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# Bridging the Financial Gap: Baitul Maal Wat Tamwil (BMT) as A Medium for Women's Empowerment and Financial Inclusion

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## ABSTRACT

This paper is derived from the findings of community service programs aimed at improving women's access to Islamic microfinance Institutions, thereby empowering them and increasing their financial inclusion. The method to achieve the objective was through three educational sessions. The first session introduced participants to Islamic microfinance institutions, mainly focusing on BMT. The second session concentrated on women's empowerment, while the final session highlighted the importance of financial inclusion for women. The outcomes of these activities were increased knowledge, awareness, and skills among women regarding BMT, women's empowerment, and financial inclusion. In the future, additional training programs are necessary to further enhance women's empowerment, primarily related to financial and digital literacy, as these skills still need to be developed among the participants.

**Keywords:** BMT, Women's empowerment, financial inclusion

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## INTRODUCTION

Financial inclusion has arisen as a significant objective in fostering sustainable economic development and poverty alleviation, especially among marginalized groups such as women (Ozturk & Ullah, 2022). In many developing nations, women experience major obstacles to accessing formal financial services due to socio-cultural norms, lower levels of financial literacy, and limited economic opportunities Cabeza-García et al. (2019);

Dutta & Mallick (2023); Giglio (2021); Rahayu & Kusumaningrum (2015). This lack of financial inclusion hinders their ability to improve their economic status, invest in businesses, and contribute to their families' well-being (Hameed et al., 2021; Rahayu, 2023; Rahayu et al., 2023a). Baitul Maal Wat Tamwil (BMT), the genuine version of Islamic microfinance Institution (IMFI) in Indonesia, offers a promising path to encounter

these challenges by offering Sharia-compliant financial services tailored to the needs of women.

Even though BMT is not especially design for women, however majority of the clients are women in micro sector (Rahayu, 2020b). As a part of Islamic microfinance institutions, BMTs are working under the Islamic principles, which prohibits interest (riba) and promotes risk-sharing, transparency, and social justice (M. K. Hassan et al., 2021). These institutions provide a range of financial products, including microloans, savings accounts, and insurance, designed to be accessible and affordable for women in the informal sector. By leveraging the principles of Islamic finance, BMTs can build trust within the community, making financial services more acceptable and inclusive for women (Obaidullah & Khan, 2008).

Latest studies have documented the potential of IMFI to improve financial inclusion among women. For instance, the study by K. Hassan et al. (2013) indicate that IMFI can effectively reach underserved women, offering them financial products that align with their religious and cultural values. In the case of Indonesia, Rahayu, (2020) & Robinson (2001) found that many BMTs targeting women since women are consider as responsible and reliable clients who are able to repay loans at a commercial interest rate. It is assumed that offering them access to credit and increasing the number of female clients are adequate strategies for reducing poverty and empowering women (Drolet, 2010). Further, Rahayu (2023) discovered that access to BMT programs and services has significantly improved the socio-economic and physiological of women's clients.

Similarly, Islam (2020) demonstrated that Islamic Microfinance Services have substantially increased women's household income, savings, and spending. They have elevated living standards, contributed to human capital development, and bolstered all three facets of empowerment:

economic, socio-cultural, and familial. Additionally, BMTs not only provide financial services but also integrate financial literacy programs, which are critical in empowering women to manage their finances effectively and make well-informed economic choices (M. K. Hassan & Saleem, 2017). These initiatives assist women in understanding Islamic finance principles, enhancing their financial management abilities, and boosting their economic involvement.

Despite these promising advancements, further investigation is needed to fully comprehend the potential role of BMTs on women's financial inclusion and economic empowerment. The existing literature typically addresses the role of Islamic microfinance in broad terms, without focusing on the unique contributions of BMTs or the specific experiences of women. This paper is developed based on community service activities conducted by the author, which engaged the women's community, particularly housewives, in Jongkang Baru Village, Sariharjo, Sleman. This community service initiative aimed to educate and promote the potential of IMFIs to empower women and enhance financial inclusion among them. Researchers' observations reveal that most housewives in the area lack engagement in productive economic activities and possess low levels of Islamic financial literacy. Additionally, although all the participants are Muslim, none of them have access to Islamic finance institutions. Given this situation, it is crucial to implement women's empowerment initiatives to enhance Islamic financial inclusion among these women.

## LITERATURE REVIEW

### BMT as The Indonesian Model of Islamic Microfinance Institutions (IMFIs)

Baitul Maal wat Tamwil (BMT) represents a distinct category of Sharia Microfinance

Institutions (IMFIs) in Indonesia, encompassing both Baitul Maal and Baitul Tamwil components (Ascarya & Masrifah, 2023). Conceptually, the nomenclature 'BMT' signifies reflect BMT's commitment to achieving both economic and socio-religious goals through Islamic financial principles. As a Baitul Maal, which translates to 'house of wealth,' BMT is responsible for the collection and administration of social funds, including zakat, infaq, sadaqah, cash waqf, and other contributions from both members and non-members (Quraisy et al., 2017). Conversely, in its capacity as a Baitul Tamwil, or 'house of trade or property development,' BMT provides financial intermediation by facilitating the flow of funds between lenders and borrowers. Operating similarly to a cooperative, it employs a Profit-Loss Sharing (PLS) model that establishes a mutual partnership (sirka) among depositors/investors (rabb al maal), the Islamic Microfinance Institution (baitul tamwil), and borrowers (mudarib). BMT oversees the management of funding, savings, deposits, and loans, subsequently channeling these resources into productive economic ventures, mainly to support microenterprises and low-income households. Profits generated from these ventures are shared among all parties involved, and losses are collectively borne if the ventures fail (Yaya et al., 2021).

### **Understanding Microfinance, Islamic Microfinance and Women's Empowerment**

Microfinance and Islamic finance share several commonalities. They both prioritize the welfare of society, encourage entrepreneurship and risk-sharing, and advocate for the inclusion of the poor in economic activities. Additionally, both approaches aim at developmental and social objectives, promote financial inclusion, and engage the impoverished population (Obaidullah, 2008). However, they also exhibit some key differences.

First, microfinance, particularly microcredit, is generally unsuitable for the chronically poor and destitute. In contrast, an Islamic system places a much higher priority on addressing the needs of the chronically poor compared to the moderately poor or those who are less impoverished (Obaidullah, 2008). Islam mandates zakah, a compulsory form of charity, which is the third pillar of Islam, along with numerous other voluntary forms of charity.

Second, regarding financing methods, conventional microfinance relies on interest to generate income, whereas Islamic microfinance employs alternative schemes that adhere to Islamic laws (M. K. Hassan et al., 2021). Third, in terms of funding sources, conventional MFIs primarily receive funds from foreign donors (both multilateral and national agencies), governments, and the central bank. In contrast, IMFIs can also obtain funds from religious institutions such as waqf and charitable donations (Alamoudi & Othman, 2021). Fourth, the majority of clients in conventional microfinance institutions (MFIs) are women, as they are often considered the poorest segment of the global population and are seen as utilizing funds effectively to enhance their income levels (Kulkarni, 2011). In contrast, IMFIs focus on families, promoting a philosophy of "family empowerment." This approach encourages men and women to fulfill their respective roles in achieving the economic and social well-being of all family members (Obaidullah & Khan, 2008). Family empowerment marks a significant shift in microfinance, as it aims to reduce poverty and foster growth through equitable income distribution. Additionally, this approach mitigates the risk of family conflict and disintegration (Ascarya, 2014). The family-centered concept is reinforced by the agreements between IMFIs and their clients, which require both women and their spouses to sign the contracts and share the responsibility for repaying the funds (Ahmed, 2002).

Fifth, the approach to handling debts and defaults. Conventional MFIs often rely on group and central pressure, resorting to threats, and in extreme cases, selling assets when these measures fail. In contrast, IMFIs adopt an Islamic approach to managing arrears and defaults. The principles of brotherhood and mutual assistance emphasized in Islam encourage group members and central authorities to help pay off arrears, and even spouses may be involved. Additionally, the Islamic teaching that failing to repay debts is sinful serves as a strong motivator for members to fulfill their financial obligations (Ahmed, 2002). When it comes to social development, conventional MFIs operate on a secular basis, whereas IMFIs incorporate Islamic values into their practices.

Microfinance is universally acknowledged as a powerful instrument for poverty alleviation and women's empowerment (Khurshed et al., 2021). In the microfinance literature, three distinct paradigms are often discussed. The first is the financial self-sustainability paradigm, which designs microfinance programs to target creditworthy clients capable of repaying loans at commercial interest rates (Robinson, 2001). This paradigm posits that women are reliable borrowers and assumes that providing them with access to credit, through poverty-targeted initiatives, and increasing the number of female clients, is sufficient to achieve poverty alleviation and women's empowerment (Drolet, 2010). The second paradigm is the poverty alleviation paradigm, which primarily targets women, as they are generally perceived to be poorer than men. This paradigm assumes that meeting women's practical needs will empower them to address gender inequities as they see fit, and that alleviating household poverty naturally synergizes with women's empowerment and well-being (Mayoux, 2005). The third paradigm is the feminist empowerment paradigm, which prioritizes gender equality and women's rights. This

model views gender subordination as a complex, multidimensional issue that permeates all aspects of women's lives and is reinforced at various levels (Mayoux, 2003).

Although BMTs in Indonesia were not originally established with the specific intent of empowering women, it is evident that many BMTs, particularly those operating near traditional markets, predominantly serve women, making them the primary beneficiaries of their services. According to Rahayu (2020), the preference for women by BMTs is driven more by business and pragmatic considerations. By targeting women as reliable clients, these institutions can more effectively cover their operational costs and generate the necessary profits to sustain their microfinance programs in the long term, while also extending their reach to more impoverished clients (Robinson, 2001). These findings suggest that the financial self-sustainability paradigm underpins the operations of BMTs in Indonesia. Consequently, the empowerment of women is not solely aimed at promoting gender ideology but is significantly influenced by business interests.

### Financial Inclusion and Marginal Women

Enhancing access to financial resources for marginalized communities is essential for achieving inclusive growth and development (Zulfiqar et al., 2016). Despite its prominence in global discussions, financial inclusion lacks a singular definition within the financial literature (Tita & Aziakpono, 2017). This absence underscores the multidimensional nature of financial inclusion. Fundamentally, financial inclusion encompasses transactions, payments, savings, credit, and insurance that are managed responsibly and sustainably. Broadly, it can be described as the process of integrating vulnerable and marginalized members of society into a structured financial system that provides them with timely and adequate access to credit and

other financial products at affordable prices (David et al., 2018).

Globally, there remains a significant gap in financial inclusion, with 1.7 billion adults still lacking access to banking services, a substantial portion of whom are women (Tita & Aziakpono, 2017). The exclusion of women from formal financial services is driven by a complex interplay of social, economic, and cultural factors. Studies by Cabeza-García et al. (2019); Dutta & Mallick (2023); Giglio, (2021); Rahayu & Kusumaningrum (2015) have identified several issues contributing to the limited access of women in the business sector to formal financial services, including collateral constraints, low levels of financial literacy, gender bias, and prevailing social and cultural norms. These barriers significantly impede women's ability to develop and expand their businesses (Hameed et al., 2021; Rahayu, 2023; Rahayu et al., 2023a).

## METHODOLOGY

The primary beneficiaries of this community service initiative are a group of women from Jongkang Baru in Sariharjo village, Ngaglik, Sleman, Yogyakarta. The program started with discussions and preliminary observations to assess women's access to and knowledge of Islamic microfinance institutions. Following dialogs with four prominent women in the area, the authors developed activities focused on promoting Islamic microfinance institutions (IMFIs) as a means of empowering women and enhancing their financial inclusion within the Islamic financial system. The program activities are structured in the following stages:

1. Need assessment: The author conducted preliminary observations to assess women's access to and knowledge of Islamic microfinance institutions.

2. Program Planning: Based on discussions with four key female figures in the area, the researcher designed activities aimed at promoting Islamic microfinance institutions (LMKS) as a medium for women's empowerment and enhancing Islamic financial inclusion among women.
3. Implementation: This program took place in October 2023 at the community meeting hall in Jongkang Baru. The program comprised three sessions: the first session introduced participants to Islamic microfinance institutions (BMT), and the second session provided material on empowering women through LMKS which was followed by Islamic financial inclusion.
4. Evaluation: Conducting a thorough evaluation to measure the impact of the program. This included gathering feedback through discussions, question-and-answer sessions, and distributing questionnaires to assess the participants' increased knowledge and skills related to the material presented the problem, step by step.

## RESULT AND DISCUSSION

The outcomes of the community service program can be comprehensively detailed according to the stages that were implemented. These stages include needs assessment, material presentation, and evaluation. The need assessment results reveal a significant gap in Islamic financial inclusion among the women in this village. Preliminary observations and discussions with key informants indicate that Islamic financial literacy is relatively low among the targeted women despite their adherence to Islam. None of the females currently have access to or engage with formal or informal Islamic financial institutions, highlighting a stark absence of Islamic financial inclusion.

Additionally, most of these women are homemakers with little involvement in economic or productive activities. This lack of financial engagement and empowerment underscores the critical need for targeted educational and empowerment initiatives. By introducing and promoting Islamic microfinance through Baitul Maal Wat Tamwil (BMT), this program aims to provide these women with the necessary tools and knowledge to enhance their financial literacy, foster economic independence, and improve their overall financial inclusion. The result of the needs assessment underscores the importance of implementing this program to address the identified gaps and empower the women in that area.

The second step of this project delivers an education session. The first session introduced the history, concept and the operational system of Islamic Microfinance with a case study, Baitul Maal Wat Tamwil (BMT). The creation of BMTs in Indonesia is pivotal to the Islamic economic movement that gained momentum in the late Suharto era. Historically, the regime began to politically accommodate the Islamic movement in the late 1980s, reflected by Islam's growing influence across various sectors of society. In the economic realm, this shift was marked by the development of the first Islamic banks, which played a crucial role in fostering the establishment of Islamic Microfinance Institutions (IMFIs). This period of Islamization significantly impacted the financial landscape, paving the way for the growth and proliferation of BMTs.

The BMT model is widely associated with Amin Aziz. While the concept of Islamic finance and banking had been pioneered by several Muslim intellectuals in Indonesia since the 1980s, it was Aziz who persistently and consistently championed the development of Islamic microfinance. He believed that the Islamic economic movement

should focus on actionable initiatives, a perspective that ultimately led him to conceive BMTs as complements to Islamic banking. Aziz envisioned BMTs as tools to alleviate poverty through Islamic principles, a vision that has been realized through the rapid expansion of these institutions. Over the past two decades, BMTs have emerged as a significant sector in Indonesia's economy (Prameswari, 2015). On one hand, BMTs' ability to provide microloans is crucial, as Islamic banks are not equipped to offer the small-scale capital needed by grassroots Muslim communities. On the other hand, the proliferation of BMTs reflects the strong demand among Muslims to engage in financial practices that align with Islamic teachings.

Generally, Islamic values underpin the foundational principles and practices of BMT operations. The core principles guiding BMT activities are as follows: First, Prohibition of Usury (Riba). It refers to an increase, addition, or growth, specifically a 'premium' that must be paid along with the principal amount by the borrower to the lender as a condition for the loan (Walters, 2011). Second, Prohibition of Excessive Uncertainty (Gharar). It is prohibited as it involves transactions based on incomplete information or deception, which introduce unnecessary risk and uncertainty (Kuyateh, 2022). Third, Permitted Purposes (Halal). All activities must be for halal purposes. When selecting enterprises for investment, Muslims must avoid engaging in or benefiting from activities prohibited by Sharia law, such as gambling, alcoholic beverages, pork consumption, pornography, prostitution, weapons/defense, and financial services dependent on riba (Anwar et al., 2023).

The second session of this service program delivered content focused on women's empowerment. The material covered various perspectives, concepts, and approaches to

empowering women. To investigate women's empowerment within the framework of BMTs, it is crucial to understand the foundational aspects of empowerment as a concept. As Masabo (2015) emphasizes, the initial element of empowerment is the notion of "agency." This concept positions women as key actors in the transformation process, enabling them to define their own paths and directions to alter their lives. The second critical dimension of empowerment is the "process" (Kabeer, 2005b).

Empowerment is a term extensively utilized by a diverse range of actors, including activists, feminists, and policymakers (Hennink et al., 2012). While the term is not exclusively associated with women's issues, it is frequently applied in this context. According to Kabeer (1999), empowerment is defined as the "expansion of people's ability to make strategic life choices in a context where this ability was previously denied to them." Among the various definitions, Kabeer's framework has gained widespread acceptance and has become a primary reference for understanding women's empowerment. As noted by Malhotra et al. (2002), Kabeer's definition views empowerment as a process—a transition from a state of disempowerment that necessitates agency, wherein individuals play a pivotal role in the process of change. Numerous efforts have been made to develop comprehensive indicators of empowerment. (Malhotra et al., 2002) propose that women's empowerment should encompass several key dimensions: economic, socio-cultural, familial/interpersonal, legal, political, and psychological.

Empowerment can be analyzed through three closely interconnected dimensions: agency, resources, and achievements (Kabeer, 2005a). Agency refers to an individual's ability to set goals and pursue them. It involves the exercise of choice, which can be tangible (such as decision-making,

bargaining, and negotiation) or intangible (such as motivation and underlying purposes). In the context of empowerment, agency not only involves actively making choices but also challenging existing power dynamics (Narayan, 2005). Resources, on the other hand, are the means through which agency is exercised. They are distributed through various societal institutions and relationships (Kabeer, 2005b). Resources include not only material assets in the traditional economic sense but also human and social resources that enhance the ability to make choices. The third dimension of empowerment is achievement. Regarding to empowerment, achievements are viewed in terms of exercised agency and the outcomes of those choices. For instance, taking up paid employment would be considered progress in women's empowerment (Kabeer, 1999).

The subsequent session of this community activity involved delivering lectures on financial inclusion for women. During the third meeting, the author provided an overview of the current state of financial inclusion for women, both in Indonesia and globally. The discussion included the importance of financial inclusion among women, with a particular focus on the role of Islamic microfinance institutions in this process. Globally, 1.4 billion individuals from marginalized groups, including women micro-entrepreneurs, lack access to financial services (Anakpo et al., 2023). Even when they can secure credit, they often remain excluded from other essential financial services such as savings, insurance, and digital finance (Salman & Nowacka, 2020). For women micro-entrepreneurs, the absence of financial institutions is a significant barrier to improving their economic conditions (Rahayu et al., 2023).

Promoting women's inclusion in financial services is crucial for several reasons. Firstly, financial inclusion economically empowers women (Adera & Abdisa, 2023). In Indonesia, Sharia

Microfinance Institutions (BMTs) serve as a gateway to empower women micro-entrepreneurs (Rahayu, 2020a). By providing access to banking services, credit, savings accounts, and insurance, these institutions enable women to initiate and expand their businesses (Siddik, 2017). Secondly, access to financial services is integral to reducing the gender gap in economic participation (Khera, 2018). Financial inclusion promotes gender equality by ensuring that women have equal opportunities to access financial resources, make financial decisions, and fully engage in the economy. Thirdly, financial inclusion is a critical component of poverty alleviation strategies among women (Ogunsakin & Fawehinmi, 2017).

The program ends with an evaluation session. Follow-up activities, including evaluation sessions, debriefing, and guided practice, offer participants the opportunity to test their comprehension of the material presented. The debriefing process allows educators to receive immediate feedback and address any potential confusion or difficulties. Through guided exercises, participants can apply their newly acquired knowledge in practical contexts, reinforcing their understanding. This holistic approach—from material delivery to evaluation and practical exercises—creates an interactive learning environment and ensures that the community

service program effectively benefits the participants.

## CONCLUSION AND RECOMMENDATION

This paper is based on the findings from community service programs. The primary aim is to enhance the knowledge of the women's community in Jongkang Baru, Sleman, Yogyakarta, regarding Islamic microfinance institutions. Specifically, the educational initiative seeks to advance women's access to Islamic microfinance institutions, thereby empowering them and improving financial inclusion. This objective was achieved through a series of three educational sessions. The first session introduced the participants to Islamic microfinance institutions, with a particular focus on BMT. The second session concentrated on women's empowerment, and the final session emphasized the importance of financial inclusion for women. The outcomes of these activities include increased knowledge, awareness, and skills among women related to BMT, women's empowerment, and financial inclusion. Moving forward, additional training programs are necessary to further enhance women's empowerment, particularly in the areas of financial literacy and digital literacy, as these skills remain relatively underdeveloped among the participants.

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