

**Between Benefits and Dependency: Evidences of Women's  
Empowerment Through *Baitul Maal Wat Tamwil (BMT)*  
in Indonesia**

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**ABSTRACT**

*Baitul Maal wat Tamwil (BMT)*, a form of Islamic microfinance in Indonesia, is not purposely designed for women. However, female clients are the biggest beneficiaries of this institution. This study aims to explore the phenomenon of women's participation in BMT programs. Specifically, it focuses on the intended and unintended outcomes of women's empowerment through BMT. Using a case study of four BMTs in Yogyakarta, this research observes the impact of BMT on women's lives. Three methods were used to collect the data including semi-structured interviews, field observation, and document collection. The interactive qualitative data analysis is used to examine the collected data. To verify the validity of findings, this research uses a triangulation approach. It is found that BMTs' effects on women are mostly positive. Access to BMTs' programs and services has socio-economic and psychological benefits for women. Nonetheless, BMTs may have a negative effect, one of the most damaging being a continued dependence on loans. Future research could expand to several areas where BMT operate, thereby providing a more comprehensive portrait of BMTs and women's empowerment. This study fills gaps in the literature by comprehensively investigating the benefits and disadvantages of empowering women through BMTs.

**ملخص**

يعد بيت المال والتمويل (BMT) شكلاً من أشكال التمويل الأصغر الإسلامي في أندونيسيا التي لم يصمم خصيصاً للنساء. ومع ذلك، فإن النساء هن أكبر العميلات المستفيدات من هذه المؤسسة. تهدف هذه الدراسة إلى استكشاف مشاركة المرأة في البرامج بيت المال والتمويل. وتركز الدراسة على النتائج المقصودة وغير المقصودة لتمكين المرأة من خلال بيت المال والتمويل. ويدرس هذا

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البحث تأثير برامج بيت المال والتمويل على حياة النساء من خلال دراسة أربع حالات في مدينة يوغياكارتا. استخدمت ثلاث طرق لجمع البيانات بما في ذلك المقابلات شبه المنظمة والمراقبة الميدانية وجمع الوثائق. وتم تحليل البيانات المتحصل عليها باستخدام التحليل النوعي التفاعلي للبيانات. يستخدم هذا البحث النهج الثلاثي للتحقق من صحة النتائج. وتبين النتائج أن آثار برامج بيت المال والتمويل على المرأة إيجابية بشكل عام. فلولوصول إلى برامج وخدمات بيت المال والتمويل فوائد اجتماعية واقتصادية ونفسية بالنسبة للمرأة. ومع ذلك، قد يكون لها تأثير سلبي كالالتكال المستمرة على القروض. يمكن أن يتوسع نطاق الأبحاث المستقبلية لتشمل المجالات التي يعمل فيها BMT لتوفر صورة أكثر شمولاً عنه وعن دوره في تمكين المرأة. وتهدف هذه الدراسة لسد الثغرات القائمة في الأدبيات حيث تدرس مزايا وعيوب تمكين المرأة من خلال بيت المال والتمويل.

#### ABSTRAITE

Baitul Maal wat Tamwil (BMT), une forme de microfinance islamique en Indonésie, n'est pas conçue à dessein pour les femmes. Cependant, les femmes sont les principales bénéficiaires de cette institution. Cette étude vise à explorer le phénomène de la participation des femmes aux programmes de BMT. Plus précisément, elle se concentre sur les résultats voulus et non voulus de l'autonomisation des femmes par le biais de la BMT. En utilisant une étude de cas de quatre BMT à Yogyakarta, cette recherche observe l'impact des BMT sur la vie des femmes. Trois méthodes ont été utilisées pour collecter les données : les entretiens semi-structurés, l'observation sur le terrain et la collecte de documents. L'analyse qualitative interactive des données est utilisée pour examiner les données collectées. Pour vérifier la validité des résultats, cette recherche utilise une approche de triangulation. On constate que les effets de BMT sur les femmes sont essentiellement positifs. L'accès aux programmes et services de BMT présente des avantages socio-économiques et psychologiques pour les femmes. Néanmoins, les BMT peuvent avoir un effet négatif, l'un des plus préjudiciables étant une dépendance continue à l'égard des prêts. Les recherches futures pourraient s'étendre à plusieurs régions où opèrent les BMT, ce qui permettrait de dresser un portrait plus complet des BMT et de l'autonomisation des femmes. Cette étude comble les lacunes de la littérature en examinant de manière exhaustive les avantages et les inconvénients de l'autonomisation des femmes par le biais des BMT.

**Keywords:** Women's empowerment, *Baitul Maal wat Tamwil*, benefits,

loan dependency.

**JEL Classification:** A13, F63, O12, P13

## **1. Introduction**

Microfinance is universally understood as an approach for poverty alleviation and women's empowerment in the developing world. Women's access to microfinance is significantly associated with increased participation in decision-making processes, independent movement, and mobility, as well as enhanced living standards (Akhter & Cheng, 2020). Microfinance is also associated with improving women's finances and economic contributions to their families/communities. It supports their children's well-being, increases their bargaining power and decision-making, improves their welfare, reduces subordination, amplifies women's voices and reduces their vulnerability (Herath et al., 2015; Karimli et al., 2021; Rahman et al., 2017). Furthermore, women were found to be more socially developed and empowered after accessing microfinance, which also bridges gender gaps (Bansal & Singh, 2019).

The impact of microfinance on women's empowerment has been extensively examined over the past decades. However, the term women's empowerment itself remains debated in the field of development (Chaudhry et al., 2012). Therefore, it is understandable that microfinance's use for women's empowerment often creates tension and resistance in Muslim societies. Opponents often argue that microfinance products and services are against Islamic values, and that the "women-only approach" applied by traditional microfinance institutions is alien to Islamic religion and culture (Obaidullah, 2008). In this regard, Islamic Microfinance Institutions (IMFIs) have emerged to promote "family empowerment" by encouraging men and women to take "balanced" roles in ensuring their families' economic and social well-being (Obaidullah & Khan, 2008). Promoting family empowerment, it is held, reduces the risk of family conflict and disintegration (Ascarya, 2014). Nonetheless, the recent rise of IMFIs in Indonesia is rather unique, as the majority of their clients are women. This paper focuses on *Baitul Maal wat Tamwil (BMT)*, the original form of Islamic microfinance in Indonesia, as a case study.

The development of Indonesian BMTs traces its roots to the Islamic economic movement, which aimed to Islamize the country's economic system. Unlike conventional microfinance, which promotes women's empowerment as a central idea, the BMT movement upholds an Islamic economy. Interestingly, although the BMT system is not designed

exclusively for women, the institutions have embraced women as their primary beneficiaries (Rahayu, 2020). In the light of limited empirical investigation of BMTs and their role in women's empowerment, this paper attempts to thoroughly analyze the beneficial and potentially harmful effects of BMTs on women in an Indonesian context. Previous studies in Southeast Asian countries have revealed that women's involvement in microfinance has unintended consequence for their well-being (Mayoux, 1997; Salia et al., 2018; Yang & Stanley, 2012). Thus, this paper fills a critical knowledge gap, thereby enabling policymakers and other stakeholders to design and implement more effective interventions that mitigate undesirable effects. Furthermore, there has been a dearth of qualitative studies on BMTs in Indonesia; this study applies a qualitative approach to fill address this problem.

This article is structured as follows. The first section provides theoretical perspectives on *Baitul maal Wat Tamwil* and women's empowerment. The second section describes the methodology. The third part analyses the empirical findings. The fourth pulls together the evidence presented and highlights an alternative explanation for an established and well-embedded narrative. The fifth provides this article's conclusions, as well as some implications for further research.

## **2. Literature Review**

### **2.1 Baitul Maal Wat Tamwil (BMT)**

*Baitul Maal wat Tamwil* (BMTs) are a form of Islamic microfinance institute found exclusively in Indonesia (Holden, 2016). Conceptually, the name BMT reflects these institutions' socio-economic mission. As *Baitul Maal* (literally 'houses of wealth'), they collect and manage social funds such as *zakah* (alms), *infaq* (spending in the way of Allah), *sadaqah* (voluntary charity), cash *waqf* (Islamic endowment), and other social funds from members and non-members (Quraissy et al., 2017). In this manner, BMTs conduct socio-religious activities that support poverty alleviation programs while simultaneously enhancing the piety of Muslims (Wulandari & Kassim, 2015).

Meanwhile, acting as *Baitul Tamwil* (literally, 'houses of trade or property development'), these institutions operate similarly to traditional financial institutions by providing financial services such as loans and savings. However, unlike non-Islamic financial institutions, BMTs offer their services and financing solely in accordance with Islamic law

(Holden, 2016) by endorsing partnerships and profit-sharing contracts. They avoid interest and speculative risk, both of which are prohibited in Islam (Sakai, 2010), and refuse to finance business ventures that involve forbidden activities such as gambling and alcohol consumption. *Baitul Tamwil* also offer non-commercial financing, such as *qard* (loans) for emergency purposes or to those in need, as well as Islamic microfinance services such as *micro-takaful* (Islamic micro-insurance), fund transfers, and bill payments (Ascarya et al., 2017).

The invention and development of BMTs in Indonesia was central to the Islamic economic movement that emerged in the late Suharto era. Historically, the regime began to politically accommodate the Islamic movement in the late 1980s, as indicated by Islam's increased influence in many areas of life. In the economic sector, Islamization was marked by the development of the first Islamic bank, Bank Muamalat Indonesia (BMI). However, to ensure profitability, BMI could not offer sufficient funds to micro-enterprises. Some of the bank's key advocates then turned their attention towards establishing an IMFI, *Baitul Maal wat Tamwil* (BMT), and offering smaller loans (Sakai, 2008). The first one, *Bina Insan Kamil* (BIK), was established in 1992, and following its success a vast number of BMTs were established in other regions (Antonio, 2011). However, unlike rural Islamic banks, for which up-to-date data is available, there is no official, accurate data on the number of BMTs in Indonesia. The National Sharia Finance Committee estimates that the country is home to 4,500 BMTs (Setiaji, 2019).

## **2.2 Women's Empowerment**

The literature shows many definitions of empowerment. Of these, Kabeer's empowerment concept has been broadly recognized and become the main reference for understanding women's empowerment issues. Kabeer (1999) defines empowerment as the "expansion of people's ability to make strategic life choices in a context where this ability was previously denied to them." Malhotra, Schuler, and Boender (2002) argue that Kabeer's definition is especially attractive because it contains two basic elements that help distinguish empowerment from other closely related concepts: (1) the idea of the process, or change from a condition of disempowerment, and (2) the idea of human agency and choice. Furthermore, Malhotra, et al. (2002) reason that Kabeer offers a useful definition of empowerment that effectively captures what is common to these definitions and can be applied in a range of contexts. This novel study applies Kabeer's concept of empowerment to explore to link

between MFIs in Indonesia and women's empowerment, holding that Kabeer's theory offers a good way to describe broader empowerment processes.

To explore women's empowerment within an MFI context, it is essential to understand empowerment as a concept. According to Kabeer (2005), empowerment can be explored through three closely interrelated dimensions: agency, resources, and achievements. Agency is the ability of an individual to set goals and act upon them (Kabeer, 1999). In this concept, women are placed as important players in the process of change, as agents who can define their own ways and change their lives (Masabo, 2015). Women's agency is manifested, for instance, when women decide to join credit programs and gain access to microcredit. As a result, women may benefit from their income, increasing their discretionary spending, children's education, and healthcare.

Resources, meanwhile, are the medium through which agency is exercised. Distributed through the various institutions and relationships in society, they include not only materials (in the more conventional economic sense) but also various human and social resources that serve to enhance the ability to exercise choice. The third component of empowerment is achievement. In an empowerment context, achievements should be seen in terms of exercised agency and the consequences of choices (Kabeer, 2005). For example, taking up waged work would be regarded as progress in women's empowerment. However, such evidence would be far more likely if action was taken up in response to new opportunities, rather than as a means of surviving everyday struggles (Kabeer, 2003).

### **3. Data and Methodology**

This study employs a qualitative approach to investigate how BMTs programs and services affect women beneficiaries. Three methods were used to collect the data: field observation, semi-structured interview, and document collection. Initial data for this research are based on fieldwork conducted between October and December 2017 in Yogyakarta Special Province (DIY) but have been updated in 2020 to recognize the latest dynamics and developments of BMTs in Indonesia. The field study began with a discussion with the director of Puskopsyah (Association of Islamic Cooperative), which supervises 93 BMTs in the province.

From the initial discussions with Puskopsyah and field observations, four BMTs were chosen as a case study: BMT Bina Insanul Fikri (BIF), BMT Al-Ikhwan, BMT KUBE (Collective Enterprise Group) Sejahtera 19, and GEMI (Women's Economic Movement). Those four BMTs have been selected owing to the interesting points of comparison, especially their history of the establishment, organizational mission, affiliation, and the intersection of their programs with women's issues. Young Muslim activists affiliated with Muhammadiyah (the second-largest Islamic organization in Indonesia) and ICMI (Association of Indonesian Muslim Intellectuals) initiated the establishment of BIF, while an Aisyiyah (the women's wing of Muhammadiyah) activist motored the foundation of Al-Ikhwan. GEMI was founded by Islamic NGO activists, and KUBE was established by the local government as a part of a poverty alleviation program. As for motive, the issues of loan sharks and poverty alleviation were the main factors driving the inception of four BMTs. Although BMT beneficiaries are primarily women, none of the BMTs surveyed include women's empowerment in their organizational visions. Instead, BMT supporters maintain that an Islamic ideology underpins their operations.

Employing the snowball technique, which uses referrals to identify persons with information and knowledge on Islamic micro-finance, the author conducted semi-structured interviews. The interviews were employed to explore the experiences, knowledge, and opinions of BMT clients. To guide to interview, the author developed an open-ended questions based on the dimensions of women's empowerment promoted by Malhotra et al., (2002). Interviewees were selected based on their experience engaging with BMTs; all had been members of a specific BMT for at least two years. Semi-structured interviews were also employed to gather data from BMT institutions and activists. Respondents consisted of BMT managers, staffs, practitioners, and Islamic economic scholars. Interview materials covered BMTs' histories, origins, affiliations, empowerment models, current issues, and views on women's empowerment. In total, this research interviewed 31 respondents: BMT clients, BMT managers and staff, practitioners, and Islamic economic scholars.

During the fieldwork, the author collected documents related to BMTs including photos of BMT activities, BMTs' annual reports, government regulations regarding microfinance, and BMTs' company profiles. To complement the findings of semi-structured interviews, and collected documents, the author also actively engaged in field observations. Direct observation helped to form close bonds with research

participants and develop dialogic interaction with them. In practice, this study observed BMTs' key activities, both in their offices and with their clients; these included BMTs' executive meetings, membership meetings, and activities in the traditional market and customers' house.

The collected data were then analysed using interactive qualitative data analysis (Miles & Huberman, 1994). The analysis process involves document compilation, reduction, display, and addressing conclusion. To verify the validity of the findings, it employs the triangulation method. Two approaches of triangulation were used in this study. First, it used multiple methods to triangulate collected data (semi-structured interviews, document collection, and field visits). Second, conducted an ongoing dialogue with informants regarding their experiences through personal meetings during fieldwork and social media.

#### **4. Empirical Results**

This study uses the concept of women's empowerment developed by Malhotra et al. (2002) to explore the impact of women's empowerment through BMT. Empowerment consists of several dimensions: increased control of income and savings, ownership of assets, participation in decision making, mobility and activities outside the home, and self-esteem. This present study adds religiosity as a new dimension of empowerment. Religious program is one approach through which BMTs in Yogyakarta empower their women clients.

##### **4.1. Women's Empowerment through BMT Programs and its Benefits**

###### ***Control of Income***

Control of income refers to women's ability to exercise greater control of the income aspects of their household financial portfolio (Kato & Kratzer, 2013). This study found that the majority of interviewed women control the earnings generated by their businesses, without spousal intervention. Respondent 13 explains:

"Though I always consult with my husband, he never intervenes in my income from my business. I can use the money the way I want. He knows that my income is used to



meet family needs and develop my business" (Respondent 13).

As women control their own income, they acknowledge being more economically empowered. Their capacity to manage their business and entrepreneurial skills also improves. Typically, after accumulating sufficient capital, they withdraw a portion of their earnings and invest elsewhere. Some GEMI and BIF clients asserted:

"In 2006, there was a big earthquake. My house was destroyed. I received assistance from the government to rebuild my house, but I no longer had the money to start a business. Luckily, GEMI staff members came to us and offered a small loan. I got a small loan of IDR 500,000 from GEMI, which I used to set up a street food stall on the side of the highway" (Respondent 13).

The statement reveals that BMT clients' individual initiatives to generate new businesses reflect their ability to manage their first loan. Although most interviewed women have handled their micro-businesses by themselves, and think little about the need for a growth strategy plan, their management capacity has increased and they have been able to expand into more profitable lines of business. Their intensive meetings with BMT officers, particularly when they collect payments, allow them to consult others about their businesses' progress.

### ***Control of Savings***

Observing the daily business activities of the interviewed women, the most straightforward evidence that women are able to save money comes from the recognized fact that they can repay the loans. During interviews, some respondents admitted that, before becoming BMT clients, they had no tradition of saving money, a fact that they attributed to their income only being enough to meet their families' basic needs. If they had more cash on hand, they used it to purchase gold and other valuables (equipment, animals, etc.). After becoming BMT members, however, women have had another option to save money: savings accounts. In this sense, BMTs' loan repayment systems encourage women to save money. One BKS 19 customer testified:

"Every day, a BMT officer comes to my market stall to collect

installments. I will hand over IDR 20,000 to him; IDR 13,500 to pay installments and IDR 6,500 for savings. The savings are mandatory. In case I am unable to repay the loan, the BMT staff will take the money from my savings account. Also, if I need urgent cash, I can use the savings" (Respondent 9).

The savings mechanism used by several BMTs—i.e., daily visits (*jemput bola*)—also contribute to women's discipline. Interviewed women asserted that they are proud to have their own capital as well as savings they can rely on. They further said that saving money requires current sacrifice, but offers future reward. For many women, savings are as crucial as loans in increasing the income and assets under their control. Moreover, the ability to control savings enables them to handle unexpected expenditures. This implies that accumulated savings serve as a buffer for both expected and sudden expenses, such as home repairs, life-cycle celebrations, or the loss of their husband (Vonderlack & Schreiner, 2002). In other cases, women save money to anticipate expected future needs, such as education, social/religious events, and future investment opportunities. Women's ability to improve their cash savings after joining BMT supports previous studies, such as those of Islam (2020); Merra, Abafita, and Ayalew (2019), who confirm that microfinance programs benefit the poor by changing their saving habits.

### ***Increased Ownership of Assets***

Another positive impact of BMT services for women is increased ownership of assets, i.e. a woman's ability to control her own assets and enjoy the benefits that accumulate from them (Pereira et al., 2017). Control over and ownership of assets is a critical component of well-being (Meinzen-Dick et al., 2011). It is also a vital component of an individual's fallback position, determining how well off an individual might be if a household dissolves due to separation, divorce, or death (Deere et al. 2010). Consistent with the findings of Merra et al. (2019), this study shows that increased income allows women to increase their assets. Women are able to make purchases that they could never afford previously. Respondent 12, a member of GEMI, said:

"I used the BMT loans to buy a new sewing machine and other equipment. With the new machine, I can work faster.

Thus, I receive more orders from my clients" (Respondent 12).

This indicates that the expansions of asset and property ownership reduces economic risks and helps women realize their full economic potential. By controlling assets and owning property under their own names, women are in a better position to improve their own lives. When financial crises occur, women can also use their assets as collateral for credit, invest in small businesses, or participate in other income-generating activities. Respondent 4 stated that she has been able to buy a small building as a result of her increased income and financial access:

"I bought a small kiosk in the market from my own savings, plus a loan of IDR 15 million from the BMT. This kiosk is registered under my name. I am blessed by being economically independent, and my husband is proud of me." (Respondent 4).

This present study also reveals that, in household assets, ownership patterns differ. For instance, jewelry appears to be a woman-typed asset, while property (land, houses, and vehicles) is generally under the husband's name. Regarding asset ownership in Indonesia, Brown (2003) states that, although the marriage law formally adopts the concept of co-ownership, the majority of land acquired during marriage is only registered in the name of the male head of household. Nevertheless, the name on the title certificate for the marital property does not indicate that one spouse is the sole owner of the property.

### ***Involvement in Family Decision-Making***

Earlier studies have reported that, when joining MFIs, women experience an increase in their decision-making power in areas that have traditionally been dominated by men, such as family planning, daughters' marriage, schooling, and buying and selling property (Cheston & Kuhn, 2002; Kulkarni, 2011; Rahman et al., 2017). Those studies have generally assumed that, before joining the microfinance sector, women have less participation in household decision-making. This postulate may relate to the feminist theory, which holds that women's inferior status is due to societal inequality (Turner & Maschi, 2015).

The current study's findings partially contradict those of previous research. No noticeable change is found in women's involvement in

decision-making at the household level. All women beneficiaries stated that they were equally engaged in decision-making with their husbands, even before they joined a BMT. They also confessed that they are often the sole authority on such domestic matters as cooking, small purchases, and children's clothing. This finding largely agrees with Geertz (1960), who reports that Javanese women enjoy strong decision-making power within the household, which they share with their spouses. The involvement of members' husbands is administratively promoted by MFIs through their loan contracts. Unlike the conventional approach, which tends to encourage women to make independent decisions about loans and businesses, MFIs directly involve women's husbands, with the signing of a loan agreement indicating that a decision has been made jointly. This also reflects MFIs universal mission to encourage 'family empowerment' rather than 'women's empowerment'.

### ***Increased Mobility Outside the Home***

Accessing credit from MFIs introduces women to public spaces and create opportunities for them to travel outside of their villages, such as during visits to local offices and occasional training programs (Kato & Kratzer, 2013; Lyngdoh & Pati, 2013; Schuler et al., 1998; Yount et al., 2021). For instance, in Bangladesh, women's mobility is traditionally restricted due to observance of *purdah* (the Muslim custom of veiling and segregating women). Indeed, women's physical mobility is often hindered by an ecology that does not support women's independence, both overtly and covertly (Murshid & Ball, 2018). However, it is reported that, after being engaged in microfinance projects, women experience increased mobility and autonomy (Kabeer, 2001)

The situation of women in Indonesia is notably different than in other developing countries. Muslim women—especially Javanese women—have no cultural restrictions on their movement, in the sense that they are free to venture out of the house independently. Women generally have ample opportunities to work and earn income (Lont, 2000). When women enjoy such freedom, they are considered more empowered. Concerning mobility, all of the interviewed women said that they already had mobility in their everyday lives due to their economic activities, even before they accessed BMT services. Nevertheless, it still increased after they became BMT members, especially for non-income generating activities. For instance, GEMI's *rembug minggon* (weekly meeting),

which takes place at members' houses, has propelled clients to frequently travel within their villages and interact with others outside their communities. The leaders of these meetings travel even more often, particularly when they represent their groups at workshops, training sessions, or annual meetings at the BMT office.

Also, the mobility of BMT clients—especially those of BIF and Al-Ikhwan—increases as members participate in religious meetings, which are regularly held at clients' homes. Furthermore, BMTs invite clients to attend events at their office during specific events. During our interview, one BMT client stated:

"The BMT often involves me in various activities. For its *milad* (anniversary), for example, I was invited to attend a *majelis taklim* (religious study meeting) at BIF's central headquarters. At the event, I met with many other customers" (Respondent 1).

BMT clients experience greater mobility because they are not only engaged in economic activities, but also in other programs (including religious ones). This mobility enables them to socialize and develop networks. While visiting new places, women have the opportunity to meet and converse with other people, which in turn helps increase their motivation, social relations, and knowledge.

### ***Increased Self-Esteem***

Microfinance is a critical part of providing financial access to the poor, not only due to its material effects but also its psychological ones. Microfinance affects the day-to-day lives of the poor, how they feel about themselves, their achievements, and their self-esteem (Moteleng, 2015). Similarly, Motileng and Wagner (2019) and Sultana et al. (2017) found that the provision of microfinance is positively correlated with recipients' self-esteem and self-efficacy. Consistent with earlier research, this study shows that BMT projects are powerful catalysts for building clients' self-esteem. Most of the female beneficiaries indicated that, when their income increased as a result of BMT credit, they were able to make different contributions to their households and their perceived self-worth. During semi-structured interviews, one respondent said:

"Although I am only a small trader, I am proud to be able to send my children to school. Two of my three children have

even managed to enter university. By sending children to higher education, they will elevate the status of their parents" (Respondent 6).

Marginalized women often have low self-esteem and lack assertiveness. As such, it is difficult for them to participate productively in economic activities (Schwindt-Bayer & Mishler, 2005). An interview with another woman revealed that her receipt of BMT services has helped her gain more respect and prestige in her community. This testimony further implies that women's self-perception and perceptions by others change after BMT membership. Most women beneficiaries asserted that having the opportunity to own economic assets increased their self-confidence and self-esteem. They stated that owning property has given them the confidence, mobility, and the ability to help others. Respondent 3 cited a specific example of how property ownership has improved her self-esteem:

"For years, a bicycle was my means of transportation to the market. After buying a second-hand motorcycle, I became more mobile. Moreover, by owning a motorcycle, I can offer help to others. When I ride my motorcycle and find a woman walking on the street, I ask her if she wants to go with me" (Respondent 3).

### ***Increased Religious Awareness***

Previous studies indicate that the Islamic financing programs offered by BMTs enhance clients' religious and spiritual quality of life (Ismail and Condro 2008). Furthermore, Khan and Phillips (2010) found that faith motivates borrowers to repay loans. Other researchers, such as Hadisumarto and Ismail (2010), suggest that IMFIs' religious treatments improve clients' business performance. Masyita et al. (2011) have proven this impact on clients' behavior and business performance. Wediawati et al. (2018) also claim that religious intermediation has a positive and significant effect on IMFI sustainability in Indonesia.

This study considers religiosity part of the psychological dimension of women's empowerment. It demonstrates that BMTs that regularly provide religious programs enhance the religiosity of their clients. Participants asserted that Islamic intermediary programs,

particularly *majelis taklim*, offer them a way to improve their level of piety and religious knowledge. This is illustrated below:

"Initially, my main motivation to join the BMT was because I was interested in the *majelis taklim* program. I and other *ibu-ibu* (married women) idolized *uztad* (cleric) Suyanto from the BMT, who often performed Islamic outreach in this village. My goal in attending the religious lecture was to increase my *iman dan taqwa* (faith and piety). As I've gotten older, I have realized that I must increase my worship so that my life is more directed" (Respondent 1).

"I feel that my religious knowledge has improved after participating in the BMT's *majelis taklim*. *Pak Uztad* usually gives a short speech, but it is easy to understand and practice. When I arrive home, I share what I learn from the forum with my husband" (Respondent 2).

Additionally, most respondents—particularly clients of BIF and Al-Ikhwan—recognized that their practice of religious rituals such as prayers and Quranic recitations have improved after they became involved in their BMTs' religious programs. As Hawa (2004) suggests, spirituality cannot be maintained unless the religious rituals of fasting, pilgrimage (*hajj*), and *zakah* are observed regularly. Muslims are commanded to discharge these rituals, which provide their spirits with daily, weekly, and yearly nourishment, strengthen and renew their beliefs, and cleanses sins from their hearts.

#### **4.2 Women's Empowerment Through BMTs and Loan Dependency**

Microfinance programs' effects on women are not always positive (Cervantes et al. 2017; van Rooyen et al. 2012). Increased income can come at the cost of heavier workloads and repayment pressures. Loans may be used by men in the family to set up enterprises, with women sometimes ending up unpaid family workers. Furthermore, increased income can lead to the withdrawal of male support and decrease in male contributions to household expenditures. Other scholars have also documented the harmful effects of microfinance on women. Yang and Stanley (2012) and Alam (2012) found that advancing loans to the poor can cause more harm than good. The accumulated debt that must be repaid may lead already poor people into further impoverishment, resulting in

multiple borrowings that create a possible cycle of debt and over-indebtedness. Furthermore, undesirable consequences of microfinance also appear in other forms such as spousal disputes, polygyny practice, and the neglect of perceived female responsibilities within the household, and these need to be considered in evaluations (Salia et al., 2018)

Similar to previous studies, this study found that one of the most apparent negative effects of women's engagement in BMTs is their dependency on credit. As stated previously, the women beneficiaries in this study have been involved with BMT services for more than ten years; one has even been a BMT client for 21 years. Most clients seem to stay with a BMT and seek microcredit throughout their lifetimes. Respondent 2 expressed her lengthy experience and dependence on her BMT, as follows:

"I have not been able to stop taking loans. First, because I have a good relationship with my BMT. It is like my family. We know each other personally. Second, there is always a reason to take more credit. Since 1996, I have borrowed much money, starting from IDR 50,000 and increasing to IDR 10,000,000. When my loan is paid off, I borrow again and again, as there is always a need for more. For example, I needed loans for my children's schooling. After they graduated, I needed another loan to find jobs for them. After the children got jobs, I needed another loan for their wedding parties. Afterwards, I borrowed money to renovate my house" (Respondent 2).

From a business point of view, loans will be productive if they generate financial benefits and are able to increase assets. The case of Respondent 2 clearly indicates that not all loans are used for productive purposes, i.e. some money is used for wedding celebrations. Organizing festive weddings has become a tradition among Javanese and in Indonesian society in general. It is common for wedding parties to require large budgets that are partly financed by debt. Although there is a tradition of *nyumbang*, in which invited guests will contribute some money to help cover the cost of the ceremony, this is not a "donation". Rather, it is more of a "debt transaction", as the same amount must be returned when the donor holds a similar celebration.



Experience during fieldwork revealed that BMT clients' desire to continue taking new loans can be attributed to demand- and supply-side factors. From the demand side, clients' inability to resist the temptation of credit is influenced by three factors. First, their satisfaction with BMTs' services. If BMTs' services and products do not meet their needs, clients will quickly leave the institutions. Loyal membership over an extended period of time, as well as multiple loans, denotes that clients are satisfied with BMTs' services. The use of the *jemput bola* system, which does not require clients to leave their business locations to handle financial arrangements, contributes to this satisfaction. Moreover, loyal members who have been positively assessed by BMT officers can access loans without collateral. It is also worth noting that BMT clients also benefit from loan rescheduling when they default or delay repayment.

However, the COVID-19 pandemic has changed BMTs' services in Indonesia. Informants explained that the imposition of lockdown measures led BMTs to combine their offline and online services. Before the pandemic, most of these organizations' financial transactions were carried out through field visits to customers. During the pandemic, BMTs encouraged clients to adopt digital services by using mobile platforms. Using platforms such as E-BIF (<https://www.instagram.com/stories/highlights/17858504428983450/?hl=id>), clients were able to access all BMT facilities, including accounts, transfers, loan installments, bill payments, as well as health insurance.

Realizing that digital literacy among customers was still relatively low, field visits were still carried out while following tight COVID-19 protocols. Interestingly, since the government loosened restrictions, the BMT has returned to its initial pattern, serving consumers with the *'jemput bola'* system (personal interview with Okty, BIF manager, May 17, 2022). COVID-19 affected the BMT's method of service delivery. Nonetheless, the conventional daily visits continued. This mechanism seems to be inseparable from BMTs, as one of the greatest strengths and genuine characteristics of such institutions is their emotional closeness to their members.

To a certain extent, the pandemic also affected debt behavior among the women clients of BMTs. As acknowledged by Okty, the payment rate fell by almost 50% in the first four months following the lockdown. Lending volumes also continuously declined, which showed that borrowers did not take out loans. Instead, Haris, a BMT manager in Yogyakarta, found that borrowers with some savings sometimes repaid

their loans (interview with Okty, BIF manager and Haris, Tamzis manager, May 17, 2022).

Second, women's temptation to credit also a result of their emotional bonding to BMT. Maintaining interpersonal relationships is a popular strategy for BMTs to gain and develop customer loyalty. As declared by Ridwan, the manager of BIF, one of BMT institutions' main advantages over commercial banking is their ability to maintain individual relationships with customers (interview, December 18, 2017). This personal relationship motivates customers to engage in long-term BMT membership.

Third, fear of losing access to a source of financing. This factor induces recipients to make recurrent loans and then transfer money to other family members. This situation puts women at risk, particularly in cases of default.

"Although I no longer need capital to develop my business, I do not want to leave GEMI's *rembug minggon*. In case I need urgent funds, there is a financial institution that I can ask for help. Recently, I borrowed IDR 5 million for my husband to pay the annual rent for his kiosk. He is responsible for the weekly installments" (Respondent 11).

From the supply side, the tight competition between BMTs in Yogyakarta contributes to their clients' debt dependency. As a consequence of this rivalry, most BMTs have to make extra effort to retain members' loyalty by maintaining personal relationships. Apparently, BIF's strategy is in step with Guenzi and Pelloni (2004), who believe that interpersonal closeness is key to a company's success. They also claim that personal relationships play a critical role in fostering customer satisfaction and loyalty, as well as in reducing customers' tendencies to join their fellow customers in switching to other service providers. By applying this strategy, BMTs deploy extensive information, lobbying, and additional services to loyal clients, ultimately creating a state of 'dependency'.

BMTs' various efforts to maintain customer loyalty have been aimed at ensuring their sustainability. As stated by Sobari, the director of BMT KBS, after the government and banking sector began disbursing microloans, competition in the microfinance industry became tougher. As a result, BMTs have acted precisely like banking institutions, becoming

oriented more towards profit and neglecting their empowerment missions. Similarly, the competition between BMTs was also confirmed by Okty, BIF's branch manager:

"Nowadays, it is challenging to find new customers, as more and more BMTs are operating in this city. In addition, the government issues microcredit through commercial banks that target our main customers. Hence, what we can do is *nguri-uri*—careful maintenance—so that members remain loyal and do not leave BIF" (Interview, December 23, 2017).

BMTs are grassroots-level financial institutions whose existence supports the economic democracy policies promoted by the government. It is, therefore, necessary to avoid corporatization policies that threaten the presence of microfinance agencies initiated by the local communities. Instead, the Indonesian government should embrace BMTs in its microcredit schemes. For example, commercial banking institutions should involve BMTs as their strategic partners in channeling microcredit to MSMEs.

The primary idea of microfinance intervention is to provide micro-entrepreneurs with small credit to develop their businesses. It is expected that, as their businesses flourish, clients will no longer need microfinance institutions, but will instead switch to commercial banks where larger loans can be obtained for further business expansion. In this perspective, clients' dependence on credit reflects BMTs' failure to move their clients up the social and financial ladder. Credit dependency can be explained by referring to the concept of credit addiction. Peprah and Koomson (2014) argue that credit addiction is linked to the social and financial mobility of people in the capitalist era. Social mobility refers to the transition of an individual, social object, or value from one social position to another level. MFIs enable unskilled and semi-skilled people who borrow from informal financial institutions with the credit and skills necessary to work and improve their lives and become part of the middle class. Middle-class clients, for example, will use their increased profits and further loans to reach the upper class, and therefore begin borrowing from commercial banks.

As with social mobility, financial mobility is the transition of an individual from one financial structure or level to another (higher/lower) level. Individuals move financially upward or graduate from informal

financial institutions (such as MFIs) to formal financial institutions. It is expected that individuals who borrow from informal financial institutions will, at one point in time, be able to profit from these loans and graduate to formal financial institutions. As everyone strives for an upward financial mobility (to become wealthier than they currently are), these clients are again expected to move on (with huge portfolios) to become clients of formal financial institutions (Peprah & Koomson, 2014). Clients' stagnation at either the lower or middle level of the financial structure, thus, can be perceived as MFIs' failure to help members move up the social ladder. Clients' failure to graduate is what in this study refers to as financial dependency.

## **5. Conclusion**

This study has examined the advantages and disadvantages of empowering women through BMTs. The major contribution of this research lies on its comprehensive analysis, which recognizes not only the positive impact of microfinance on women's well-being, but also the undesirable ones. Influenced by Javanese and Islamic culture, the empowerment of women through BMTs has both positive and negative effects. Some positive outcomes occur in the socio-economic and psychological dimensions, including increased income, control of savings, ownership, social mobility, self-esteem, and religious awareness. Unlike earlier studies, however, this study finds that women's engagement in microfinance has no significant impact on their participation in their families' decision-making processes. With their Javanese cultural background, participants argue that they have no problems in the household decision-making process; they traditionally have bargaining power in the household.

Nevertheless, this study also suggests that women's empowerment also precipitates harmful effect. Women tend to become financially dependent and stay longer with BMTs. These institutions keep women as loyal customers in order to maintain sustainability. This indicates BMTs' failure to elevate their members' social and financial mobility. Furthermore, allowing women to continue to be in debt for a long period of time is a form of disempowerment, one that prevents their economic independence. Hence, the major implication of this study is that scholars, NGOs, lending managers, policymakers, and stakeholders in the

development sector need to carry out more inclusive evaluations of the effect of Islamic microfinance on the well-being of women in order to accomplish the expected results.

The main limitation of this study is that the above findings are restricted to the female BMT recipients in Yogyakarta province, with a very strong Javanese culture background. As a result, future research should broaden the scope of this inquiry to capture a more representative portrait of BMTs and women's empowerment in Indonesia. In addition, involving male respondents (women's partners) is also important to get a more complete picture of the impact of women's empowerment on their families.

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