

# THE FINANCIAL INCLUSION MODEL BASED ON BAITUL MAL WA TANWIL (BMT) COOPERATIVES AND COMMUNITY

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## **Abstract**

*Financial inclusion (FI) is a global movement under the world bank programs and Alliance Financial Inclusion (AFI) which is sponsored by the Bill Gates Foundation. The aim of the movement is to ensure that the poor is able to access any financial services. The FI level in Indonesia achieved 32 %; it means 68% are financial transactions excluding the poor, whereas, the average figure in the world is just only 50%. The poverty rate in Indonesia is very high, it is reaching approximately 59%. Hence, FI is an urgent solution for the case of Indonesia. To tackle this issue, the Indonesian government has just started adopting FI by introducing the vision, the mission, and the concept for the efforts taken. The question is to what extent the appropriate model will be applied in Indonesia. There are two models: the AFI global model or top down model and another community model based on local values. There are pros and cons to the above issue. Some proponents have suggested the Islamic microfinance cooperative, i.e., the Baitul Mal Wa Tanwil (BMT) which is the offering of a solution based on its relationship to the poor. They do not agree with the global model. This study therefore attempts to evaluate the models and design the appropriate model for Indonesia which has special characteristics, i.e., cooperation, value driven culture, local wisdom, etc., which is neglected in most studies undertaken so far. This study is based on a qualitative approach done by conducting interviews of the stakeholders, using the deductive method to explore and design the model. This research revealed that the financial inclusion model based on Baitul Mal Wa*

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*Tanwil (BMT)-Cooperative is better in terms of flexibility and acceptability when compared to the global model. This is because Indonesia is the largest archipelago in the world with wide distances, diverse cultures, values, customs, and religions. To deal with the distances, wide area, and efficiency issues, the ICT mobile phone should be suitably used. The implementation of the model will strengthen the unity of Indonesia and national issues.*

**Keywords:** Islamic Microfinance, *Baitul Mal Wa Tanwil*, Cooperative, Financial Inclusion, Poverty Alleviation.

## 1. Background

Financial inclusion (FI) has been developed in 108 countries, where some of them put microfinance as the main pillar, i.e., India, Bangladesh, Mexico, South Africa, Kenya, Trinidad dan Tobago.<sup>2</sup> FI attempts to reach all levels in society connected to financial service access includes unbanked people / poor people. In fact, just 32 % Indonesian people have access to financial services.<sup>3</sup> It is worse than the world average (50%). Even the Indonesian exclusive financial level is still high compared to southern Asia. Table 1 shows that the average population is still missing financial services (financial exclusive). In South Asia it is 58% while it is 68% for Indonesia.

Tabel 1. Financial Inclusion in the World

Country	Population (million)	Financial Inclusion (%)
Middle East	136	33
Latin America	250	35
East Asia, Southeast Asia	876	41
South Asia	612	42
Central Asia and Eastern Europe	193	51

<sup>2</sup> M. Chibba, "Financial Inclusion, Poverty Reduction and the Millennium Development Goals, *European Journal of Development Research*", 21, (2009), [www.palgrave-journal.com/cjdr/](http://www.palgrave-journal.com/cjdr/).

<sup>3</sup> Bank Indonesia, "The Path Way of Financial Inclusion in Indonesia," *Yearly Report*, (Dec 2013), 9.

Country	Population (million)	Financial Inclusion (%)
OED Countries High – Income	60	92
	2453	

Source: Mc. Kinsey, (2010) And Honohan, Patrick, 2008

The Indonesian FI movement just launched its 5<sup>th</sup> Forum on Annual Payments, Settlements, and Remittances, Asia in Jakarta in May 2014. In the forum Indonesian president committed himself to establishing the FI program by saying “...financial inclusion is going to be [a] national agenda to tackle [the] poverty issue in Indonesia...” Furthermore, Darmin Nasution as the Governor of Indonesia Central Bank emphasized that financial inclusion is a major program to reduce income gap.<sup>4</sup>

Hadad, M., the Deputy Central Bank Governor, said that the government was committed to implementing financial inclusion for reaching out to the unbanked people.<sup>5</sup> Rosmaya stressed if the poor can be served by financial services, then the problem can be addressed. Even, Mulya E Siregar (director of R & D) confirms that FI is a national issue to strengthen nationalism value.

This program is essential given that the level of poverty released by the Central Statistics Agency (BPS) in March 2013 states that it is 11:37% or 28.07 million people. Using the standards of the World Bank (USD 2 per day) show then the poverty reaches 59% or 100 million. Mubyarto say that the poor are constrained in access to financial services so they have difficulty developing a business. In addition, the poor cannot be allowed to compete freely without protection by the government; therefore, the government should connect the poor people, i.e., through financial access or FI. Hence, the financial inclusion movement is very important to this group.

In Indonesia the financial inclusion program has long been performed by microfinance institutions, credit unions, cooperative *shariah*, and BMT through various ways and efforts. However, this is still in limited areas and in small scopes; therefore, the role of the

<sup>4</sup> Darmin Nasution, “Welcoming Remark at the 2010 AFI Global Policy Forum Bali,” accessed September 27, 2010 from AFI web on May 12, 2013.

<sup>5</sup> M. Hadad, “Perluasan Akses Perbankan; Bagi Penggerak Roda Perekonomian”, *Gemari Magazine*, Edisi; 118/XI, Nov (2010), 25.

government is essential to the infrastructure support, commitment, and act-regulation framework.

Recently, the Alliance Financial Inclusion (AFI) movement was launched in Indonesia, sponsored by the Bill Gates Foundation and World Bank by offering microfinance systems services in financial system to developing countries. Nevertheless, the AFI movement has been detected by the microfinance community activists, i.e., like the *Baitul Mal Wa Tanwil*, Cooperatives and *shariah* cooperative. They say that there is a significant difference in terms of methods, vision and mission. Islam has its own way of alleviating poverty: one is better giving out fishhooks rather than fish--reinforcing the value of work and enhancing spiritual values. While the AFI principle is considered not neglected this issue and just focus to financial assistant.

Likewise Purwakanta stated that poverty alleviation is effective if it starts with empowering human beings who do not have direct open access to financial services to the poor. He suggested the traditional institutions of mutual aid, cooperation, deliberation and traditional institutions can actively cooperate with the government so that the FI program can be run well. Furthermore Yesi offers an idea how good community-based institutions can be a provider of financial resources for rural communities and also become mentors.<sup>6</sup> In this case Kasmianti stated financial education (financial literacy) is an urgent matter and ensure that people are connected to financial services before engaging in financial matters.<sup>7</sup>

Meera states that financial institutions such as BMT is the best way to empower the poor. BMTs are Islamic microfinance institutions that are social in nature and distribute zakat, donations and gifts, and other lawful funds to help people empowerment grow, particularly in improving the living standard of the lower layer.<sup>8</sup> For example, BMT has empowered the poor, but still only within a little scope: it is

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<sup>6</sup> Yesi H. S. and Kasmianti Yesi, "Branchless Banking Mewujudkan Keuangan Inklusif sebagai Alternatif Solusi Inovatif Menanggulangi Kemiskinan: Review dan rekomendasi," Program Magister Sekolah Pascasarjana Institut Pertanian Bogor, unpublished paper, (IPB Press: Bogor, 2013), 81.

<sup>7</sup> Ibid.

<sup>8</sup> Meera, (2013), "Islamic Finance and Its Role in Economic Development," (Paper presented at International Seminar, UGM, Yogyakarta, 12 November 2013), 19.

necessary to develop them into national models.

Most marginalized people cannot access formal financial institutions. This is due to cultural and economic factors. Besides, they financially have weaknesses that are incompatible with the principles of formal procedures, mechanisms, and payment. For that the BMT presence is helpful in setting up the informal sector group in question.

This is in line with Chiba, which suggests that more take the role of microfinance in empowering the poor, and this is evident in the Indian microfinance that has a significant role in addressing the poverty problem.<sup>9</sup> A similar opinion was delivered by Karlan and Zinman, Jayati, G.<sup>10</sup>

*Baitul Mal Wa Tanwil* (BMT) as a cooperative, originally engaged for serving the poor, has proven itself to be an institution for elevating marginal groups financially. The BMT has ensured that marginal groups should have the means for significant economic growth.<sup>11</sup> In addition, research conducted by IDB (Islamic Development Bank) in cooperation with SESRIC and the Center for Islamic Economics proves IIUM Islamic microfinance has had a positive influence in the development of human resource.

Therefore, microfinance activists, i.e., BMTs, who already have extensive networks throughout Indonesia and has had a share in the financing of MSMEs are not recommended to AFI with the top down models. It is because this will block economic networks based on community and cooperatives.<sup>12</sup> This is in line with the findings in

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<sup>9</sup> M. Chibba, "Financial Inclusion..." 25.

<sup>10</sup> D. Karlan and J. Zinman "Expanding Credit Access: Using Randomized Supply Decisions to estimate the Impacts. Washington DC: Centre for Global Development." Unpublished Working Paper no.108, (2007); Ghosh Jayati, "Microfinance and the Challenge of Financial Inclusion for Development," *Cambrige Journal of Economics*, (2013).

<sup>11</sup> Rohma, "Memperdayakan Umat dengan BMT di Jawa-Timur, (Unpublished paper, FE-Unair, Surabaya); R. Wahibur, "Work Ethic, Leadership and Performance in Baitul Mal Wat Tanwil Central Java-Indonesia," (Ph.D Dissertation, Universiti Putra Malaysia, 2008); Widiyanto, "Study on Baitul Mal Wat Tanwil Efficiency," (Ph.D Dissertation, Universiti Putra Malaysia, 2008); W. Kartiko, "Strategies of Islamic Micro Finance (BMT) in Financial Inclusion Movement," Interview Result, on 12 July 2015, as Chief of Java-BMT Association.

<sup>12</sup> S. Harjono, "BMT; Islamic Financial Inclusion..."