. The recipients of the fund will pay back only the principal to the capital provider.

c) *Profit-loss sharing*

In the third stage, beneficiaries are expected to receive several benefits from their businesses having businesses being established. In this stage, BMT can implement a profit-loss sharing considering the efforts and success of the beneficiaries in their businesses.

3. After going through several phases, *mustahik* is expected to have sufficient income. With a better income level, their welfare is expected to improve and transform them into *muzakki* (donor). Later, they can perform savings in BMT and fulfil their religious obligations by giving *zakat* funds through *zakat* institutions.

Having explained the above stages and the expected synergy between BMT and *zakat* institutions in helping the poor, BMT can get capital assistance from *zakat* institutions. Besides that, *zakat* institutions also benefit because they have been assisted by BMT in the distribution of *zakat* funds productively. This will create a win-win solution for all parties to reduce poverty in Indonesia.

4.2.2. *Developing BMT technology infrastructure*

BMT, as an IMI, is unique compared to Islamic banks (Putra, 2015). BMT does not have the same technological facilities as the banks in terms of infrastructure. However, BMT has strength in terms of closeness to its members because BMTs in Indonesia are cooperative legal entities. So those people who are the customers of BMT are also registered as members of BMT. Despite that, most BMT members are village people who do not understand ATM, Internet banking, and mobile banking.

However, with the growing adoption of technology in the current time, BMT must be able to adapt to changes. Applying technology in financial activities will facilitate BMT in conducting financial transactions with their customers. BMT, therefore must be able to identify the suitable technology as their customers are not yet technology literate. To address this issue, the first step that BMT can take is to develop a simple technology that can be easily adapted by its customers. For example, BMT can develop an agent infrastructure that functions as a BMT representative to make it easier for customers to save, pay financing instalments and withdraw money. To support the development of the BMT agent model, it is necessary to develop technology for recording transactions between customers and BMT agents. This can make it easier for BMTs and customers to carry out financial transactions regularly.

4.2.3. *Islamic financial literacy program*

Currently, Indonesia's level of Islamic financial literacy and inclusion is still low, at around 8.9% (OJK, 2020). This means that out of 100 Indonesians, only nine people are literate about Islamic finance. The low literacy level has implications for the low level of Islamic financial inclusion in Indonesia, far behind the conventional financial inclusion of 76.10%. Considering this phenomenon, the way forward is to increase the level of inclusion in Indonesia to increase Islamic financial literacy so that public awareness of *Shariah*-compliant financial products will increase hence its demand. In this regard, BMT has excellent potential to provide literacy

due to broader reach and more intensive frequency of counselling programs and meetings with the community.

In Indonesia, one of the uniqueness of the society is a large number of women's groups; almost every village has a women's group. In addition, women in Indonesia have a strategic role in determining family financial policies so that if women can be adequately educated, they will be able to provide family financial planning following *Shariah*. This, therefore, should motivate BMT to focus on providing Islamic financial literacy programs and economic empowerment to women's groups. An example of a successful women's empowerment program is the one provided by the Islamic Bank Bangladesh Limited (IBBL), an IMFI in Bangladesh. According to Islam (2021), the IBBL program has a positive and significant impact on women customers' income, savings, and expenditure. In addition, IBBL can also contribute positively to women's empowerment.

4.2.4. Market oriented

The problem with BMT is that it does not develop its products according to market needs (Mashuri, 2016). This will make BMT less attractive to the public and less competitive than other financial institutions. Furthermore, financial institutions will develop their products to improve the services (Fajri et al., 2019). The solution to making BMT more competitive is for BMT to run their business based on a market-oriented approach. In this regard, BMT may engage a model based on Amanah Ikhtiar Malaysia (AIM) in marketing their products. Kazemian et al. (2014) reported that AIM is the oldest, largest, and most recognized IMFI in Malaysia, is very effective in implementing its marketing strategies to meet its customers' needs.

The first step that BMT can take is to determine market segmentation. Following that, BMT can conduct a market survey and evaluate the effectiveness of the products that have been carried out. Finally, BMT can then set the marketing targets to be achieved. AIM has done very well in this aspect. Based on Kazemian et al. (2014), the managers of AIM are aware of the target market very well, and as a result, the payment rate at AIM is very high, at 90%. Hence, BMT may adopt the approach undertaken by AIM to be more effective and efficient in their marketing efforts.

4.2.5. Customer capability development

One of the big problems of developing MSMEs is the quality of human resources for MSMEs, which is still at a low level (Adawiyah, 2011). Furthermore, she stated that MSMEs are found to have difficulties adapting to technology. Due to this, MSMEs are unable to compete with large businesses. To address this concern, BMT has a potential role in increasing the skills of MSMEs' entrepreneurs by providing continuous training and mentoring programs. BMT (*Muamalah Tulungagung*) is one of the examples of BMT that provide effective training to its customers (Prastiwi, 2015). The entrepreneurship training program conducted by the BMT has a significant effect in increasing the income level of MSMEs in the area. Prastiwi reported that the more frequent the entrepreneurship training is held, the higher the income level of the MSMEs. Therefore, the achievement of BMT (*Muamalah Tulungagung*) can be used as a reference for other IMFIs in Indonesia in providing training programs to MSMEs. The increasing skills and income of MSMEs will minimize their risk of defaulting.

5. Conclusion and Recommendation

From the review of literature conducted, it is proven that the emergence of IMFIs, especially BMT, is a solution for financing the poor as well as supporting the development of financial inclusion in Indonesia. Nonetheless, it is not an easy task for BMT considering the internal and external challenges they face, as explained in this study. The problems coming from BMT are divided into internal and external problems. The internal problems are fund sources problem and infrastructure problem. The external problems are people's awareness and market problems. The problem that comes from the customer's side is their unworthiness.

To address the problems, the study proposes some possible solutions that can be beneficial for the development of BMT. These include the synergy with *zakat* institutions, developing BMT technology infrastructure, Islamic financial literacy program, market-oriented products, and customer capability development.

This study, however, has its limitation as this study only provides the overall view of BMT without specifying BMT in certain areas in Indonesia as different areas have their specific problems and constraints. The huge number of BMTs in Indonesia, approximately 4500 scattered throughout the country, makes possible solutions more complex, and hence the solutions proposed in this study is general in nature. Due to this limitation, it is hoped that future research can focus on a particular BMT; hence the case, challenges, and possible solutions can be specified.

Acknowledgment

The paper has been presented at the International Conference on Islamic Financial Literacy (ICiFIL) 2021, which was organized by the IIUM Institute of Islamic Banking and Finance on 7th – 8th July 2021. We thank the reviewers and the Journal Chief Editor for the constructive comments for further improvement of the paper.

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