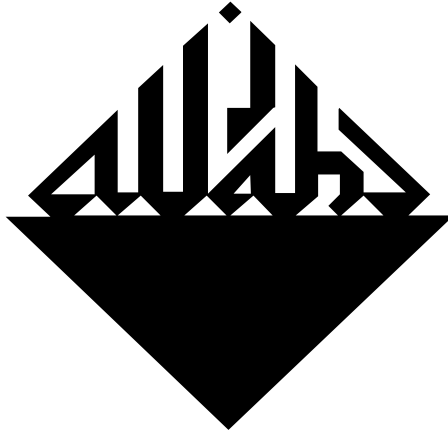


STUDIA ISLAMIKA

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What Makes Islamic Microfinance Islamic? A Case of Indonesia's Bayt al-Māl wa al-Tamwīl

Abstract: *This article highlights the weaknesses in the formalistic approach to Islamic finance which deals mainly with shariah compliance. This research examines religious elements that consist in the operations of the Indonesian Islamic microfinance institution by criticizing it for the costs of transactions, the composition of contracts, and the procedures for murābahah (working capital finance). Acknowledging that shariah principles were compromised to some extent, the BMT's employees did not question the Islamic character and identity of the BMT. Highlighting their commitments to improving the economic conditions of the Muslim community, active involvement in charity and socio-religious works, business practices caring for the unfortunate people, and their Islamic networks, the employees believe that the BMT has implemented Islamic values. For them, Islamic finance is not only attributed to sharia compliance, but it must also contain a wide range of religious tendencies and practices. By stressing the importance of the aspirations and commitments of Muslim activists, this paper widens the discussion of how to vitalize Islamic finance.*

Keywords: Indonesia, Bayt al-Māl wa al-Tamwīl, Islamic Economy, Islamic Microfinance Institution, Shariah Compliance.

Abstrak: Artikel ini menyoroti kelemahan dalam pendekatan formalistik keuangan Islam terutama terkait dengan kepatuhan syariah. Riset ini mengulas unsur-unsur keagamaan yang terdapat dalam operasional lembaga keuangan mikro syariah di Indonesia dengan mengkritisnya dalam hal biaya transaksi, komposisi kontrak, dan prosedur murābahah. Mengakui bahwa prinsip-prinsip syariah dikompromikan sampai batas tertentu, karyawan BMT tidak mempertanyakan karakter dan identitas keislaman BMT. Menyoroti komitmen mereka untuk meningkatkan kondisi ekonomi masyarakat Muslim, keterlibatan aktif mereka dalam kegiatan amal dan sosial-keagamaan, praktik bisnis mereka yang peduli pada yang lemah, dan jaringan Islam mereka, para karyawan meyakini operasional BMT menerapkan nilai-nilai Islami. Bagi mereka, apa yang membuat keuangan Islam menjadi Islami tidak hanya mencakup kepatuhan terhadap syariah tetapi juga dalam hal kecenderungan dan praktik keagamaan. Dengan menekankan pentingnya aspirasi dan komitmen para aktivis Muslim, artikel ini memperluas diskusi tentang bagaimana menggairahkan keuangan Islam.

Kata kunci: Indonesia, Bayt al-Māl wa al-Tamwīl, Ekonomi Islam, Lembaga Keuangan Mikro Islam, Kepatuhan Syariah.

ملخص: يسلط هذا المقال الضوء على نقاط الضعف في المقاربة الشكلية للتمويل الإسلامي، لاسيما تلك المتعلقة بالالتزام بالشرعية الإسلامية. وتعرض هذه الدراسة العناصر الدينية الواردة في عمليات مؤسسات التمويل الأصغر الإسلامية الإندونيسية من خلال تحليلها من حيث تكاليف المعاملات، وتكوين العقد، وإجراءات المراجعة. وكان موظفو بيت المال والتمويل، إذ يعترفون بأن مبادئ الشريعة الإسلامية تم توفيقها إلى حد ما، فإنهم لا يشككون في الطابع الإسلامي والهوية الإسلامية لهذه المؤسسة. ومن خلال تسليط الضوء على التزام هؤلاء الموظفين بتحسين الظروف الاقتصادية للمجتمع الإسلامي، ومشاركتهم النشطة في الأنشطة الخيرية والاجتماعية والدينية، وممارساتهم التجارية التي تهم بالضعفاء، وشبكتهم الإسلامية، يعتقدون أن عمليات بيت المال والتمويل تطبق القيم الإسلامية. وبالنسبة لهم، فإن ما يجعل التمويل الإسلامي إسلامياً لا يقتصر على كونه ملتزماً بالشرعية الإسلامية، بل يشمل النزعات والممارسات الدينية. ومن خلال التأكيد على أهمية تطلعات والتزامات النشاط المسلمين، يوسع هذا المقال النقاش حول كيفية النهوض بالتمويل الإسلامي.

الكلمات المفتاحية: إندونيسيا، بيت المال والتمويل، الاقتصاد الإسلامي، مؤسسات التمويل الأصغر الإسلامية، الالتزام بالشرعية الإسلامية.

One of the issues that attracted the attention of Indonesian Muslims in the 1980s was finance (Choiruzzad 2013; Rahardjo 1988). Financial transactions without interest were seen as a key to achieving the “Islamization of everyday life” (Kim 2007, 83–109) that Muslim activists of that time dreamed of. After the amendment to the Banking Act in 1992 permitting contracts based on profit and loss sharing, Islamic finance became an unquestionable reality. Islamic banks were established, and existing commercial banks launched sales departments dedicated to Islamic transactions.

Operating without government permission, the credit unions (*Koperasi Simpan Pinjam*) were also transformed into Islamic institutions, commonly called Bayt al-Māl wa al-Tamwīl (BMT).¹ In Arabic, *bayt* means house, *māl* means wealth, and *tamwīl* means business and finance. Combined, the name summarizes two functions of BMT. One is to serve as a socio-religious institution for collecting and distributing *zakāh* and donations, while the other is to serve as a financial institution for supporting economic activities. It is estimated that the number of BMTs, which started in single digits in 1992, had increased to 300 by the mid-1990s, 2,000 by the late 1990s, and 3,000 by the mid-2000s (Lubis 2004, 106; Riwayatanti 2013, 115; Sakai 2008, 267). This rapid pace of increase has slackened, but a certain degree of growth continued in the 2010s, with the number of BMTs being projected as between 3,500 and 5,000 (Fadil 2016; Setiaji 2019).

Successful entry into the microfinance market has been accompanied by positive appraisals. BMT has been evaluated as the most effective informal financial institution that can address Muslims’ economic helplessness (Adnan, Widarjono, and Anto 2003, 14; Antonio 2008, 257). BMT is also perceived as having been more resilient to the economic crisis of the late 1990s and the 2008 financial crisis than conventional financial institutions (Effendi 2013, 12; Sakti 2013, 7). By delivering services to low-income Muslims who were unable to access financial institutions, BMT is assessed as having made significant contributions to income growth, job creation, and poverty reduction (Adnan and Ajija 2015, 178; Effendi 2013, 59).

The successful operation of BMT has been attributed to Muslims’ rising awareness of the importance of economic issues and Muslim activists’ dedication and cooperation (Chokro and Ismail 2008, 23; Lubis 2004, 91). BMT’s community-based operations, simple and fast

transactions, and pursuit of autonomy and self-sufficiency have also been pinpointed as strengths (Ascarya, Rahmawati, and Tanjung 2015, 81; Riwijanti 2013, 110–11).

BMT has not always been appraised positively. Noting that a large number of BMTs were in technical bankruptcy, Seibel and Agung presented a gloomy projection that the savings of depositors are at great risk, but no remedy is in sight. The lack of government supervision and external audit, among other factors, has been singled out as an obstacle that is hard to overcome (Seibel and Dwi Agung 2006, 31, 40). High transaction costs, a shortage of human resources with managerial know-how, constraints of external funding, the lack of a deposit protection scheme, and intense competition in the microfinance sector have been identified as barriers to growth (Sakti 2013, 14; Wulandari and Kassim 2016).

Criticisms of BMT have also been raised from a religious angle. It has been suggested that the original goal of the economic empowerment of Muslims is neglected by BMT, which, in pursuit of profits, tends to make transactions with those who are capable of making deposits and paying back financing rather than those who belong to the poorest of the poor (Choiruzzad 2013, 168; Riwijanti 2013, 130). The high proportion of *murābahah*, a contract based on the margin between the purchasing and selling price of a commodity, and the low proportion of *mudārabah* and *mushārahah*, which are profit-sharing contracts, have been the basis for the criticism that BMT prioritizes convenience and profit (Saeed 2004, 120–23). *Murābahah*'s compliance with shariah has also been a matter of debate. The common practices of *murābahah* transactions, in which cash is delivered to clients and a fixed margin is charged by BMT irrespective of the goods, are viewed as deviating from Islamic principles (Kholis 2008, 165–66). It is proposed that these procedural compromises “do not satisfy the general rules of trade prescribed in shariah and the specific rules required for *murābahah*.” (Ngasifudin and Fauziah 2017, 118).

The financial and managerial problems of BMT are liable to different interpretations. The absence of external supervision can be interpreted as a factor enhancing BMT's spontaneity and autonomy, and intensifying competition can be seen as promoting a business environment for improving BMT's efficiency (Nazirwan 2015, 191). By contrast, the religious criticisms are poignant in that these are related directly to the

raison d'être and identity of BMT. However, despite the significance of these religious factors, too much emphasis on the question of whether or not the modes of doing business in BMT are compliant with shariah may hinder efforts to understand BMT. This is because BMT's operations cannot be reduced to contracts but incorporate diverse religious aspects. BMT's identity as an Islamic institution consists of, in addition to contracting methods, religious values, practices, and resources that permeate its operations, and thus the discussion of shariah compliance alone cannot provide a holistic understanding of BMT's condition.

This paper explores religious elements that are incorporated into BMT's operations and are appropriated to define BMT as an Islamic financial institution. It is argued that BMT's Islamic identity is not limited to contracts but includes the desires and efforts of BMT activists to realize religious goals as well as the Muslim networks they rely on. By demonstrating what makes BMT Islamic is not restricted to contracts, this research highlights the weaknesses in the formalistic approach to Islamic finance (al-Amine 2008; Obiyathulla Ismath and Abbas Mirakhor 2013; Rosly 2005), which deals mainly with shariah compliance. In addition, by stressing the importance of the aspirations and commitment of Muslim activists, this paper widens the discussion of how to vitalize Islamic finance.

The main object of this study is BMT Untung, a microfinance institution located in Yogyakarta, Central Java, Indonesia.² As a single BMT is selected for the analysis, it is difficult to apply the results directly to Indonesian BMTs in general. In spite of this limitation, as not many in-depth case studies have been undertaken, this research helps to provide insights into how BMT is managed at the local level and what religious elements are involved in its operations. This study provides comparative data to examine the condition of Indonesian BMTs, which, from their inception, have been in constant interactions at the local and regional level (Antonio 2008, 261; Chokro and Ismail 2008, 23).

Two periods of field research for the study were conducted over two weeks in January and July 2019. In the first field study, interviews were undertaken mainly with 10 BMT employees and 10 ordinary Muslims, while in the second period of fieldwork, interviews were held mainly with 10 traders in local markets. Several visits were made to the BMT headquarters and branches as well as local markets to observe the process of transactions between the BMT and its clients.

The Development of BMT in Indonesia

Bina Insan Kamil announced the launch of an Islamic credit union in Jakarta in 1992. The BMT, beginning with Rp 4.7 million (US\$1,880) in capital, attracted deposits of Rp 400 million in 30 months (Antonio 2008, 256). This success story provided Muslim activists with confidence in the feasibility of BMT, and Islamic organizations such as P3UK, Pinbuk, and Dompot Dhurfa accelerated its public dissemination by hosting financial training courses (Choiruzzad 2013, 145–46).

One of the key groups that initiated the move to establish BMT consisted of young activists who headed Islamic missionary works on university campuses. They supported the Islamic economy, not capitalism or socialism, as a system to protect the poor and the underprivileged, overcome economic inequality, and secure socioeconomic fairness (Antonio 2008, 253–54; Choiruzzad 2013, 136–38). For them, BMT was a medium to apply the ideals of Islamization to the economic realm.

The fact that BMT was steered by young activists had important impacts on its future development. Above all, as they lived in cities, many BMTs were based in urban areas and selected local markets as their main sites of business (Nazirwan 2015, 207; Seibel and Dwi Agung 2006, 25–26). Compared to the state-subsidized credit unions that were mainly targeted at the rural population (Robinson 2002), BMT could make an important contribution to the spread of microfinance to small and medium-sized businesses in cities.

BMTs usually consisted of key activists and a small group of supporters (Kholim 2004, 80; Sakai 2008, 276). Armed with religious enthusiasm and devotion, the activists supplied cheap labor to cope with the insecure conditions of the early days when sufficient capital and profits had not been accumulated. The supporters linked to the activists through mosques and religious organizations offered emotional and religious support and helped to expand BMT's lending capacity by raising capital and making deposits. They also played a key role in building the public trust that was essential to BMT's operations (Nazirwan 2015, 177). In the absence of a deposit protection scheme, their personal networks served to ensure the confidence that deposits would be safely returned.

As a cooperative, BMT pursued financial self-sufficiency. This is a unique feature, contrasting with the microfinance model that relies on external funds from governments and international donors (Kaleem and Ahmed

2010, 411–12).³ Financial independence could be attained through profits large enough to satisfy operating expenses and compensations for deposits. Operating costs could be covered to some extent by the dedication of activists and their supporters, but compensations for deposits were only payable through profits generated from financing.

As a latecomer to the microfinance sector, BMT had to attract deposits in the existing financial environment. Because the interest rates of non-banking financial institutions were much higher than those of banks, correspondingly high rewards had to be promised to depositors by BMT, which, in the absence of other sources of profits, could not help but resort to high mark-ups on financing. This seemingly intractable problem was able to be solved due to private money lenders dominating the loan market for small trades and businesses.

Money lenders provided a favorable business environment for BMT in two ways. On the one hand, the high interest rates charged by them and their coercive actions against delinquents (Nugroho 2001, 161–70) strengthened the motivation of BMT activists to carry out their operations. On the other hand, their high interest rates could justify the high mark-up on *murābahah* financing. By charging a margin that was higher than banks but lower than money lenders,⁴ BMT's profit-seeking activities could be perceived to be harmonious with BMT's goal of assisting Muslims in need.

By entering into the microfinance market, the activists were required to convert BMT into a financially sustainable institution, a task that was not easily achieved. Some studies have observed that many registered BMTs were not actually operating but had closed down (Imaniyati 2005, 515–16; Sakti 2013, 7). There was also news of demonstrations of clients who could not get their deposits back (Effendi 2013, 55).

While not all BMTs have grown successfully, many have reached a stable stage by transforming religious passion into financial sustainability. The steady increase in the number of BMTs partially illustrates this.⁵ The emergence of BMTs accumulating massive assets in the 2010s should also be taken into account. In 2017, there were four BMTs with assets of more than Rp 500 billion (US\$35.9 million)⁶ and approximately 10 with more than Rp 100 billion (Muchtar et al. 2017).⁷ Surveys of 384 BMTs in 2011 and 122 BMTs in 2015 reported that 37.5% and 37%, respectively, of the BMTs had been in

business for more than 10 years (Ascarya, Rahmawati, and Tanjung 2015, 63; Sakti 2013, 7). As operating period and asset expansion are related (Ascarya, Rahmawati, and Tanjung 2015, 63), the data indicate that successful maintenance and expansion of business were not exceptions and that in the 2010s, the position of BMT in the Indonesian microfinance sector solidified.

Overview of the BMT under Study

BMT Untung is an Islamic credit union in Yogyakarta, Central Java. Young mosque activists who had participated in the Islamic finance workshop in 1995 initiated its establishment. They considered improving the economic condition of Muslims as a prerequisite for the spread of Islam and selected BMT as a means to realize this goal. The BMT started business in 1996, with 31 founding members, five employees,⁸ and capital of Rp 12,700,000 (US\$5,570).⁹

BMT Untung was able to quickly settle into the microfinance market. Its assets, which were Rp 80 million in 1997, increased to Rp 100 million in the following year, Rp 1 billion in 2003, Rp 10 billion in 2008, and Rp 96.9 billion (US\$6.8 million) in 2018, exhibiting an average annual growth of 44% between 1997 and 2018. Nearly twenty years after its foundation, BMT Untung has transformed itself into a medium-sized microfinance institution with 10 branches and more than 30,000 clients.

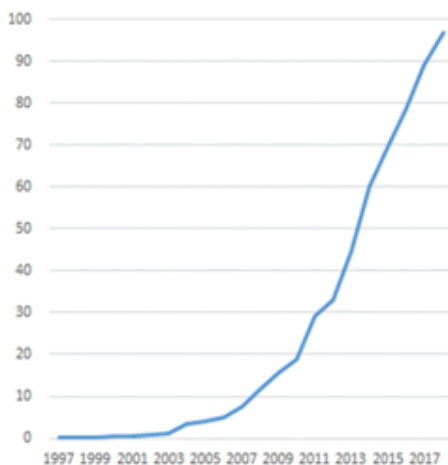


Figure 1. Asset increase in BMT Untung (billion rupiah)

Source: *Annual Reports* of BMT Untung (each year)

The BMT offers seven financing products, whose size as a proportion of the total differs markedly. In 2018, *murābahah* accounted for an overwhelming 60.9% of the total, followed by *hiwālah* (27.1%) and *ijārah* (9.7%). The rest were insignificant, with *mushārahah* at 2.0%, *al-qard* at 0.3%, *mudārahah* at 0.03%, and *al-rahm* at 0%. The clients' fields of business consisted primarily of trading (68%) and services (20%), with other clients in livestock (2%), agriculture (2%), crafts (2%), small industries (2%) and others (2%). The BMT's operations depend primarily on small financing to small and medium-sized businesses. Sales are mainly undertaken in the form of *jemput bola*, where BMT staff visit clients to collect deposits and payments.

The capital of BMT Untung has grown steadily, as shown in Table 1 below. The capital, which was Rp 12 million at the time of the establishment, increased by 39.9% per annum, reaching Rp 312 million in 2007 and Rp 7.6 billion (US\$0.53 million) in 2018. The net profit growth was faster, with an average annual growth of 57.3% between 1997 and 2018. Just a million rupiah of net profit in 1997 increased to Rp 97 million in 2007, Rp 1 billion in 2017, and Rp 1.3 billion (US\$0.09 million) in 2018. Despite Indonesia's economic crisis shortly after its foundation and an earthquake hitting the business areas in 2006, the BMT has not recorded a loss for the past two decades. This outstanding performance can be ascribed, among other factors, to its capacity to control bad debts, which have sometimes exceeded 10% but have generally been kept around 3%. This corresponds to the level recommended for the Indonesian microfinance industry (Kementerian Koperasi dan UKM 2007, 20).

Table 1. Growth in capital and net profit of BMT Untung
(million rupiah)

	1997	2002	2007	2012	2017	2018
Capital	20.2	44.8	312.1	2,562.9	6,731.6	7,671.6
Net Profit	1.9	12.1	97.8	410.9	1,087.4	1,393.4

Source: *Annual Reports* of BMT Untung (each year)

In addition to stable growth in business, BMT Untung has successfully expanded its role as *bayt al-māl*. Funds for *māl* activities, which amounted to approximately Rp 10 million in 2000, soared to Rp 100 million in 2010, Rp 340 million in 2015, and Rp 2.4 billion

in 2018 (US\$0.17 million). The sharp increase between 2015 and 2018 was attributable to donations for the construction of an Islamic boarding school, but even without this one-off case, the budget for socio-religious works grew steadily in the 2010s.

Quantitative data demonstrate that BMT Untung has successfully performed its two functions: business and charity. Of particular note is that the BMT's goal of self-sufficiency has been realized to a certain extent in recent years. In 2018, the proportion of deposit-related liabilities reached 91.5% of the total, bringing it closer to being an operation that relies on self-generated funds.

Criticisms of BMT and Responses from Within

Criticisms of BMT

Dealing mainly with small businesses and relying solely on Islamic contracts, BMT appeared to be favorably received by the Muslim public. However, 10 informants who did not have transactions with BMT remained critical of it.¹⁰ An office worker suggested that BMT was religious only superficially. He based his argument on the high costs of financing, saying “BMT says it is shariah, but it’s hard to say it is Islamic if transaction costs are not different from those in conventional banks with interest.” When evaluating BMT, the informants were concerned at the costs of financing, the composition of contracts, and the procedures for *murābahah*.

The high cost of financing was a key factor in forging negative perceptions towards BMT. This was because all the informants had experience of inquiring into the costs of financing with BMT and, at the same time, retained the somewhat “naïve” view that interest-free should mean a low cost of financing. They insisted that, compared to the interest rates of banks which were around 10% per annum,¹¹ the financing costs in BMT exceeding 20% per annum signified its failure to realize the goal of Islamic finance.

A university lecturer noticed that deposit and financing in BMT were interconnected. In order to offer a high level of remuneration for deposits, the financing costs should also be set high, reversing the role of BMT as a broker of funds. Wealth flows from the poor to the rich, as BMT delivers the money paid by its borrowers to its depositors. Regardless of its logical adequacy, this mode of reasoning gave birth to the criticism that BMT was not playing its part properly. The high costs

were seen to indicate that shariah was employed only as “packaging,” while, in reality, BMT was not different from conventional financial institutions.

The interviewees with a better understanding of Islamic finance questioned the high proportion of *murābahah* in BMT’s contracts. They maintained that the distinctive feature of Islamic finance is profit and loss sharing, where financial institutions and clients take equal responsibility. The contracts in harmony with this principle are *mudārabah* and *mushārahah*, whereas, in *murābahah*, obligations and responsibilities are imposed mainly on borrowers. The fact that BMT’s sales were heavily dependent on *murābahah* was interpreted to reveal that it did not fulfill the original goal of empowering the poor.

The interviewees who had experienced transactions with BMT or had been exposed to academic discourse on Islamic finance added the procedures in *murābahah* to their criticism. In order for *murābahah* to be implemented in compliance with shariah, they argued that BMT has to purchase and hold goods and then sell them with a mark-up to clients. However, what happened frequently was that BMT supplied cash to clients and allowed them to purchase goods, a procedure that does not adhere to shariah.

Transactions without interest indicate that Islamic principles are observed by BMT. For the informants, however, the costs of financing, which were two to three times higher than those of banks, the limited application of profit and loss sharing contracts, and *murābahah* procedures that do not strictly observe shariah demonstrated that BMT did not properly realize the spirit and principles of Islamic finance. This was supposed to be caused by BMT’s orientation to profit-seeking, which made it difficult to distinguish BMT from conventional financial institutions.

Responses of the BMT to the Criticisms

The manager of BMT Untung, Surono, was aware of the negative evaluations of BMT. He accepted the criticism of the high costs of financing, acknowledging that the BMT charges far higher than banks. At the same time, he commented that the BMT’s business environment was markedly dissimilar to that of banks and that the BMT’s main competitors were those in the microfinance sector where the costs of funding were high.

Talking about the costs of financing, the staff of BMT Untung tended to compare the BMT with money lenders (known as *rentenir* and *bank plecit*). It was proposed that before the 2010s, when the growth of the BMT was not remarkable, small traders and business owners depended heavily on money lenders. The expansion of the BMT was able to reduce the dependency on them, lowering the interest rates they enforced. The staff asserted that the BMT's role in improving the economic condition of small businesses should be appreciated in this context.

The manager Surono and other staff agreed on the overwhelming share of *murābahah* in BMT contracts, adding that this was an issue that had been discussed intensively since the BMT's establishment. For example, the 2002 annual report assessed the overuse of *murābahah* in a reflexive and even provocative manner:

Among the financing products, *murābahah* accounts for the largest share. This is because clients do not need to calculate their profits, in addition to the simplicity of procedures. In this sense, it is not proper to say this product is Islamic.

BMT Untung planned to reduce the portion of *murābahah*. The 2003 report set out the goal of increasing *mudārabah* and *mushārahah* contracts to 25% of the total loans outstanding. Contrary to this plan, however, the share of *mudārabah* and *mushārahah* changed only a little, from 4.9% in 2003 to 5% in 2004. In response, the BMT attempted to organize groups of people in specific businesses, providing them with financial assistance and capacity-building programs. A notable example was the “farmers group (*kelompok tani*) program” initiated in the late 2000s, when the BMT obtained government funds to support group lending. Despite this favorable condition, the BMT was able to organize only one group and had to return unused funds. Susilo, an associate manager, described the difficulties of signing *mudārabah* and *mushārahah* contracts in the following manner:¹²

This is because clients want clear deals. When offered a *mudārabah* product, they do not want to accept it. . . . What they want is a clearly defined deal. Accordingly, they want a fixed contract, such as buying, selling, and renting at a fixed rate. . . . From uncertain contracts, they instantly sense high risk, and they feel they are out of control.

Susilo explained that unfamiliarity was the primary obstacle to expanding profit-sharing contracts. The clients felt uneasy about and at

risk from contracts that differed from conventional ones. The inability of small business owners to calculate and report the profit and loss of their businesses was also identified as a barrier. By highlighting that profit-sharing agreements were not easily accepted by clients, Susilo sought to escape from the criticism that the weight of *murābahah* was excessive.

The manager Surono was receptive to the opinion that *murābahah* contracts did not operate strictly in compliance with shariah. He admitted that the principle that goods should be purchased by the BMT could not be easily complied with. At the same time, he stressed that the main clients of *murābahah* contracts were market traders who knew what to do and when to buy the best.¹³

In response to the criticisms, the BMT staff took a passive stance, acknowledging that shariah principles were compromised to some extent. This allows us to raise the argument that the BMT does not fully realize the principles and spirit of Islamic finance, as was proposed by the informants in the previous section. If this criticism is taken to an extreme, it could be concluded that the Islamic character of the BMT is restricted to the formal dimension of contracts, namely being interest-free.

Asked the straightforward question of whether the BMT was Islamic only in appearance, the BMT staff reacted differently from the above-mentioned passivity. They argued that a few operational problems could not make BMT non-Islamic. Although it had some weaknesses, they maintained that the BMT was an institution for realizing Islamic values and that its religious identity and character could not be denied. To support their argument, they enumerated several aspects related to the establishment, growth, and operations of the BMT. In the next section, several key factors that allow the BMT's employees to be sure of its identity as an Islamic microfinance institution will be investigated.

The Islamic Character of the BMT: Insiders' Perspectives

Goals of the BMT: Realization of Islamic Values

Surono has been the manager in charge of the BMT's operations since its establishment, and many other founding members have also continued to support the BMT's activities. In 2014–2018, one out of three board members and one out of three auditors were original members. Because of this continuity, the background of the BMT's

foundation was repeated by the staff, who wanted to underline that its original motivations and goals had been transmitted to this day.

BMT Untung's history began in 1995 with a microfinance workshop held by an Islamic organization, Pinbuk. Activists who attended it and recognized the potential of BMT led the foundation. They described the establishment of BMT as a missionary activity (*da'wah*), a view that was formulated against existing missionary practices.

Missions to date have meant things that are undertaken in words, based on religious rhetoric and the ability to use linguistic expressions. As a result, Muslims became ignorant. Previous missions did not address the key issue that was faced by Muslims. The fundamental problem they face cannot be solved by words alone.

According to the activists who headed BMT, the major problem facing Muslims was economic helplessness. Restricted access to financial services forced Muslim small businesses to rely on money lenders and to use interest, which is banned in Islam. Those who thought it was a great mistake and a religious sin to leave this economic helplessness intact hoped for a new financial system. It was believed that BMT could support fair economic activity in line with shariah, benefiting both depositors and borrowers. Through BMT, the Muslim public was expected to secure religious stability as well as economic progress.

The equation of BMT with missionary activity has been constantly emphasized in the BMT's formal and informal discourses. The BMT's ideal, set forth in the bylaws, is to be a healthy and excellent shariah financial institution that helps the Muslim community gain power. The objectives of the BMT are prescribed as follows: (1) to adopt shariah values for common well-being, (2) to provide the best service in shariah microfinance, and (3) to actualize a life in harmony with Islam.

The ideologies of BMT Untung are full of religious expressions. Working at the BMT is described as religious activity (*'ibādah*) and missionary work (*da'wah*) to help the Muslim community (*'ummah*), and the BMT staff are defined as missionaries (*dā'ī*) who are responsible for Muslims' economic life. To this end, the staff are required to carry out prayers, read the Scriptures, and work in the hope of sharing the grace of Allah with all. The emphasis on Islam helps the staff to be conscious of the religious implications of their work. A staff member who compared the BMT with other financial institutions unintentionally expressed the importance of the BMT's religious mission as follows:

I have worked at the BMT only for three years, but . . . to my knowledge, I trust financial transactions based on Islamic shariah. Not long ago, I was offered a position by a private bank, but I didn't accept it because it does not satisfy Islamic shariah. . . . I chose the BMT for work because I firmly believe in the benefits of shariah.

Referring to shariah as a reason for rejecting a better-paid job, the staff member expressed faith and pride in the BMT. The conversations with the staff revealed that they viewed the BMT as an institution to improve the economic condition of the Muslim community and saw themselves as missionaries committed to undertaking this duty. This suggests that the vision of the founding activists has been successfully communicated to the employees. The inscription of Islamic values in the corporate culture, along with Islamic contracts, has served as a major component of the BMT's Islamic identity.

The Operation of Bayt al-Māl

Since its inception, BMT Untung has identified socio-religious works as its major activity. However, for a considerable time after the establishment, staff were not assigned to *māl* and budgets were limited. As charity and socio-religious works were funded solely by *zakāh* from salaries and part of the profits, the budget for *māl* in 2001 was approximately Rp 8 million (US\$900), or 1.6% of the total capital. As its business sector grew, the BMT, seeking new resources for *māl*, decided to impose compulsory donations at the close of deposits and financing. Although a burden for both depositors and borrowers, the modification was received without opposition.

After mandating contributions to deposits and financing, the revenue for charity and socio-religious works increased steadily, reaching over Rp 420 million (US\$31,000) in 2015. The increasing budget diversified the socio-religious activities. From the early days to the late 2000s, the main programs included funding the productive sector, scholarships, and health care projects as well as donating directly to the poor. After 2010, new programs were initiated to assist sermons, religious schools, and mosques, as well as to dispatch missionaries to remote areas. Recently, the BMT implemented a plan to build an Islamic boarding school, which drew an enthusiastic response, with the budget soaring to Rp 2.3 billion (US\$164,000) in 2018. The expanding socio-religious activities were the pride of the

staff and were often mentioned in the interviews. Assistant manager Susilo expressed his keen interest during and after the interview with us:

As the topic of the interview shifted to socio-religious works, Susilo's face became brighter. He spoke of a recent ambulance donation, showing photos of the event saved on the phone. The conversation soon moved to the boarding school that was opened in a building still under construction. He enumerated one by one who the students were and how they were recruited, adding the stories of the campaign to collect donations for the school and of the process of construction. His pride in the BMT's socio-religious works was expressed once again after the interview when he sent several photos via social media featuring a student and a soldier standing together. He explained that the boarding school student who was going to graduate from high school had entered the military through a special employment scheme. Stressing that only a few could get a job so quickly, he did not hide his affection for the boarding school.

In the 2010s when the financial stability of the BMT had been secured to some extent, the importance of socio-religious works was highlighted. The BMT assigned a staff member dedicated to *bayt al-māl*, making it clear that charity and socio-religious works were not ancillary to business activities. As the central function of BMT, charity-related activities were considered to demonstrate that the BMT made the utmost effort to achieve the goals of improving Muslims' social conditions and spreading Islam.

Religious Values in the BMT's Operations

In addition to Islamic contracts, the BMT staff designated some of their operational practices as Islamic. The most frequently mentioned was the way of dealing with bad debts. The delinquency rate of BMT Untung, which remains around 3%, corresponds to the level recommended for microfinance institutions, but overdue payment was treated as the most serious threat determining the BMT's survival. The method for managing bad debts was called a "family approach" (*pendekatan kekeluargaan*) and was regarded as the key element differentiating the BMT from money lenders and non-Islamic microfinance institutions. The core of this approach is *mushāwarah*, a practice of consulting with overdue clients to look for the best way to resolve the problem through debt rebalancing. Paryanto, a member of the field staff, explained how to deal with bad debts:

The main strategy is the family approach, negotiation. For example, when the debtors have to pay back Rp 100,000 a month, we negotiate with them. How about this? Is this too much? How much can you pay? ... The outcome of rebalancing depends on the response of the delinquents ... but we still employ the family approach. We communicate with them patiently, with patience. ... [in case the problem cannot be solved], we do not foreclose the collateral. Still, we rely on the same approach, to visit the debtors, to communicate with them; yah, we frequently visit and talk to them.

Negotiation through *mushāwarah* was said to bring about an agreeable solution in that the BMT's understanding of the delinquents' economic condition was high. It was also suggested that some sort of communal pressure could be exerted on the delinquents, about whom the BMT usually obtained reputational data from their neighbors and religious leaders. Recognizing that overdue payment was not only a matter of their own but also a concern of their neighbors, the debtors usually took a cooperative posture in bargaining with the BMT.

When a problem was not resolved through the family approach, official procedures were executed sequentially. The first step was to send a letter stating overdue payments. With this, it was said, most cases could be settled. When three consecutive letters and ongoing communications did not bring any tangible result, the final step of foreclosure was implemented.¹⁴ But even in this, the family approach was still at work. The BMT did not confiscate the collateral forcefully but demanded the delinquents' consent to disposal by sale. Because of this cautious approach, it was pointed out that debtors who had to settle overdue debt by selling the collateral rarely retained a hostile feeling against the BMT.

A member of the field staff, Mufti, who had explained the process of settling bad debts, took the researcher to an ice cream vendor in the market. He was a client who had not been able to pay his arrears, had agreed to sell his motorcycle, and, shortly after this, had resumed transactions with the BMT. Mufti wanted to illustrate that the family approach was actually at work in the field. After affirmatively answering the question of whether he had consented to sell his motorcycle, the vendor explained why he did not have bad feelings against the BMT.

It is fine. Because the BMT has tolerated me for a long time. It has already tolerated me, but I did not respond properly. . . . It tried to ensure that my honor was not damaged and I did not feel bad. . . . The BMT waited

patiently, and I admit its patience was enough. If I didn't see a bit of patience, I would be angry. . . . I was satisfied with the sale of the collateral through proper procedures, and, moreover, the BMT took my comfort into account. . . . I didn't get angry because we had understood each other long enough to be patient. The word, debt, anyhow—it should be paid off, shouldn't it?

The family approach, which incorporates patient waiting and consideration of the debtor's situation, was said to be the feature that distinguished the BMT from money lenders and exemplified its efforts to support the economically weak.¹⁵ Because of this significance, the BMT's employees were ready to tell various stories of money lenders' inhumane collection of debts. With these, they tried to underline the Islamic values involved in the process of settling overdue payments.

Another aspect remarked on to demonstrate the Islamic character of the BMT's operations were the religious activities of the staff. Examples included sessions to read the Quran at every BMT meeting, a weekly sermon for the staff, and joint attendance at *Jumatan*. Although not directly related to work, these activities, aiming to internalize Islamic values in the staff, were regarded as a necessity for sustaining the BMT's Islamic operations.

Muslim Networks and the BMT

The founding group of BMT Untung were Islamic activists centering around a mosque. This prompted the early BMT operations to be dependent on Islamic networks. The BMT was introduced at the mosque sermons, and religious leaders were asked to recommend transactions with the BMT. Even after the BMT's financial basis was solidified, religious networks continued to play an important role. Its function as an agency to keep the mosque's funds and the Islamic school students' savings helped stabilize its financial position and build public trust. When marketing in new areas, the BMT staff visited local mosques and prominent Islamic leaders. The reason why the Islamic networks were represented heavily in the operations of the BMT was simple. As its activists' personal networks were formed around Islam, they had no choice but to rely on them.

Public trust is essential for the BMT's operations. Without a deposit protection scheme, transactions with the BMT pose an extreme risk of insolvency. The central element that can bridge the gap between the high

incentives for deposits and the high risk is trust, which can bring confidence that deposits can be returned safely. Trust in the BMT can be enhanced when it is introduced through mosque meetings or by well-known religious leaders. A female trader, who often saw managers of the BMT give sermons at her mosque, expressed her belief in the BMT as follows:

I'm a Muslim, and BMT Untung is owned by an Islamic institution. ... I fully believe in it, although deposits are not protected by the state. I have full trust in the BMT, which is run by trusted Muslims. ... They are aimed not at pursuing profits but at assisting others. That's why I make deposits. ... This is my opinion as a Muslim.

The woman, who repeatedly emphasized that she was a Muslim, explained her trust in BMT in religious terms, expressing this in words such as *percaya* (belief) and *keamanan* (security). Her explanation helps us appreciate the pivotal role of Islamic networks in BMT operations.

The fact that the BMT was dependent on Islamic networks suggests that it was rooted in the Muslim community through multiple links. These connections allowed the BMT staff to protest against those who problematized the partial "deviations" in business practices and highlighted the un-Islamic character of the BMT. For the staff, the BMT's solidarity with the Muslim community made its Islamic identity self-evident and unquestionable.

Concluding Remarks

The launching of Islamic finance raised the expectation that the Islamic economy would be established as an alternative to a capitalistic one and that Muslims' economic condition, which had been marginalized in the course of Western economic development, would improve. After the establishment of Islamic banks, Islamic finance expanded its areas to insurance, bonds, and stocks. Following this, academic discussion has tended to focus on whether novel financial products, such as credit sales and derivatives, can be traded in compliance with shariah (al-Amine 2008; Maurer 2006; Obiyathulla Ismath and Abbas Mirakhor 2013; Rosly 2005; Rudnycky 2019).

Examination of how to make financial products compliant with shariah provides an opportunity to explore the potential of Islamic finance. When the discussions are concentrated on this issue, however, the driving force behind the emergence of Islamic finance tends to be treated as a constant rather than a variable. It can be neglected

that Islamic finance has been precipitated by and relies on Muslims' passion and dedication for realizing the ideal of assisting the poor and addressing their economic helplessness.

The Indonesian BMT was criticized for the high costs of transactions, the limited application of profit and loss sharing contracts, and *murābahah* procedures that do not strictly adhere to shariah. Humble acceptance of these criticisms, however, did not induce the BMT employees to doubt the Islamic nature of the BMT. Highlighting that they were firmly committed to improving the economic condition of the Muslim community, that their activities covered not only business but also charity and socio-religious works, that they relied on business practices caring for the weak, and that they were rooted in the Muslim community, the staff did not question the Islamic character and identity of the BMT. For them, they were missionaries responsible for the Muslim economy, and their works were *'ibādah* aiming to fulfill Allah's commands.

The case of BMT Untung suggests that, as Sakai maintains in her study of two BMTs in Java (2014), Islamic finance cannot be reduced to Islamic contracts. When attention is paid mainly to shariah compliance, the social and religious contexts of Islamic finance and the agency of Muslim actors cannot be taken into serious account. What makes Islamic finance Islamic includes not only shariah compliance but a wide range of religious dispositions and practices.

The commitment and determination of BMT activists allow us to put the potential of Islamic finance in a broader perspective. Discussions on the development of Islamic finance cannot be confined to the questions of how elaborately new products can be devised to conform to shariah and how efficiently business can be managed to make it commercially viable (Ali 2012; Maamor, Cokrohadisumarto, and Ismail 2017). Such discussions should also include the questions of how Islamic institutions can draw trust and support from Muslims, how effectively they can utilize Muslim networks, and how strongly they are committed to realizing Islamic values and goals. What is required in this respect is "to return to the basics," namely to appreciate that affection for fellow Muslims, commitment to carrying out religious duties, and unity with *'ummah* are vital for commercially viable, financially sustainable, and religiously inspiring Islamic finance.

Endnotes

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1. Following government regulations, BMT is also referred to as *Koperasi Jasa Keuangan Syariah* (KJKS), *Koperasi Simpan-Pinjam dan Pembiayaan Syariah* (KSPPS), and *Lembaga Keuangan Mikro Syariah* (LKMS). Due to the symbolic significance of the Arabic expression (Nazirwan 2015, 184), the new names have been unable to replace the term BMT but have been used side by side with it.
 2. The names of institutions and informants are pseudonyms.
 3. The pursuit of financial independence did not mean that BMT did not rely on external funding. Subsidized funding from the government, international donors, and large corporations played an important role in expanding BMT's business base and increasing profits (Wulansari & Kassim 2016, 223-224). What made BMT differ from other microfinance institutions was that it considered deposits as the primary source of funding and external subsidies as an auxiliary source.
 4. Because the interest rates of money lenders in the late 1990s were as high as 240% per annum (20% per month) (Nugroho 2001, 176-177), the profit margins of approximately 50% per annum charged by BMT in *murābahah* contracts were viewed to be acceptable, although they were higher than bank interest rates.
 5. The number of BMTs was estimated to range between 3,500 and 5,000 in the 2010s. The number 4,500 was used for a while, including by the Minister of Cooperatives and Small and Medium Enterprises in 2015, until this was replaced with 5,000 by officials from the same ministry in 2019 (Fadil 2016; Setiaji 2019).
 6. The US dollar compared to the local currency is calculated based on the median rate of the year. The currency data are from <https://tradingeconomics.com/indonesia/currency> (June 20, 2020).
 7. A survey of 301 BMTs in 2011 reported that there were 4 BMTs with assets of over Rp 100 billion (US\$11.8 million), 11 with assets between Rp 10 billion and Rp 100 billion, 160 with assets between Rp 1 billion and Rp 10 billion, 118 with assets between Rp 100 million and Rp 1 billion, and 8 with assets less than Rp 100 million (Sakti 2013, 8).
 8. Six board members and one shariah inspector were appointed along with the staff. The inspector was later replaced by the Shariah Advisory Council (*Pengawasan Syariah*), which consists of three members.
 9. The quantitative data related to BMT Untung are based on its annual report.
 10. Six of the ten informants were active in Islamic organizations, and four were not. All of them were males in their 30s and above, and their occupations were university lecturers (6 persons), self-employed (2 persons), office worker in the private sector (1 person), and businessman (1 person). They belonged to the middle class and conducted most of their financial transactions through banks.
 11. It is not easy to accurately calculate the costs of BMT financing, which are not fixed. In 2019, the costs of *murābahah* financing were 20–30% per annum.
 12. The average share of *mudharabah* and *musharakah* contracts was 5%, but the annual deviation was wide. For example, the share of 7% in 2015 decreased to 2% in 2018. As the total financing expanded, the volume of these contracts increased from Rp 580 million in 2015 to Rp 1.46 billion in 2018.

13. In another interview, the manager Surono reacted differently to the criticism of *murābahah* procedures, insisting that the BMT's *murābahah* belonged to the contract called *murābahah bil wakalah*, in which the BMT may delegate the purchase of goods to clients. Proposing that this contract was permitted not only by MUI (the Indonesian Council of Ulama) but by the BMT's own Shariah Board, he protested against those who criticized the BMT's practices in a simplistic manner.
14. The collateral for financing is not provided through legal procedures. Submission of a copy of a motorcycle or land registration is considered to confirm that the borrower agrees to offer the collateral.
15. A BMT in East Java employed explicitly religious strategies. For example, BMT staff who visited delinquents recited the Quranic verses prescribing repayment of debts as a religious obligation (Nasution 2014).

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Guidelines

Submission of Articles

S*tudia Islamika*, published three times a year since 1994, is a bilingual (English and Arabic), peer-reviewed journal, and specializes in Indonesian Islamic studies in particular and Southeast Asian Islamic studies in general. The aim is to provide readers with a better understanding of Indonesia and Southeast Asia's Muslim history and present developments through the publication of articles, research reports, and book reviews.

The journal invites scholars and experts working in all disciplines in the humanities and social sciences pertaining to Islam or Muslim societies. Articles should be original, research-based, unpublished and not under review for possible publication in other journals. All submitted papers are subject to review of the editors, editorial board, and blind reviewers. Submissions that violate our guidelines on formatting or length will be rejected without review.

Articles should be written in American English between approximately 10,000-15,000 words including text, all tables and figures, notes, references, and appendices intended for publication. All submission must include 150 words abstract and 5 keywords. Quotations, passages, and words in local or foreign languages should

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1. Hefner, Robert. 2009a. "Introduction: The Political Cultures of Islamic Education in Southeast Asia," in *Making Modern Muslims: The Politics of Islamic Education in Southeast Asia*, ed. Robert Hefner, Honolulu: University of Hawai'i Press.
2. Booth, Anne. 1988. "Living Standards and the Distribution of Income in Colonial Indonesia: A Review of the Evidence." *Journal of Southeast Asian Studies* 19(2): 310–34.
3. Feener, Michael R., and Mark E. Cammack, eds. 2007. *Islamic Law in Contemporary Indonesia: Ideas and Institutions*. Cambridge: Islamic Legal Studies Program.
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5. Utriza, Ayang. 2008. "Mencari Model Kerukunan Antaragama." *Kompas*. March 19: 59.
6. Ms. *Undhang-Undhang Banten*, L.Or.5598, Leiden University.
7. Interview with K.H. Sahal Mahfudz, Kajen, Pati, June 11th, 2007.

Arabic romanization should be written as follows:

Letters: ' b, t, th, j, ḥ, kh, d, dh, r, z, s, sh, ṣ, ḍ, ṭ, ḏ, ḡ, f, q, l, m, n, h, w, y. Short vowels: a, i, u. long vowels: ā, ī, ū. Diphthongs: aw, ay. *Tā marbūṭā*: t. Article: al-. For detail information on Arabic Romanization, please refer the transliteration system of the Library of Congress (LC) Guidelines.

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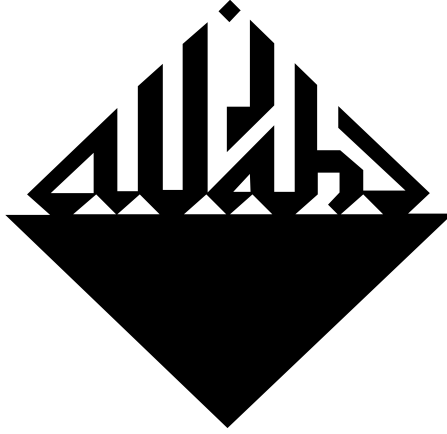
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DEMOCRATIC DILEMMA OF MALAY ISLAMIC PARTY: PAS, COALITION PATTERN, AND RISING SOCIAL ISSUES

Mohd. Izani Mohd. Zain & Mohd. Daud Mat Din

CONTESTING ETHNIC AND RELIGIOUS IDENTITIES IN THE 2019 INDONESIA ELECTIONS: POLITICAL POLARIZATION IN WEST KALIMANTAN

Zuly Qodir, Hasse Jubba, & Mega Hidayati

التعليم الاسلامي المقترح
لءى كياهي سهل محفوظ (١٩٣٧-٢٠١٤)
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