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Roles of Islamic Microfinance Institutions in Improving Financial Inclusion in Indonesia: Empirical Evidence from *Baitulmaal wa Tamwil*

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Abstract. *This research aims to investigate the role of Islamic microfinance institutions (IMFIs) in promoting financial inclusion in Indonesia. It takes seven areas, namely, Jakarta, Bogor, Depok, Tangerang, Bekasi, Yogyakarta and Nusa Tenggara Barat as samples. Only managers of the IMFIs are taken as respondents since they are the decision makers and understanding of the mission of the IMFIs. A complete of 481 managers of Baitulmaal Wa Tamwil (BMTs) which administered under the Sharia Cooperative Centre involved in the study. Qualitative method was used in this research for determining the variables in advancing model that developed with two mechanism in the data collection; the first mechanism involved a survey questionnaire, and the second mechanism involved in-depth interview. The findings of this research reveal current issues and challenges in strengthening the role of IMFIs in promoting financial inclusion and highlight recommendations for policy makers to promote financial inclusion.*

Keywords: *Financial Inclusion; Islamic Micro-Finance Institutions; Baitul Maal wa Tamwil, Islamic Finance*

Abstrak. *Penelitian ini bertujuan untuk mengetahui peran lembaga keuangan mikro Islam (LKMS) dalam mendorong inklusi keuangan di Indonesia. Dibutuhkan tujuh area riset, yakni wilayah Jakarta, Bogor, Depok, Tangerang, Bekasi, Yogyakarta dan Nusa Tenggara Barat sebagai sampel. Hanya manajer LKMS yang diambil sebagai responden karena mereka adalah pengambil keputusan dan memiliki pemahaman yang jelas tentang misi LKMS. Sebanyak 481 pengurus Baitulmaal Wa Tamwil (BMT) di bawah naungan Induksi Koperasi Syariah sebagai sampel. Metode kualitatif digunakan dalam penelitian ini dengan dua mekanisme yang dikembangkan dalam pengumpulan data; mekanisme pertama melibatkan kuesioner survei, dan mekanisme kedua melibatkan wawancara meSndalam. Temuan penelitian ini mengungkapkan isu dan tantangan terkini dalam memperkuat peran LKMS dalam mendorong inklusi keuangan. Hasil ini juga menyoroti beberapa rekomendasi bagi BMT dan pembuat kebijakan untuk mempromosikan inklusi keuangan.*

Kata kunci: *Keuangan Inklusi; Lembaga Keuangan Mikro Syariah; Baitumaal Wa Tamwil; Keuangan Syariah*

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Introduction

In Indonesia, Islamic microfinance emerged in the 1990s through Islamic banking, Islamic rural banking and Islamic Cooperatives like Islamic Microfinance Institutions (IMFIs). Predominantly the *Baitul Maal Wa Tamwil (BMT)* (Effendi, 2013). BMT has many renowned features compared to other microfinance providers in Indonesia. Being qualified and administered under the Ministry of Cooperative and Small Medium Enterprises, it adopts the community method that is very appropriate to be employed among the poor (Masyita & Ahmed, 2013). Numerous BMT have been incorporated with groups of micro-entrepreneurs (such as *Kelompok Usaha Muamalat* or *Poskusma*). The PINBUK (full name here or the Small Business Incubation Centre) plays a significant role in consulting BMTs, with more than 4000 BMTs administered with the PINBUK (Brunsveld, 2000). Other BMTs obtain funding from Indonesia's Social Ministry (for example, BMT Kube) which contains 87 branches in 19 provinces. Likewise, Indonesia has primary cooperative called *Induk Koperasi Syariah* (INKOPSYAH) with 481 BMTs, commonly in Jakarta, Java, Sumatera, Sulawesi and Kalimantan. Under the the umbrella of INKOPSYAH, the BMTs can get financing access, financial literacy training, capacity building and infrastructure building (Wulandari and Kassim, 2016).

To increase financial inclusion in Indonesia, efforts have started in 2014 since the Financial Service Authority of Indonesia (*Otoritas Jasa Keuangan* - OJK) issued a financial inclusion statute for a commercial bank with a branchless banking program. According to the Global Findex Database (2014), the number of adult people in Indonesia with bank accounts has increased significantly from 20% in 2011 to 36.1% in 2014. It is, however, lower than among South East Asia countries such as Singapore (96.4%) and Malaysia (80.7%). It is also comparatively lower by the global standard of 51% in 2011 and 62% in 2014. Furthermore, the gap of access to financial services becomes wider in Indonesia, where there is only 22.2% of people who are in the BOP category who has a bank account, and only 37% of the whole women population has a bank account (World Bank, 2014).

The Indonesian government is committed to increasing access to financial inclusion through National Strategy of Financial Inclusion or *Strategi Nasional Keuangan Inklusi* (SNKI) task force that comprises of the Ministry of Finance, Bank Indonesia (BI), OJK, National Development and Plan Board (*Bappenas)* and the Ministry of Economic Coordinator. This task force develops a strategy of financial inclusion to improve financial services and alleviate poverty among the poor (BI, 2015).

In addition, SNKI targets an increase in the number of adult people accessing financial services to 75% in 2019 from 36% in 2014. The objectives of SNKI are divided into three missions by the creation of a financial inclusion system, poverty alleviation and development of the economy. These strategies consist of five pillars in creating a financial inclusion system: financial literacy, property right of society, intermediate and distribution of finance, financial services in government sectors, and consumer security. These principles also are supported by three fundaments, i.e. a beneficial policy and regulation, infrastructure and financial information technology (fintech), and effective organization and implementation.

While the OJK has issued financial inclusion statute for commercial bank with branchless banking program since 2014, it has not issued similar regulation for the IMFIs, particular the BMT. Therefore, this study investigates the current issues and challenges of IMFIs in improving financial inclusion in Indonesia by assessing their ability to reduce the number of poor people and increase their wealth. The results will conduct the roles of IMFIs in improving financial inclusion. It is also significant to understand its impact on the IMFIs in improving financial inclusion in Indonesia.

Literature Review

Financial Inclusion: Concept and Determinants

The idea of financial inclusion initiated by the World Bank in Global Financial Development Report (2014) has been stated as "an effective way to access the financial services and the objectives of financial inclusion are for reducing poverty and boosting shared prosperity. The goals of financial inclusion for accessing financial service in rural area, saving money, having financial literacy and covering by insurance".

Consequently, financial inclusion exchanges into the global reform agenda and becomes a great topic for policymakers and regulators. There are several other definitions for financial inclusion. According to Alliance for Financial Inclusion (AFI), a Non-Government Organization (NGO) being sustained by World Bank emphasized that "financial inclusion is no longer a fringe subject, it is now recognized as an important part of the mainstream thinking on economic development based on country leadership" (IMF-World Bank Spring Meetings, 2013). Arun and Kamath (2015) defined that financial inclusion as a condition in which regulator implements financial policies and practices, enlightening diversity in the financial access efforts and applying a progressive approach in financial

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inclusion (Arun & Kamath, 2015). According to Allen et al. (2016), the study discovers that financial inclusion is connected with an enhanced environment to access financial services, such as banking costs and branches. Legal rights and political solidity also matter for financial inclusion. The effectiveness of policies to stimulate inclusion differs depending on the characteristics of the individual attention (Allen et al., 2016).

Financial inclusion reflects the variable cultural approach influencing financial access and developing digital technology to access financial services and cultivate financial literacy in a remote area (Arun et al., 2015). The World Bank, however, emphasizes that financial inclusion and financial access are different issues. Financial inclusion is distinct as the percentage of individuals and institutions that use financial services with a lack of access. However, financial access is defined that people have access to financial services at reasonable prices. (World Bank, 2014).

To understand this model, researchers have cleared financial inclusion has six important components: (i) financial inclusion is proven for alleviating poverty (ii) financial inclusion means finance for people living in a rural area that has limited financial access, (iii) the public policy, (iv) new technologies, (v) product designs and (vi) financial capability, financial knowledge, skills, attitudes and behaviors (Demirgüç-Kunt, 2012).

In addition, the G20 Toronto Summit declaration reveals that there are nine principles for innovative financial inclusion namely, leadership, diversity, innovation, protection, empowerment, cooperation, knowledge, proportionality and framework. Pioneering financial inclusion means educating access to financial services for poor people through easy and safe access. These principles aimed to generate an allowing policy and financial regulations for pioneering financial inclusion, mainly derived from policymakers from developing countries.

Identifying and understanding the determinants of financial inclusion have attracted the research interests of researchers and policymakers alike. The determinants of financial inclusion were derived by World Bank Research Global Development Index, represented into two core topics in reducing poverty and boosting shared prosperity (World Bank, 2014).

Many researchers have found that educated people who live in a rural area can lead financial inclusion more effectively with the understanding of the socio-economy situation of the poor (Bhanot, Bapat, & Bera, 2012), and setting up environment banks in rural areas(Kumar, 2013). Furthermore, (Sharma, 2016)

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reveals a positive relationship between economic growth and various dimensions of financial inclusion, specifically, banking accesses and banking services in terms of deposits. The study also indicates that a directional connection between the number of deposits/loan accounts and the gross domestic product.

In the same vein, another research argues that financial literacy has a direct consequence on financial inclusion and the facilitation of social capital. The improvement of social capital could boost the association between financial knowledge and financial inclusion. Specifically, in the lack of social capital, financial knowledge may fail to improve the level of financial inclusion (Okello et al., 2016). In addition, Beck (2007) and Bruhn (2009) contend that financial sector development has an important part of the development agenda at the global level. This includes an effort to perform powerful financial deepening on economic growth. Moreover, financial sector development focuses on financial inclusion that increases the percentages of the population that have access to formal financial facilities and as effective implementation for reducing poverty (AFI, 2010) in general, and breaks down the complexity of financial inclusion into four components as follows:

1. Access

   This component particularly emphasizes the ability to utilize financial services and products provided by formal finance institutions. It involves the need to understand a moderate degree of access to financial services needed of the analysis and knowledge about the potential constraints that occur when opening a bank account in all matters such as costs and the location of services provided by banks.

2. Quality

   The quality component includes experience shown by the consumers in opinion and attitudes about products and financial services available for them such as measuring of the conformity or merit of the financial products to the needs consumers. The quality component will be a measuring instrument for the relationship between financial service providers and consumers, financial products choices available and the customers' understanding of the implications of financial products choice.

3. Usage

   This component does not only emphasize the use of banking services; usage focuses on the permanence and the depth of services and products of the financial sector in a country. In other words, components usage explains

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precisely the frequency and duration of services from a product financial service. In addition, components usage also measures the combination of financial products used by households or individuals.

4. Welfare

   The hardest of these components is measuring the product impact or financial services on the consumers, such as the change in consumption patterns, business activity and investment, and welfare.

Financial inclusion has been widely accepted, particularly in developing countries such as India, Brazil, and Indonesia. For instance, financial inclusion could lead to financial access to the poor by delivering financial information, education and awareness of self-help groups (SHGs). Other factors are equally important. They are accessing financial institution services, such as; banking and cooperatives (Bhanot et al., 2012).

Financial Inclusion in Indonesia

While the financial inclusion rate has been relatively low in Indonesia compared to the global standard, ongoing efforts are undertaken to improve it for the past several years. Despite this, the efforts to expedite financial inclusion in Indonesia are faced with several issues and challenges. First, there is an unclear approach to how the banking institutions and non-bank institutions can cooperate effectively to improve financial inclusion in the country. Second, the possibility of supporting regulation for IMFIs to compete with commercial bank (Kristen & Skowron, 2013); Ben Naceur et al., 2015). Another issue is the lack of IT utilization as the clients are mostly small and medium enterprises in rural areas that cannot access the bank (Kumar, 2013; Sharma, 2016), and then they are predominantly under bank and un-bankable (Allen, Demirguc-Kunt, Klapper, & Martinez Peria, 2016); (Arun & Kamath, 2015). Furthermore, the government expands the financial inclusion program through collaboration between bank and non-bank, particularly with IMFIs. In this case, it brings penetration of financial services by the poor in rural areas, who could access effective financial services due to accessibility of IMFIs.

Various efforts have been undertaken to increase the capacity building of BMT in Indonesia. The first is to identify aspects of the micro-financial sector and potential independence, such as developing digital payment for the real sector (Haryono, 2015). Second, legal aspects have been supported by regulation such as the legal system, procedures, accountability and governance. However, security

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law for a user has to be developed gradually for customer satisfaction. Third, an integrated system among informal microfinance institutions could be created to help each other by micro-lending credits and increasing social security (Bedjo, 2015). Consequently, BMT needs to improve the environment comprising internal and external factors in developing the growth of a firm.

Another effort to increase financial inclusion includes using social fund (such as waqaf fund) for Islamic microfinance to alleviate poverty, which has been recognized to reduce the poor in Indonesia, Malaysia and Bangladesh, apart from identifying takaful micro-insurance, and improving human resources. Integrating microfinance institutions with zakat, waqf, and financial service from a bank has been developed to alleviate poverty (Bedjo & Iman, 2011). Thus, cooperation between Islamic bank and IMFIs to deliver zakat and waqaf to the poor could be possible to increase financial inclusion. Additionally, telecommunication technology has provided cellular and mobile phone services for making efficient transactions in Islamic microfinance.

There are several challenges for improving financial inclusion in Indonesia. In the context of BMT, this includes targeting the market and focusing on market for BMT, inadequate capital and subsidy from the government, regulation change and un-socialized policies, inadequate well-educated and professional in industries, low understanding of management between managers and officers, Muslims' ambiguous perception of Sharia and conventional financial services, low trust of Ummah in Islamic microfinance and dearth of academic literature on Islamic microfinance (Hamzah, 2014). It is suggested that training financial literacy and educating stakeholders of BMT have not become a priority, and there is a lack of selection of human resources.

BMT has developed meaningfully since the 2000s, andit remains for enhancing wealth and alleviating poverty. According to Hisyam (2014), BMT has thriven in alleviating poverty and increasing economic growth stakeholders of BMT. Hence, the management of BMT recognizes the background, vision, mission, and sharia principles of operating BMT. Including comprehensive learning for practitioners of BMT in improving financial inclusion in Indonesia.

Mislan (2015) identified that BMT is accomplished in accumulating and emerging social funds such as zakat and corporate social responsibility (CSR). Hence, BMT has dual functions comprising social function and profit function in improving financial inclusion in Indonesia.

Bedjo (2015) compares financial inclusion implementation between Allied

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Financial Inclusion (AFI), sustained by World Bank, and Indonesia, which alleviate poverty. AFI prefers that financial inclusion be implemented with central bank support and banking industries through direct microcredit lending to the poor. On the other hand, the practitioners of BMT and cooperative have argued that there are various principles such as Islamic value, vision, mission and approaching personal. It is suggested that empowering economy begins with capacity building rather than directly financing the poor.

As mentioned in the literature review, it is observable that the IMFIs face various issues and challenges in improving financial inclusion in Indonesia. There is a crucial need to highlight these issues and delivers practical solutions so that the role of BMT in improving financial inclusion in Indonesia can be improved.

Methods

This study adopts a qualitative research approach which involves several steps: (i) development and preparation of data (ii) data collection, (iii) data analysis and (iv)interpretation and building model (Lyons, Bike, Ojeda, & Flores, 2013). By directing the qualitative research, this study objects to determine motivating variables that could not be attained through the quantitative research approach (Ambert, Adler, Adler, & Detzner, 1995). Specifically, the qualitative analysis is the most appropriate approach in relating the behavior of the respondents in this research area (Effendi, 2013).

In implementing the qualitative analysis, this research demeanors a series of structured interviews with the managers and Sharia supervisors of the BMT in Jakarta, Depok and Bogor. These samples were selected because they understand the policies in these institutions. They are the ones implementing any decisions made, and they understand the missions and visions to be achieved by the institutions. In other words, the managers and Sharia supervisors are practically responsible for achieving MFIs objectives by anticipating issues or regulation change because of microfinance institutions sustainability (Hamzah, 2014; Bedjo, 2015).

Furthermore, the managers of MFIs usually have the experience to understand the background of borrowers, namely, culture, capacity, capability and several innovations in educating the poor on financial literacy. The roles of IMFIs in improving financial inclusion related to capacities and capabilities of IMFI managers. As a significance, they understand about issues and challenges challenged by the poor before delivering the product. The selection of the five BMTs is highly

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suitable since the Central BMT in Jakarta (INKOSYAH) exemplifies the BMTs in the central region. Consequently, the structured interviews are investigated using the qualitative analysis to attain the model of the role of IMFIs in improving financial inclusion in Indonesia. There are five managers and sharia supervisors elaborated as a sample in this study. These respondents are nominated because they justify the mandatory criteria of the research: (i) associate of Central BMT (INKOPSYAH), (ii) minimum engagement duration of at least two years, (iii) contain in the capacity of delivering financing at BMT (iv) preserve a record of INKOPSYAH annual meeting related to issues and challenges that faced by the poor. The profiles of the respondents are shown in Table 1 below:

Table 1. Profile of Respondents

Gender	Age	Level	Place of Work	Working Experience	Transcript Detail (words counts)
Male	40	Manager	Bogor	10 years	5516
Male	50	Manager	Bogor	15 years	7327
Male	43	BMT Sharia Supervisor	Jakarta	5 years	4238
Male	50	BMT Sharia Supervisor	Bogor	7 years	3449
Male	44	Manager	Depok	10 years	5152

Source: Authors' own.

The interviews were based on open-ended questions to assist the respondents to be definite spontaneously about the issues and challenges of BMT in improving financial inclusion in Indonesia. Each interview receipts for approximately 150 minutes and being documented. The researcher then transliterated the audiotapes and implied the data. Issues and challenges were précised and described. In formulating the qualitative content the analysis, one cannot separate the data collection and content analysis procedure. Early participation in the analysis period will advantage the researcher to change back and forward between concept development and data collection, particularly in inductive area where the research question may be established further depending on the condition (Miles & Huberman, 1994). To conduct consistent implications, a qualitative content analysis comprises a set of logical and apparent measures for processing data, similar to the quantitative content analysis procedures (Tesch, 1990).

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Qualitative content analysis will be measured to investigate various types of data, but typically in written text data. The process of defining unit analysis of the data mentions the basic unit of text to be characterized during content analysis. The centralized data has a substantially impact coding decision and comparable studies (De Wever et al., 2006). The component used in the qualitative analysis can be word, sentence, or paragraph, and this study selects sentence and word as the units of analysis. Categories and a coding scheme could be established from previous related studies, theories or data produced. It could also attend as inductive or deductive data development. Glaser and Strauss (1967) recommended when inductive method is implemented during raw material development, the constant comparative method is recommended.

The constant comparative method is fundamentally the systematic comparison of each text allocated to expose the theoretical properties of the category and to participate groups,their properties by emerging interpretive memos. After the categorization and abstraction, the concluding output of this study is to expose patterns, themes, and categories important to social reality. The foremost theme of this research is to disclose BMT's current condition and challenges in improving financial inclusion in Indonesia. In the literature, it is always underway with the classification of the highest issues from the preceding literature which are distributed into five variables: the reality, the constraints, the experiences, the situations, and the solutions of BMTs in improving financial inclusion. Table 2 shows particular samples of interview questions.

Table 2. Questionnaire

Variables	**Questions related to appreciative intelligence and appreciative inquiry approaches**
Reality of IMFIs facing financial inclusion (Metzker, 2007; Thatchenkery, Avital, & Cooperrider, 2015; Cardinal, Parkinson, Hall, & Everitt, 2002; Hazzi & Maldaon, 2015)	Have you ever heard financial inclusion regulation? How is BMTs facing the competition in financial inclusion era?
Constraints of IMFIs in improving financial inclusion (Metzker, 2007; Thatchenkery et al., 2015; Cardinal et al., 2002; Hazzi & Maldaon, 2015)	What are the constraints of BMTs in improving financial inclusion? What is the main constraint of BMT facing financial inclusion? Please explain
Experiences of IMFIs in improving financial inclusion (Metzker, 2007; Thatchenkery et al., 2015; Cardinal et al., 2002; Hazzi & Maldaon, 2015)	What kind of BMTs experiences in improving financial inclusion? Have BMT ever cooperated with commercial bank in financial inclusion?

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Variables	Questions related to appreciative intelligence and appreciative inquiry approaches
Situations of IMFIs in improving financial inclusion (Metzker, 2007; Thatchenkery et al., 2015; Cardinal et al., 2002; Hazzi & Maldaon, 2015)	Does financial inclusion regulation influence significantly to perform of BMT? How is the recent situation of BMT facing financial inclusion? Does market of BMTs getting bigger or smaller?
Solutions of IMFIs in improving financial inclusion (Metzker, 2007; Thatchenkery et al., 2015; Cardinal et al., 2002; Hazzi & Maldaon, 2015)	What kind of solution of BMTs to anticipate financial inclusion regulation? Please explain. In your perspective, what kind of regulator's role (eq. BI/OJK) for sustainability of BMTs?

Results and Discussions

Current issues of BMT in improving financial inclusion

The Islamic microfinance institutions face the issue of implementating financial inclusion to preserve organizational sustainability despite the lack of competitiveness. In microfinance, competition among IMFIs, commercial banks, and rural banks occur efficiently and well-performed managerial. Moreover, competition in microfinance will increase the performance of institutions. (Kristen & Skowron, 2013), (Ben Naceur et al., 2015). On the other hand, BMT recently struggles to keep their market going concerned and increasing their financing while commercial bank imposes massively microfinance market due to financial inclusion regulation. In providing financing the poor, BMT usually enters the microfinance market namely; traditional market, farmers and fishers market in a rural area. The Chief of BMT Bogor said:

> *"We have a little bit distraction in the microfinance market when financial inclusion regulation implemented, but BMT anticipated this condition with expanding new branches and maintaining our customers. Then, we hope that financial authorities (OJK) will facilitate joint partnership between commercial bank and BMT to enter the same market".*

Moreover, the sharia advisor of BMT Bogor also agrees with this statement and adds an interested statement:

> *"We thought that financial inclusion would bring fund getting outflow from the rural areas to the cities. It is because commercial banks entered massively to the microfinance market in a rural area without cooperation with local microfinance institutions which has community development spirit in our communities."*

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Competition between commercial banks and IMFIs has created injustice competition while financial service authorities /OJK launched this regulation. Furthermore, the government probably can make another regulation for microfinance institution for increase their level of competitiveness (Bansal, 2014).

Similar to BMT Bogor, the manager of BMT Depok also said that the government launch regulation by channeling or executing credit for microfinance between commercial bank and microfinance institutions.

> *"BMT has a special approach to finance credit to the poor because of the uniqueness BMT approaches; this means commercial banks can deliver microcredit to the poor through BMT and it could be facilitated by profit contract using commercial microloan or non-profit contract such as Corporate social responsibility, Zakat, Infaq, Sadaqah and Waqf."*

This statement aligned with Wulandari and Kassim (2016) that BMT has uniqueness for financing to the poor. This result shows that credit plus financing (funding to the poor with beneficial program namely; financial capability training, monthly religious meeting) and joint liability scheme (Kassim, 2016). This uniqueness is become a strength point to realize collaboration between BMT and commercial banks by government regulation. Furthermore, Kristen and Skowron (2013) also associated this issue that collaboration between the bank and non-bank institution will function effectively in deliver micro-financing to the poor. The regulator is enable support regulation for IMFIs to compete with a commercial bank (Kristen & Skowron, 2013).

Another issue is the lack of utilizing IT. This is because these are mostly small and medium enterprises in rural areas that cannot access the bank (Kumar, 2013; Sharma, 2016), and then they are predominantly under-bank and un-bankable (Allen et al., 2016); (Arun & Kamath, 2015). Furthermore, the government expands financial inclusion program through collaboration between bank and non-bank, particularly with IMFIs. In this case, it brings penetration of financial services by the poor in rural areas, who could access effective financial services due to the accessibility of IMFIs.

Challenges facing BMT in improving financial inclusion

About the constraints of BMT in Indonesia facing financial inclusion regulation, Manager BMT Bogor said:

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"BMT depends on the source of equity whether subsidy, Corporate Social Responsibility/CSR fund or Islamic social fund namely; Zakat, Infaq and Sadaqah. As we know, BMT needs improvement of their business by expanding the market. Moreover, BMT usually takes a high margin for their financing because of the cost center."

High margin will reveal the complications of high transaction costs in the case of microfinance processing. In addition, this problem also occurred in BMT. The administration cost of micro credit that must be protected by BMT is about 20% from the nominal finance. It means that if there is no subsidy in BMT, they must charge high margin to borrowers. Consequently, the subsidy role is very important for BMT attainment. The foundations of subsidy for BMT originated from many organizations. It could be from government subsidies like the ministry of cooperative, CSR from state-owned corporation, and Islamic social fund from public corporation (Kassim,et al 2016).

Lack of experience is another challenge facing BMT, as stated by the manager of BMT Bogor:

"We have not had an experience yet about implementing financial inclusion in terms of government regulation, but regarding financial services to the poor in a rural area and financial literacy, BMT has improved many microfinancial services such as funding-lending loan, micro saving/deposit, training basic financial for micro and small enterprises, micro insurance. However, less of BMT services is lack of IT use."

Moreover, the Sharia supervisor of BMT Bogor also said:

"BMT always gives government advice, especially the ministry of cooperative in province, for accommodating lack of IT BMT and developing an IT system that supports the report and advice system from BMT in their under authorities. Moreover, BMT will give reports routinely to the government for enhancing microfinance development."

This experience of BMT in improving financial inclusion occurred by regulation that accommodates commercial banks, not microfinance BMT. Because of that, managers of BMT accepted the unknown and startled by the new regulation. Their experiences were negative to anticipate financial inclusion. (Thatchenkery et al., 2015), (Verma & Anand Pathak, 2011), (Tiem, 2003).

About the situation of BMT in financial inclusion, the manager of BMT Jakarta said:

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"BMT will survive if they as long as have a space in market, BMT, therefore, is being able to take a niche market that commercial bank probably could not enter the whole market, and for situation in the rural market area, BMT lead the market."

Similar to BMT Jakarta, BMT Bogor's manager also agrees that the micro finance market situation was getting tight after financial inclusion regulation.

"We suddenly have a shock impact in the market because of regulation, especially microfinance market in an urban area. It is because market demand preferred to borrow loans with low margins and easy to access the loan. Because of that, BMT finally seeks another microfinance market in a remote area, farther and farther away from the village."

This situation aligned with Hamzah (2014), Bedjo, S (2015), Arun & Kamath (2015) and Bhanot et al. (2012) that implementation of information technology is necessarily needed for supporting the operation of BMT and accessing the wider market. However, BMT still has the problem of limited capital for supporting infrastructure (Bedjo et al., 2015) and lack of human resources (Hamzah, 2014).

About the solution of BMT facing financial inclusion program, manager BMT Depok said:

"We joint in Central BMT (INKOPSYAH) for fulfilling adequate capital, because of that we hope Central BMT will always support less of capital from the members. Furthermore, with APEX of BMT, central BMT will report to government and give advice to OJK for organizational sustainability of BMT."

Similarly, the manager of BMT Bogor also explained that making a consortium of BMT for consolidation will impose the government to issue another regulation for microfinance and also using Islamic social funds from various resources will help the government in alleviating poverty.

"BMT use Islamic social fund like Zakat, Infaq and Waqf for alleviating poverty aligned with national government goals to reduce poverty in a rural area. Therefore, the operation of BMT does not differ with one of financial inclusion goals for introducing financial literacy through Islamic social fund."

About using Islamic social funds for alleviating poverty associated with Mislan (2015), Wulandari and Kassim (2016) mentioned that using Islamic social funds and the Corporate Social Responsibility (CSR) from corporation will reduce the cost of funds from BMT to the poor. Indirectly, borrowers, who majority living below BOP, can maintain the financial sustainability of their business due to lower of margin.

The experiment that happened in BMT in Indonesia is most of them infrequently used the concept of *Baitul Maal*. This situation occurred due to the disparity of liability – asset cash flow. The poor come to BMT for funding, and only a small percentage of the prosperous people pay their *zakat, infaq* and *sedakah* in Indonesia. This condition creates many microfinances depends on contributors to distribute *Qardh al Hasan* financing. Revitalization of the *Baitul Maal* concept is significant since the contributor fund is not limitless. So, Islamic microfinance can continuously deliver cheap fund and *Qardh al Hasan* for the poor.

Another challenge, such as using social fund (*waqaf* fund) of Islamic microfinance for alleviating poverty has been recognized to reduce the poor in Indonesia, Malaysia and Bangladesh, apart from recognizing *takaful* for micro-insurance and improving human resources. Furthermore, modeling microfinance institutions integrated with *zakat, waqaf* and financial service from bank has been developed to alleviate poverty (Bedjo & Iman, 2011). Thereby, cooperation between Islamic bank and Islamic microfinance institutions to deliver *zakat, waqaf* to the poor could be implemented. For instance, the use of telecommunication technology has provided cellular and mobile phone services for making efficient transactions in Islamic microfinance.

Based on the qualitative analysis, the output post-classification of current condition and challenges in BMT can be précised as in Figure 1 below:

Figure 1. Current issues and challenges by BMT in improving financial inclusion

Conclusions

BMT has been operational in poverty alleviation for two decades in Indonesia; it appearances several conditions and challenges since financial inclusion regulation were launched in 2014. This study perceived the roles of BMT in Indonesia to highpoint the current conditions and challenges handled by BMT in order to recognize determinants that are crucial to confirm organizational sustainability.

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Based on the qualitative analysis, this study observes five categories of current conditions and challenges of BMT in improving financial inclusion. The first condition is the reality of BMT facing the regulation that new competition has become injustice between BMT and commercial bank and the challenge is how BMT adopted and re-assess their mission to anticipate the regulation. The second condition is a constraint of BMT facing the regulation that BMT lacks the capital to expand their microfinance market. Moreover, they offered a high margin to borrowers. Thus, it is inefficient to compete with commercial bank. The third condition is an experience of BMT that BMT almost has not had yet an experience in financial inclusion except channeling and executing program collaboration between BMT and a commercial bank. The fourth condition is situation of BMT facing the regulation that BMT tried to survive by using a niche market in microfinance to offer their financial services in a rural area. Moreover, the challenge is how to expand their services in a rural area using human resources and adopting information technology. The last condition is the solution of BMT facing financial inclusion regulation that BMT tried to maintain organizational sustainability with joining consortium of BMT such as INKOPSYAH to create APEX BMT for developing their existences.

The outcomes of this study have several important consequences for the BMT and policymakers. This study highpoint the essential for an assortment of approaches to warrant the success and sustainability of BMT. This comprises sustaining the efficiency of BMT by competing to commercial bank and good operational performance; providing easiness to access financing to borrowers; keeping social capital program with innovative and exclusively activities; and enhancing Islamic social fund in BMT focusing on working the funds from *zakat* and charity. In order to successfully addressing these current conditions and challenges, the role of the regulator is certainly critical. Specific approaches in terms of special regulation and support from the regulator/OJK would provide in supporting BMT in improving financial inclusion. Additionally, the government/OJK should create a justice business environment to improve financial inclusion in Indonesia.

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