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DESIGN AND DETERMINE HOLISTIC FINANCIAL INCLUSION THROUGH BAITUL MAAL WA TAMWIL

Ascarya
Siti Rahmawati
Hendri Tanjung

August, 2015

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DESIGN AND DETERMINE HOLISTIC FINANCIAL INCLUSION THROUGH BAITUL MAAL WA TAMWIL•

Ascarya, Siti Rahmawati and Hendri Tanjung[1]
Center for Central Banking Research and Education, Bank Indonesia
Jl. MH Thamrin No.2, Sjafruddin Prawiranegara Tower, 22nd fl., Jakarta 10350, Indonesia
Email: ascarya@bi.go.id; **Phone**: +6221.2981.7345; **Fax**: +6221.352.4484

Abstract

Holistic financial inclusion (HFI), an integration of social inclusion delivered by not-for-profit MFIs and financial inclusion delivered by for-profit MFIs, is actually not a new concept in Islamic perspective. This study aims to develop holistic financial inclusion based on Maqashid Shariah *through Baitul Maal wa Tamwil (BMT), which would be able to solve the issues of double bottom-line, mission drift and triangle of microfinance, using Analytic Network Process (ANP) and survey to 120 BMTs. The ANP results show that the most important elements of HFI are funding independent 2.26% (Sustainability), consumption smoothing 2.17% (Economic Impact), simplicity 2.16% (Financing Program), micro financing 2.15% (Islamic Microfinance services) and income increase 2.14% (Economic Impact), followed by easy access 2.10% (Financing Program), mindset change 2.10% (Social Impact), empowered 2.06% (Social Impact), micro savings 2.05% (Islamic Microfinance Services) and basic needs fulfillment 2.01% (Social Program). Furthermore, the design of BMT-HFI should have social inclusion, including Social Program (basic needs fulfillment and bailout debt) and Development Program (savings program and regular meeting), as well as financial inclusion, including Financing Program (simplicity and easy access) and Islamic Microfinance Services (micro financing and micro savings) to achieve double bottom-line, including Outreach (total deposits and number of members) and Sustainability (funding independent and operational efficiency), as well as welfare impact, including Economic Impact (consumption smoothing and income increase) and Social Impact (mindset change and empowered). Survey results show that larger BMT has reached better Holistic Financial Inclusion (HFI) score. Small BMT (2.30) still serves as minimum HFI, medium BMT (2.65) and large BMT (3.06) serve as medium HFI, while very large BMT (4.01) has become medium-high HFI. All BMTs already have medium-high Financing Program by their Baitut Tamwil (BT), but they still have minimum role in Social Inclusion by their Baitul Maal (BM), except very large BMT, which has already achieved medium Social Inclusion. Meanwhile, almost all BMTs have medium-high Sustainability, while almost all BMTs have minimum Social Impact, except very large BMT, but all BMT have medium Economic Impact. Primary focus of BMT is Financing Program (of financial inclusion) and*

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[1] Head of Islamic Economics Society, Ibn Khaldun University, Bogor, Indonesia

Sustainability (of double bottom-line), while it gives second priority to Social Program and Development Program (of social inclusion). However, there are no problems of commercialization and mission drift. The issue of double bottom-line (Sustainability and Outreach) or triangle of microfinance (Sustainability, Outreach and welfare impact) could also be achieved simultaneously by BMT, based on priority.

JEL Classification: G210, I380, I310

Keywords : Social Inclusion, Financial Inclusion, Holistic Financial Inclusion, *Baitul Maal wa Tamwil*

I. INTRODUCTION

1.1 Background

The idea of financial inclusion started from financial exclusion of disadvantaged and low income groups of the society, especially the poor, to alleviate poverty (Leyshon and Thrift, 1995). The initiatives to provide appropriate, fair and safe financial products and services at affordable costs to these groups have been started in the 1990s in the United States and Britain to combat financial exclusion, income inequality and poverty (Marshall, 2004 and Mohan, 2006). Poor people do not just need a variety of financing, but they also need a variety of savings, money transfers for a variety of purpose, as well as a variety of insurance plan. In general, poor people also need a variety of financial products and services just like other people, but in a much smaller scale and in an affordable price (CGAP, 2006).

In Indonesia, only 48 percent (Bank Indonesia household Balance Sheet Survey, 2011) or 49 percent (World Bank survey, 2010) households have access to formal financial institutions, leaving 52 percent households with no bank or non-bank accounts, showing that the access of Indonesian people to formal and non-formal financial institutions is still low, thus must be increased.

One Britain approach to financial inclusion in the 2000s according to Marshall (2004) was to join-up financial inclusion and social inclusion (although social inclusion has not been defined clearly), since the objective to financially include low income and poor groups was remained unmet (Mitton, 2008), to include community development financial institutions, as well as private sector and voluntary sector. Indeed, financially excluded people are usually also socially isolated or excluded.

Financial inclusion to alleviate poverty through conventional microfinance institution (CMFI), indeed has several issues, including double bottom line and mission drift (Frank, 2008; Ghosh and Tassel, 2008; Armendariz and Szafarz, 2011; Armendariz, *et al.*, 2013), or even the triangle of microfinance (Zeller and Meyer, 2002). Double bottom line or twin goals means that CMFI should have high outreach to the poor, but it should also be financially sustainable. Mission drift means that CMFI has been moving away from its original objective of poverty alleviation due to formalization (Frank, 2008), commercialization (Ghosh and Tassel, 2008; Hamada, 2010; Abrar and Javaid, 2014), financial sustainability (Augsburg and Fouillet, 2010; Wagenar, 2012) and high operational cost (Cerano-Cinca and Gutierrez-Nieto, 2012).

One solution proposed by Battilana and Dorado (2010) was to build sustainable hybrid organization, combining development logic to help the poor and banking logic to be financially self-sufficient.

Moreover, Zeller and Meyer (2002) believed that due to shifts in paradigms, strategies, and development practices in the 1990s, microfinance confronted with three overarching policy objectives, namely financial sustainability, outreach to the poor and welfare impact, which difficult to be achieved simultaneously. Although MFIs tried to achieve these objectives, many of them stressed one particular objective over the other two.

In Islamic perspective, financial inclusion is an integral part of Islamic microfinance institution (IMFI) to provide various Islamic financial product and services needed by low income and poor groups of the society. Islamic microfinance provides more holistic framework to enhance financial inclusion, eradicate poverty, and a healthy economy by promoting microfinance, MSE financing, and micro insurance (Naceur, 2015). The concept of financial inclusion in Islamic perspective based on two main pillars, namely redistributive and risk sharing instruments (Mohieldin, 2012; Iqbal and Mirakhor, 2012 and 2013; Iqbal, 2014).

Both instruments are the implementation form of the Islamic principles on social justice, inclusion, and sharing of resources. At the end, these instruments can complement each other to enable the poor to smooth consumption, built assets, increase income, and start a business (Obaidullah, 2008; Iqbal and Mirakhor, 2012 and 2013; Ali, 2014). Iqbal (2014) explains structured approach to enhance financial inclusion. First, for those who are below poverty line (extreme poverty), the instruments of zakah, sadaqah, waqf, and khums can be used as the redistributive pillars, while risk-sharing pillar is through collective support. Second, for those who are above poverty line, the instruments of *Qard al-hasan*, zakah, waqf can be used as the redistributive pillars, while microfinance and microtakaful as risk sharing pillar. Lastly, the low income people have the approach of hybrid solutions, and risk sharing pillar is implemented through MSMEs financing.

One well known type of Islamic microfinance institution (IMFI) in Indonesia is Baitul Maal wa Tamwil (house of wealth and business) or BMT. Baitul Maal (Bait=House, al-Maal=Wealth) focuses on collecting compulsory and voluntary charities, such as zakat, infaq, sadaqah, awqaf and optimizing their distribution by applying Shariah based management. Meanwhile, Baitut Tamwil (Bait=House, at-Tamwil=Finance/capital) focuses on developing productive businesses as well as investment which addressed to enhance the quality of human economic life especially for those who are having micro and small scale economy, by promoting funding and financing activities.

Helping the poor to alleviate poverty and to empower them are necessary in order to improve their wellbeing and solve social exclusion problems, while BMT could be utilized as the agent of social inclusion (through recovery, empowerment and development programs), as well as financial inclusion (through the provision of Islamic micro-financial products and services). However, sustainable Islamic models of this integrated financial inclusion are required to achieve the objective. The most important thing is that the model of financial inclusion must be holistic and based on maqashid Shariah. Holistic means that the model must be integrated between social inclusion and financial inclusion. Maqashid Shariah means that the model should be in line with the objectives of Shariah.

1.2 Objective

The objectives of this study are two folds. First, to design the model of holistic financial inclusion (HFI), which includes empowerment for the poor to step gradually from extreme poor to active poor and finally to become independent micro entrepreneur in order to alleviate poverty and improve their wellbeing. Second, to determine and map BMT in Java as HFI agents to assist BMT to improve their social inclusion and financial inclusion functions.

1.3 Methodology

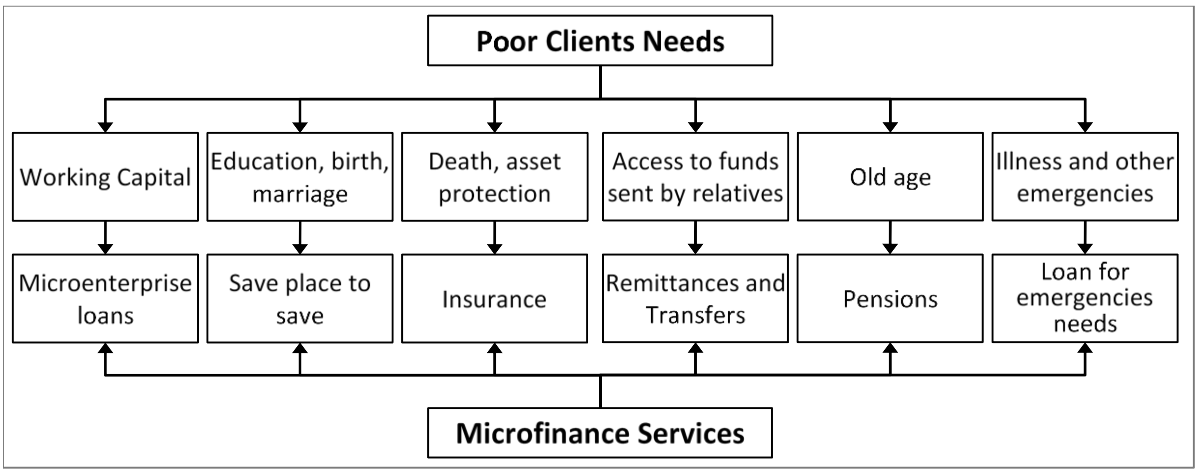
This study will apply qualitative method to design Islamic holistic financial inclusion model, including surveys, in-depth discussions and/or focus group discussions. Subsequently, this study will apply Analytic Network Process (ANP) to determine important elements of HFI. This study will also use field survey to 120 BMTs in Java Island to determine their strengths and weaknesses, as well as to map their position as HFI agents and draw road map of development.

II. LITERATURE REVIEW

2.1 Microfinance and Financial Inclusion

The idea of microfinance is initially generated with the idea of providing microcredit to the poor to alleviate poverty, and later it was expanded to provide other financial services, such as micro savings, micro insurance and transfers which would be known as microfinance (Robinson, 2001; Armendariz and Morduch, 2010). Ledgerwood (1999) defines microfinance as the provision to low-income and self-employed clients of financial intermediation which could be combined with social intermediation, including group formation, development of self-confidence, financial literacy and other services.

As shown in Figure 1, it depicts a variety of microfinance services that poor people need from born to death. According to CGAP (2006), poor people need variety of financial services, in a much smaller scale, for their 1) life-cycle events, including recurrent incidents (such as school fees, holidays like Eid or Christmas, harvest time), once-in-a-life-time occurrences (such as birth, marriage, death), or other events (such as home building, widowhood, old age and bequeath to heirs); 2) emergency needs, including personal crises (such as sickness or injury), the death of a breadwinner or the loss of employment, and theft); and 3) investment opportunities, including invest in business, land, household assets (such as better roofing, better furniture, a fan, a television). In general, poor people also need a variety of financial services just like other people, but in a much smaller scale and in an affordable price, to improve their quality of life.



Source: CGAP (2006: P.23), redrawn by Author

Figure 1. Poor Clients Needs of Financial Services

Historically, the first credit organization in the world was officially introduced by Freidrich Raiffeisen in Germany in 1864. This community credit based credit cooperative society mostly focuses on saving mobilization in rural areas to teach poor farmers how to save (Ledgerwood, 1999). Likewise, in the urban areas, the first credit union was initiated by Alphones Desjardins in North America in 1900. In Asia, the concept of microfinance was originally born in India in 1904 (Bk, 2008). Starting with various time and geographic situation, the precursors of modern microfinance were identified by mostly informal, unregulated structures relying on mutual trust and pressure instead of physical collateral. Further, microfinance had evolved from informal institutions into the commercial and private banking sector and extended to other countries (Steger, *et al.*, 2007). Subsequently, the rise of modern microfinance could be divided into two phases, namely the period of pre-modern microfinance and the period of modern microfinance.

Firstly, the earliest period of microfinance when many governments began providing subsidized loan of agriculture empowerment to local farmers between 1950s and 1970s (Steger, *et al.*, 2007). However, the problems emerged such as poor repayment discipline, corruption issues and abandon loan schemes. Despite poor designed rural microfinance programs, a different vision of microfinance had been pioneered by Grameen Bank in 1976. The term of microcredit that was focusing on getting loans to the very poor was coined initially to refer to the Grameen Bank (Armendariz and Morduch, 2010). With the success story of Grameen Bank and similar institutions, in the early 1980s, there were so many interests of donors to actively support NGOs with their own microfinance programs. The broader term from microcredit to microfinance was explicitly on poverty reduction and social change; with the key players were NGOs (Steger, *et al.*, 2007). In particular, the poverty lending approach focuses on reducing poverty through credit, added together with skills training health services, family planning and teaching of literacy. Such donor- and government-funded credit is provided to the poor at below-market interest rates (Robinson, 2001). This pre-modern period shifted from "smart subsidies" (Armendariz and Morduch, 2005) to the new vision of a sustainable programs of helping the poor. It involves a broader range of financial services which is not only simple credit and savings, but also housing loans, consumer loans and insurance services (Steger, *et al.*, 2007; Armendariz and Morduch, 2010).

Secondly, the modern period of microfinance reflects the financial system approach which marked by institutional self-sufficiency. To finance given scale of the demand for microfinance worldwide, government and donors are not able to constitute unmet demand for microcredit services. However, some of the forefront players are The Micro banking division of Bank Rakyat Indonesia (BRI) in Indonesia, Bancosol in Bolivia, and the Association for Social Advancement (ASA) in Bangladesh (Robinson, 2001). Without ongoing subsidies, these institutions have demonstrated in achieving broad outreach for active poor clients. Microfinance has become an industry and in the modern era it has evolved to include microfinance institutions or MFIs (Frank, 2008). In the development process, MFIs have converted from NGOs (non-governmental organizations) to RFIs (regulated financial institutions).

Based on the aforementioned evolution of microfinance, MFIs have put forward to combating poverty while developing the institutional capacity of financial systems in lending money to poor households. When microfinance first emerged as a development tool, both donors and practitioners have no concern whether the loans fulfill the borrowers' needs or the loans repaid. They only considered on the cumulative amount of loans disbursed (Ledgerwood, 1999). In process, this condition has been addressed by Morduch (2000) which is known as a microfinance schism. Further, the schism has been highlighted by Bhatt and Tang (2001), who distinguish into two different schools of thought – the welfarist and institutionalist approaches.

Firstly, the welfarists concern on the outreach of material and nonmaterial poverty alleviation as a key to build sustainable financial services that emphasize borrower welfare. In specific, the poor face many pressing problems such as illiteracy, lack of skills, poor health and lack of savings, which may not be readily remedied by the mere commercial credit. To accommodate the poor's need, Non-Government Organizations (NGOs) have demonstrated innovative procedures with these nonfinancial services since the past two decades. Thus, NGOs have been considered as more viable delivery vehicles for microfinance (Bhatt and Tang, 2001). However, to gain these social and development benefits, NGOs have come at the cost of heavy dependence on donor subsidies and government or outside grants (Morduch, 2000; Robinson, 2001). In most cases, subsidies have ended up funding inefficient, limited outreach, high default rates and unsustainable operations due to the non-viability of a large number of microfinance NGOs (Morduch, 2000). Of course, because it is NGO, the reliance on donor funding is high. Moreover, its purpose is not for profit but more social. The data of the year 2006 still showed high dependence microfinance institutions to outside parties such as donors and government subsidies. Around 41 percent of all microfinance institutions are not self-sufficient (microbanking Bulletin, 2006).

Subsequently, institutional approach has led to deliver financial services to the poor on a sustainable base. One view suggests that NGOs can be upgraded into profitable commercial banking operations if financial self-sufficiency is built through commercially viable MFIs (Bhatt and Tang, 2001). Gradually, a paradigm shift took place from the government or donor subsidized programs to the development of sustainable and institutional financial intermediaries by providing formal financial services – for profit – to the poor. The institutionalists argue that the paradigm shift will provide high-quality financial services on a permanent and ever increasing scale to millions of poor households around the world (Robinson, 2001). According to the institutionalists, it becomes more evident that market-based solutions were required.

In line with the above mentioned development of microfinance school of thought, the so-called "double bottom line" presents dual purposes of MFIs to achieve social objective–outreach to the poor and commercial objective–financial sustainability (Kar 2010; Tamanni and Liu, 2015). It thus seems natural for MFIs to have double bottom line in serving the largest number of poor people and becoming financially sustainable (Armendariz, *et al.*, 2013). A complicating factor is that MFIs goals do not refer merely on poverty alleviation but rather on profit or financial orientations (Gosh and Tassel, 2008). The social objectives however may be insisted accordingly with the concern of self-sustainability as an impetus aspect.

Still, there is a dilemma whether MFIs want to scale-up by drifting an MFI's poverty alleviation mission. The issue of commercialization on MFIs has emerged as an apparent trend along with the on-going debates on mission drift or trade-off in literature (Gosh and Tassel, 2008). In view of the solution of trade-off problems, commercialization of the microfinance industry appears to induce a stronger emphasis of efficiency. However, it can only be achieved if MFIs focuses less on the poor (Hermes, *et al.,* 2008). When MFIs want to meet the social responsibilities, they have to be financially sound (Gutierrez-Nieto, *et al.*, 2009).

In order to maintain high transaction costs in part of small transaction sizes, the customers are thus charged with the highest fee. As a consequence, the poorest of the poor are mostly excluded from the formal banking system for lack of collateral, then the microfinance services shifts to the active poor (Demirguc-Kunt, *et al.*, 2008). Customizing the microfinance services in four different countries, CGAP (2006) also confirms that the poorest of the poor are excluded from the formal financial services, whilst only the active poor can be served thoroughly. It is in line with the result of Armendariz (2011), the very poor clients are costly and served solely because of the MFI social mission while less poor clients are profitable to the MFIs.

In practice, there are some channels of mission drifts of MFIs in moving costly poor clients to profitable wealthier ones. First, average loan size reflects a smaller loans to poor borrowers and relatively larger loans to wealthier ones, which is empirically shown by Cull *et al.* (2008). Second, the interest rate charged by MFIs captures the phenomenon of mission drift. Higher interest rate might signal lower social concern, meaning that only wealthier clients can afford to pay more whereas the poor cannot. For instance, MFIs in Bangladesh demanding higher interest rates to compensate for higher costs and risks, as the driving factor limiting outreach to poorer clients (Demirguc-Kunt, *et al.*, 2008).

The MFIs would not stand serving poor borrowers in the present at the expense of being diverted from its mission in the future (Armendariz, *et al.*, 2013). This mission drift should be highlighted as a sustainable long term objective. On the debate between social and commercial missions, the suggestion that one type of mission is clearly better than other is still in the debatable area.

Despite the debatable areas in the literature, microfinance has still become a means of building a comprehensive micro financial system for the poor (Demirguc-Kunt, *et al.*, 2008). Access to finance may have positive economic and social effects such that its impact contribute to a rise in income, an accumulation of assets, consumption smoothing, a better health status, a lower crop failures, and a better education (Hermes and Lensink, 2011). The channels which finance works simultaneously with innovative social techniques and products have been developed through MFIs (Demirguc-Kunt, *et al.*, 2008). Starting with the notion of microcredit shifted first from microcredit into microfinance, then the concept of building comprehensive financial system that serve the poor households – the inclusive financial system (PFIP, 2009). Moreover, combating poverty and social exclusion through a process of financial approach; microfinance thus similarly reflects as an activity which can have a positive impact on financial inclusion.

At the beginning, the initial concept of financial inclusion is contributed by Leyshon and Thrift (1995) who define financial inclusion as antithesis of financial exclusion, meaning that the poor and disadvantaged social groups are unable to gain access to the financial system. To better address this problem, an agenda that foster the benefit to the poor communities is formulated. The concept of financial inclusion covers a broader programs which provide a variety of financial services for people's need from born to death. According to Demirguc-Kunt, *et al.* (2008), financial inclusion can be defined as a broad access to use financial services through an absence of price and non-price barriers. There are at least three core elements of financial inclusion – access, groups of society, and financial system stability (Demirguc-Kunt, *et al.*, 2008; Demirgüç-Kunt and Klapper, 2012).

Since the early 2000s, financial inclusion has been widely implemented as a policy concern in many countries. Indicators of financial inclusion may vary from one country to another. In Peru, the importance of financial inclusion emphasizes a broad access on portfolio financial products for low-income households at affordable cost, such as loans, deposits, insurance, pensions and payment systems, as well as financial education and consumer protection mechanism (Reyes, 2010). The improvement of financial access is very important to faster drops in inequality and poverty levels, so that it can have direct or indirect effects on poor households and micro- and small enterprises. At the end, the concept of financial inclusion is not only pro-growth but also pro-poor (Demirguc-Kunt, *et al.*, 2008).

However, without a comprehensive approach of financial inclusion, the poorest of the poor are still excluded from target groups (Iqbal and Mirakhor, 2013). Besides various financial services, extreme poor households need social programs including development programs (CGAP, 2006). Therofore, a comprehensive financial inclusion policy must address many different issues which is not only in the financial sector but also the inclusiveness of social sector. This is why social inclusion and financial inclusion have prominently become policy concern in developing and even of developed economies (Rahman, 2013).

To understand the term of social inclusion, it is needed to understand the meaning of social exclusion (Bk, 2008). Historically, the concept of social exclusion firstly emerged as a tenet of Western European social studies during the 1970s that covers multidimensional concepts – economic, politic and cultural sphere (Coleman, 2013). Recently, the theory has been focused on the area of economic aspect of exclusion especially to poverty and deprivation (Bk, 2008; Coleman, 2013). Social exclusion reflects the process that leads to individuals or groups being excluded from full participation society. Poverty, unemployment and social exclusion are the three terms that are related and sometimes interchangeably. Afterwards, social inclusion has been adopted as a process in response to this social exclusion discourse (Bk, 2008).

Similarly, social inclusion is a multidimensional concepts of economy, social, politics, and culture. It is defined as socio-economic empowerment of the excluded groups due to discrimination, distinction, segregation and exclusion. The terms of social inclusion and empowerment have become commonplace in donor discourse on the last decades to improve the access of diverse individuals to the development opportunities. It needs to be emphasized that even the material well-being is a key dimension of social inclusion, but it also to consider the fulfillment of basic needs, community cohession and social capital (Bk, 2008).

Combating poverty and social exclusion through a process of social inclusion needs a comprehensive approach to address these issues in a balanced way (United Nations, 2010). Therefore, social inclusion aims to remove inequities in access to assets, capabilities and opportunity through empowerment. It is thus necessary to have supporting empowerment programs in three spheres – the economic (markets, employment and productive assets), social (human capabilities, critical awareness and inclusion) and the political (political representation and collective action) (OECD, 2012).

Ultimately, the elements of social and financial inclusion is the notion of inclusive growth. Inclusive growth is defined as a growth based on participation of all level of population benefits them all (Rahman, 2013). Accordingly, the significance of the concept of social inclusion (United Nations, 2010) and financial inclusion (Demirguc-Kunt, *et al.,* 2008) has made a growing number of policy makers aware of the importance of this inclusiveness.

However, there is still a rigorous debate on inclusive finance that relates to the provision of different services to the poor and the implications for social outreach and financial sustainability (Ahmed, 2013). The problems of double bottom line (Kar, 2010), mission drift (Gosh and Tassel, 2008), and the dichotomy of welfarist and institutionalist (Bhatt and Tang, 2001), have made conventional microfinance could not be able to carry out social inclusion and financial inclusion simultaneously.

The Global Financial Inclusion (Global Findex) database, launched by the World Bank (2014), provides comparable indicators how many percent of adults have an account in each region (see Table 1). The database shows great progress in improving financial inclusion, but large gaps remain. From high income OECD, the proportion of adults having formal account reach 94 percent in 2014. On the other side, in Sub-Saharan Africa, it is only 34 percent of adults who have an account in 2014.

Table 1: Financial Inclusion Data in Different Regions (in percentage)

Region	Account	Formal Savings	Formal Borrowing
East Asia and Pasific	69	36	11
Europe and Central Asia	51	8	12
High Income OECD	94	52	18
Latin America & Caribbean	51	14	11
Middle East	14	4	6
South Asia	46	13	6
Sub Saharan Africa	34	16	6

Source: World Bank (2014)

Meanwhile, among adults in the groups of low income, the share with an account is only 28 percent, while 43 percent of lower income adults report having formal account from bank or another formal financial institution in 2014. In contrast, the amount double for high-income people by up to 91 percent (World Bank, 2014). Accordingly, there is tendency to leave out certain section of the poor and the destitute in financial inclusion approach. They only partially address the issue of financial exclusion by targeting the "not-so-poor". Poor are not able to access conventional financing because of the lack of acceptable collateral (CGAP, 2006). Based on the aforementioned characteristics of microfinance and financial inclusion, there is always a dichotomy between social inclusion and financial inclusion from the conventional approach. As a consequence, the integration of financial and social inclusion, in fact, is hard to achieve.

Table 2. Financial Inclusion Data Based on Various Income Groups (in percentage)

Groups	Account	Formal Savings	Formal Borrowing
High Income	91	47	17
Upper Middle Income	70	32	10
Lower Middle Income	43	15	8
Low Income	28	10	9

Source: World Bank (2014)

2.2 Islamic Microfinance and Financial Inclusion

The importance of microfinance to alleviate poverty adopted the mainstream system of paradigm shift, from the donor-based approach to a for-profit approach. Besides, the nature of conventional microfinance system seems to place an inclusion of the poor into the dominant capitalistic profit-oriented financial system (Ghosh and Tassel, 2008; Hamada, 2010; Abrar and Javaid, 2014). While conventional microfinance develops livelihood programs, they tend to target the "not-so-poor" and leave out certain groups of the poor – the poorest of the poor and the destitute (Obaidullah, 2008b). The problems of double bottom line and mission drift, the dichotomy of welfarists and institutionalist, have made conventional microfinance could not be able to carry out social inclusion and financial inclusion simultaneously. In consequence, the dichotomy between social and financial inclusions will become a serious issue if there is no effective solution to overcome these problems.

Against these backdrops, the principles of Islamic finance have genuine values in safeguarding such problems. They are explained more details when microfinance and financial inclusion from Islamic perspective are discussed. At the beginning, the existence of Islamic microfinance in modern time was originated from Egypt when the Mit Ghamr Saving Banks was founded in 1963. Interest free loans were given to poor farmers who lacked necessary funds to purchase seeds or farm animals to plough the land. They also can get finance for their daily basic needs until the crop was cultivated and sold in the market. In 1971, the Nasser Social Bank was further established to provide microcredit loans for small projects on a profit-sharing basis. In the early 1980s, the establishment of the Aga Khan Rural Support Program led to a paradigm shift of microfinance as a poverty alleviation tool in Pakistan. Due to the issue of Arab Spring, Islamic microfinance unfortunately remains less developed in the Arab world than in Asia (Bk, 2008; GIFR, 2012).

However, the market for Islamic microfinance has gained some traction for other Muslim and non-Muslim countries in recent years (GIFR, 2012). With such an overwhelming rise in the number of Islamic MFIs, the industry should endeavor to be the center of promoting financial inclusion through community banking and microfinance (Dusuki, 2008). However it needs to be emphasized that the poor households, in fact, will have a better life if they are helped to build assets, skills and knowledge rather than to make a more debt (CGAP, 2006). A holistic analysis of the basic needs of the poor therefore must be conducted when analyzing the impact of microfinance services on the livelihoods of the poor (Wrenn, 2005).

The first important element highlighted the needs of the poor for interest-free microfinance services. There are some principles that need to implement, which are the prohibition of riba, uncertainty and gambling, the encouragement of risk sharing, mutual assistance and mutually-agreed contracts (Kustin, 2010). In practice, Shari'ah compliant instruments of microfinance can be divided into three groups of instruments – funds mobilization, financing, and risk management. Firstly, the instruments for mobilization of funds consists of charity (*zakat, sadaqah, awqaf, hibah* and *tabarru*), deposits (*wadi'ah, qard al-hasan* and *mudharabah*), and equity (*musharakah* or the modern stocks). Secondly, instruments of financings presents profit-loss sharing modes (*mudharabah* and *musharakah*), sale-based modes (*murabahah, ijarah,* and *qard*). Lastly, instruments of risk management and insurance are guarantee (*kafalah*), collateral (*daman*) and micro*takaful* (Obaidullah, 2008b).

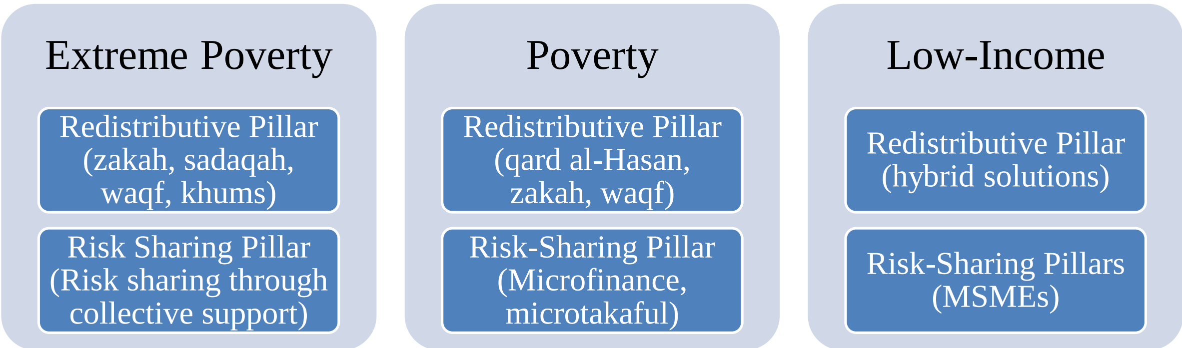
For the funds mobilization, emphasis has been given to the Islamic charity based management. Ahmed (2002) shows that it can be transferred to the poor as outright grants or as *qard hasan* (benevolent loan) for consumption and investment purposes, so that the funds of Islamic MFIs can be used exclusively for productive activities. Consequently, it will increase the overall return and decrease the default probability. In case of extreme poverty, zakat can be used to fulfill the basic needs of the poor and increase the participation of the poor, such food, shelter and employment are said to be more urgently needed.

This inclusive approach puts overwhelming emphasis on the needs of the poorest of the poor. Since the Islamic approach to poverty alleviation is more inclusive than the conventional one, building inclusive financial system hence requires integration of microfinance with Islamic finance. It is intended to improve poverty alleviation that needs a systemic approach for all section of the society in accessing appropriate, affordable, and safe financial services from formal financial institutions (Obaidullah, 2008). Accordingly, Islamic framework provides a Holistic Financial Inclusion (HFI) which simultaneously integrates between social inclusion and financial inclusion. Both financial and social inclusion are often constituent of one another which have been introduced to promote a holistic financial inclusion (Mohieldin, *et al.,* 2012).

There are two main elements of HFI that need to be emphasized. The first important insight highlighted in the HFI is regarding the needs of the poor for social inclusion. In this part, social inclusion is needed as the first step to provide empowerment through social and development programs from not-for-profit institutions (Ali, 2014). In Islam, wealth is considered as a means of inclusion that could play a role of catalyst to redeem the rights of the have-not in the wealth of the haves (Mohieldin, *et al.,* 2012). To do this, taken into consideration the challenges in integrating redistributive instruments in Islam (*zakat, sadaqah* and *waqf*) into the microfinance program in social and development programs to benefit the poorest beneficiaries through education, training, health care, basic needs fulfillment and starting business (Kahf, 2002). The context of social and development programs of Islamic MFIs introduces different behavioral, ethical and social aspect that builds the social capital, such as brothership, comradeship and obligation to repay debt (Ahmed, 2002). In this step, *qard hasan* is argued as a more effective means of providing credit for those who cannot access formal credit channels (Iqbal and Mirakhor, 2013).

The second important insight highlighted in the HFI is regarding the provision of affordable micro-financial services from for-profit microfinance institution. The principle of risk-sharing is very important to have a more consistent and attractive of Islamic MFIs who will not carry larger risks as compared to many conventional products (Kahf, 2002; Ali 2014). Promoting risk-sharing reflects three main points as follows: (i) risk-sharing contracts in the financial sector; (ii) redistributive risk-sharing instruments from the economically more able to the less able; and (iii) inheritance rules (Iqbal and Mirakhor, 2013).

In detail, these two important insights have been formulated by Iqbal (2014) who explains structured approach to enhance financial inclusion. Firstly, for those who are below poverty line (extreme poverty), the instruments of zakah, sadaqah, waqf, and khums can be used as the redistributive pillars, while risk-sharing pillar is through collective support. Secondly, for those who are above poverty line, the instruments of *Qard al-hasan*, zakah, waqf can be used as the redistributive pillars, while microfinance and microtakaful as risk sharing pillar. Lastly, the low income people have the approach of hybrid solutions, and risk sharing pillar is implemented through MSMEs financing.



Source: Iqbal (2014), based on Iqbal and Mirakhor (2012 and 2013)

Figure 2. Structured Approach to Enhancing Financial Inclusion

As the effort to implement this HFI theory, many Muslim countries have their own characteristics to demonstrate Islamic MFIs in interest free-based system. Recent literature shows that the performance of Islamic MFIs in Indonesia – which is called as Baitul Maal wa Tamwil (BMT) – is able to accommodate the provision of charity-based not-for-profit as well as for-profit financing (Obaidullah, 2008). Since BMT have dual functions – as a Baitul Maal and as a Baitut Tamwil, the mission activities of BMT involves two main areas – social and business. The social mission of BMT represents as institution that pools *zakat, infaq* and *sadaqah* and provides *qard hasan* for the poor. These pools are really needed since the extreme poor and the destitute needs financial assistance to meet their basic needs before taking the commercial funding. Subsequently, the business mission of BMT will provide business development programs for the more active poor (Hadisumarto and Ismail, 2010).

Finally, it is observed that the issues of mission drift and double bottom line attributed in conventional approach could be well-managed in Islamic framework especially in BMT scheme. The empirical finding indicates that BMT financing is able to improve business performance and the household income of microenterprises effectively, meaning that Islamic MFI is potential for poverty alleviation (Hadisumarto and Ismail, 2010). As shown by the empirical analysis of Tammani and Liu (2015), the result shows that Islamic MFIs is closest to pro-poor characteristics – higher depth of outreach and lower profitability. Islamic MFIs mostly have a deal with the poorest of the poor who borrow small amount of loans. It is hold to the premise that the major type attributing to the Islamic MFIs is the welfarist and which therefore led to propagate outreach of the poorest wellbeing as the primary goal.

2.3 Previous Studies

Most of recent literature on the subject of social inclusion and financial inclusion come from the conventional perspective, where social inclusion and financial inclusion are commonly discussed as two different subjects. On the last decades, the terms of social inclusion and empowerment have become commonplace to improve the access of diverse individuals to the development opportunities (Bennet, 2002; Bk, 2008). From conventional approach, the existing literature mostly defines social inclusion as a multidimensional approach – economic, social and political approach – which could be found on Bennet (2002), Atkinson, *et al.,* (2002), Bk (2008) and Oxoby (2009). In here, the study focuses to explain the subject of social inclusion in terms of economic research which has been done by Atkinson, *et al.* (2002) and Oxoby (2009).

According to Atkinson, *et al.* (2002), they examine different indicators relevant to social inclusion in European Union. It is needed to encompass that each indicator should be measurable, robust and statistically validated. These social indicators are poverty, deprivation, low educational qualifications, labor market disadvantage, joblessness, poor health, homelessness, illiteracy and innumeracy, precariousness and incapacity to participate in society. After defining these social indicators conceptually, subsequent attempts are made to apply them empirically and finally to achieve the objective of social inclusion.

Likewise, Oxoby (2009) shows the concept of social inclusion, social cohesion, and social capital by reviewing the existing literature and the Amartya Sen's concept of commodities and capabilities. Although theoretical approach is dominantly used, the paper bases on existing empirical research of social behavior and social inclusion. Based on this approach, promoting inclusion for one group can affect in creating exclusion with respect to another. However, causal empiricism shows that significant benefits are for those who living in an inclusionary economy than ones that are exclusionary.

Further, there has been a transition in empowerment and development program from microcredit to microfinance. In process, MFIs seem to be the important tool to deliver broader access of financial inclusion (Demirgüç-Kunt, *et al.*, 2008). The emphasis in recent literature on the subject of financial inclusion from conventional perspective, could be found in Demirgüç-Kunt, *et al.* (2008), Sarma and Pais (2008), Demirgüç-Kunt and Klapper (2012) and Karpowicz (2014). In detail, the study of Sarma and Pais (2008) and Karpowicz (2014) are chosen as further explained below.

Sarma and Pais (2008) show a cross country empirical analysis of the relationship between financial inclusion and development. Adapting the index of financial inclusion, levels of human development and financial inclusion tend to move closely with each other, despite a few exceptions occur. It reflects that countries with high level of human development are also the countries with a relatively high level of financial inclusion. They attempt to determine the significant factors of financial inclusion. Income is positively associated with the level of financial inclusion; whilst inequality, literacy, urbanization and infrastructure are also significantly associated with financial inclusion.

The subjects of financial inclusion could also be empirically shown by Karpowicz (2014). By taking case of Colombia, she determines the factors of financial inclusion and identifies the most binding financial sector frictions that preclude financial inclusion of enterprises. Using simulations of general equilibrium model suggests the relaxation of financial frictions – participation cost (access), borrowing constraints (depth), and intermediation efficiency – may affect growth and inequality differently. Relaxing collateral constraints affect to the higher growth, while lowering cost of access affect to the lower level of Gini Coefficient.

In practice, most of recent literature on the subject of social inclusion and financial inclusion are generally related to the performance of conventional MFIs. Accordingly, Zeller and Meyer (2012) present the concept of critical triangle of microfinance involves the need of MFIs to manage simultaneously the problems of outreach (reaching the poor both numbers and depth of poverty), financial sustainability (meeting long-term operating and financial costs), and impact (having discernible effect upon client). Based on this, literature has highlighted the close relationship between microfinance and poverty, meaning that access to finance can help to substantially reduce poverty, such as Pitt and Khandker (1998), Littlefield, *et al.* (2003), Khandker (2005), and Hermes and Lensink (2011). Selected studies from Pitt and Khandker (1998) and Khandker (2005) will be explained as follows.

Pitt and Khandker (1998) assessed the impact of microfinance in Bangladesh on labor supply, schooling, household expenditure, and assets. They found that access to credit has a larger effect on the behavior of poor households, such as higher household consumption expenditure, especially if credits are taken by women. Similarly, by using household panel data from Bangladesh, Khandker (2005) attempted to assess long-term impacts of micro-finance on poverty and the aggregate impact of microfinance. He confirmed that microfinance has positive impact to benefit the poorest. The welfare impact of microfinance is positive for all households including non-participant, meaning that microfinance programs contribute to local income growth. Moreover, they found that microfinance has spillover impact to reduce extreme poverty more than moderate poverty at the village level.

These two studies, however, have been criticized by Roodman and Morduch (2009) that decisive statistical evidence is absent from the studies and extraordinarily scarce in the literature as a whole. Subsequently, some criticisms have been received by microfinance whether access to finance may contribute to a substantial reduction in poverty (Hermes and Lensink, 2011). It implies whether the inclusiveness of social and finance can be achieved simultaneously or even separately and which therefore led to the debate of social inclusion versus financial sustainability on conventional framework. As can be seen from literature, it turned out that discussing social inclusion and financial inclusion was separated subjects.

In this concern, some of literature highlight that microfinance does not reach the poorest of the poor (Coleman, 2004) or the poorest of the poor are excluded from microfinance program (CGAP, 2006). Hence, in discussion of microfinance, there is a need to be more precise with the assessment of performance or success of MFIs which is measured using a double bottom-lines approach – meeting social obligations of outreach to the poor (the first bottom-line) and obtaining financial self-sustainability (the second bottom-line) (Kar, 2010). At the same time, a debatable existence of trade-off between reducing poverty and being financially sustainable which is globally termed as mission drift has flourished and expanded.

Considerable empirical literature using a robust and various techniques have been employed across countries in searching of the issue of mission drift. There are several factors that cause the mission drift of microfinance institutions, and one of them which is an important one is the uncertainty of subsidies, either from donor aid agencies, as well as government subsidies (Paxton, *et al.*, 2000; Cull, *et al.*, 2007; Ammendariz, *et al.*, 2011; and Zubair and Javid, 2015). It is because when the subsidy uncertainty occurs, the MFIs tend to provide loans at high interest rates in order to maintain the sustainability of the institution, taking into account the possible risk of subsidy termination. Furthermore, Ammendariz, *et al.* (2011) argue that subsidy uncertainty is negatively correlated with outreach.

What are the signs of a MFI will shift from an institution of social purpose into institution of commercial purposes? Mersland and Strom (2010); Abrar and Javaid (2014) says that the signs is when loans are getting bigger and bigger. With the growing size of loan, the MFI lose their customers 'poor' and its outreach is reduced. Besides, this mission drift will influences the chosen target market, profit, and structure of MFIs, as determined by the mission of the organization, .i.e, institutionalist (Paris, 2013).

Is there any guarantee, MFI's will always be more successful by this mission drift? Ahmad, *et al.* (2014) say that there is no guarantee of mission drift will always be more successful. They argued, when the economic crisis happened, as the crisis of 2008, many microfinance institutions in South Asia closed down.

The existing literatures further can be broadly divided into three categories (Hermes and Lensink, 2011; Tammani and Liu, 2015).The first series of mission drift issues is given to refute the trade-off, meaning that focus on poverty outreach would not affected on financial sustainability, as shown by Quayes (2012) and Louis, *et al.* (2013). The study of Quayes (2012) assesses the relationship between financial self-sufficiency and the mission of social outreach. Utilizing data from 702 MFIs in 83 countries, he finds that there is the complementarity between financial sustainability and poverty outreach. On the other words, there is an absence of trade-off between outreach and financial sustainability. Subsequently both elements positively complement each other. Similarly, Louis, *et al.* (2013) also investigated the relationship between social efficiency and financial performance. Based on sample of 650 MFIs, the result shows that there is no trade-off which significantly proves a positive relationship between social efficiency and financial performance.

The second strand of literature has emerged lately to deal that both elements seem to have moved towards the balance (Kar, 2010; Ghosh and Tassel, 2008; Christen, *et al.*, 1995). As shown by Kar (2010), he analyzes the impact of financial self-sustainability on outreach in MFIs. A reliable data from 253 MFIs in 69 countries is utilized to provide empirical evidence that concern with mission drift issue. The paper concludes that outreach and sustainability can be similar in temperament and hence compatible under certain condition. It is also supported by theoretical approach from Christen, *et al.,* (1995). They show that financial viability as well as poverty outreach can be achieved when MFIs develop service delivery methods that meet client needs at an affordable rate. Thus, MFIs can achieve their self-sustainability through their outreach potential providing rapid growth in financial access to the poor (Christen, *et al.,* 1995). The MFI optimally chooses a balance between poverty and financial return, in order to maximize the individual impact the MFI can make on poverty (Ghosh and Tassel, 2008).

The interesting thing is that it is not easy to distinguish the mission drift with cross-subsidiary. Cross-subsidiary is needed to keep MFI sustainable. Gains from greater funding will be given to financing the poor. It is hard to say that an MFI has shifted its mission of socialist into institutionalist because of this cross-subsidiary reason. At least this is the fact discovered by Armendariz and Szafarz (2011) on MFIs in Latin America and South Asia.

The last group of literature deals with a trade-off between outreach and financial sustainability in MFIs (Hulme and Mosley, 1996; Hermes, *et al.*, 2008).

Hulme and Mosley (1996) examine the issue of trade-off between outreach and efficiency of MFIs. By using the particular case of BancoSol in the early 1990s, they empirically investigate that larger loans could improve financial bottom lines but had a negligible effect on poverty. It shows that the two objectives often conflict rather than being complementary. As Hermes, *et al.* (2008) have examined whether there is a trade-off between outreach and efficiency. By using data from 435 MFIs with more than 1,300 observations, they find convicting evidence that outreach is negatively related to efficiency of MFIs.

Complicating the issue is the fact that scholarly controversies have failed to build a comprehensive approach of the conventional microfinance. This is evident in the recent plethora of books and literature in which scholars and practitioners have debated without much consensus on how the logic principles of conventional microfinance formulate the processes for delivering social and financial services to the poor (Bhatt and Tang, 2001). Moreover, conventional approach have been partially successful in enhancing financial inclusion (Iqbal and Mirakhor, 2013). Therefore, this study is a systematic and empirical attempt to articulate the most unified approach of Islamic framework for addressing the key controversies of conventional MFIs.

From Islamic perspective, an attempt has been made by literature in discussing the subject of social inclusion and financial inclusion as separated subject, or as integrated subject. As separated subject, the studies of social inclusion are mostly discussed from the point of zakat disbursement through zakat institutions or *Bait al-Maal,* such as Beik (2009) and Beik and Arsyanti (2013). Meanwhile, the literature that focuses on financial inclusion could be found when there is specific discussion of Islamic microfinance by Islamic MFIs or *Bait at-Tamwil*, as follows: Wilson (2007), Rahman (2010) and Rahman and Dean (2013).

In Islam, a holistic financial inclusion is proposed as an integration of social inclusion and financial inclusion and therefore integrates the function of *Bait al-Maal* and *Bait at-Tamwil* (Obaidullah, 2008; Ascarya and Cahyono, 2011; and Ali, 2014). The literature shows the implicit explanation of holistic financial inclusion which preceded by social inclusion through empowerment from the institutions of *zakat* and various charitable activities (Kahf, 2002; Ahmed, 2004a). Meanwhile, there is also the literature that implicitly discusses holistic financial inclusion started from Islamic microfinance and financial inclusion, then linked it with the discussion of financing the excluded poor through alms-based sources (Ahmed, 2002; Ahmed, 2004b; Obaidullah, 2008a; Ali, 2014b).

Conceptually, the existing literature on holistic financial inclusion, which will be discussed in this section, are shown by Mohieldin, *et al.* (2012), Iqbal and Mirakhor (2013), Iqbal, 2014 and Ali (2014). To start, Mohieldin, *et al.* (2012) examines a potential of Islamic finance to improve financial inclusion. To do this, they propose two main elements of Islamic instruments. First, promoting risk-sharing contracts reflected as Islamic microfinance services, such as micro financing, micro takaful, and micro savings. Second, redistributive instruments such as *zakat*, *sadaqah*, *waqf*, and *qard hasan* offer comprehensive approach to eradicating poverty. Analyzing data on alleviating poverty in OIC countries, they support an empirical evidence that domestic and remittances *zakat* collection from 20 out of 39 OIC countries could actually alleviate the poorest living with income under $1.25 per day out of the poverty line. Therefore, the study emphasizes the role of Islamic microfinance and redistributive instruments as a comprehensive framework of financial inclusion.

Likewise, Iqbal and Mirakhor (2013) discuss financial inclusion from Islamic perspective. They address the issue of financial inclusion from two directions, namely risk sharing and specific instruments of redistribution of the wealth among the society. In the core of Islamic principles, the elements of social inclusion emphasize on sharing of resources between the haves and the have-nots. Further, Iqbal (2014) shows different approach that would be given for those who are below and above poverty line. The instruments of redistributive pillars (*zakat*, *sadaqah*, *waqf*, and khums) and collective support are fully needed by the extreme poor (below poverty line). For those who are above poverty line could be further supported through microfinance and micro takaful, whereby Islam's redistributive instruments were still needed. The low-income people needed more comprehensive approach to financial inclusion that could be undertaken through hybrid solutions to prepare them as micro and small enterprises. To conclude, *zakat, waqf, and qard hasan* that mixed with financial engineering could play a catalyst in enhancing financial inclusion (Iqbal, 2014).

Ali (2014) investigated the role of Islamic microfinance in alleviating poverty in Muslim communities. Unlike the conventional microfinance that enhanced financial inclusion by serving microcredit and other financial services, Islamic microfinance could enhance financial inclusion which was not only from conventional microfinance but also social inclusion through *zakat*, *sadaqah* and *waqf* for the group of *mustahik*, such as extreme poor, destitute or disadvantaged people. In most Muslim majority countries, he found that conventional microfinance served financial inclusion by providing microcredit only to low-income people, thus excluding extreme poor from access to finance (micro-financial services). He implied that Islamic microfinance could go beyond financial inclusion of conventional microfinance and include social inclusion in the beginning to group of *mustahik* using Islamic social tools (*zakat*, *sadaqah* and wakaf) to provide basic needs, empowerment and development. In short, Ali (2014) proposed holistic financial inclusion including social inclusion using social funds and financial inclusion using commercial funds, which could be done by Islamic microfinance.

Beyond the conceptual approach, the literature points out the key issues of a trade-off between outreach and sustainability in Islamic MFIs (Ahmed, 2013; Farooq and Khan, 2014; Widiarto and Emrouznejad, 2015; Tammani and Liu, 2015). In detail, selected studies from Ahmed (2013), Widiarto and Emrouznejad (2015) and Tamanni and Liu (2015) are further explained. Ahmed (2013) identifies the implication for outreach and sustainability from different models of organizations providing Islamic financial services to the poor. He argues that the charitable nature of *zakat* and *waqf* can be integrated into micro financing and Islamic inclusive finance to resolve the problem of the trade-off between outreach and sustainability to some extent. For non-profit organizations focusing on poverty, they perform to serve the poor better than the for-profit model, however the weaknesses of the nonprofits is sustainability. *Zakat* and *waqf* can partly support additional complementary funds. For commercial for-profit organizations, the outreach of for-profit organizations can be expanded by using Islamic charitable funds to cover provision of financial services to the poor.

Empirically, Widiarto and Emrouznejad (2015) provide preliminary efficiency assessment in global Islamic MFIs compared with conventional MFIs. They assess relative efficiency using Data Envelopment Analysis (DEA) that can be applied equally to measure overall, social and financial aspects of MFI performance. In general, Islamic MFIs outperform conventional MFIs in terms of social efficiency for both models in SA meta-frontier. However, conventional MFIs surpassed Islamic MFIs in financial and social efficiency under output-oriented strategy in global, EAP and SA meta-frontiers, in pure overall efficiency in MENA meta-frontiers, and in financial efficiency under input-orientated in SA meta-frontier.

Likewise, Tamanni and Liu (2015) shows the different performance of Islamic MFIs and conventional MFIs in terms of financial sustainability and poverty outreach, amidst competition and commercialization. A reliable dataset of MFIs involves six regions from 1998 to 2013. Through Ordinary Least Squares regression, they find that there is no evidence of trade-off between sustainability and outreach in Islamic MFIs and hence there is no evidence of commercialization. They conclude that Islamic MFIs reflects pro-poor characteristics (higher depth of outreach and lower profitability), but lower percentage of women borrowers. Unfortunately, Islamic MFIs perform lack of cost efficiency and weak profitability. Furthermore, the number of poor people reached by Islamic MFIs is far less than conventional MFIs, and hence there is a need to enhance in size outreach and real impact on poverty alleviation. In other words, Tamanni and Liu found that there is strong evidence that there is no conflicting between sustainability and outreach at the Islamic MFI's. That is, two purposes, namely commercial and social objectives can be run together on Islamic MFIs. However, to run the two objectives (social and commercial) together, the MFI's managers should have integrity-trust, benevolence-trust, competence-trust, and trust-control mechanisms. Of the four issues above, the most important is the trust-control mechanism (Amin, 2014).

Social and commercial orientation in empowering the poor can also be framed in a 'social inclusion' and 'financial inclusion'. The two inclusions (social dan financial) are not conflicting in Islamic MFI such as *Baitul Maal Wa Tamwil* (BMT). BMT comprises two functions: *Baitul Maal* (BM) and *Baitut Tamwil* (BT), where BM perform the function of social inclusion with zakah, infaq and shadaqah funds, while BT run the commercial functions of financial inclusion.

To be specific, the empirical literature regarding assessment of Islamic MFIs performance in Indonesia, which is known as *Baitul Maal wa Tamwil* (BMT), is still lacking. Recently, the existing literature tries to fill the gap, as shown by Cokro and Ismail (2008) and Adnan and Ajija (2015). Cokro and Ismail (2008) analyze the sustainability of BMT for developing microenterprises and contributing social benefits. Primary data from 60 BMTs in Central Java and 204 microenterprises (participants in BMT's financing) is collected from 2002 to 2005. Using non parametric DEA models, it is found that the overall efficiency of BMT is relatively low and far from the optimal scale. Moreover, the profitability efficiency of BMT is relatively low that can be improved through the increasing of cost efficiency and productivity. Despite the profitability of Islamic financial institution and microenterprises, the sustainability must refer to the social welfare as well. In here, BMT still have contributed in increasing household income and saving, fulfilling the basic requirement, increasing religious activity, providing an easy access of Islamic financing for many people in the long run, and creating job opportunity. Since BMT generally have double mission and they have not separated their management yet, the management of BMT as a financial intermediation and BMT as *amil* further needs to be separated.

Further, Adnan and Ajija (2015) investigates the effectiveness of BMT in reducing poverty by taking the case of BMT MMU Sidogiri. Using descriptive statistics, paired *t*-test and some poverty measurement indexes, the study concludes that BMT financing is effective in reducing poverty. After receiving BMT financing, most respondents can increase their income. The integrated approach of BMT which involves the provision of financial and non-financial services (spiritual or Islamic moral development) becomes important tools in alleviating poverty. Moreover, the scheme of *qard hasan* has evidence in eliminating the number of moneylenders as well as educating people about *riba* avoidance.

2.4 Baitul Maal wa Tamwil (BMT)

Baitul Maal wa Tamwil or BMT, is a typical IMFI in Indonesia, which initially was established and developed to be able to adapt with existing laws and regulations and market needs. On July 4, 1984, first BMT Koperasi Jasa Keahlian “Teknosa” was established with initial capital of only Rp34 million and 18 customers. It was expanded to Rp1.4 billion with 300 customers in one point in time. Due to high NPF, BMT Teknosa closed its operation in 1989. In the following year, the second BMT, “Koperasi Ridho Gusti” was established in Bandung. Subsequently, other BMTs were popping up like mushrooms in rainy season. Latest estimates recorded that at the end of 2014 number of BMT has reached 3,900 BMTs with total assets of Rp15 trillion, managed by 20,000 employees serving 3.5 million customers (MUNAS 3 Perhimpunan BMT Indonesia). There are several BMTs that have assets approaching to Rp1 trillion, such as BMT Bina Umat Sejahtera (BUS) Lasem-Rembang Jawa Tengah, BMT Fastabiqul Khoirot Pati, BMT Tamzis Wonosobo, and BMT Beringharjo Yogyakarta. Moreover, there is one BMT, BMT UGT Sidogiri, which has reached Rp1.4 trillion in assets with more than 500 branches. Many BMTs have provided advanced financial services, such as ATM, mobile banking and internet banking.

There are two functions or division of BMT, namely: 1) *Baitul Maal* (*Bait* = House, *al-Maal* = Wealth) – to collect compulsory and voluntary charities, such as zakat, infaq, sadaqah, awqaf and optimize their distribution by applying Shariah based management; and 2) *Baitut Tamwil* (*Bait* = House, *at-Tamwil* = Finance/ capital) – to develop productive businesses as well as investment which addressed to enhance the quality of human economic life especially for those who are having micro and small scale economy, by promoting funding and financing activities.

The operation of Baitul Maal (BM) division can be illustrated as in Figure 3. BM collects zakat, infaq, shadaqah, and waqf funds from their respective donor, i.e., muzakki (zakah), munfiq (infaq/shadaqah) and wakif (waqf). These funds subsequently are distributed to their respective recipients. Zakah can only be distributed to 8 groups of people (asnaf), including indebted (gharimin), to free slave (fir-riqaab), the poor or needy (fuqara), the destitute (masakin), converts (muallaf), the wayfarers (ibn as-sabil), in the path of Allah (fi sabilillah), and zakah administrator (‘amil). Zakat could be used for recovery, empowerment and development programs of the recipients. Meanwhile, non-zakat funds should be managed and utilized as they are intended according to Shariah for general ummah.

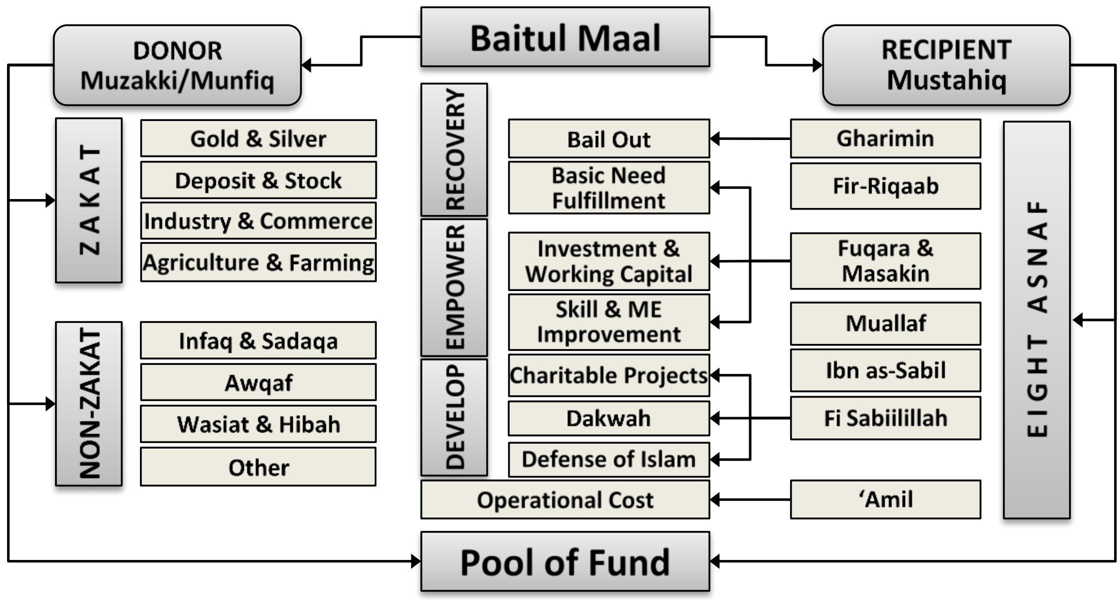


Figure 3. Operation of Baitul Maal

Meanwhile, the operation of Baitut Tamwil (BT) division can be illustrated as in Figure 4. BT collects fund from its members and non-members (potential members). Initial capital comes from its members, just like cooperatives. Meanwhile, voluntary deposits and safe keeping could come from members and non-members. When funding is short, BT could find it from external sources, such as Apex institutions, Islamic banks or foreign sources. Subsequently, BT could extend financing to its members and non-members customers mainly for productive purposes using various equity-based and debt-based Islamic contracts. Moreover, BT also provide non-commercial financing (*Qardh*) for emergency or those in need. In addition, BT also offers various Islamic microfinance services, such as micro takaful, transfer, bill payments, ATM, mobile banking and internet banking.

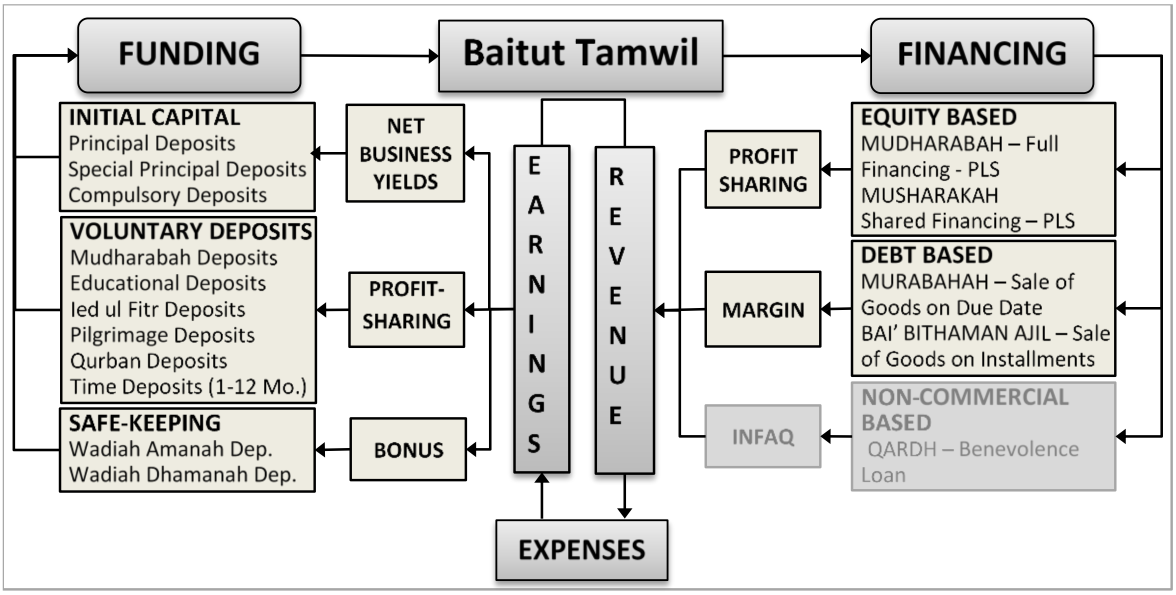


Figure 4: Operation of Baitut Tamwil

While conventional microfinance institutions mostly take minimalist approach of providing microcredit only or tie microcredit with education and nutrition programs or savings program (Zeller and Meyer, 2002), BMTs take more integrated approach of providing various needs of poorest of the poor (*mustahiq*) to alleviate poverty and solve social exclusion, as well as providing various financial services in much smaller scale to general low income group of the society to improve their quality of life and solve financial exclusion.

2.5 Holistic Financial Inclusion Based on Maqashid Shariah through BMT

Based on extensive literature reviews (see Appendix 1), Holistic Financial Inclusion (HFI) is designed as an integration of social inclusion carried out by Baitul

Maal division and financial inclusion carried out by Baitut Tamwil division. Social inclusion includes social program and development program provided to poor people (mustahiq) utilizing Islamic social tools, such as zakat, infaq, shadaqah and waqf (ZISWaf) funds. Financial inclusion includes financing program and Islamic microfinance services provided to graduated mustahiq utilizing commercial funds. The objectives of HFI combine social objective of poverty outreach and commercial objective of financial sustainability, solving the problem of double bottom line, mission drift and commercialization. Moreover, HFI should resulted in welfare impacts, including economic impact and social impact. All of these parts of HFI should be under the scope of maqashid Shariah laid down by Al Ghazali in his book, *al-Mustasfa* (1937), where he broken down Maqashid Shariah into 5 (five) important or essential elements namely: 1) safeguarding the faith (hifz ad-Deen); 2) safeguarding the human self or life (hifz an-Nafs); 3) safeguarding the intellect (hifz al-'Aql); 4) safeguarding the posterity or lineage (hifz an-Nasl); and 5) safeguarding the wealth or property (hifz al-Maal). All of these elements considered as necessities (Dharuriyyat) to achieve the objective of Shariah (see Figure 5).

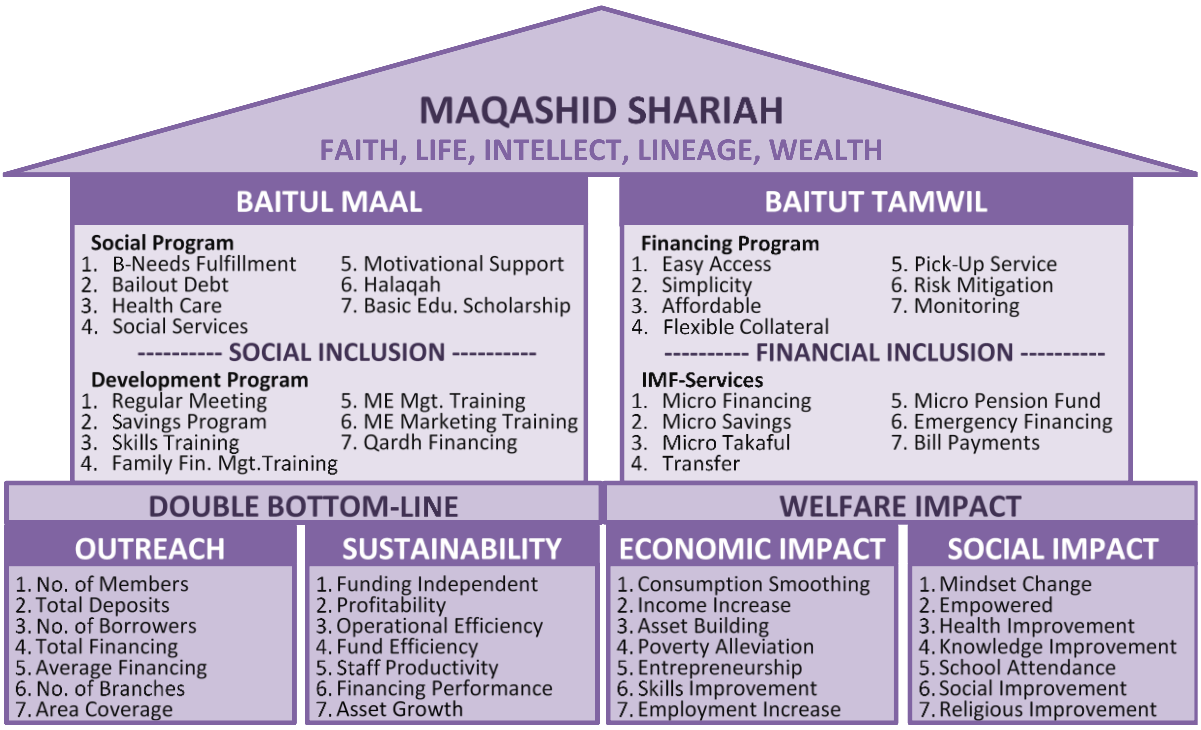


Figure 5. Holistic Financial Inclusion Based on
Maqashid Shariah through BMT

2.6 Conceptual Framework

Referred to the previous framework of HFI based on maqashid Shariah through BMT, conceptual framework of this study could be drawn as in Figure 6. Social program includes: 1) basic needs fulfillment; 2) bailout debt; 3) health care provision; 4) social services; 5) motivational support; 6) halaqah (Islamic studies); and 7) basic education scholarship. Development program includes: 1) regular meeting; 2) savings program; 3) skills training; 4) family financial management training; 5) micro enterprise management training; 6) micro enterprise marketing training; and 7) *qardh* financing. Financing program includes: 1) easy access; 2) simplicity; 3) affordable; 4) flexible collateral; 5) pick-up services; 6) risk mitigation; and 7) monitoring. Islamic microfinance services include: 1) variety of micro financings; 2) variety of micro savings; 3) micro takaful; 4) money transfer facilities; 5) micro pension fund; 6) emergency financing; and 7) bill payments services. Outreach to the poor includes: 1) number of members; 2) total deposits; 3) number of borrowers; 4) total financing; 5) average financing; 6) number of branches; and 7) area coverage. Financial sustainability includes: 1) funding independent; 2) profitability; 3) operational efficiency; 4) fund efficiency; 5) staff productivity; 6) financing performance; and 7) asset growth. Economic impact includes: 1) consumption smoothing; 2) income increase; 3) asset building; 4) poverty alleviation; 5) entrepreneurship; 6) skills improvement; and 7) employment increase. Social impact includes: 1) mindset change; 2) empowered; 3) health improvement; 4) knowledge improvement; 5) school attendance; 6) social improvement; and 7) religious improvement.

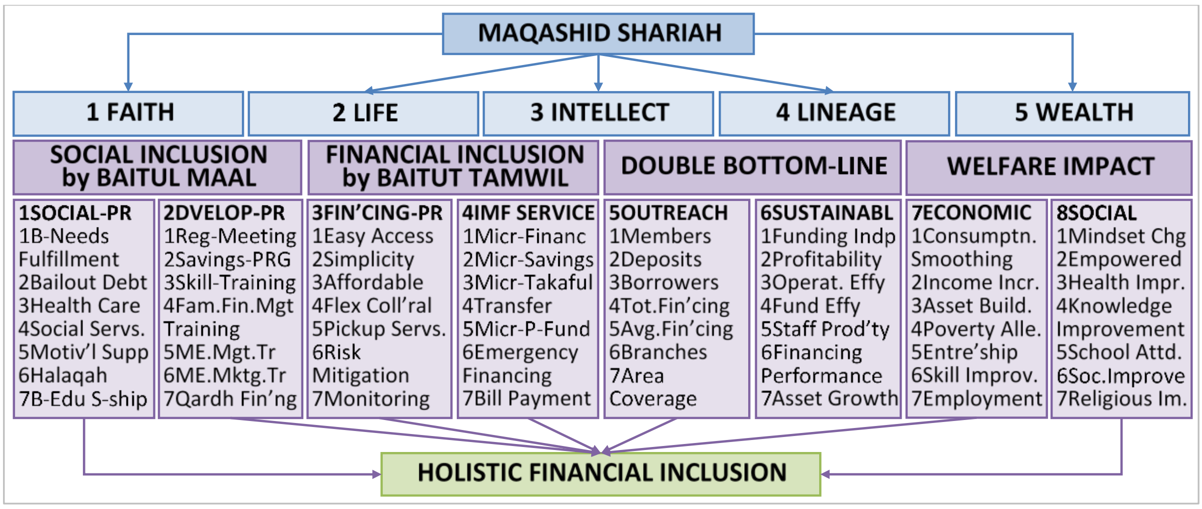


Figure 6: Conceptual Framework of HFI Based on Maqashid Shariah through BMT

III. METHODOLOGY

3.1 Data

The data needed by ANP (Analytic Network Process) analysis is the primary data obtained from survey, where the samples are selected from the most knowledgeable respondents, in the field of social inclusion and financial inclusion from Islamic perspective, as required by ANP method. For this study we select 9 (nine) experts and 9 (nine) BMT practitioners, which are chosen to fill out simplified pair-wise questionnaires to maintain their consistency. Minimum number of respondent is not required by ANP, since the purpose of the survey is to acquire knowledge from the expert respondents. Number of respondents required, ideally, is similar to number of respondents in a focus group discussion (FGD), which is between 6 to 12 respondents for normal FGD.

Furthermore, the primary data is collected by field survey to 120 BMTs in Java Island, including West Java (and Banten), Central Java (and Yogyakarta), and East Java. These BMTs could be categorized into 4 (four) assets groups, namely: 1) small BMT (K1) with total assets less than Rp1 billion; 2) medium BMT (K2) with total assets between Rp1–10 billion; 3) large BMT (K3) with total assets between Rp10–100 billion; and 4) very large BMT (K4) with total assets more than Rp100 billion.

3.2 Method

This study applies Analytic Network Process (ANP) method as general tool that is helpful in assisting the mind to organize its thoughts and experiences and to elicit judgments recorded in memory and quantify them in the form of priorities, and allow for representing diverse opinions after discussion and debate (Saaty and Vargas, 2006). This section will discuss ANP in more detail.

3.2.1 Introduction of ANP

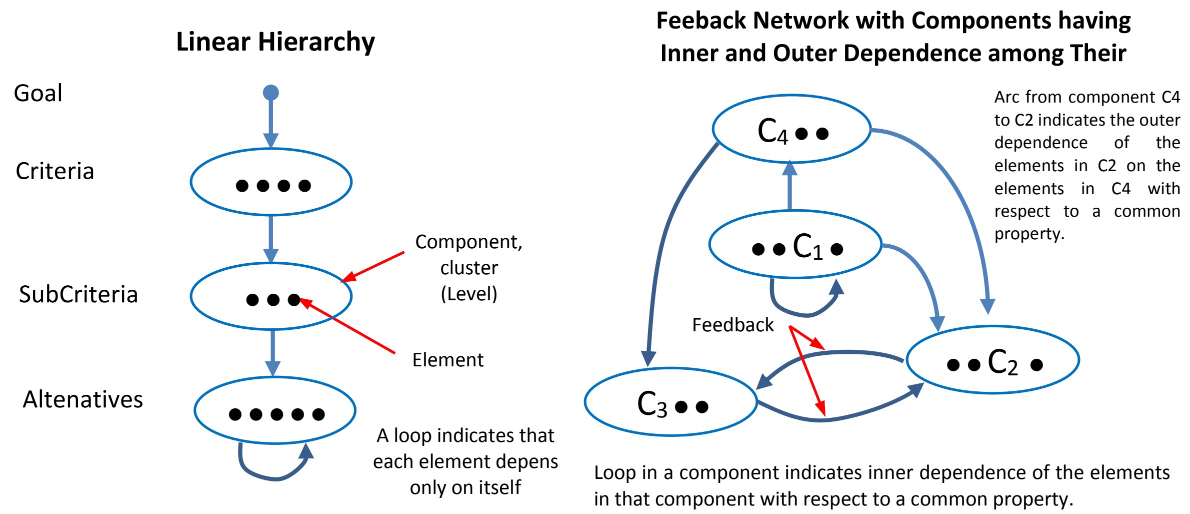
Thomas L. Saaty, the inventor, describes the Analytic Network Process (ANP) as a multicriteria theory of measurement used to derive relative priority scales of absolute numbers from individual judgments (or from actual measurements normalized to a relative from) that also belong to a fundamental scale of absolute numbers. The ANP provides a general framework to deal with decisions without making assumptions about the independence of higher-level elements from lower level elements and about the independence of the elements within a level as in a hierarchy. In fact the ANP uses network without the need to specify levels (Saaty, 2005, p.47).

The ANP was developed as generalization to feedback networks of Analytical Hierarchy Process or AHP (Saaty and Vargas, 2006, p.2). In AHP, problems are illustrated as a linier top down structure with no feedback from lower to higher levels. In ANP, problems are structured as a network and it provides feedback among clusters. Problems could not always be structured hierarchically as in AHP, because they involve dependence, interaction and feedback among higher level clusters and lower level clusters, and among clusters in the same level (Saaty and Vargas, 2006, p.7).

Feedback enables decision maker to factor the future into the present to determine what to do to obtain a desired goal. The difference between hierarchies and networks as shown in Figure 7. A hierarchy is a linear top down structure, while a network spreads out in all directions and involves cycles between clusters and loops within the cluster (Saaty and Vargas, 2006, p.7).

3.2.2 Cluster and Element

A cluster in the ANP is a collection of elements whose function derives from the synergy of their interaction and hence has a higher-order function not found in any single element. The clusters of a network should generally by synergistically different from the elements themselves. Example of clusters are a television set which consist of the audio or visual component, as the elements of the cluster. Or a leg of human body which consist of muscle and bone (Saaty, 2005, p.119).



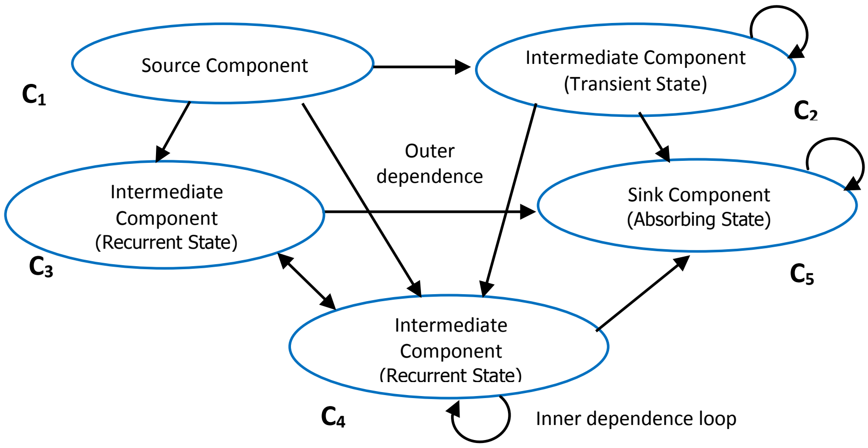
Source: Saaty (2005), p.50

Figure 7. The Difference between Hierarchies and Networks

An arrow from a cluster to another cluster implies that all elements in the second cluster influence elements in the first cluster from which the arrow originates. However, an arrow from a cluster to another cluster does not necessarily implies that all elements in that cluster participate in the influence (Saaty, 2005, p.120).

There are three kinds of cluster, namely source cluster, sink cluster, and intermediate cluster (Saaty, 2005, p.50).

- Source cluster is a cluster which influences another cluster, but is not influenced by any other clusters. Arrows direct from source cluster toward another cluster, without any arrows direct from another cluster toward source cluster.
- Sink cluster is a cluster which is influenced by another cluster, but not influence any other clusters. Arrows direct from another cluster toward sink cluster, without any arrows direct from sink cluster toward another cluster.
- Intermediate cluster is a cluster which simultaneously influences and is influenced by another cluster. Arrows direct from intermediate cluster toward another cluster, and from another cluster toward Intermediate cluster.



Source: Saaty (2005), p.50

Figure 8. Connection in a Network

A network allows influence to be transmitted from a cluster to another one (outer dependence). Within a cluster, elements were allows to depend on each other resulting in dependence known as inner dependence loop (Saaty, 2005, p.49).

3.2.3 The Fundamental Scale for Making Comparisons with Judgments

If judgments are used instead of ratios, then ratios are estimated as numbers using Fundamental Scale. The smaller element is considered as the unit, and another elements are measured by how many times more "important" or more "dominant" than the unit. The importance of the largest object must not more than nine times than the smallest one (Saaty, 2005, p.5).

Recent research in psychology remark the use of Fundamental Scale of the absolute number 1-9 to represent judgment in AHP/ANP. Stanislas Dehaene, a mathematician and cognitive neuropsychologist, in his *book The Number Sense, How the Mind Creates Mathematics*, writes: "Introspection suggests that we can mentally represent the meaning of numbers 1 through 9 with actual acuity. Indeed, those symbols seem equivalent to us. They all seem equally easy to work with, and we feel that we can add or compare any two digits in a small and fixed amount of time like a computer. In summary, the invention of numerical symbols should have freed us from the fuzziness of the quantitative representation of numbers" (Saaty, 2005, p.11).

Table 3. The Fundamental Scale of Absolute Numbers

Intensity of Importance	Definition	Explanation
1	Equal Importance	Two activities contribute equally to the objective
2	Weak	
3	Moderate importance	Experience and judgment slightly favor one activity over another
4	Moderate plus	
5	Strong importance	Experience and judgment strongly favor one activity over another
6	Strong plus	
7	Very strong or demonstrated importance	An activity is favored very strongly over another; its dominance demonstrated in practice.
8	Very very strong	
9	Extreme importance	The evidence favoring one activity over another is of the highest possible order of affirmation
Reciprocals of above	If activity *i* has one of the above nonzero numbers assigned to it when compared with activity *j*, then *j* has the reciprocal value when compared with *i*.	A reasonable assumption
Rationals	Ratios arising from the scale	If consistency were to be forced by obtaining n numerical value to span the matrix.

Source: Saaty (2005, p.7)

The ANP framework is based on the basic axioms (Saaty and Vargas, 2006, p.47):

a. **A priority or weight**, which is an absolute number, belongs to the closed interval [0,1] and is a measure of relative dominance.

b. **Reciprocal**

If there are not actual measurement of objects, then judgments are expressed in the form of comparison between two objects. If object A is three times bigger than object B (A = 3B), then object B is three times smaller than object A (B = 1/3 A).

c. **Homogeneity**

If the objects are homogeneous and if respondents have knowledge and experience, paired comparisons actually derive measurements that are likely to be close and that indicate magnitude on an absolute scale. Homogeneity is the motivation for the 1-9 evaluation scale. The upper limit of 9 is generated due to the requirement of homogeneity to maintain the stability of the eigenvector to perturbation from consistency, and also to the requirement that only a small number of elements should be compared (an eigenvector with a small number of components considered).

d. **A dependence condition** is assumed that the system can be decomposed into component parts. Both the scale and the number of elements compared can be extended indefinitely. This is done by creating clusters with a small number of homogeneous elements in each and using a pivot element from cluster to the next (the largest in one is the smallest in the other) and applying the scale 1-9 to compare the elements in each, dividing by the priority of the pivot in the second cluster and multiplying the resulting priorities by the priority of the pivot in the first cluster and then combining the two clusters.

3.2.4 The Supermatrix of A Feedback System

If there is a network consist of N clusters, where elements in each clusters influence on themselves and on elements in other clusters. Assume cluster h, denoted by C_h, $h=1,\dots, N$ has n_h elements. Elements in cluster h, denoted by $\boldsymbol{e_{h1}}, \boldsymbol{e_{h2}}, \dots, \boldsymbol{e_{hn_k}}$ (Saaty, 2005, p.51).

To develop a supermatrix, one needs to compare the influence of all the clusters on any given one of them with respect to the control criterion of that network. This generates a vector of priorities of influence of all the clusters on a given cluster. The comparisons are repeated in several pairwise comparison matrices leading to as many priority vectors for the influence of the clusters as there are clusters themselves.

If an element has no influence on another element, its influence priority is assigned as zero. The supermatrix represents the influence priority of an element on the left of the matrix on an element at the top of the matrix (Saaty, 2005, p.51).

$$W = \begin{array}{cc} & \begin{array}{cccc} C_1 & C_2 & \cdots & C_N \\ e_{11}e_{12}\cdots e_{1n_1} & e_{21}e_{22}\cdots e_{2n_2} & & e_{N1}e_{N2}\cdots e_{Nn_N} \end{array} \\ \begin{array}{cc} C_1 & \begin{array}{c} e_{11} \\ e_{12} \\ \vdots \\ e_{1n_1} \end{array} \\ C_2 & \begin{array}{c} e_{21} \\ e_{22} \\ \vdots \\ e_{2n_2} \end{array} \\ \vdots & \\ C_N & \begin{array}{c} e_{N1} \\ e_{N2} \\ \vdots \\ e_{Nn_N} \end{array} \end{array} & \begin{bmatrix} W_{11} & W_{12} & \cdots & W_{1N} \\ W_{21} & W_{22} & \cdots & W_{2N} \\ \vdots & \vdots & \cdots & \vdots \\ W_{N1} & W_{N2} & \cdots & W_{NN} \end{bmatrix} \end{array}$$

A typical entry W_{ij} in the supermatrix, is called a **block** of the supermatrix. It is a matrix of the form:

$$W_{ij} = \begin{bmatrix} W_{i1}^{(j_1)} & W_{i1}^{(j_2)} & \cdots & W_{i1}^{(jn_j)} \\ W_{i2}^{(j_1)} & W_{i2}^{(j_2)} & \cdots & W_{i2}^{(jn_j)} \\ \vdots & \vdots & & \vdots \\ W_{in_i}^{(j_1)} & W_{in_i}^{(j_2)} & \cdots & W_{in_i}^{(jn_j)} \end{bmatrix}$$

Each column of W_{ij} is a principal eigenvector of the importance of the elements in the i^{th} component of the network on an element in the j^{th} component. Some of its entries may be zero indicating that those elements have no influence. Not all the elements in a component are used to derive the eigenvector, but only those that have a non-zero influence (Saaty and Vargas, 2006, p.10-11).

3.2.5 Consistency in ANP

a. Inconsistency

If decisions are synthesized as a result of performing comparisons which requires judgments among objects or alternatives, then inconsistency become an issue.

Judgments are associated with feelings, feelings with intensities, intensities with numbers, numbers with fundamental scale, and a set of judgments represented by a fundamental scale to priorities (Saaty, 2005, p.50).

Inconsistency in an acceptance level is a fact that indicates the ability of a person's mind to learn new things which could change their understanding to an object. However, inconsistency in a high level could indicates the lack of understanding that may lead to a wrong decision. Considering the principles of transitivity of among object is helpful to capture inconsistent judgments. The principal right eigenvector of the matrix is necessary for capturing transitivity (Saaty, 2005, p.51).

b. Transitivity

Examples of transitivity are as follows (Saaty, 2005, p.51):

If $A > B$ and $B > C$, then $A > C$

If $A = x.B$ and $B = y.C$, then $A = xy.C$

c. Deviation

There can be no inconsistency when the minimum number of judgments is used (Saaty, 2005, p.15). Inconsistency must be less than or equal to 10%. If it were larger it would disrupt consistent measurement (Saaty, 2005, p.11).

3.2.6 Steps in ANP

There are three main steps on ANP modeling, namely 1) Decomposition; 2) Pairwise comparison; and 3) Synthesis and Analysis.

1. Decomposition

Problem is decomposed through more organized structures to serve understanding of the complexity of the problem (Saaty and Vargas, 2006, p.8). Through a decomposition, problems are structured as network which include clusters, elements, and dependence among clusters and elements.

2. Pairwise comparison

Comparison is a way of giving meaning to objects by relating them to the goals through prioritization, ordering and classification. The ANP provides a scientific way to use comparisons through measurement for a decision which is structured as a network with dependence and feedback (Saaty, 2005, p.208). If there are not actual measurement, then judgment of objects are expressed as pairwise comparison between two objects. When comparing two objects, smaller objects are used as a unit, and larger object are estimated as a multiple of smaller unit. Priorities are obtained by synthesizing different sets of pairwise comparisons (Saaty, 2005, p.192).

Judges assess measurement of objects by performing pairwise comparison among objects. All judges or respondents (R1,..., Rn) perform pairwise comparisons (1,..., k) among objects.

3. Synthesize and Analysis

a. Consistency

Inconsistency for a judgment matrix can be computed as a function of its maximum eigenvalue λ_{max} and the order n of the matrix (Saaty, 2005, p.15).

A positive reciprocal matrix A has $\lambda_{max} \geq n$ with equality if and only of A is consistent. *Consistency index* is a measure of deviation from consistency of A, denoted by μ (Saaty, 2005, p.28).

$$\mu \equiv \frac{\lambda_{max} - n}{n - 1}$$

Where, μ = consistency index; λ_{max} = maximum eigenvalue of matrix A; and n = order of matrix A.

b. Rater Agreement

Rater agreement is a measure of the agreement among several judges in assessing on elements in one cluster. One of the tools to measure rater agreement among several judges who are assessing a given set of n objects is Kendall's coefficient of concordance (W). Depending on the application field, the "judges" can be variables, characters, and so on (Legendre, 2005, pp.228-229). In ANP, judges refers to respondents, which are experts in the area being studied. Kendall's W statistic, where $0 \leq W \leq 1$; W=1 occurs when all respondents are in total agreement (Legendre, 2005, pp.230).

c. The group judgment

The issue relating to group decision-making is how to aggregate individual judgments to construct the judgment of the group. If the individual respondents have different priorities of importance, then geometric mean is formed to represent the group judgment (Saaty, 2005, p.38)

$$GM_k = \sqrt[n]{(R_1 * R_2 * \ldots * R_n)}$$

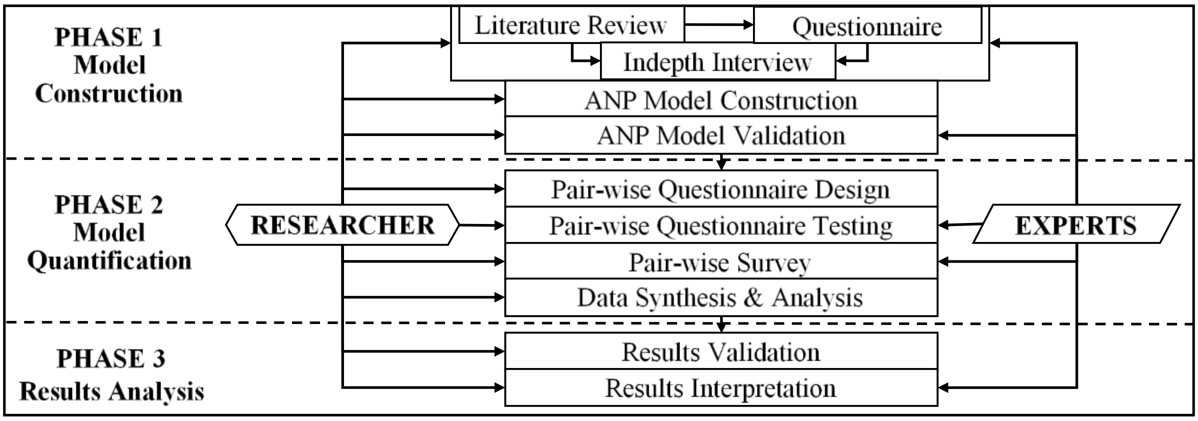
Where, GM = Geometric Mean; R = judgment of individual respondent; n = number of respondents; k = number of pairwise comparisons.

d. Obtaining Priorities

The final step in ANP is how to synthesize all possible alternatives to obtain overall priorities. To obtain priorities among alternatives, one need to derive the priority vectors, which are the principal eigenvector of the pairwise comparison matrices. The rank of priorities could be captured from the ordering of the value of principal eigenvector of those matrices. (Saaty, 2005, p.18)

3.3 Steps of Research

In more detail, the steps of this research can be seen in Figure 9, which comprise of three phases: 1) Model Construction; 2) Model Quantification; and 3) Results Analysis.



Source: Ascarya (2014)

Figure 9. Steps of ANP Research

In this empirical study, steps to be done follow three phases suggested by Ascarya (2014), namely model construction, model quantification and results analysis. Phase 1 is model construction or decomposition to identify, analyze and structure the complexity of the problems into an appropriate ANP network, which includes: a) Literature reviews, questionnaires and in-depth interviews with experts and practitioners to comprehend the problem fully; b) Construction of ANP network; and c) Validation of ANP network. Phase 2 is model quantification or pair-wise comparison, includes: a) Design pair-wise questionnaires in accordance with ANP network; b) Test the pair-wise questionnaires to experts respondents; c) Survey to selected experts respondents to fill out pair-wise questionnaires; and d) Data processing and synthesis using ANP software SUPERDECISIONS. Phase 3 is results analysis, which includes: a) calculate rater agreement; b) Validation of the results; and c) Interpretations of the results.

3.4 Model

Based on the conceptual framework in Figure 6, the ANP network resulted from step-1, model construction, could be built, which would look like Figure 10.

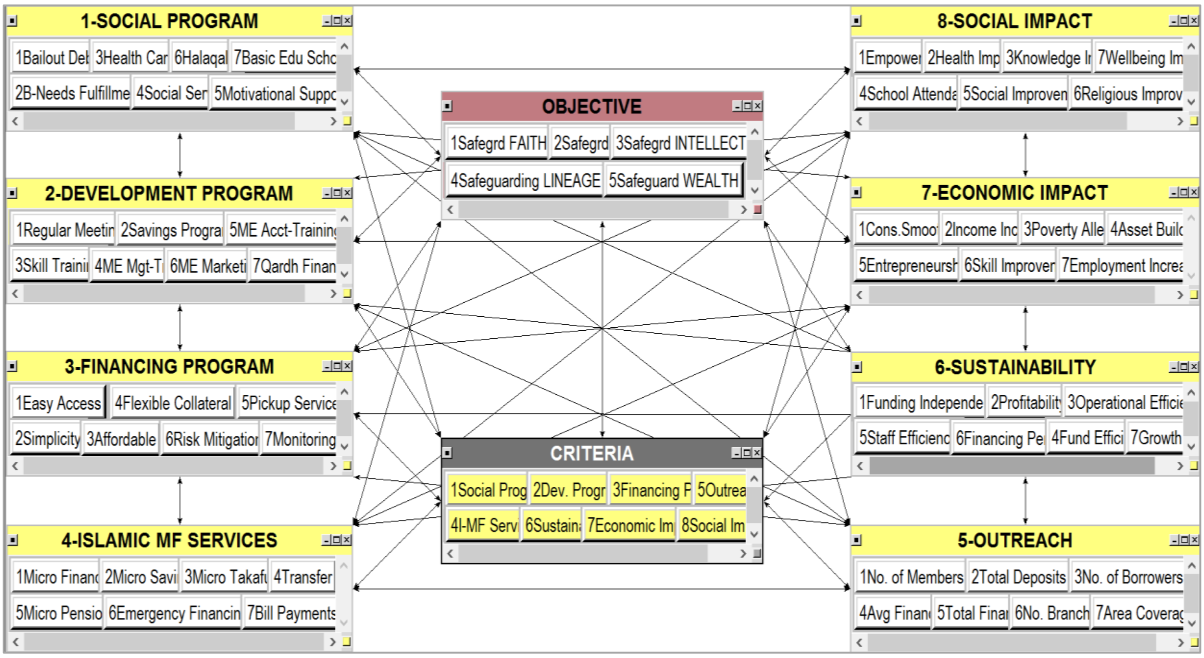


Figure 10. ANP Network

There are 8 (eight) clusters for each aspect of social inclusion (1-social program and 2-development program), financial inclusion (3-financing program and 4-Islamic microfinance services), objectives (5-outreach and 6-sustainability) and impact (7-economic impact and 8-social impact), one cluster for Maqashid Shariah and one cluster for criteria comprising all eight aspects as its elements.

All Clusters and their elements are interconnected and interdependent among them, so that it forms circular causation which bears a resemblance to IIE (interactive, integrative and evolutionary)-process-oriented circular causation and continuity model proposed by Choudhury and Hoque (2004).

IV. RESULTS AND ANALYSIS

4.1 ANP Results

The general overall ANP results using geometric mean of 9 (nine) experts and 9 (nine) BMT practitioners separately (see appendix 2 - 4), show that both experts and practitioners agree that safeguarding the WEALTH (29.86% and 24.58%, respectively) is the most important Islamic objective (Maqashid Shariah) to be achieved in a holistic financial inclusion (HFI), followed by safeguarding the FAITH (20.01% and 21.94%, respectively). They also agree that safeguarding the LINEAGE (12.76% and 15.62%, respectively) is the least important Islamic objective. Slight disagreement exists between experts and practitioners on the importance of safeguarding the LIFE and safeguarding the INTELLECT. Therefore, results of all respondents show close resemblance with the results of experts, where safeguarding the WEALTH (28.67%) is the most important Islamic objective, followed by safeguarding the FAITH (20.04%), safeguarding the INTELLECT (18.89%), safeguarding the LIFE (18.73%) and safeguarding the LINEAGE (13.67%). Moreover, practitioners show slightly better rater agreement (W_{pr}=0.454 > W_{ex}=0.415), which means that practitioners' view is more convergence than experts' view (see Figure 11).

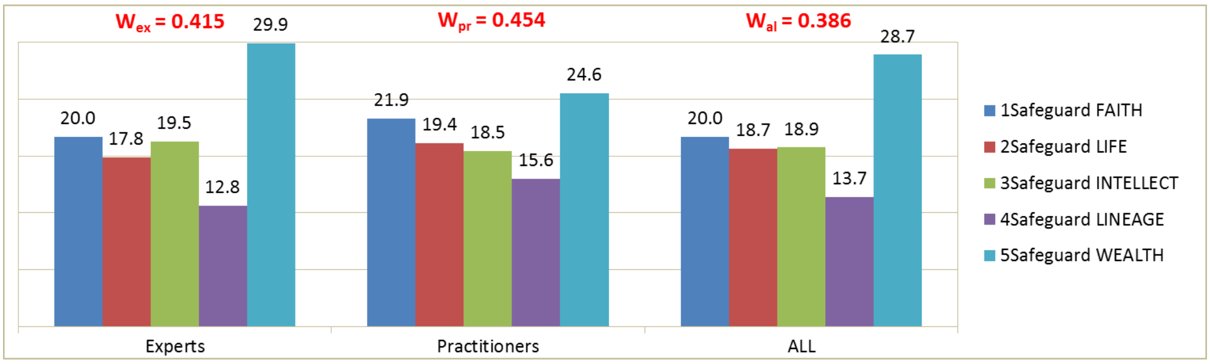


Figure 11. ANP Results on Maqashid Shariah of Experts (left), Practitioners (middle) and All Respondents (right)

Meanwhile, experts and practitioners agree that the most important aspects of HFI is to achieve financial sustainability (commercial objective) of BMT (19.21% and 16.43%, respectively), while the least important aspects of HFI is to achieve outreach (social objective) of BMT (9.58% and 9.97%, respectively), although they have more disagreement on the importance of other HFI aspects. The next most important aspects of HFI, according to experts, are social impact, economic impact, financing program and Islamic-MF services, while according to practitioners are development program, financing program, Islamic-MF services and economic impact. In other words, experts view that objectives and impacts are the most important, followed by financial inclusion and social inclusion, while practitioners view that objectives and financial inclusion are the most important, followed by social inclusion and impacts. Therefore, results of all respondents show that the most important aspect of HFI is commercial objective of financial sustainability (17.59%), followed by economic impact (14.05%) and social impact (12.75%), financing program (12.48%) and Islamic microfinance services (11.70%), and social program (10.53%). Social objective of poverty outreach (9.60%) is the least important. Moreover, practitioners show significantly better rater agreement (W_{pr}=0.358 > W_{ex}=0.293), which means that practitioners' view is more convergence than experts' view (see Figure 12).

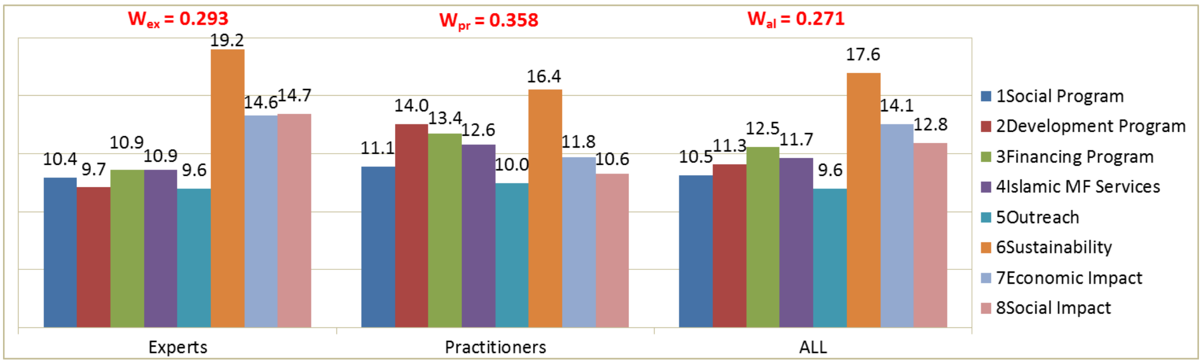


Figure 12. ANP Results on HFI Aspects of Experts (left) and Practitioners (right)

Experts and practitioners mostly agree on the most important elements of HFI. However, they have some different priorities. The most important elements (above 2.00%), according to experts, are funding independent, income increase, simplicity, micro financing and consumption smoothing, followed by basic needs fulfillments, mindset change, micro savings, easy access and poverty alleviation. Elements of development program and outreach are not on the list (see Figure 13). Meanwhile, according to practitioners the most important HFI elements are regular meeting, micro savings, simplicity, easy access, consumption smoothing and bailout debt, followed by savings program, income increase, funding independent, total deposits, mindset change and micro financing (see Figure 14). At least one element of each aspects is on the list. Regular meeting and bailout debt are not a priority according to experts. Although experts and practitioners agree that financial sustainability is the most important aspect of HFI, profitability is not among the most important elements.

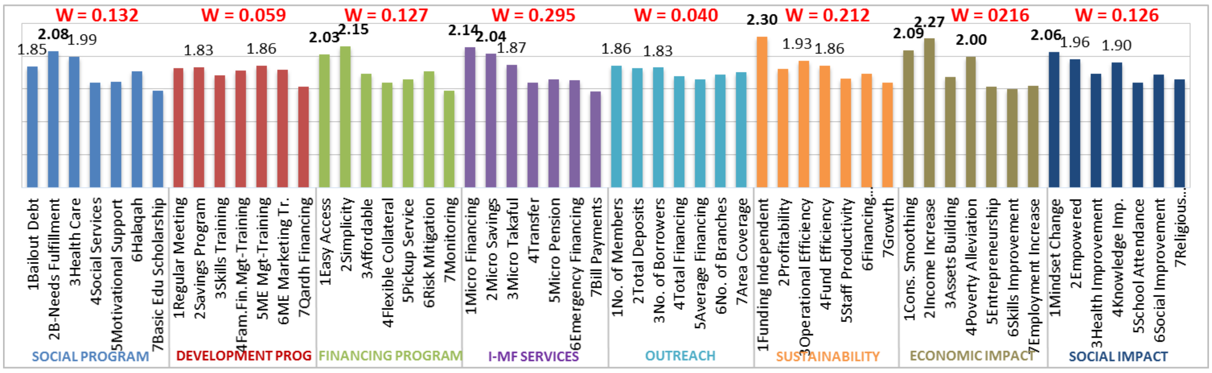


Figure 13. ANP Results on HFI Elements of Experts

In social program, experts view that basic needs fulfillment and health care are the most important (see Figure 13), while practitioners view that bailout debt and basic needs fulfillment are the most important (see Figure 14). In development program, experts view that ME management training and savings program are the most important, while practitioners view that regular meeting and savings program are the most important. In financing program, experts and practitioners agree that simplicity and easy access are the most important. In Islamic MF services, experts view that micro financing and micro savings are the most important, while practitioners view that micro savings and micro financing are the most important.

Moreover, in outreach, experts view that number of members and number of borrower are the most important (see Figure 13), while practitioners view that total deposits and number of members are the most important (see Figure 14). In sustainability, experts view that funding independent and operational efficiency are the most important, while practitioners view that funding independent and profitability are the most important. In economic impact, experts view that income increase and consumption smoothing are the most important, while practitioners view the opposite that consumption smoothing and income increase are the most important. In social impact, experts and practitioners agree that mindset change and empowered are the most important.

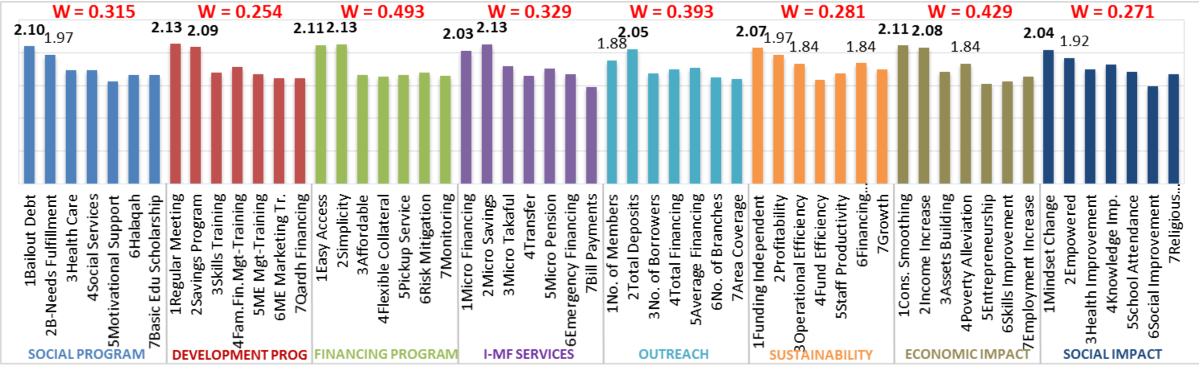


Figure 14. ANP Results on HFI Elements of Practitioners

Therefore, results of all respondents (see Figure 15) show that the most important elements of HFI (above 2.00%) are funding independent (2.26%), consumption smoothing (2.17%), simplicity (2.16%), micro financing (2.15%) and income increase (2.14%), followed by easy access (2.10%), mindset change (2.10%), empowered (2.06%), micro savings (2.05%) and basic needs fulfillment (2.01%). The most important elements by cluster are bailout debt and basic needs fulfillment (Social Program), regular meeting and savings program (Development Program), simplicity and easy access (Financing Program), micro savings and micro financing (I-MF Services), number of members and total deposits (Outreach), funding independent and profitability (Sustainability), consumption smoothing and income increase (Economic Impact), and mindset change and empowered (Social Impact).

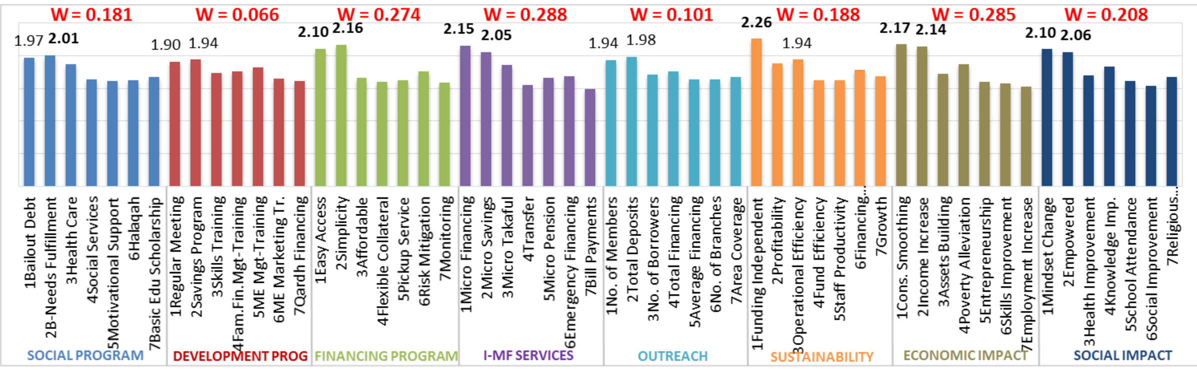


Figure 15. ANP Detailed Results of All Respondents

Practitioners show significantly better rater agreements (Wpr > Wex) on all clusters, which means that practitioners' view is always more convergence than experts' view on all subjects. Practitioners, view on Financing Program has the highest rater agreements (0.493), followed by their view on Maqashid Shariah (0.454) and Economic Impact (0.429). Meanwhile, experts' view on Outreach (0.040) and Development Program (0.059) have the lowest rater agreements (see Table 4).

Table 4. Rater Agreement of Experts, Practitioners and All Respondents

CLUSTER	Kendall's Coefficient of Concordance (W)		
	Experts	Practitioners	All Respondents
Maqashid	0.415	**0.454**	0.386
Aspect	0.293	**0.358**	0.271
1Social Program	0.132	**0.315**	0.181
2Development Program	0.059	**0.254**	0.066
3Financing Program	0.127	**0.493**	0.274
4Islamic MF Services	0.295	**0.329**	0.288
5Outreach	0.040	**0.393**	0.101
6Sustainability	0.212	**0.281**	0.188
7Economic Impact	0.216	**0.429**	0.285
8Social Impact	0.126	**0.371**	0.208
MEAN	0.192	**0.368**	0.225

4.2 Analysis

The most important Maqashid Shariah to be achieved in holistic financial inclusion program agreed by experts and practitioners, surprisingly, is safeguarding the wealth, not safeguarding the faith or safeguarding the life. This is natural, since social inclusion precedes financial inclusion, while social inclusion using Islamic social tools, such as zakat, infaq, shadaqah and waqf (ZISWaf) are intended to narrow the gap between the haves (*muzakki*) and the have nots (*mustahiq*) through social and development programs, so that *mustahiq* could gradually step up out of poverty and become self-sufficient. These results in line with a hadith (saying) of Prophet Muhammad (Pbuh) "Almost indigence (poverty) becomes disbelief". This hadith is issued by Imam al-Bayhaqi in the book "Syu'abul Faith" (no. 6612). This hadits indicates that wealth (to some extent) is very important in this life. Acquiring wealth in a halal (allowed) ways is obligatory for all Muslims. A hadits reported by Thabrani says "seeking 'halal' (non-prohibited) sustenance is compulsory for every Muslim".

Furthermore, the second most important Maqashid Shariah to be achieved is safeguarding the faith, which can be explained by brotherhood. Brotherhood in Islam is more than knowing the names of others, but also knowing the needs of them. By helping the poor to finance them, it means safeguard brotherhood between the poor and the microfinance management. Prophet Muhammad says in a hadits reported by Bukhari, "One will not have perfect faith in God unless he loves for his brother as he loves for himself" (Hadits Bukhari no. 12).

Subsequently, safeguarding the intellect precedes safeguarding the life. This is true, since the root cause of poverty, under-empowerment and under-development is education. Education is a basic need in Islam. Al Qur'an mentions "Allah will exalt those who are believers among you and those who were given some degree of knowledge" (Qs Mujadalah: 11). This means that a person who has knowledge will have a special place in the job, in an organization and in a society. Knowledge is important to acquire wealth. Without knowledge, one will not able to cut the vicious circle. The vicious circle says that one who has no education will not be able to get a good job, consequently, not able to get enough income, not able to make saving, not able to make investment, and not able to educate his sons/ daughters. So, poverty still be there without good education. Therefore, education has important role in development. That's why, Prophet Muhammad encourage people to seek knowledge by saying in a Hadits "Anyone who traveled to seek knowledge, Allah will facilitate for him on the way to heaven" (Hadits Ibnu Madjah No. 2255)

The next important one is safeguarding the life. Safeguarding the life means keeping the life, health, safety, and security. It also keep the religion of Islam which is embedded in the soul, keep the values inherent in it, his glory (pride), rights of the soul, and keep the soul away from all the things that bring hardship and damage to him.

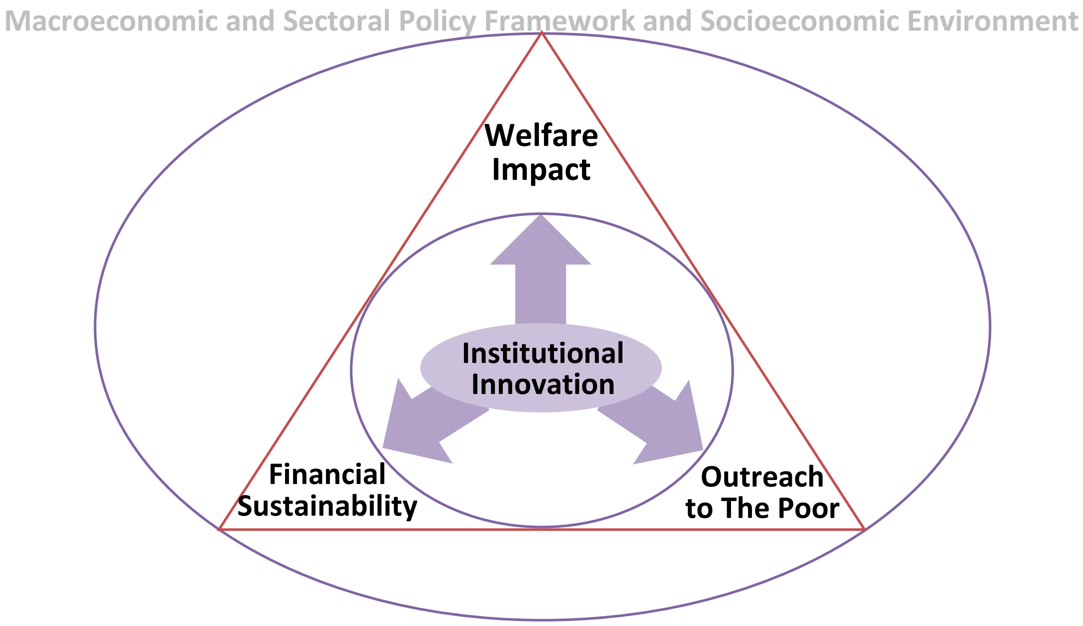
Allah is very safeguard the rights of human life, even forbids people to kill themselves, as mentioned in the Quran chapter 5 verse 29: "O you who believe, eat not up your property among yourself unjustly except it be a trade amongst you, by mutual consent. And do not kill your selves (nor kill one another). Surely, Allah is the most merciful to you".

In practice, keep the soul can be done in two ways: 1) Curative ways, for example, physical needs such as food, clothing and shelter, also maintain physical health, pay attention to the means of life in the village of residence in the form of environmental hygiene, transportation, the availability of medical personnel and so on. 2) Preventive ways, for example, the prohibition of everything that is attacking the body as well as other parts of human body, such as murder, wounding certain part of bodies and so on.

A good and contemporary examples of the principle of safeguarding life at microfinance institutions is health program of MFIs. This is a real realization of health safeguarding life, because healthiness is an urgent need, especially for the poor MFI members.

Meanwhile, the most important aspect of holistic financial inclusion (HFI) is to achieve financial sustainability as part of double bottom-line, while at the same time, according to Zeller and Meyer (2002), it is part of triangle of microfinance (three overarching policy objectives, namely financial sustainability, outreach to the poor and welfare impact). They argued that there has been policy changed along with the paradigm shift, where previously MFI focused on outreach to the poor in terms of breadth (serving more of the poor) and depth (serving more of the poorest of the poor), but recently the objective of financial sustainability of MFI has taken on great importance. The most important elements of financial sustainability are funding independent, operational efficiency and profitability. Funding independent is the most important, since BMT (similar to most MFI) has difficulties to collect deposits from its members or potential members, so that BMT has to find external source of funds, such as Islamic banks. Efficient and profitable are necessary to maintain sustainability of BMT. Moreover, it is not surprising that the objective of outreach to the poor is ranked as the least important aspect of HFI, with total deposits and number of members as two most important elements, to be able to maximize cheap fund collection.

Subsequently, the most important aspects of HFI are economic impact and social impact, which are two parts of welfare impact. BMTs are generally independent of government funds, but are dependent of ZISWaf (zakat, infaq, shadaqah and waqf) funds. Therefore, welfare impact becomes important, since ZISWaf as public investments demand pay-off or impact (Zeller and Meyer, 2002), such as food security, alleviation of poverty and economic growth. The most important elements of economic impacts are consumption smoothing, income increase and poverty alleviation, which are in line with the most expected welfare impact by public stakeholders. Meanwhile, the most important elements of social impact are mindset change, empowered and knowledge improvement, which are important elements to support long-term viability of triangle of microfinance. *Mustahiq's* mindset change is very important as a prime mover to move forward. In short, achieving MFI objectives or triangle of microfinance are the most important aspects of BMT as Holistic Financial Inclusion agent.



Source: Zeller and Meyer (2002), redrawn by Author

Figure 16. Triangle of Microfinance

The next most important aspects of HFI are financing program and Islamic microfinance services, which are two parts of financial inclusion carried out by Baitut Tamwil division of BMT. The most important elements of financing program are simplicity and easy access, which are very important by poor people to break the barrier to go to Islamic microfinance institution (IMFI). Meanwhile, micro financing, micro savings and micro takaful as the most important elements of Islamic microfinance services are the three most needed Islamic microfinance services by self-sufficient graduated *mustahiqs* to grow and expand their micro businesses, and they are in line with the best practices of microfinance (CGAP, 2006).

Development program and social program as two parts of social inclusion carried out by Baitul Maal division are viewed to be not as important as financial inclusion carried out by Baitut Tamwil. These findings can be justified with two reasons. First, social inclusion with social and development programs in Indonesia is mainly carried out by public and private ZISWaf institutions, such as BAZNAS (National Zakat Board), Dompet Dhuafa, BAZDA (Provincial Zakat Board) and LAZ (Amil Zakat Institution). Second, total annual social funds collected by Baitul Maal division is very small compare to total asset of Baitut Tamwil division of BMT (less than 5% of asset). The most important elements of development program are savings program, regular meeting and ME management training, which are very important to mitigate risks of micro financing and to improve mustahiq's probability of success starting their own micro business and out of poverty.

4.3 Design Holistic Financial Inclusion

The design of Holistic Financial Inclusion in Islamic perspective (HFI) should have certain distinct features compare to other concept of financial inclusion, including:

1. Holistic Financial Inclusion should be based on the Maqashid Shariah, so that all activities and efforts are directed toward the fulfillment of the five Shariah objectives;
2. Holistic Financial Inclusion should comprise of social inclusion (including social program and development) using social/ZISWaf funds carried out by Bait al-Maal, and financial inclusion (including financing program and Islamic microfinance services) using commercial funds carried out by Bait at-Tamwil;
3. Social inclusion must have minimum elements of Basic Needs Fulfillment and Bailout Debt (Social Program), as well as Savings Program and Regular Meeting (Development Program);
4. Financial inclusion must have minimum elements of Simplicity and Easy Access (Financing Program), as well as Micro Financing and Micro Savings (Islamic Microfinance Services);
5. Holistic Financial Inclusion should achieve triangle of microfinance simultaneously, including social objective of Outreach to the Poor, commercial objective of Financial Sustainability and Welfare Impact (Economic Impact and Social Impact).
6. Outreach to the Poor must have minimum elements of Total Deposits and Number of Members, while Financial Sustainability must have minimum elements of Funding Independent and Operational Efficiency.
7. Economic Impact must have minimum elements of Consumption Smoothing and Income Increase, while Social Impact must have minimum elements of Mindset Change and Empowered.

8. Social inclusion by Baitul Maal and financial inclusion by Baitut Tamwil must be integrated within one effective institution in the form Baitul Maal wa Tamwil (BMT), which has two separate divisions of Baitul Maal and Baitut Tamwil.

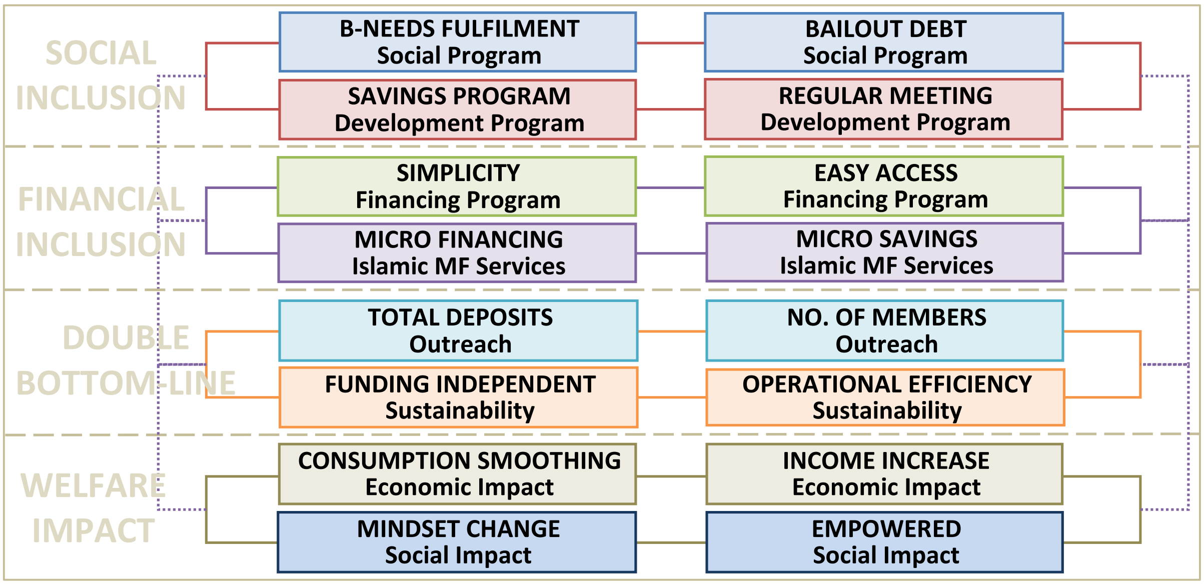


Figure 17. Minimum Elements of Holistic Financial Inclusion for BMT

Holistic Financial Inclusion through BMT could be developed gradually in stages. At the first stage, BMT must focus on the minimum services to be provided by Baitul Maal and Baitut Tamwil as mentioned above (the first two rows of table 5a).

Table 5a. Development Stages of HFI through BMT

BAITUL MAAL				BAITUT TAMWIL			
SOCIAL PROGAM		DEVELOPMENT PROGRAM		FINANCING PROGRAM		ISLAMIC-MF SERVICES	
2B-Needs Fulfillment	2.01	2Savings Program	1.94	2Simplicity	2.16	1Micro Financing	2.15
1Bailout Debt	1.97	1Regular Meeting	1.90	1Easy Access	2.10	2Micro Savings	2.05
3Health Care	1.86	5ME Mgt-Training	1.83	6Risk Mitigation	1.76	3Micro Takaful	1.85
7Basic Edu Scholarship	1.68	4Fam.Fin.Mgt-Training	1.76	3Affordable	1.66	6Emergency Financing	1.69
4Social Services	1.64	3Skills Training	1.74	5Pickup Service	1.63	5Micro Pension	1.66
6Halaqah	1.62	6ME Marketing Tr.	1.65	4Flexible Collateral	1.60	4Transfer	1.55
5Motivational Support	1.61	7Qardh Financing	1.61	7Monitoring	1.59	7Bill Payments	1.49

Meanwhile, the objectives to be achieved and the impacts to be expected at the first stage must focus on the minimum social objectives, commercial objectives and welfare impacts that should be accomplished, as can be seen in the first two rows of table 5b.

Table 5b: Development Stages of HFI through BMT

DOUBLE BOTTOM-LINE				WELFARE IMPACT			
OUTREACH		SUSTAINABILITY		ECONOMIC IMPACT		SOCIAL IMPACT	
2Total Deposits	1.98	1Funding Independent	2.26	1Cons. Smoothing	2.17	1Mindset Change	2.10
1No. of Members	1.94	3Operational Efficiency	1.94	2Income Increase	2.14	2Empowered	2.06
4Total Financing	1.75	2Profitability	1.89	4Poverty Alleviation	1.87	4Knowledge Imp.	1.84
3No. of Borrowers	1.71	6Financing Performanc	1.78	3Assets Building	1.72	3Health Improvement	1.70
7Area Coverage	1.67	7Growth	1.69	5Entrepreneurship	1.60	7Religious Improvemer	1.67
6No. of Branches	1.64	4Fund Efficiency	1.63	6Skills Improvemen	1.57	5School Attendance	1.61
5Average Financing	1.64	5Staff Productivity	1.62	7Employment Incre	1.53	6Social Improvement	1.54

At the second stage, BMT could choose its own roadmap of HFI development. BMT could give more attention to develop Social Inclusion by Baitul Maal or Financial Inclusion by Baitut Tamwil. For example (see Figure 18, left), BMT could develop BT by improving its financing program with better risk mitigation and affordable price, as well as by providing Micro Takaful and Emergency Financing (moving from [2, 2] vertically to [2, 4]), etc. Meanwhile, BMT could focus on achieving Objective (see Figure 18, right), by improving Profitability and Financing Performance (Financial Sustainability), as well as Total Financing and Number of Borrowers (Outreach), which means moving from [2, 2] horizontally to [4, 2]. Other elements of each eight HFI aspects, which are not in the top priority, do not mean that they are not important. They are all important and necessary, but they could be added gradually in due time.

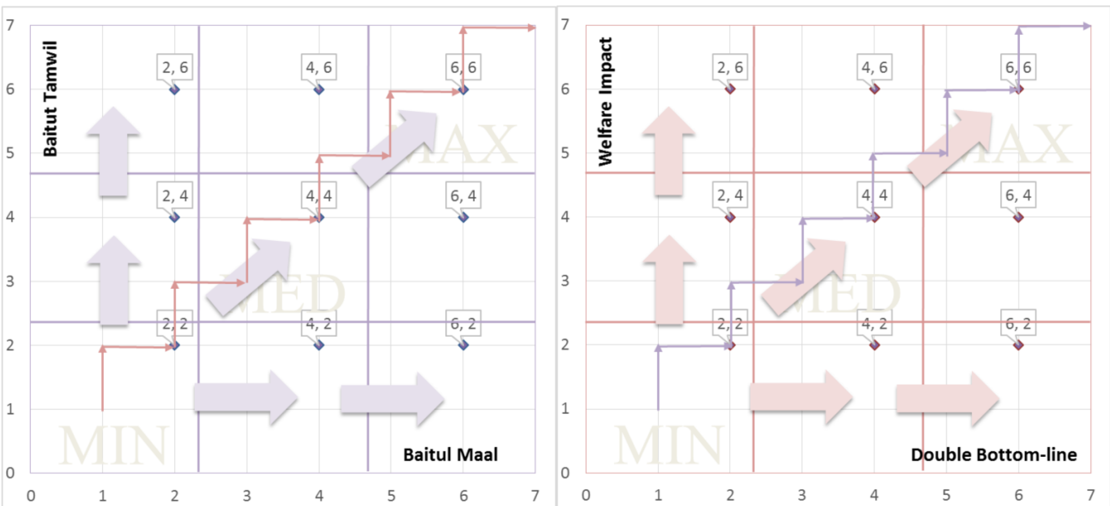


Figure 18: Alternative Roadmap of HFI Development

Based on all 18 respondents, the roadmap of HFI through BMT development can be seen in Figure 19. Figure 19 left shows a balanced development of Baitul Maal and Baitut Tamwil elements from the minimum point [2, 2] to point [4.5, 4.5], which means the expansion of Baitul Maal and Baitut Tamwil services up to the ninth most important elements should be done alternately. Then it moves to point [7, 5], which means more Baitul Maal elements development, and finally it moves to final stage of [7, 7], where additional Baitut Tamwil Islamic Microfinance Services such as Bill Payments and Transfer are optional services. Meanwhile, Figure 19 right also shows a balanced (triangle of microfinance) objective-impact priority from the minimum point [2, 2] to point [5, 5], then it moves to point [7, 5], which means more priority on objective elements, and finally it moves to final stage of [7, 7].

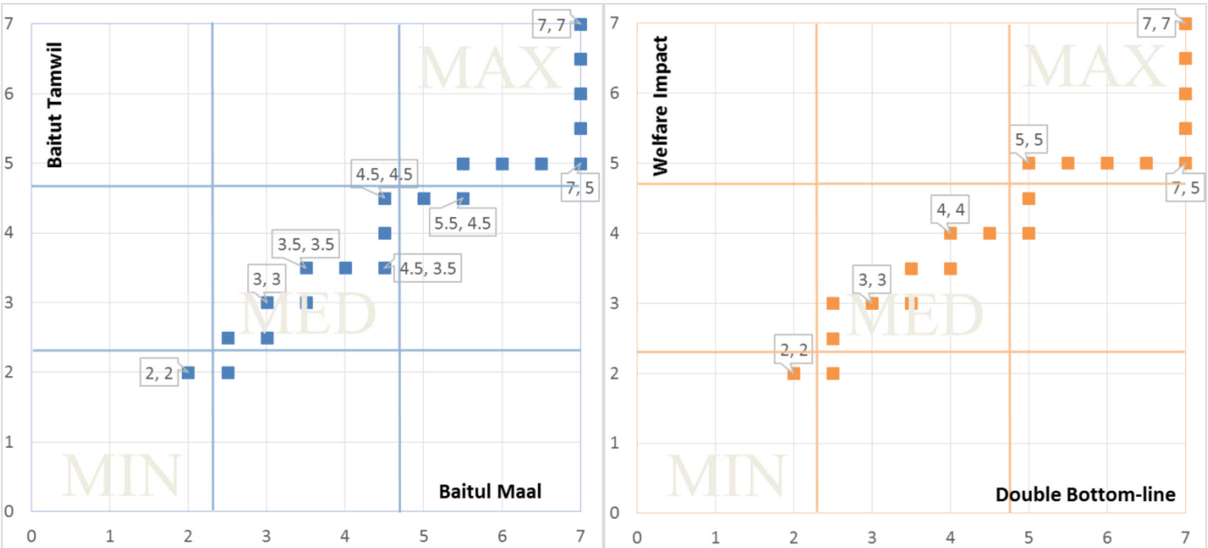


Figure 19: Roadmap of HFI Development Based on All Respondents

The detailed roadmap of Social Inclusion by Baitul Maal and Financial Inclusion by Baitut Tamwil can be seen in Figure 20. The roadmap of Social Inclusion in Figure 20 left shows that improvement of Development Program should be given priority in the second stage (ME Management Training, Family Financial Management Training and Skills Training) up to point [3, 5]. Subsequently, priority should be given to Social Program (Basic Education Scholarship, Social Services and *Halaqah*) up to point [6, 6]. Meanwhile, the roadmap of Financial Inclusion in Figure 20 right shows, starting from minimum point [2, 2], that in the second stage improvement of Islamic Microfinance Services (Micro Takaful, Emergency Financing and Micro Pension) should be given priority up to point [3, 5]. Subsequently, improvement priority should be given to Financing Program (Affordable, Pick-up Service, Flexible Collateral and Monitoring) up to point [7, 5].

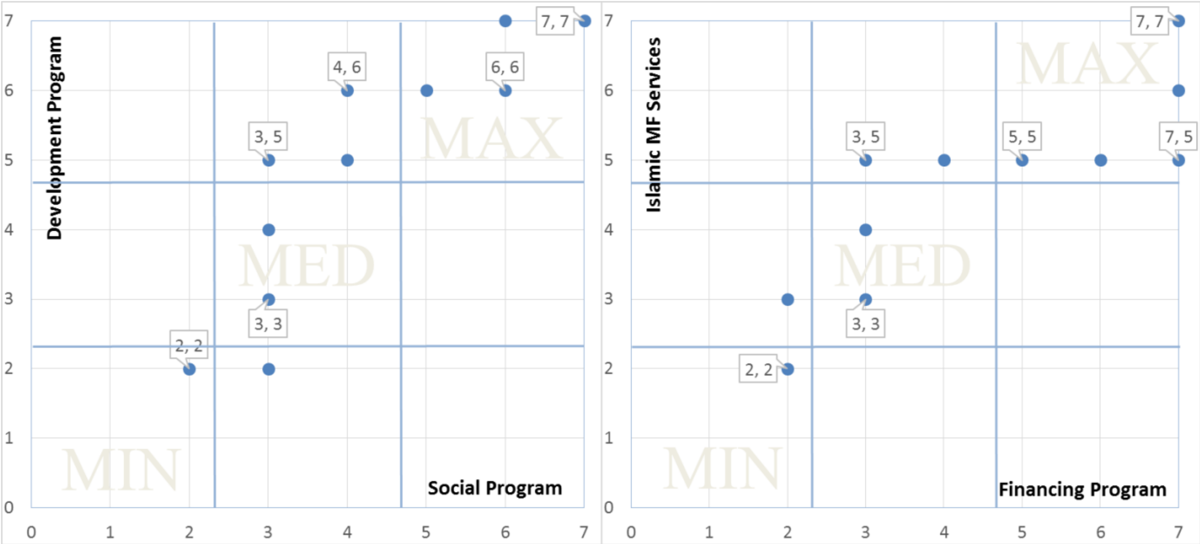


Figure 20. Roadmap of Social and Financial Inclusions Based on All Respondents

The detailed roadmap of Double Bottom-line and Welfare Impact can be seen in Figure 21. The roadmap to achieve Double Bottom-line in Figure 21 left shows that, after minimum objectives have been achieved, priority should be given in achieving Financial Sustainability (Profitability and Financing Performance), followed by achieving Outreach to the Poor (total Financing and Number of Borrowers) and Financial Sustainability (Assets Growth) up to point [4, 5]. Next target should be achieving three elements of Outreach to the Poor (Area Coverage, Number of Branches and Average Financing) up to point [7, 5]. Meanwhile, the roadmap of Welfare Impact in Figure 21 right shows a balanced achievement of Economic Impact (Poverty Alleviation and Asset Building) and Social Impact (Knowledge Improvement and Health Improvement) should be achieved alternately up to point [4, 4]. Subsequently, Social Impact (Religious Improvement and School Attendance) and Economic Impact (Entrepreneurship and Skills Improvement) should be achieved up to point [6, 6].

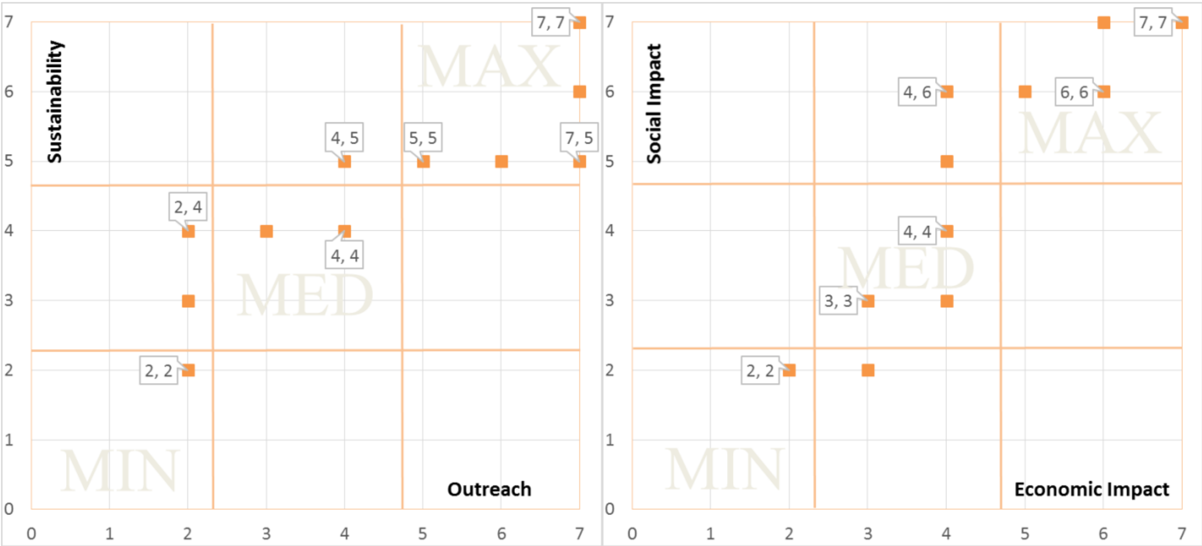


Figure 21. Roadmap of Double Bottom-Line and Welfare Impact Based on All Respondents

ANP more detailed results (see Figure 22) show that experts view that BMT should give more attention to develop BM from minimum point [2, 2] to point [4, 2.5] and [5, 3.5]. Subsequently, BT should be develop to balanced point [5, 5], [6, 6] and [7, 7]. Meanwhile, practitioners view that BMT be developed in balance to point [3, 3], then focused more on BM to point [5, 4], and then to balanced point [5, 5]. Subsequently, BT should be develop more to point [5.5, 6.5], then to balanced point [6.5, 6.5] and [7, 7].

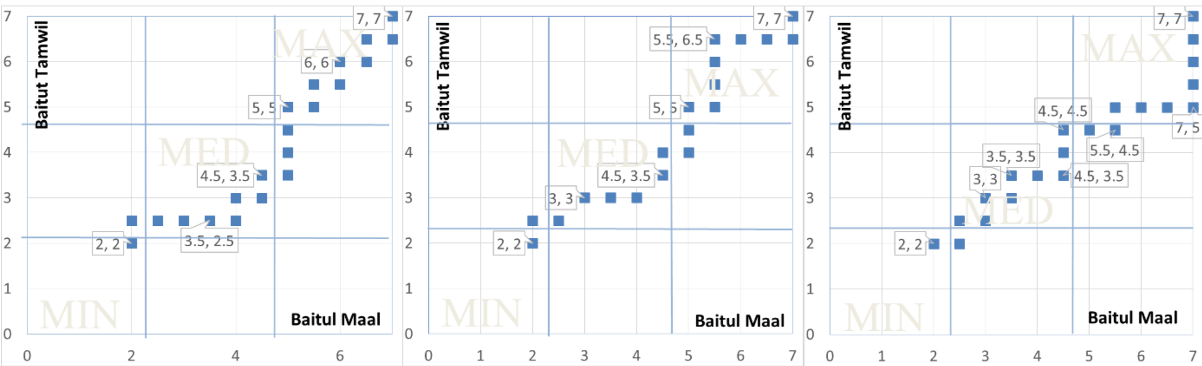


Figure 22. Roadmap of BMT as HFI of Experts, Practitioners and All Respondents

ANP more detailed results (see Figure 23) show that experts view that BMT should balance Welfare Impact (WI) and Double Bottom-line (DB) from point [2, 2] to point [3, 3] by achieving WI first, then to point [4.5, 4.5] by achieving DB first.

Subsequently, BMT should focus on DB to point [7, 5] and back to balanced point [7, 7]. Meanwhile, practitioners view that BMT should balance WI and DB from point [2, 2] to point [3, 3] by achieving DB first, then to point [4.5, 4.5] and [5.5, 5.5] by achieving DB and WI alternately. Subsequently BMT should focus on DB to point [7, 5.5] and back to balanced point [7, 7].

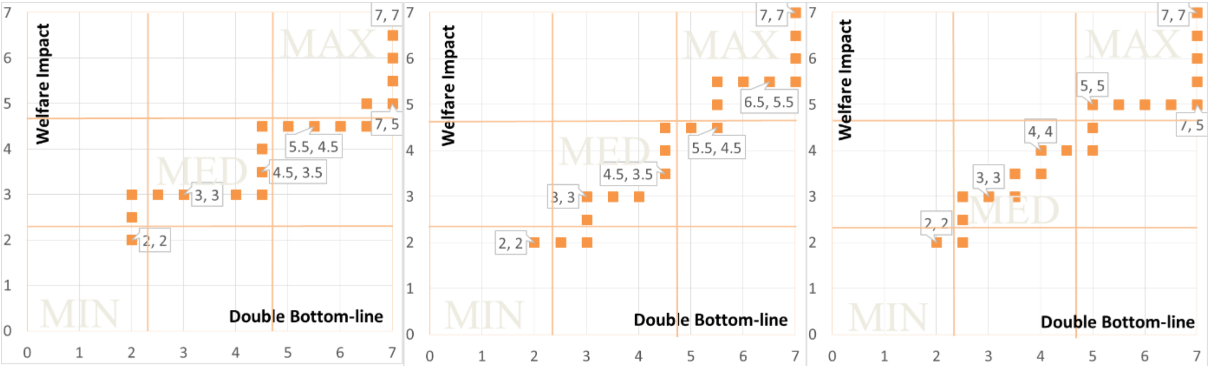


Figure 23. Roadmap of Double Bottom Line – Welfare Impact of Experts, Practitioners and All Respondents

ANP more detailed results (see Figure 24) show that experts view that BMT should give more attention to Development Program (DP) first from minimum point [2, 2] to point [3, 5] and [4, 6]. Subsequently, BMT should prioritized Social Program (SP) to balanced point [6, 6] and finally to point [7, 7]. Meanwhile, practitioners view that BMT should always balance DP and SP alternately to point [3, 3], [4, 4], [5, 5], [6, 6], and finally to point [7, 7].

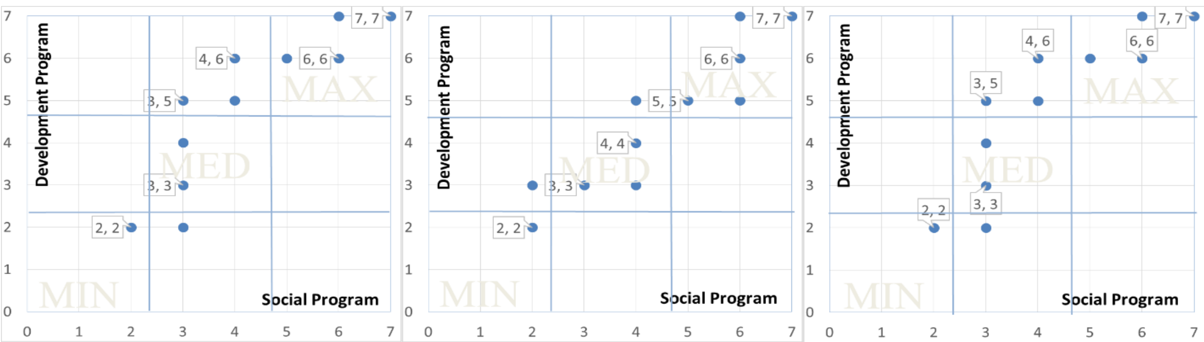


Figure 24. Roadmap of Social Inclusion of Experts, Practitioners and All Respondents

ANP more detailed results (see Figure 25) show that experts view that BMT should always balance Financing Program (FP) and Islamic MF Services (I-MF) alternately from minimum point [2, 2] to point [3, 3], [4, 4], [5, 5], [6, 6], and finally to point [7, 7]. Meanwhile, practitioners view that BMT should give more attention to I-MF first from minimum point [2, 2] to point [2, 4] and [3, 5]. Subsequently, BMT should prioritized FP to balanced point [5, 5], and then alternately to balanced point [6, 6] and finally to point [7, 7].

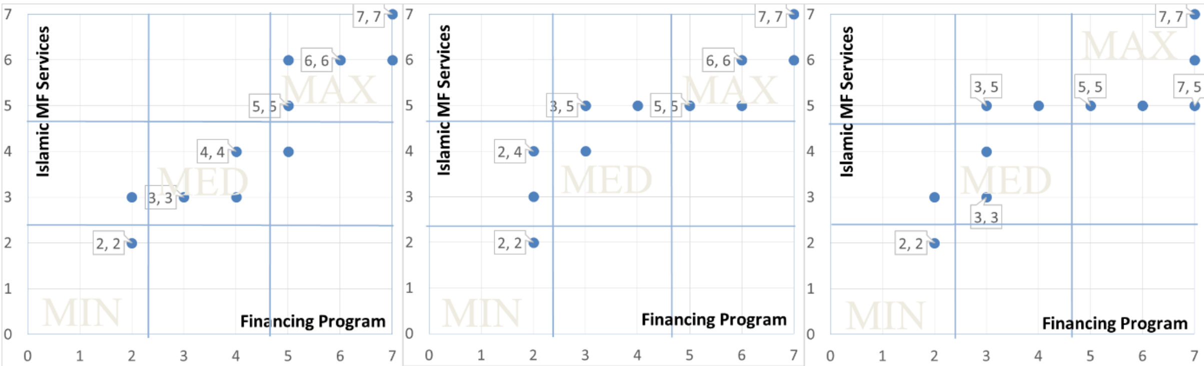


Figure 25. Roadmap of Financial Inclusion of Experts, Practitioners and All Respondents

ANP more detailed results (see Figure 26) show that experts view that BMT should always balance Outreach (OU) and Sustainability (SU) alternately from minimum point [2, 2] to point [3, 3], [4, 4], [5, 5], [6, 6], and finally to point [7, 7]. Meanwhile, practitioners view that BMT should give more attention to SU first from minimum point [2, 2] to point [2, 4]. Subsequently, BMT should prioritized OU to balanced point [4, 4], and then alternately to balanced point [5, 5], [6, 6] and finally to point [7, 7].

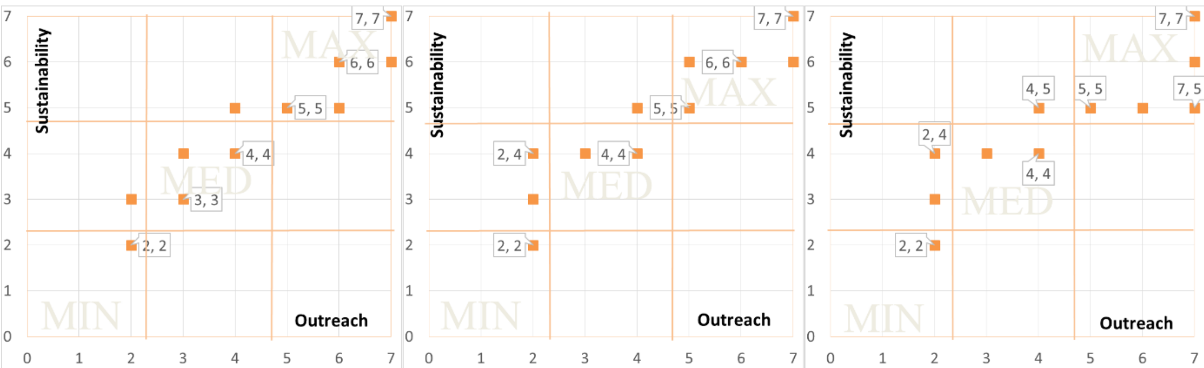


Figure 26. Roadmap of Double Bottom-line of Experts, Practitioners and All Respondents

ANP more detailed results (see Figure 27) show that experts view that BMT should start with balanced Economic Impact (EI) and Social Impact (SI) from minimum point [2, 2] to point [3, 3], and then more on SI to point [3, 5] and [4, 7]. Subsequently, EI to be prioritized to point [7, 7]. Meanwhile, practitioners view that BMT should start with balanced EI and SI from minimum point [2, 2] to point [3, 3], and then more on SI to point [3, 5] and [4, 6]. Subsequently, BMT should prioritized EI to balanced point [6, 6], and further to [7, 6], and finally to balance point [7, 7].

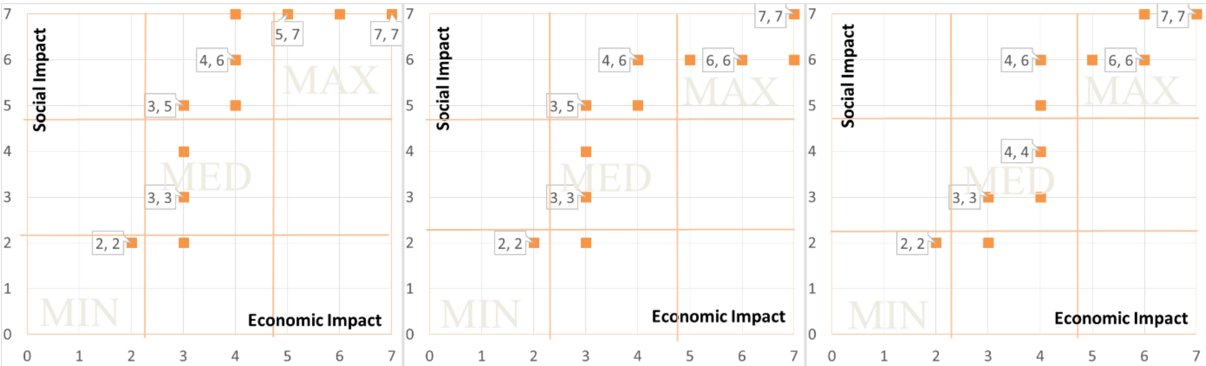


Figure 27. Roadmap of Welfare Impact of Experts, Practitioners and All Respondents

4.4 Survey Results

Respondents are 122 BMTs in Java Island, namely: 1) West Java (including Banten); 2) Central Java (including Yogyakarta); and 3) East Java, divided into four category of assets, namely: 1) Small BMT with assets less than Rp1 billion; 2) Medium BMT with assets between Rp1 billion – Rp10 billion; 3) Large BMT with assets between Rp10 billion – Rp100 billion; and 4) Very Large BMT with assets more than Rp100 billion. Most BMTs are either medium or large BMT.

Table 6a. Distribution of BMTs

Area	**Assets of BMT (Rp. Billion)**				**TOTAL**
	< 1	**1 – 10**	**10 – 100**	**> 100**	
West Java	4	19	15	1	39
Central Java	3	22	17	2	44
East Java	3	26	8	2	39
TOTAL	**10**	**67**	**40**	**5**	**122**

In general, each branch of BMT is managed by 7 employees, managing Rp4.2 billion assets and 815 customers, while it extends Rp6 million financing per customer. The larger the BMT the bigger the assets per branch, the more the employee per branch and the more the customer per branch. BMT in West Java has the highest asset/branch (Rp5.3 billion), employee/branch (11 employees) and customer/branch (1,224 customers), but BMT in Central java has the highest asset/employee (Rp721 million) and average financing/customer (Rp9 million), while BMT in East Java has the highest customer/branch (733 customers) and customer/employee (147 customers). Moreover, on average, small BMT has no branch, medium BMT has one branch, large BMT has 5 branches and very large BMT has 83 branches.

Table 6b: Branch Characteristics of BMTs

Characteristics	Category of BMT Assets (Rp. Billion)				Area in Java			TOTAL
	< 1	1 - 10	11 - 100	> 100	West	Central	East	
Assets/Branch (Mn.)	540	2695	5900	21070	5313	4328	2935	4198
Empl/Branch	3	6	8	38	11	6	5	7
Assets/Empl. (Mn.)	180	449	738	554	483	721	587	600
Customer/Branch	194	573	724	7364	1224	527	733	815
Customer/Employee	65	96	91	194	111	88	147	116
Fin/Customer (Mn.)	**3**	**5**	**9**	**4**	**6**	**9**	**4**	**6**
Average Branch	0	1	5	83	2	4	11	5

4.4.1 Respondent Profiles

a. Summary Profiles

Based on the summary of association (Chi-Square) tests, Table 7a shows that BMTs are quite diverse Islamic microfinance institutions, which have some similar features, especially in terms of BMT Assets and BM Structure, revealing their business pattern. Some BMTs characteristics which have significant associations, include:

- BMT Assets and BM Structure with No. of Employee, BM Assets, ZISWaf Funds, Area Coverage and No. of Branches;
- BMT Assets with Length of Business, BM Structure and Financing Requirements;
- ZISWaf Funds with No. of Employee, BM Assets, Area Coverage and No. of Branches;
- Motivation to establish BMT with BM Structure, Area Coverage and No. of Branches.

Larger BMT Assets associates with longer Length of Business, higher Number of Employee, larger BM Assets and larger ZISWaf Funds. Also, larger BMT Assets associates with better Baitul Maal (BM) Structure, wider Coverage and higher number of branches, but it also associates with more complicated financing requirements.

Better BM Structure associates with higher Number of Employee, larger BM Assets and larger ZISWaf Funds. Also, better BM Structure associates with wider Coverage and higher number of branches. Larger ZISWaf Funds associates with higher Number of Employee, larger BM Assets wider Coverage and higher number of branches. Furthermore, more socially oriented motivation associates with better BM Structure, wider Coverage and higher number of branches.

In addition, there is no association between social/commercial motivations with BMT Assets or other commercial features of financial institutions, which indicates that there is no sign of commercialization.

Table 7a: Summary of Respondent BMTs Profiles' Association (Chi-Square) Tests

FEATURE	Motivation	Founder	Length of Business	No. Of Employee	Max Elected	LAZ Colla-boration	BM Assets	ZIZWaf Funds
BMT Assets	0.393	0.585	**0.000**	**0.000**	0.365	0.651	**0.001**	**0.021**
BM Structure	0.081	0.366	0.292	**0.005**	0.430	0.611	**0.053**	0.010
ZISWaf Funds	0.508	0.402	0.531	**0.000**	0.353	0.742	**0.000**	-
Motivation	-	0.160	0.763	0.510	0.893	0.617	0.438	0.508
FEATURE	**BM Structure**	**Processing Time**	**Require ments**	**Collateral**	**Financing Margin**	**Coverage**	**No. Of Branches**	**FI Colla-boration**
BMT Assets	**0.001**	0.570	**0.003**	0.988	0.595	**0.000**	**0.000**	0.908
BM Structure	-	0.496	0.599	0.209	0.464	**0.001**	**0.005**	0.269
ZISWaf Funds	**0.010**	0.636	0.999	0.817	0.162	**0.000**	**0.000**	0.981
Motivation	**0.081**	0.785	0.978	0.926	0.571	**0.074**	**0.038**	0.426

Association (Chi-Square) tests also show that features of Customer and BMT branches are very diverse (see Table 7b), but they still have some similar features, especially in terms of BMT Assets. Some Customer and BMT branch characteristics which have significant associations:

- BMT Assets with No. of Employee/Branch and No. of Customer/Branch, Assets/Branch, Total Deposits/Branch and Average Financing/Branch;
- BM Structure with Average Qardh/Customer and No. of Employee/Branch.

Larger BMT Assets associates with more Employee/Branch, more Customer/Branch, larger Assets/Branch, larger Total Deposits/Branch and larger Total Financing/Branch. Better BM Structure associates with higher Qardh/ Customer, more Employee/Branch and more Customer/Branch. Moreover, ZISWaf Funds and Motivation have no association with Customer or BMT branch features.

In addition, there is no association between BMT Assets and Average Financing/Customer, which indicates that there is no sign of mission drift.

Table 7b: Summary of Respondent BMTs Profiles' Association (Chi-Square) Tests

FEATURE	Avg.Fin/ Customer	Avg.Dep./ Customer	Av.Qardh /Cust.mer	No. Empl/ Branch	Cust.mer/ Branch	Assets/ Branch	Deposits/ Branch	Financing / Branch
BMT Assets	0.262	0.694	0.127	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
BM Structure	0.568	0.659	**0.060**	**0.003**	0.218	0.219	0.207	0.470
ZISWaf Funds	0.621	0.479	0.879	0.232	0.655	0.118	0.143	0.496
Motivation	0.330	0.619	0.394	0.369	0.882	0.698	0.799	0.639

b. Detailed Profiles

Smaller BMT tends to have simpler BM Structure, while larger BMT tends to have better BM Structure, i.e. BM-BT division or separate BM-BT. Chi-Square results (0.001 < 0.05) also show that there is strong association between BMT Assets and BM Structure.

BM Structure	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
No assigned BM staff	7	32	8	0	47
Assigned BM staff	2	18	16	0	36
Division of BM - BT	0	5	6	1	12
Separation of BM - BT	0	4	2	2	8
TOTAL	9	59	32	3	103

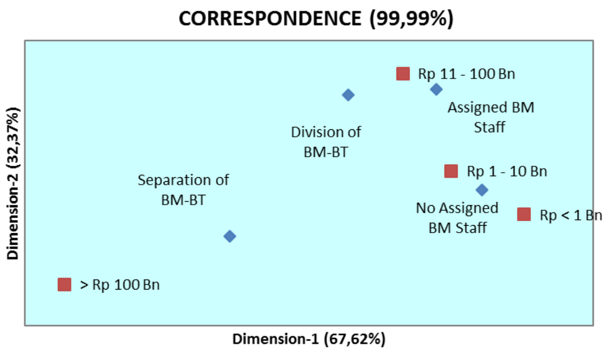
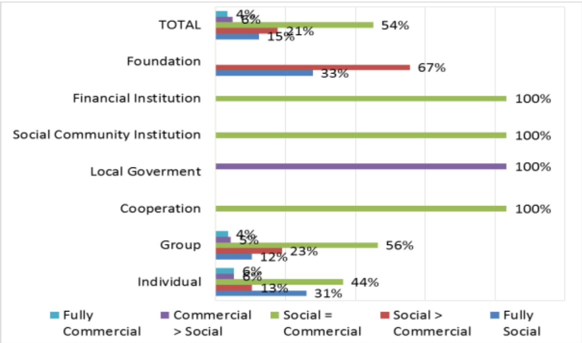


Figure 28. BMT Assets vs. Baitul Maal Structure

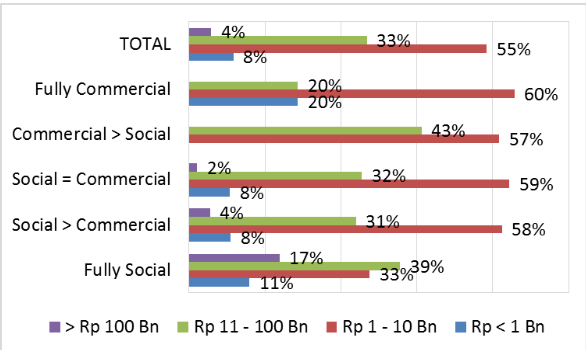
Almost all BMT established by group or individual founders. However, Chi-Square results (0.160 > 0.05) show that there is no association between Motivation and Founder of BMT.



Founder	Motivation					TOTAL
	Fully Social	Social > Commercial	Social = Commercial	Commercial > Social	Fully Commercial	
Individual	5	2	7	1	1	**16**
Group	12	22	54	5	4	**97**
Cooperation	0	0	2	0	0	**2**
Local Goverment	0	0	0	1	0	**1**
Social Community Instit	0	0	1	0	0	**1**
Financial Institution	0	0	2	0	0	**2**
Foundation	1	2	0	0	0	**3**
TOTAL	**18**	**26**	**66**	**7**	**5**	**122**

Figure 29: BMT Founder vs. Motivation of Founder to Establish BMT

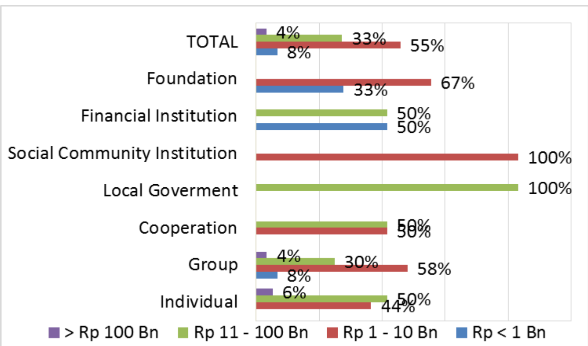
Most BMTs, especially medium and large BMTs (51%), have balance social and commercial motivation in establishing BMT. However, Chi-Square results (0.393 > 0.05) show that there is no association between BMT Assets and Motivation.



Motivation	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
Fully Social	2	6	7	3	**18**
Social > Commercial	2	15	8	1	**26**
Social = Commercial	5	39	21	1	**66**
Commercial > Social	0	4	3	0	**7**
Fully Commercial	1	3	1	0	**5**
TOTAL	**10**	**67**	**40**	**5**	**122**

Figure 30. BMT Assets vs. Motivation of Founder to Establish BMT

Most BMT, small or large, established by group founder, since most of them were established as Islamic cooperative. However, Chi-Square results (0.585 > 0.05) show that there is no association between BMT Assets and Founder of BMT.



Founder	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
Individual	0	7	8	1	**16**
Group	8	56	29	4	**97**
Cooperation	0	1	1	0	**2**
Local Goverment	0	0	1	0	**1**
Social Community Inst	0	1	0	0	**1**
Financial Institution	1	0	1	0	**2**
Foundation	1	2	0	0	**3**
TOTAL	**10**	**67**	**40**	**5**	**122**

Figure 31. BMT Assets vs. Founder of BMT

Figure 32 left shows that most BMTs (55%) have been around for 6 – 10 years, while only 8% of BMTs have been in business for less than 5 years. Moreover, Figure 32 right shows that most BMTs (72%) choose KSPPS (Koperasi Simpan Pinjam Pembiayaan Syariah) under Ministry of Cooperative and Small and Medium Enterprises (Kop-UKM) as their legal status, while another 27.9% of BMTs are in the proses to become KSPPS. There is only 0.01% of BMTs choose to be LKMS (Lembaga Keuangan Mikro Syariah) under Financial Services Authority – FSA (Otoritas Jasa Keuangan - OJK).

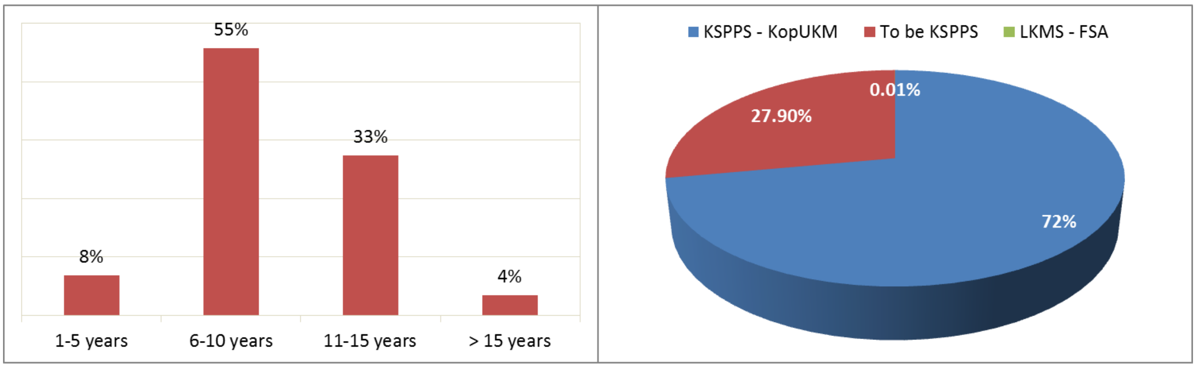


Figure 32. Length of Business and Legal Status

Smaller BMT tends to have shorter length of business, while larger BMT tends to have longer length of business. These tendencies are supported by Chi-Square results (0.000 < 0.05) which show that there is a strong association between BMT Assets and Length of Business.

Length of Business	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
1-5 Years	3	13	0	0	**16**
6-10 Years	5	25	7	0	**37**
11-15 Years	2	14	9	2	**27**
> 15 Years	0	15	24	3	**42**
TOTAL	**10**	**67**	**40**	**5**	**122**

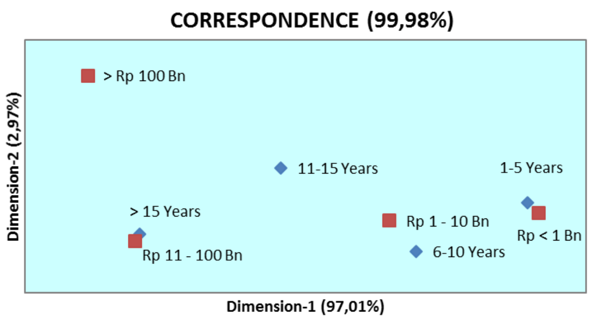


Figure 33. Assets vs. Length of Business

Smaller BMT tends to have fewer employee, while larger BMT tends to have more employee (permanent/temporary and total number of employee). These tendencies are supported by Chi-Square results (0.002 < 0.05 in Figure 34a and 0.000 < 0.05 in Figure 34b) which show that there is a strong association between BMT Assets and number of Employee.

Employee	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
Permanent	3	8	32	523	566
Temporary	0	1	6	54	61
Voluntary	0	0	0	3	3
TOTAL	3	9	38	580	630

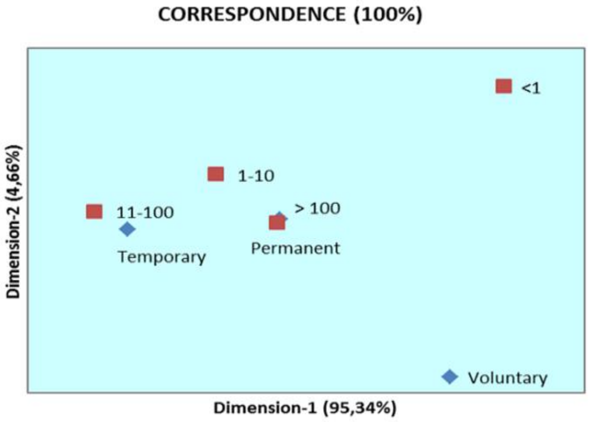


Figure 34a. Assets vs. Employee

No. Of Employee	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
1-5 Employee	9	15	0	0	24
6-10 Employee	1	34	3	0	38
11-20 Employee	0	15	9	0	24
21-30 Employee	0	2	9	0	11
31-50 Employee	0	1	10	0	11
> 50 Employee	0	0	9	5	14
TOTAL	10	67	40	5	122

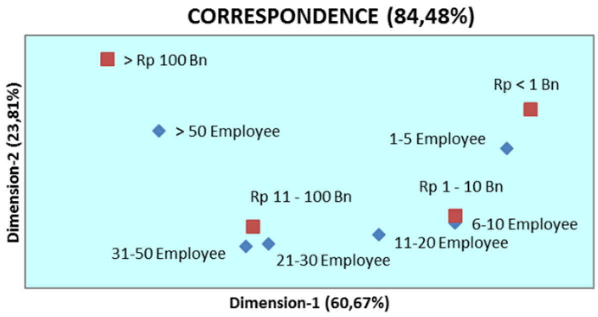


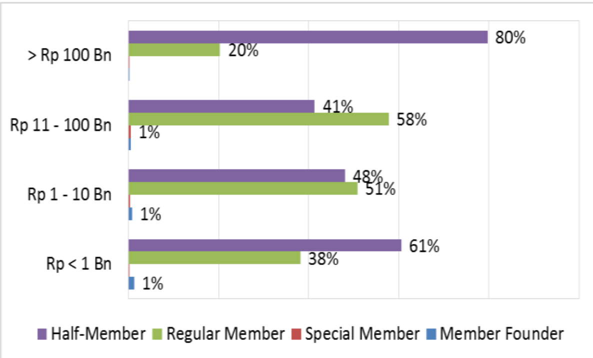
Figure 34b. Assets vs. Employee

Smaller BMT tends to have smaller number of employee, while larger BMT tends to have larger number of employee. Small BMT has only 3 employees, medium BMT has 9 employees, large BMT has 38 employees, while very large BMT has 580 employees.

Table 8. BMT Assets and BMT Employee per Branch

No. of Employee	Category of BMT Assets (Rp. Billion)											
	< Rp 1 Bn			Rp 1 - 10 Bn			Rp 10 - 100 Bn			> Rp 100 Bn		
	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max
Permanent	3	3	5	2	8	41	6	32	150	112	523	1341
Temporary	0	0	1	0	1	11	0	6	41	0	54	208
Voluntary	0	0	2	0	0	6	0	0	10	0	3	14
TOTAL	**3**	**3**	**8**	**2**	**9**	**58**	**6**	**38**	**201**	**112**	**580**	**1563**

Small BMT tends to have fewer members, while large BMT tends to have larger member, especially regular member and half-member.



Type of Member	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
Member Founder	14	16	32	8	**70**
Special Member	1	7	39	2	**49**
Regular Member	447	1044	4292	41311	**47094**
Half-Member	709	987	3072	161819	**166587**
TOTAL	**1171**	**2054**	**7435**	**203140**	**213800**

Figure 35. BMT Assets vs. BMT Member

Current BMT leaders mostly are also the founders of the BMT, where 27% of them have never been replaced. Some BMTs have experienced two or three times change of leader among member founders. Moreover, the tenure of BMT leader is mostly 5-year or less (55%).

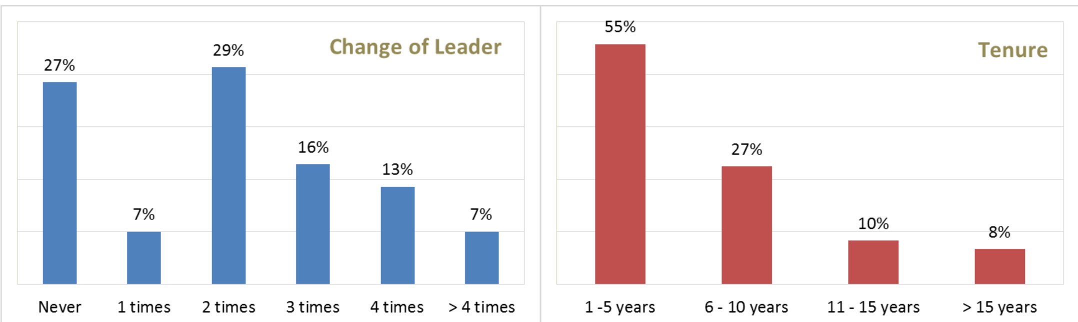


Figure 36. BMT Current Leader

Most BMTs have term of office for their leader 5–6 years (46%) and 3–4 years (44%). However, the elected leader could be re-elected the next term mostly with no limitation (34%) or two times only (30%).

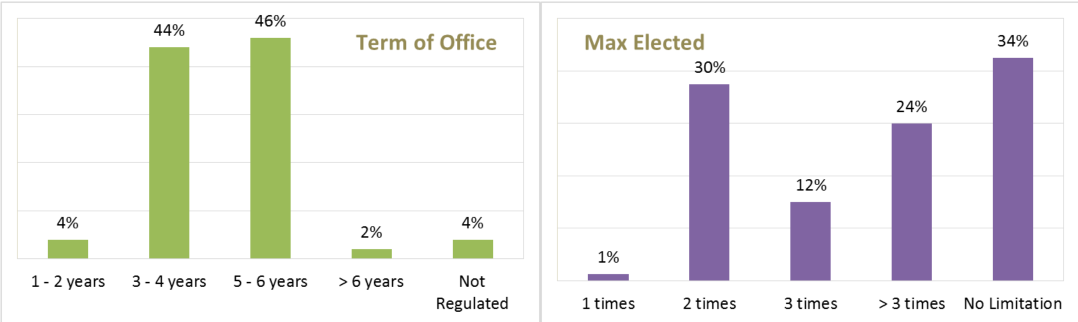
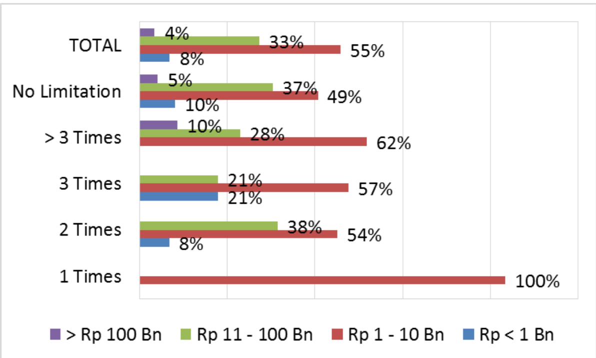


Figure 37. Term of Office

Most BMTs (44%) tend to have no limitation on how many times someone could be re-elected as BMT leader. However, Chi-Square results (0.365 > 0.05) show that there is no association between BMT Assets and how many times someone could be re-elected as BMT leader.



Max Re-Elected	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
1 Times	0	1	0	0	**1**
2 Times	3	20	14	0	**37**
3 Times	3	8	3	0	**14**
> 3 Times	0	18	8	3	**29**
No Limitation	4	20	15	2	**41**
TOTAL	**10**	**67**	**40**	**5**	**122**

Figure 38. Assets vs. Max Elected as BMT Leader

Most BMTs (86%) have elected their leaders by all members through annual member's meeting (Rapat Anggota Tahunan - RAT) mechanism. Moreover, most BMTs (80%) allow their regular member to be elected as their leader.

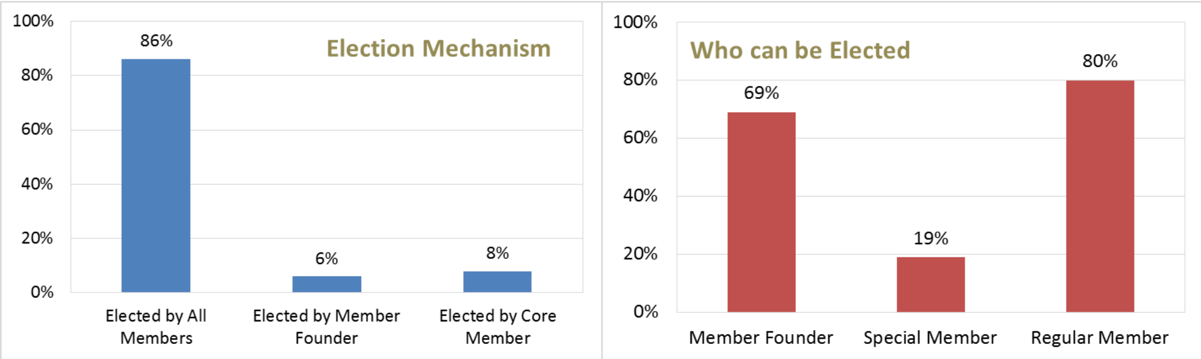


Figure 39. Succession

Most BMTs (61%) establish collaboration with other Lembaga Amil Zakat-LAZ (Zakat Institution) for social purposes to collect and distribute ZISWaf funds (especially zakat) to the intended recipients with various programs. Most BMTs (61%) collaborate with other LAZ to organize social and development programs, while 59% BMTs distribute their own ZISWaf funds. Interestingly, 40% of BMTs also distribute ZISWaf funds of other BMTs.

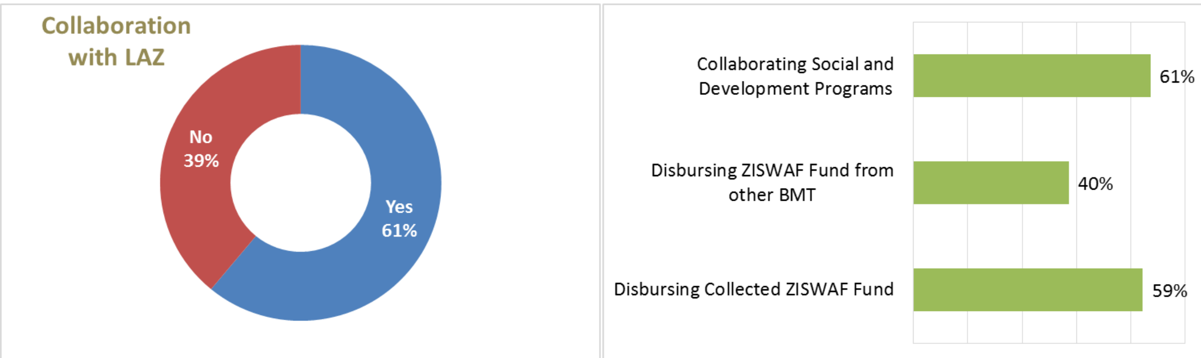


Figure 40. Collaboration with LAZ

Almost all BMTs (93%) establish collaboration with other Islamic financial institution (IFI) for commercial purposes. Most BMTs (78%) establish collaboration with Islamic bank mainly to cover their shortfall in funding (third party fund or dana pihak ketiga-DPK). Most BMTs (69%) also establish collaboration with other BMTs for various purposes, such as funding, placement, syndication, program collaboration, etc.

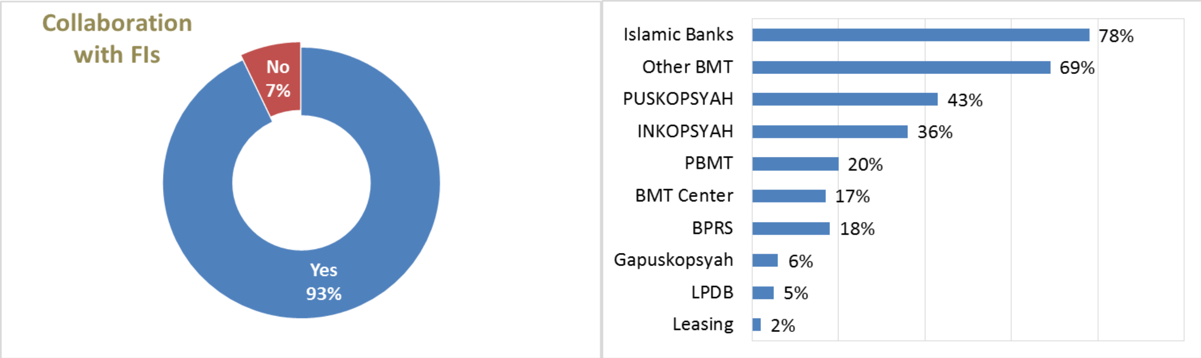


Figure 41a. Collaboration with Financial Institution

Most BMTs establish collaboration with Islamic bank for funding purpose (73%), as well as financing purpose (73%). Many BMTs (32%) also take advantage its relationship with Islamic bank to refer their customer in need of higher financing ceiling, which could not be provided by BMT. Other than Islamic bank, BMT also establish collaboration with apex institutions, such as PUSKOPSYAH (Pusat Koperasi Syariah –Islamic Cooperative Center), INKOPSYAH (Induk Koperasi Syariah – Islamic Cooperative Holding) and PBMT (BMT Center), for funding and other purposes.

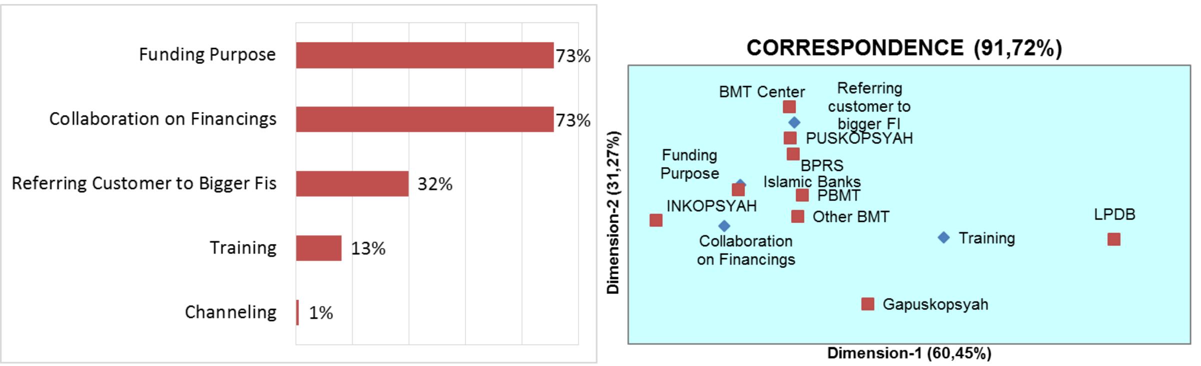


Figure 41b. Collaboration with Financial Institution

Most BMTs (71%) facilitate communication among members for social and/ or commercial purposes, such as linking micro/small business customers to larger business (69%), mediating successful customer to motivate new/micro business customers, and linking customer to supply/production chain.

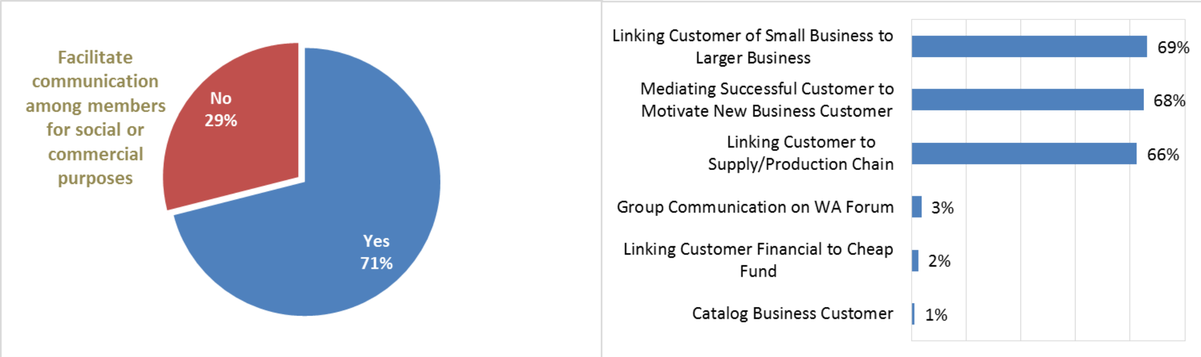


Figure 42. BMT's role as Mediator

Prevalent leading business sector/product in BMT's business area include, handicraft (32%), agriculture (21%), home industry (20%), garment (7%), culinary (12%), fishery (6%), farm (3%), wood (2%) and flower tourism (1%). Most BMTs (93%) participate in extend financing to these leading business sector/product, but BMTs' main market share are still in traditional trading and market. BMTs' financing portfolio to these leading business sector are only less than 2%.

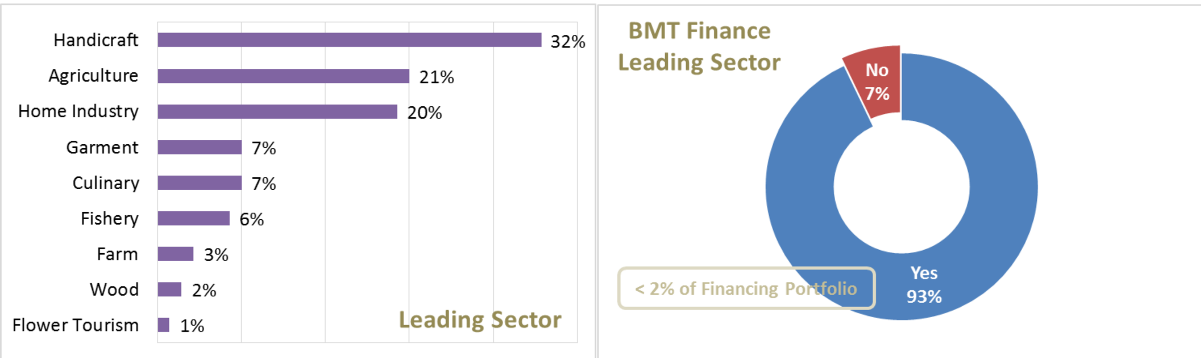


Figure 43. Leading Business Sector/Product

Total financing of BMT to the leading sector mostly are more than Rp500 million (49%) and between Rp100–Rp500 million (26%), with increasing average financing from Rp8 million per customer in 2012 to Rp16 million per customer in 2015.

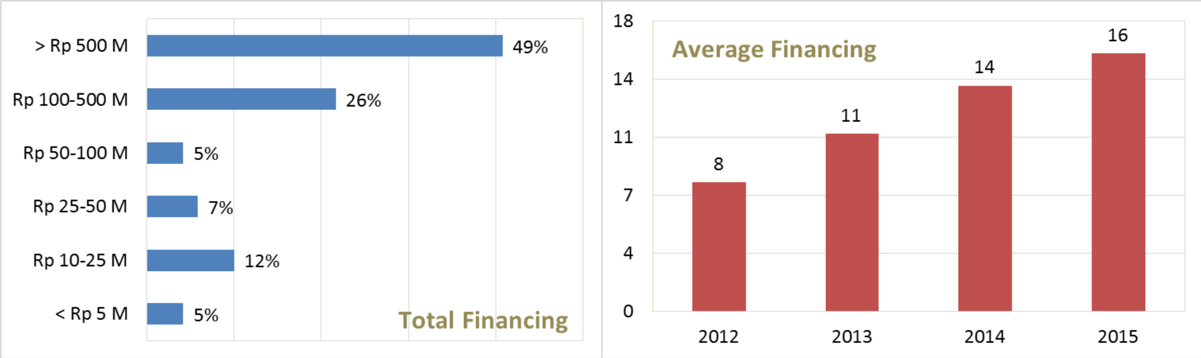


Figure 44a: Financing to Leading Business Sector/Product

Most leading sector customers have their financing increased by 10% (26%) and by 20% (22%), due to business expansion to meet higher demand (87%), easy and simplicity of BMT financing (48%) and product diversification (28%).

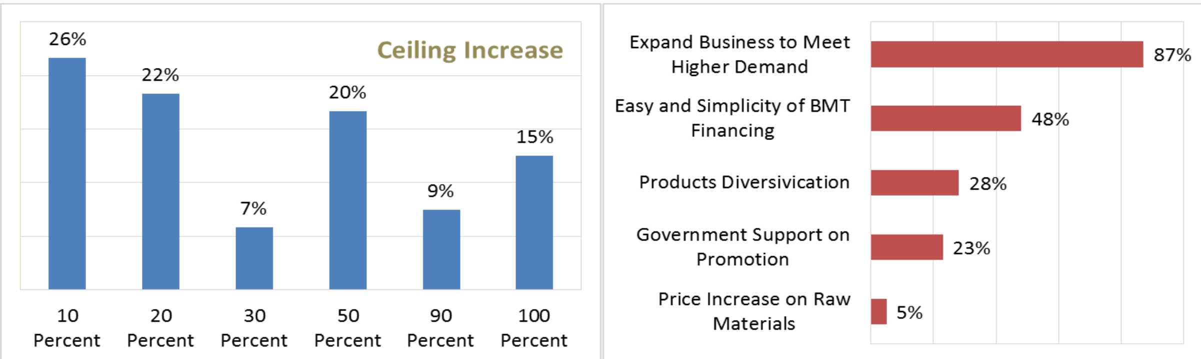


Figure 44b. Financing to Leading Business Sector/Product

Moreover, non-performing financing (NPF) from leading sector financing is only 3.8%, which is considered relatively low (less than 5%), due to decrease demand of the products (44%), loss in marketing with big business (41%), and excess supply of similar products (37%).

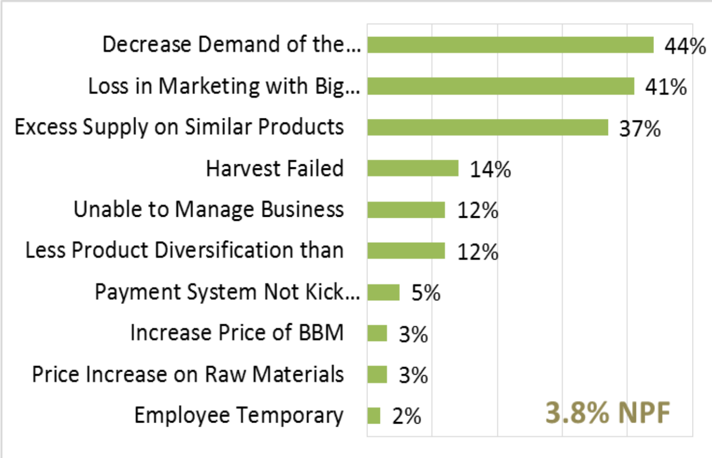
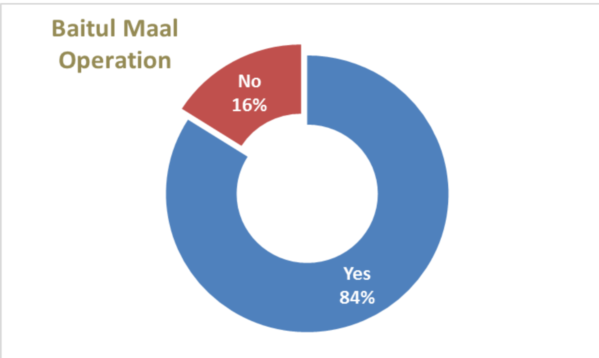


Figure 45. NPF in Financing to Leading Business Sector/Product

Most BMTs (84%) have Baitul Maal (BM) operation, and 16% of BMTs do not have Baitul Maal operation. Most BMTs (46%) have no assigned BM staff and have assigned BM staff (35%). Meanwhile, 12% BMTs have separate division of Baitul Maal (BM) and Baitut Tamwil (BT), while 8% BMTs have separate BM and BT under one corporation.



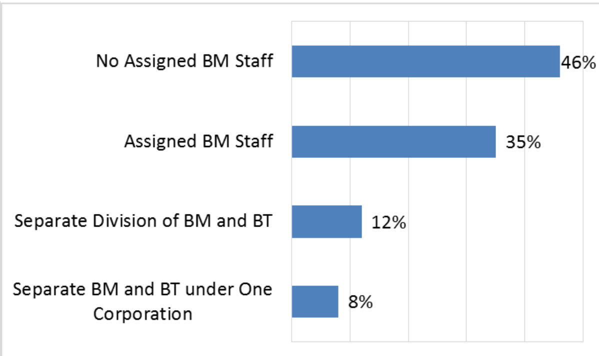


Figure 46. Baitul Maal Operation and Structure

Most Baitul Maal (BM) of BMT could be handled by two employees (32%) or one employee (29%). BM employee is mostly permanent employee (71%) and a combination of permanent and temporary employee (12%).

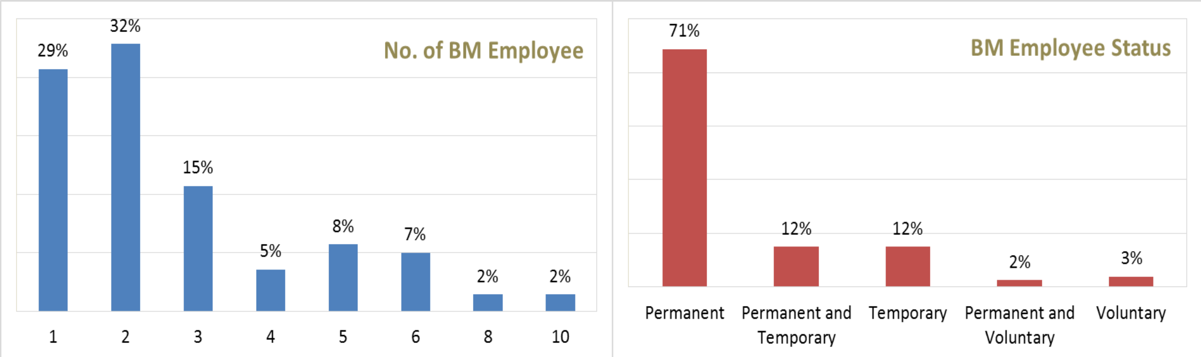


Figure 47. Baitul Maal Employee

Beneficiaries of Baitul Maal are mostly the poor (miskin), poorest of the poor (fakir), and the wayfarer (ibnu sabil). Meanwhile, most Baitul Maal have social program, education program, health program and economy program.

Beneficiaries	Fakir	Miskin	Amil	Mualaf
Average	42	116	2	1
Min	0	0	0	0
Max	300	2000	60	50
Beneficiaries	**Gharimin**	**Fisabilillah**	**Ibnu Sabil**	**Others**
Average	3	6	11	0
Min	0	0	0	0
Max	100	100	625	20

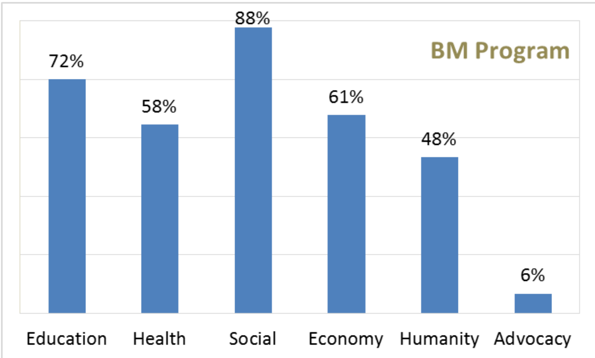


Figure 48. Baitul Maal Activities

Smaller BMT tends to have smaller BM Assets, while larger BMT tends to have larger BM Assets. Chi-Square results (0.001 < 0.05) show that there is a strong association between BMT Assets and BM Assets.

BM Assets	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
Rp 0-10 Mn	3	11	6	0	**20**
Rp 11-100 Mn	2	22	15	0	**39**
Rp 101 - 1000 Mn	0	1	7	2	**10**
> Rp 1000 Mn	0	0	1	1	**2**
TOTAL	**5**	**34**	**29**	**3**	**71**

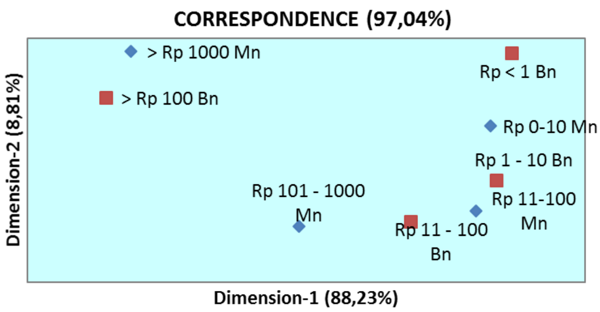


Figure 49. BMT Assets vs. Baitul Maal Assets

Small BMT tends to have smaller Zakat and larger Waqf funds, while large BMT tends to have larger Zakat and smaller Waqf funds. Chi-Square results (0.021 < 0.05) show that there is a strong association between BMT Assets and ZISWaf funds.

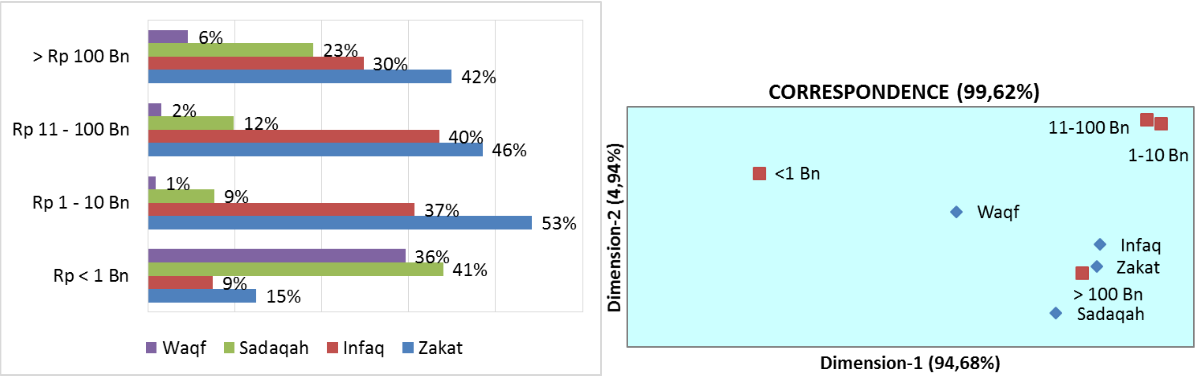


Figure 50. BMT Assets vs. ZISWaf Funds

Simpler BM Structure tends to have smaller Zakat and larger Waqf funds, while more complex BM Structure tends to have larger Zakat and smaller Waqf funds. Chi-Square results (0.010 < 0.05) show that there is a strong association between BM Structure and ZISWaf funds.

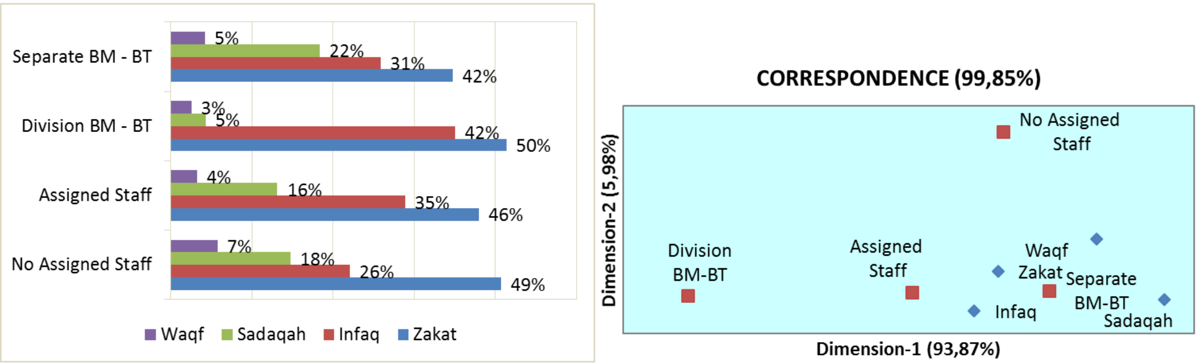


Figure 51. BM Structure vs. ZISWaf Funds

4.4.2 Holistic Financial Inclusion

a. Summary of Holistic Financial Inclusion

Holistic Financial Inclusion (HFI) have significant association with BMT Assets, BM Structure, ZISWaf Funds and Motivation. Association (Chi-Square) tests further show that most aspects of HFI have significant association with BMT Assets, BMT Structure and ZISWaf Funds, including:

- BMT Assets, BM Structure and ZISWaf Funds with Social Program, Development Program, Islamic Microfinance Services, Outreach, Sustainability, Social Impact;
- ZISWaf Funds with Financing Program;
- Motivation with Economic Impact and Social Impact.

Larger BMT Assets associates with better Social Program, better Development Program and better Islamic Microfinance Services. Meanwhile, BMT in all asset classes already have medium-high Financing Program. Moreover, larger BMT Assets associates with wider Outreach, higher Sustainability and higher Social Impact. Meanwhile, BMT in all asset classes already have medium Economic Impact through their Financing Program.

Better Baitul Maal (BM) Structure associates with better Social Program, better Development Program and better Islamic Microfinance Services, since better BM Structure also means larger BMT. Furthermore, better BM Structure associates with better Outreach, higher Sustainability and higher Social Impact.

Similarly, larger ZISWaf Funds associates with better Social Program, better Development Program and better Islamic Microfinance Services, since larger ZISWaf funds also means better BM Structure and larger BMT. Furthermore, larger ZISWaf Funds also associates with wider Outreach, higher Sustainability and higher Social Impact. In addition, larger ZISWaf Fund associates with better Financing Program.

The more socially motivated BMT the higher the Economic Impact and the higher the Social Impact, therefore the higher the HFI score.

In addition, there is no association between social/commercial motivation with Sustainability, Financing Program, Islamic Financial Services, Outreach and Sustainability, which indicates that there is no sign of commercialization and mission drift. It is also proven that the higher the BMT Assets the higher the Outreach and Sustainability, which also indicates that there is no sign of mission drift.

Table 8a. Summary of Respondent BMTs HFI Profiles' Association with BMT Assets, BM Structure, ZISWaf Funds and Motivation (Chi-Square) Tests

FEATURE	1Social Program	2Dev Program	3Fin Program	4Is-MF Services	5Out-reach	6Sustain-ability	7Econ Impact	8Social Impact	HFI Score
BMT Assets	**0.001**	**0.002**	0.194	**0.001**	**0.000**	**0.002**	0.395	**0.004**	**0.000**
BM Structure	**0.005**	**0.000**	0.117	**0.000**	**0.001**	**0.015**	0.366	**0.011**	**0.000**
ZISWaf Funds	**0.037**	**0.008**	**0.026**	**0.076**	**0.029**	**0.067**	0.274	**0.002**	**0.000**
Motivation	0.424	0.168	0.431	0.425	0.109	0.508	**0.002**	**0.010**	**0.062**

Better Social Program associates with better Development Program, better Islamic Microfinance Services, wider Outreach, better Sustainability and higher Social Impact. Better Development Program associates with better Islamic Microfinance Services, wider Outreach, better Sustainability and higher Social Impact. Better Financing Program associates with higher Social Impact. Better Islamic Microfinance Services associates with wider Outreach, better Sustainability and higher Social Impact. Wider Outreach associates with better Sustainability, so that there is no conflicting to attain these two objectives at the same time. Moreover, better Sustainability associates with higher Social Impact.

Table 8b. Summary of Respondent BMTs HFI Profiles' Association (Chi-Square) Tests

FEATURE	1Social Program	2Dev Program	3Fin Program	4Is-MF Services	5Out-reach	6Sustain-ability	7Econ Impact	8Social Impact
1Social Program		**0.000**	0.251	**0.002**	**0.000**	**0.004**	0.154	**0.000**
2Development Prog.			0.513	**0.003**	**0.030**	**0.000**	0.993	**0.000**
3Financing Program				0.311	0.982	0.895	0.721	**0.018**
4Islamic-MF Services					**0.000**	**0.000**	0.763	**0.003**
5Outreach						**0.000**	0.305	0.163
6Sustainability							0.813	**0.002**
7Economic Impact								0.137
8Social Impact								

In a more general sense, Higher financial inclusion associates with higher social inclusion, higher double bottom-line and higher welfare impact. Higher social inclusion associates with higher double bottom-line and higher welfare impact. There is no conflict between financial inclusion and social inclusion, where both contributes to double bottom-line (outreach and sustainability) and welfare impact. Moreover, higher social program associates with higher development program, while higher outreach associates with higher sustainability. The latter indicates that there is no conflict in achieving outreach and sustainability at the same time.

Table 8c. Summary of Respondent BMTs HFI Profiles' Association in General Sense (Chi-Square) Tests

FEATURE	Social Incusion	Financial Inclusion	Double Bottom-	Welfare Impact
Social Inclusion		0.000	0.000	0.000
Financial Inclusion			0.000	0.003
Double Bottom-Line				0.319
Welfare Impact				

b. Detailed of Holistic Financial Inclusion

1. Social Program

Most BMTs (57%) have elements of Social Program, with social services as the highest (67%) and basic education scholarship as the lowest (52%). Moreover, these elements of Social Program are mostly incidental activities, while basic education scholarship, basic needs fulfillment and *halaqah* are mostly regular activities.

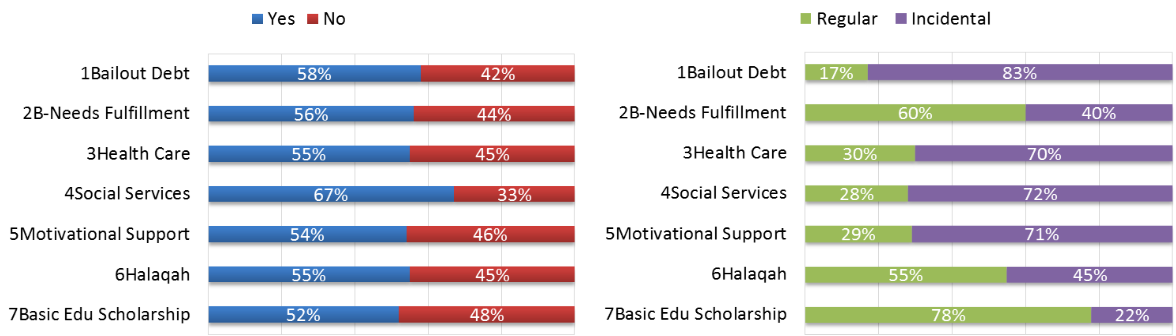


Figure 52a. Social Program of BMT

Most small BMTs do not have elements of Social Program, most medium BMTs have bailout debt, health care and social services, while most large and very large BMTs have all elements of Social Program.

Table 9. Summary of Social Program by Assets

1Social Program	< Rp1 Bn		Rp1-10 Bn		Rp11-100 Bn		> Rp100 Bn		AVERAGE	
	Yes	Regular	Yes	Regular	Yes	Regular	Yes	Regular	Yes	Regular
Bailout Debt	30%	10%	55%	7%	73%	15%	80%	60%	58%	17%
B-Needs Fulfillment	40%	10%	49%	31%	70%	48%	100%	60%	56%	60%
Health Care	30%	0%	51%	16%	68%	23%	100%	60%	55%	30%
Social Services	50%	10%	67%	18%	73%	23%	100%	80%	67%	28%
Motivational Support	40%	30%	45%	10%	73%	20%	100%	80%	54%	29%
Halaqah	50%	30%	48%	27%	68%	40%	100%	60%	55%	55%
Basic Edu Scholarship	30%	20%	48%	39%	68%	50%	60%	60%	52%	78%
AVERAGE	**39%**	**16%**	**52%**	**21%**	**70%**	**31%**	**91%**	**66%**	**57%**	**42%**

Basic education scholarship is mostly conducted weekly or monthly, *halaqah* is mostly conducted weekly or monthly, while basic needs fulfillment is mostly conducted monthly or annually. Meanwhile, bailout debt is mostly conducted annually.

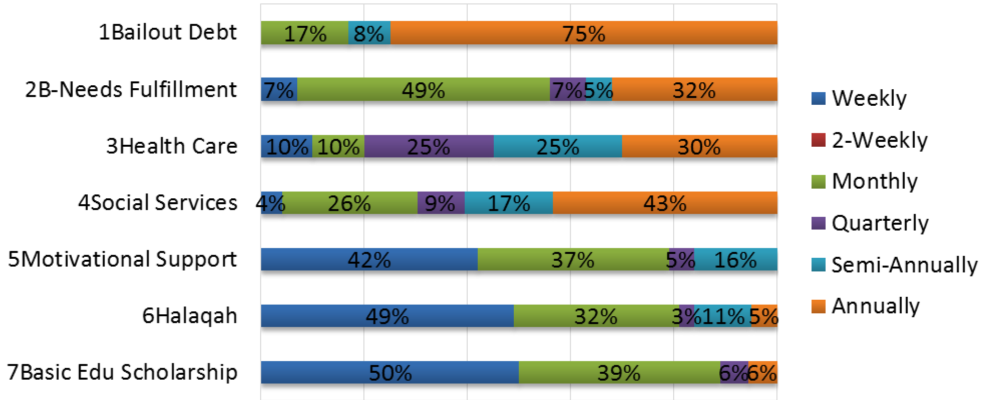


Figure 52b. Social Program of BMT

2. Development Program

Most BMTs do not have elements of Development Program, except provision of *qardh* financing (75%). Moreover, these elements of Development Program are mostly incidental activities, while *qardh* financing, regular meeting and savings program are mostly regular activities.

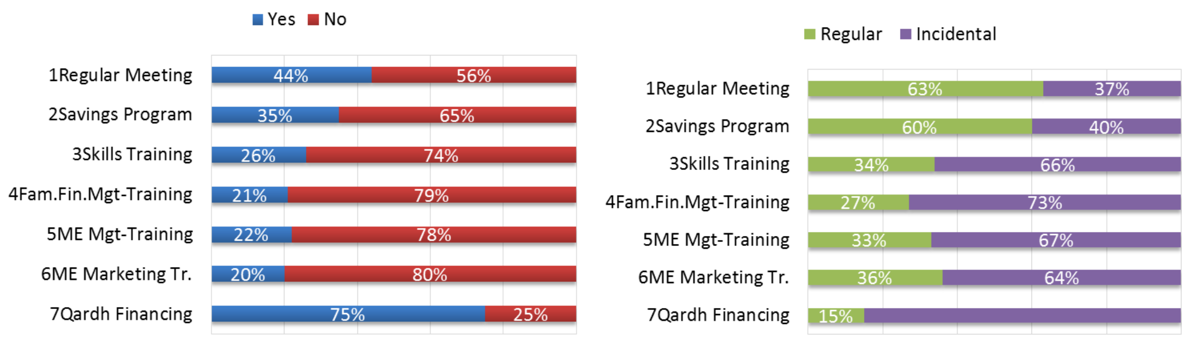


Figure 53a: Development Program of BMT

The larger the BMT the better the Development Program and the more regular the program. Most small BMTs have regular meeting and *qardh* financing, most medium BMTs have *qardh* financing, almost all large BMT have *qardh* financing, while almost all very large BMTs have regular meeting and *qardh* financing and most large BMTs have skills training, family financial management training, ME management training, and ME marketing training. Moreover most BMTs do not have savings program.

Table 10. Summary of Development Program by Assets

Development Program	< Rp1 Bn		Rp1-10 Bn		Rp11-100 Bn		> Rp100 Bn		AVERAGE	
	Yes	Regular	Yes	Regular	Yes	Regular	Yes	Regular	Yes	Regular
Regular Meeting	60%	20%	39%	22%	50%	38%	80%	80%	44%	63%
Savings Program	40%	20%	33%	21%	40%	23%	20%	20%	35%	60%
Skills Training	20%	0%	18%	4%	43%	18%	60%	60%	26%	34%
Fam.Fin.Mgt-Training	10%	0%	16%	4%	33%	10%	60%	40%	21%	27%
ME Mgt-Training	0%	0%	19%	6%	33%	10%	60%	60%	22%	33%
ME Marketing Tr.	10%	0%	16%	4%	30%	13%	60%	60%	20%	36%
Qardh Financing	60%	30%	76%	19%	83%	0%	80%	60%	75%	15%
AVERAGE	**29%**	**10%**	**31%**	**12%**	**44%**	**16%**	**60%**	**54%**	**35%**	**38%**

Most activities of Development Program are conducted monthly, especially savings program, regular meeting and micro enterprises marketing training. For those BMTs adopting Islamic Grameen or Group Lending Joint Responsibility (GLJR), they have weekly meeting for most of these Development Program activities.

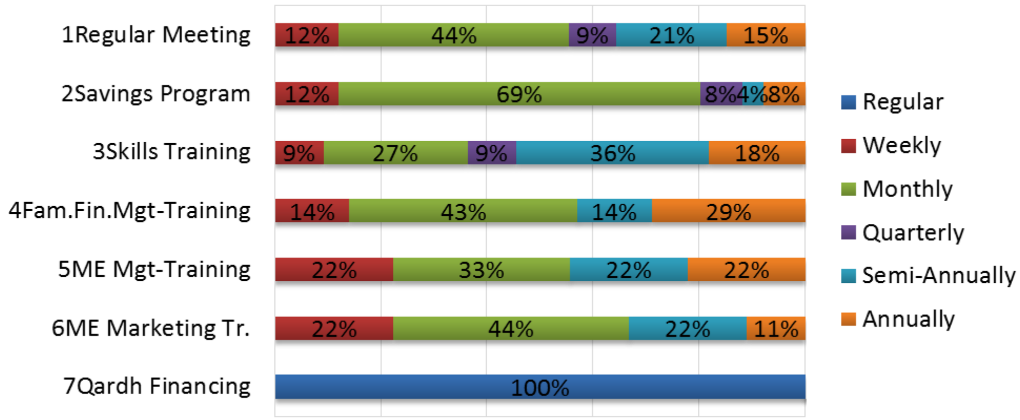
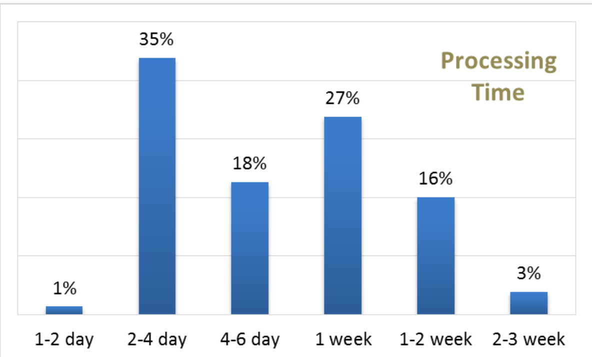


Figure 53b. Development Program of BMT

3. Financing Program

Financing application mostly can be processed in 2–4 day (35%), 1 week (27%), 4–6 day (18%), 1–2 week (16%), 2–3 week (3%), and 1–2 day (1%). Meanwhile, the requirements to apply financing mostly identity card (98%), family card (95%) and BMT member (66%). The minimum requirements of financing are mostly identity card, family card and BMT Member, with no feasibility study needed.



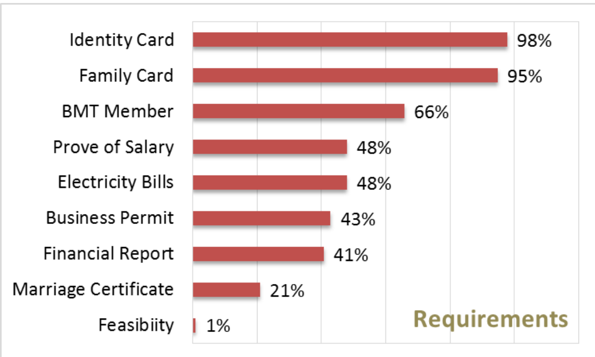


Figure 54a. Financing Program of BMT

The most applicable collateral are vehicle ownership papers (95%), land certificate (89%) and building certificate (66%), which mean formal collaterals are still prioritized. However, simpler collaterals, such as personal guarantee (32%), jewelry certificate (13%) and simple collateral (13%) are also applicable. Moreover, margin of financing mostly 19–24% p.a. (52%), 25–36% p.a. (24%) and 13–18% p.a. (16%).

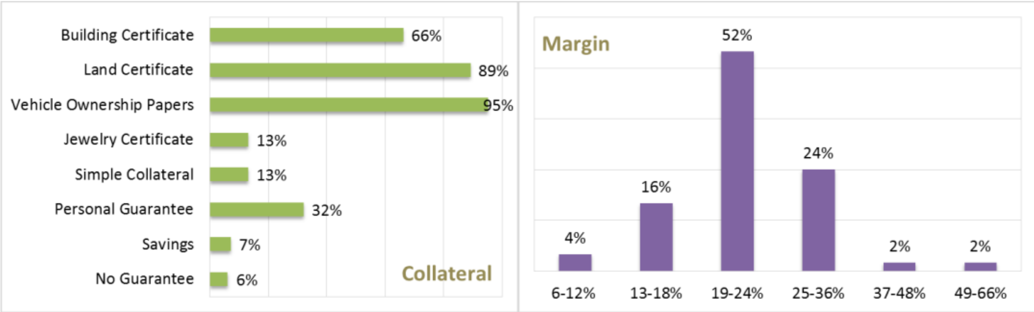
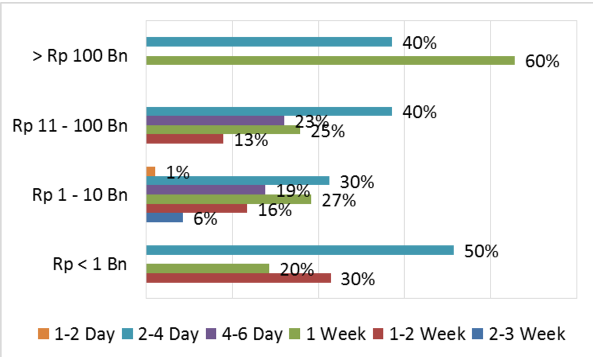


Figure 54b. Financing Program of BMT

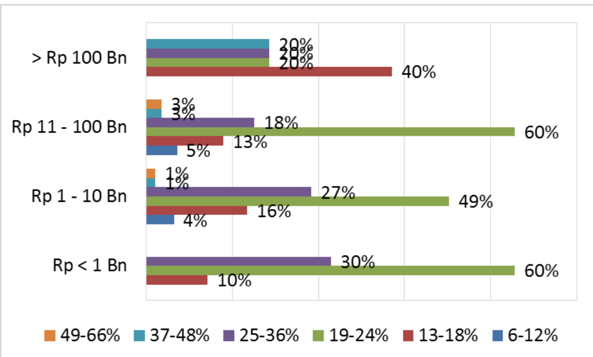
Smaller BMT tends to have faster processing time of financing, while larger BMT tends to have slower processing time of financing. However, Chi-Square results (0.570 > 0.05) show that there is no an association between BMT Assets and Processing time of financing.



Processing Time	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
2-3 Week	0	4	0	0	**4**
1-2 Week	3	11	5	0	**19**
1 Week	2	18	10	3	**33**
4-6 Day	0	13	9	0	**22**
2-4 Day	5	20	16	2	**43**
1-2 Day	0	1	0	0	**1**
TOTAL	**10**	**67**	**40**	**5**	**122**

Figure 54c. Financing Program: Assets vs. Financing Processing Time

Smaller BMT tends to have lower financing margin, while larger BMT tends to have higher financing margin. However, Chi-Square results (0.595 > 0.05) show that there no an association between BMT Assets and Margin of financing.



Margin	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
6-12%	0	3	2	0	**5**
13-18%	1	11	5	2	**19**
19-24%	6	33	24	1	**64**
25-36%	3	18	7	1	**29**
37-48%	0	1	1	1	**3**
49-66%	0	1	1	0	**2**
TOTAL	**10**	**67**	**40**	**5**	**122**

Figure 54d. Financing Program: Assets vs. Margin of Financing

Most BMTs (97%) provide pick-up services for savings, financing, assistances, transfers and other services. Most small and stand-alone BMTs employ less than 5 pick-up officers (66%), while larger BMTs with more than one branch office employ 6-10 pick-up officers (19%).

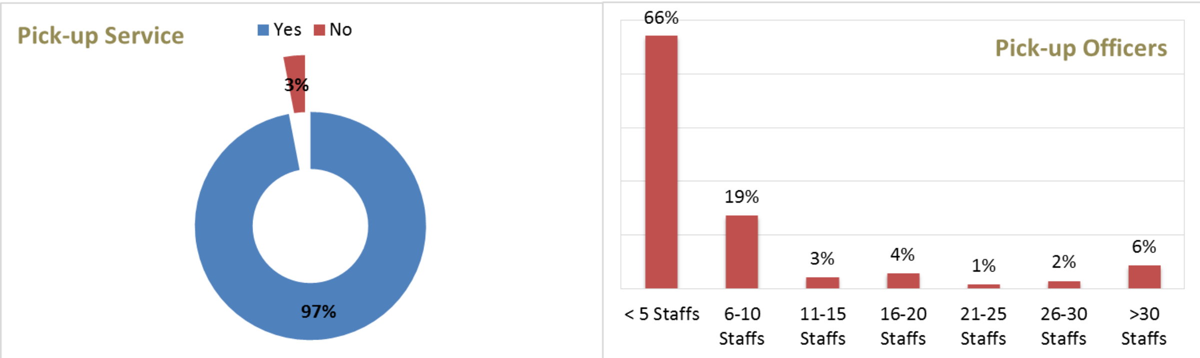


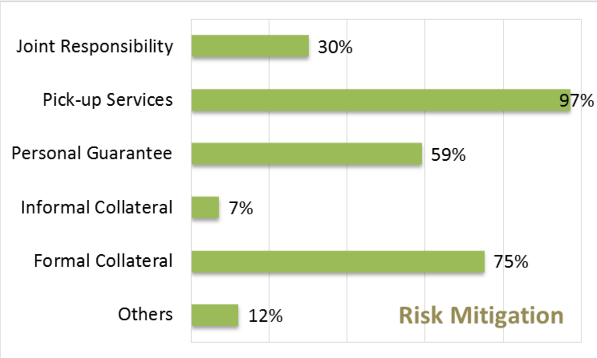
Figure 54e. Financing Program of BMT

There are 20% of small BMTs (2 out of 10) which do not have pick-up services. There are only one medium and one large BMTs which do not have pick-up services. Meanwhile, all very large BMTs have pick-up services. Most BMTs have pick-up customer/staff ratio of less than 25 customers (62 BMTs) and of 26-50 customers (29 BMTs), which indicate that most BMTs do not apply group lending join responsibility (GLJR) similar to Grameen model.

Table 11. Financial Program of BMT

Pick-Up Services (Number of Staff)	Category of BMT Assets (Rp. Billion)				TOTAL	Pick-Up Services (Customer/Staff)	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1-10	11-100	> 100			< 1	1-10	11-100	> 100	
<5 staff	8	52	13	2	75	<25 customer	5	41	16	0	62
6-10 staff	0	13	11	0	24	26-50 customer	3	13	12	1	29
11-15 staff	0	0	4	0	4	51-75 customer	0	0	0	0	0
16-20 staff	0	0	5	0	5	76-100 customer	0	8	0	1	9
21-25 staff	0	1	0	0	1	101-250 custome	0	3	9	3	15
26-30 staff	0	0	2	0	2	251-500 custome	0	1	2	0	3
>30 staff	0	0	4	3	7	>500 customer	0	0	0	0	0
No. of BMT	**8**	**66**	**39**	**5**	**118**	**No. of BMT**	**8**	**66**	**39**	**5**	**118**
Percentage	**80%**	**99%**	**98%**	**100%**	**97%**	**Percentage**	**80%**	**99%**	**98%**	**100%**	**97%**

Almost all BMTs (97%) adopt pick-up services as number one option for risk mitigation, followed by formal collateral (75%), personal guarantee (59%) and group lending joint responsibility (30%). Daily monitoring through pick-up services is applied by most BMTs (39%), followed by monthly monitoring (29%) and weekly monitoring (23%). Weekly monitoring is usually adopted by BMT with Islamic Grameen model or GLJR (group lending join responsibility).



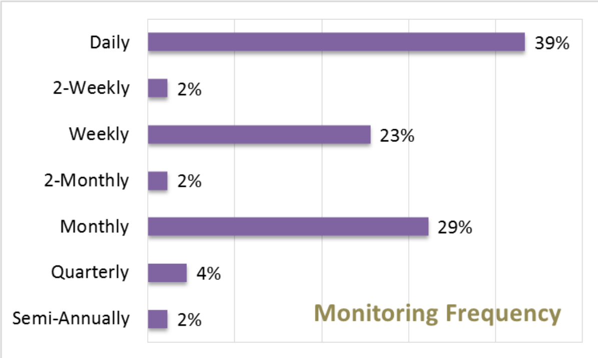


Figure 54f. Financing Program of BMT

4. Islamic Microfinance Services

All BMTs provide various micro financing and micro savings, while most BMTs also provide bill payments (64%). Other Islamic microfinance services provided by BMT include transfer (33%) and emergency financing (21%). Micro *takaful* has not been viewed as necessary service, yet.

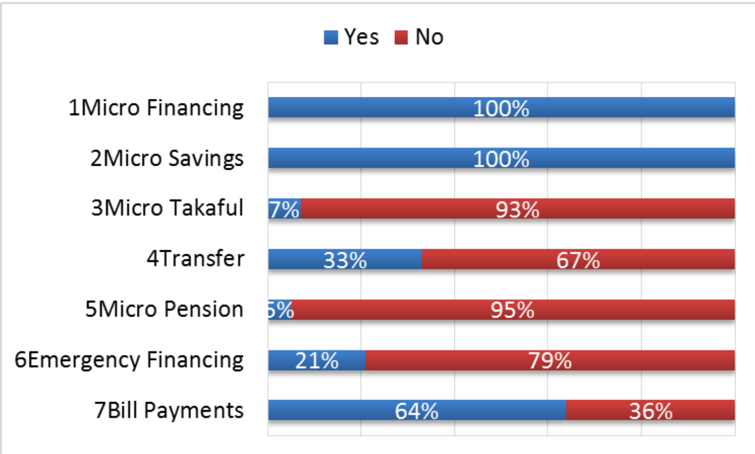


Figure 55a. Islamic Microfinance Services

The larger the BMT the better the Islamic Microfinance Services provided. Small BMT does not provide Micro *Takaful* and Micro Pension, medium BMT does not provide Micro Pension, while large and very large BMT provide all Islamic Microfinance Services.

Table 12. Islamic Microfinance Services

Islamic MF Service (Rp Million)	< Rp1 Bn			Rp1-10 Bn			Rp11-100 Bn			> Rp100 Bn		
	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max
Micro Financing	90	572	1,473	620	3,024	9,500	5,558	17,597	76,000	85,218	358,297	919,253
Micro Savings	29	272	729	130	2,313	9,720	718	14,104	68,000	45,539	324,022	927,200
Micro Takaful	-	-	-	-	8	500	-	5	179	-	10	50
Micro Pension	-	-	-	-	-	-	-	212	7,000	-	2,000	10,000
Emergency Financing	-	1	10	-	15	297	-	126	2,472	-	400	2,000

Many BMTs (33%) provide money transfer service for their member/ customer, via walk-in (58%), EDC (25%), and pick-up service (23%). Some BMTs have extended their transfer services through SMS banking (18%), mobile banking (13%), and internet banking (10%).

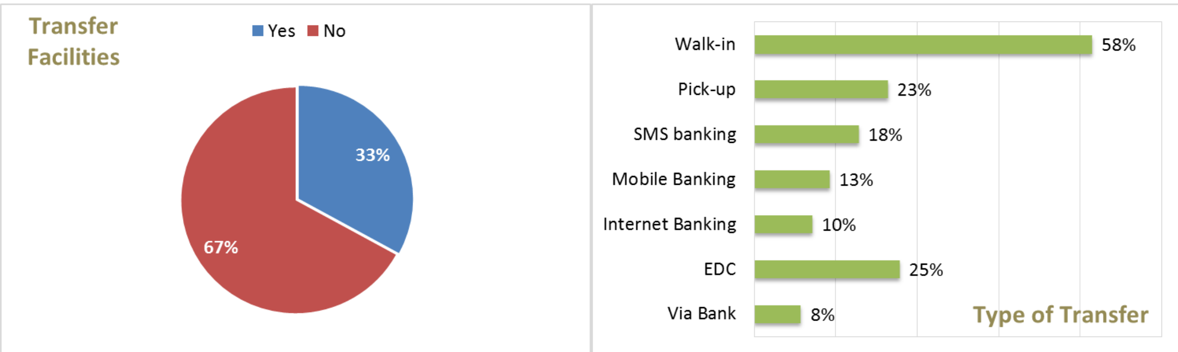


Figure 55b. Islamic Microfinance Services

Almost all BMTs (64%) provide bill payments facilities, especially bill payments for electricity (99%), telephone (88%), water (54%), leasing (53%), pay-TV (41%), and zakat (41%). Some BMTs also provide bill payments for credit card (14%), ticket (8%), natural gas (4%), and Badan Penyelenggara Jaminan Sosial – BPJS (3%).

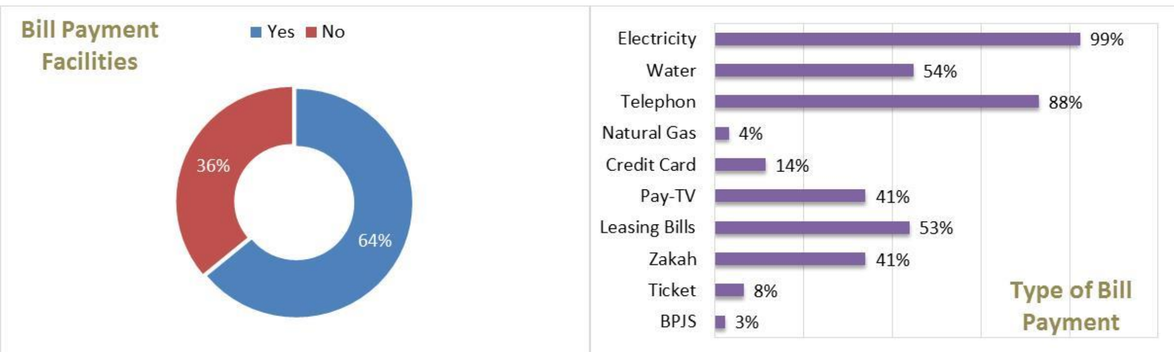


Figure 55c. Islamic Microfinance Services

5. Outreach to the Poor

Number of member or depositor (since every member must have saving account) and their total savings are two of the most important outreach parameters. Most BMTs (77%) prefer to use *mudharabah* contract for saving deposits.

No. of Depositors	Min	Avg	Max
TOTAL	26.0	10893.8	544169.0
Wadi'ah	0.0	3478.7	81010.0
Mudharabah	0.0	7415.9	506077.0
			Rp mn
Type of Savings	**Min**	**Mean**	**Max**
TOTAL	29.0	19212.3	927199.7
Wadi'ah	0.0	4379.7	89287.1
Mudharabah	0.6	14736.8	885184.6

Figure 56a. Outreach to the Poor

Small BMT has average depositor of 351 people and average deposits of Rp272 million, which means that each member or depositor of small BMT has Rp0.77 million deposits. Medium BMT has average depositor of 1,573 people and average deposits of Rp2,313 million, which means that each member or depositor of medium BMT has Rp1.47 million deposits. Large BMT has average depositor of 6,507 people and average deposits of Rp14,153 million, which means that each member or depositor of large BMT has Rp2.18 million deposits. Moreover, very large BMT has average depositor of 191,973 people and average deposits of Rp424,022 million, which means that each member or depositor of very large BMT has Rp1.69 million deposits.

Table 13. Outreach to the Poor

No. of Depositors	< Rp1 Bn			Rp1-10 Bn			Rp11-100 Bn			> Rp100 Bn		
	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max
Wadi'ah	-	206	821	-	831	6,820	-	3,936	20,178	-	41,838	81,010
Mudharabah	-	145	495	-	742	6,765	26	2,573	13,788	4,033	150,135	506,077
Total	**26**	**351**	**821**	**30**	**1,573**	**6,848**	**270**	**6,507**	**26,946**	**4,033**	**191,973**	**544,169**

Type of Savings	< Rp1 Bn			Rp1-10 Bn			Rp11-100 Bn			> Rp100 Bn		
	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max
Wadi'ah	-	163	581	-	1,053	6,804	-	5,572	49,094	-	46,136	89,287
Mudharabah	-	109	241	-	1,260	6,195	401	8,288	54,000	6,161	277,886	885,185
Total Savings	**29**	**272**	**729**	**130**	**2,313**	**9,720**	**718**	**14,153**	**68,000**	**45,539**	**324,022**	**927,200**
Savings/Depositor		**0.77**			**1.47**			**2.18**			**1.69**	

Other important outreach parameters are number of member who receive financing and their average financing. BMTs use *murabahah* (50.6%), *mudharabah*

(18.1%), *qardh* (6.6%) and *musharakah* (6%) modes of financing. Other modes of financing are rarely used, especially *salam* and *itishna*.

Type of Financing	Min	Avg	Max
Murabahah	0.0	11566.0	581003.3
Mudharabah	0.0	5854.3	300015.0
Musharakah	0.0	2044.7	67323.0
Qardh	0.0	200.6	6129.7
Qardhul Hasan	0.0	2057.5	1200.0
Ijarah	0.0	499.7	449.0
Istishna	0.0	23.2	44.0
Salam	0.0	25.6	34.0
Avg. Tot. Financing	**90.0**	**22255.5**	**10319.0**

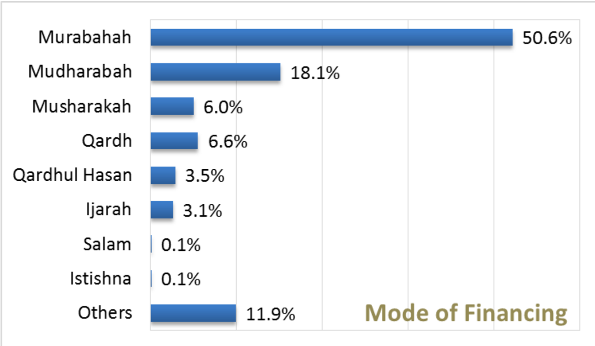


Figure 56b. Outreach to the Poor

Small BMT has average total financing of Rp572 million for 191 customers, which means each financing customer of small BMT receives Rp3 million financing. Medium BMT has average total financing of Rp3,024 million for 605 customers, which means each financing customer of medium BMT receives Rp5 million financing. Large BMT has average total financing of Rp17,772 million for 1,975 customers, which means each financing customer of large BMT receives Rp9 million financing. Very large BMT has average total financing of Rp358,297 million for 89,574 customers, which means each financing customer of very large BMT receives Rp4 million financing.

Table 14. Outreach to the Poor – Financing (Rp million)

Type of Financing	< Rp1 Bn			Rp1-10 Bn			Rp11-100 Bn			> Rp100 Bn		
	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max
Mudharabah	-	268	720	-	813	8,000	-	4,525	39,000	-	94,957	300,015
Musyarokah	-	74	632	-	377	3,888	-	1,535	14,100	-	31,977	67,323
Murabahah	-	166	579	-	1,589	9,000	-	9,547	55,356	8,521	183,799	581,003
Salam	-	-	-	-	14	874	-	56	1,769	-	-	-
Istishna	-	1	9	-	-	-	-	42	1,068	-	230	1,151
Ijarah	-	48	400	-	143	2,136	-	851	9,531	-	3,443	9,374
Qardh	-	2	22	-	52	699	-	475	6,130	-	507	2,537
Qardhul Hasan	-	-	-	-	24	790	-	44	508	-	1,600	8,000
Others	-	3	34	-	15	400	-	709	9,351	-	41,784	200,922
Total Financing	**90**	**572**	**1,473**	**620**	**3,024**	**9,500**	**5,558**	**17,772**	**76,000**	**85,218**	**358,297**	**919,253**
Total Fin. Cust.mer		**191**			**605**			**1,975**			**89,574**	
Financing/Cust.mer		**3**			**5**			**9**			**4**	

Smaller BMT tends to have no or fewer branches, while larger BMT tends to have more branches. Chi-Square results (0.000 < 0.05) show that there is a strong association between BMT Assets and Number of BMT Branch.

No. of Branch	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
1-5 Branch	3	37	27	1	**68**
6-15 Branch	0	1	6	0	**7**
16-40 Branch	0	0	3	2	**5**
41-100 Branch	0	0	0	1	**1**
> 100 Branch	0	0	0	1	**1**
No Branch	7	29	4	0	**40**
TOTAL	**10**	**67**	**40**	**5**	**122**

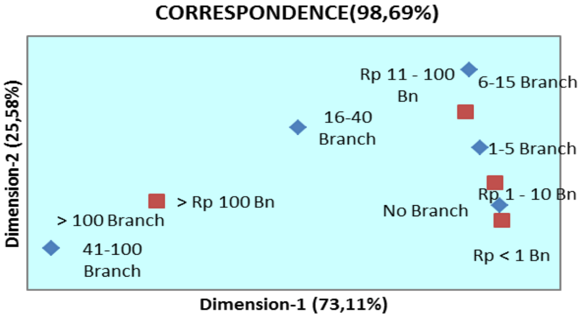


Figure 56c. Assets vs. Number of Branches

Smaller BMT tends to operate in the Village area, while larger BMT tends to operate and cover larger area up to national. Chi-Square results (0.000 < 0.05) show that there is a strong association between BMT Assets and Coverage.

Coverage	Category of BMT Assets (Rp. Billion)				TOTAL
	< 1	1 - 10	11 - 100	> 100	
Village	1	1	0	0	2
Sub-District	6	15	4	0	25
City	3	45	21	0	69
Province	0	6	14	2	22
National	0	0	1	3	4
Total	**10**	**67**	**40**	**5**	**122**

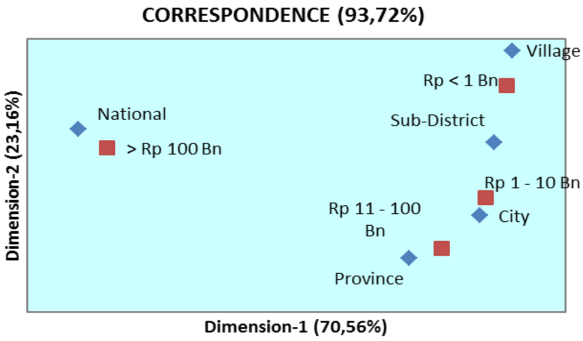


Figure 56d. Assets vs. Coverage

6. Financial Sustainability

On average, all BMTs, from small to very-large, experience shortage in funding. However, the range of deposits to financing ratio (DFR) span from as low as 16% to as high as 191%, and there is no association between asset size and DFR. Very large BMT could have very low DFR. Smaller BMT tends to have lower operational efficiency but lower margin of financing, while larger BMT tends to have higher operational efficiency but higher margin of financing. Moreover, BMT of all asset size perform well in profitability (ROA and ROE) and financing performance (NPF).

Table 15. Summary of Financial Sustainability by Assets

BMT	Asset	FUND INDEP	PROFITABILITY		EFFICIENCY	MARGIN	STAFF EFF	FIN. PERF.	G. ASSET
	(Rp Mn)	DFR (%)	ROA (%)	ROE (%)	OCOI (%)	FIN (%)	(Cust/Staff)	NPF (%)	Growth (%)
BMT K1	601.9	59.2	8.3	29.5	68.2	14.5	83.1	2.4	9.3
BMT K2	4798.9	79.1	-1.9	41.2	82.6	12.5	178.0	6.6	27.4
BMT K3	23586.6	77.9	3.4	15.9	78.4	9.3	157.4	4.1	22.4
BMT K4	417388.9	71.8	3.3	7.3	54.0	7.0	239.9	2.6	38.0

7. Economic Impact

Qardh financing is usually provided for *mustahiq* using zakat funds to initiate micro business. The success of *qardh* financing imply the ability of *mustahiq* to earn income to fulfill their basic needs, especially in smoothing the consumption needs. Figure 57a shows that most BMTs have been successful in extending *qardh* financing, where non-performing *qardh* financing (NPQF) reaches only 1–5 customers (32%) and none (37%). However, NPQF is still high, where it reaches more than 20 customers (8%) and 16-20 customers (7%).

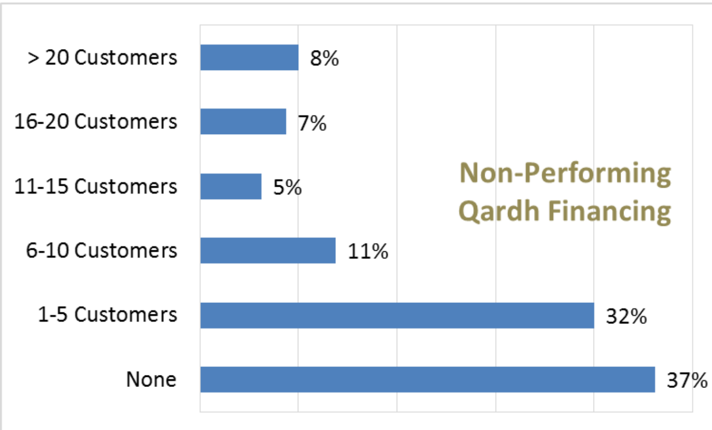


Figure 57a. Economic Impact

Most BMTs have experienced (for their member/customer) income increase, assets increase, financing increase, and employment increase. Some BMT's members/customers have also received skill training. Meanwhile, *qardh* customers have not experienced income increase (21%), asset increase (23%) or *qardh* financing increase (23%), and have not received skills training (45%).

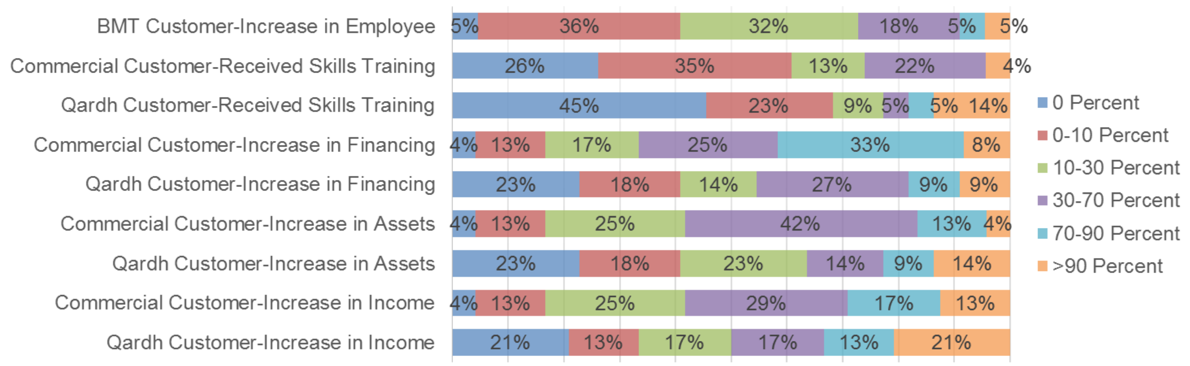


Figure 57b. Economic Impact

8. Social Impact

There are indications that BMTs have shown some social impact. However, these social impacts are still minimal. For example, when *qardh* or GLJR customer has been graduated to become individual commercial financing customer (18.2% and 7.9%, respectively), this implies that he/she has experienced mindset change from being dependent to become independent. Most BMTs have allocated funds for health services and training. However, these allocated funds are relatively small and members/customers participation are also still minimal.

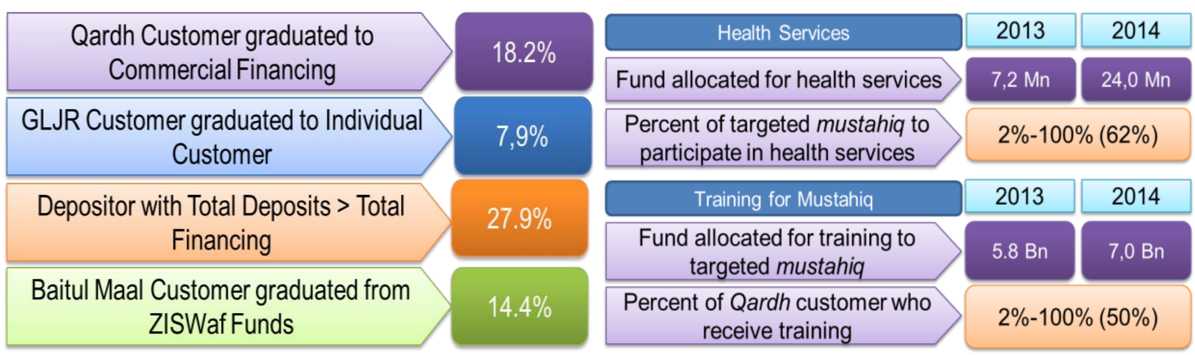


Figure 58a: Social Impact

Most BMTs have also allocated funds for basic education scholarship. However, the allocated funds is also relatively small, but it was given to significant number of recipients.

Education Services	2013	2014
Fund allocated to provide Scholarship to external recipients	30,4 Mn	83,2 Mn
Number of Scholarship recipients	18 Students	42 Students

Figure 58b: Social Impact

Most BMTs (69%) have scheduled social activities with 53% attendance of their member/customer. Most BMTs also have regular *halaqah* (Islamic studies) with 46% attendance of their member/customer.

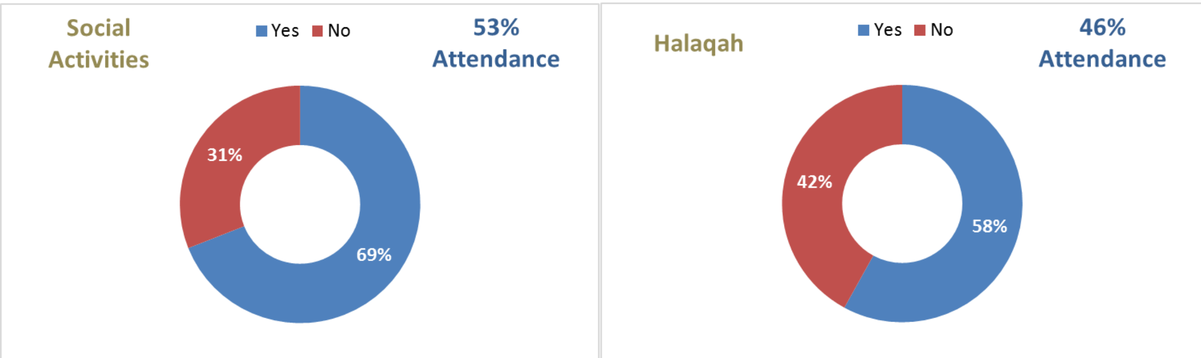


Figure 58c. Social Impact

4.4.3 Map of Holistic Financial Inclusion

On average, larger BMT has reached better Holistic Financial Inclusion (HFI) score. K1 BMT (2.30) still serves as minimum HFI, K2 BMT (2.65) and K3 BMT (3.06) serve as medium HFI, while K4 BMT (4.01) has become medium-high HFI.

All BMTs already have medium-high (3.90–4.76) Financing Program by their Baitut Tamwil (BT), but they still have minimum (0.78–1.54) role in Social Inclusion by their Baitul Maal (BM), except very large (K4) BMT, which has already achieved medium Social Inclusion (3.56).

Meanwhile, almost all BMTs have medium-high (3.51–4.74) Sustainability, while almost all BMTs have medium (2.63–3.78) Welfare Impact, due to medium Economic Impact and K4 BMT which has already achieved high medium (4.07) Social Impact. K1 and K2 BMT still have minimum Social Impact, with scores 2.31 and 2.16, respectively.

Table 16. Summary of HFI Score by Assets

ASPECTS		K1	K2	K3	K4	Average
		< Rp1 Bn	Rp1-10 Bn	Rp11-100 Bn	> Rp100 Bn	
SOCIAL INCLUSION	1. Social Program	0.99	1.37	2.06	3.68	1.66
	2. Development Program	0.57	0.82	1.02	3.44	0.97
FINANCIAL INCLUSION	3. Financing Program	**3.90**	**4.13**	**4.20**	**4.76**	**4.16**
	4. Islamic MF Services	2.36	2.70	3.21	3.08	2.86
DOUBLE BOTTOM-LINE	5. Outreach	1.85	2.54	3.83	**4.82**	3.00
	6. Sustainability	**3.51**	**4.08**	**4.18**	**4.74**	**4.09**
WELFARE IMPACT	7. Economic Impact	2.95	3.35	3.19	3.44	3.27
	8. Social Impact	2.31	2.16	2.77	**4.12**	2.45
AVERAGE		**2.30**	**2.65**	**3.06**	**4.01**	**2.81**
N		10	67	40	5	122

All BMTs have minimum Social Inclusion by Baitul Maal (BM), except very large (K4) BMT, and have medium Financial Inclusion by Baitut Tamwil (BT). BM division will not be developed unless there is structural change. The actual BM-BT HFI map from survey (left) is still far from what they perceived from ANP (right), especially in BM activities.

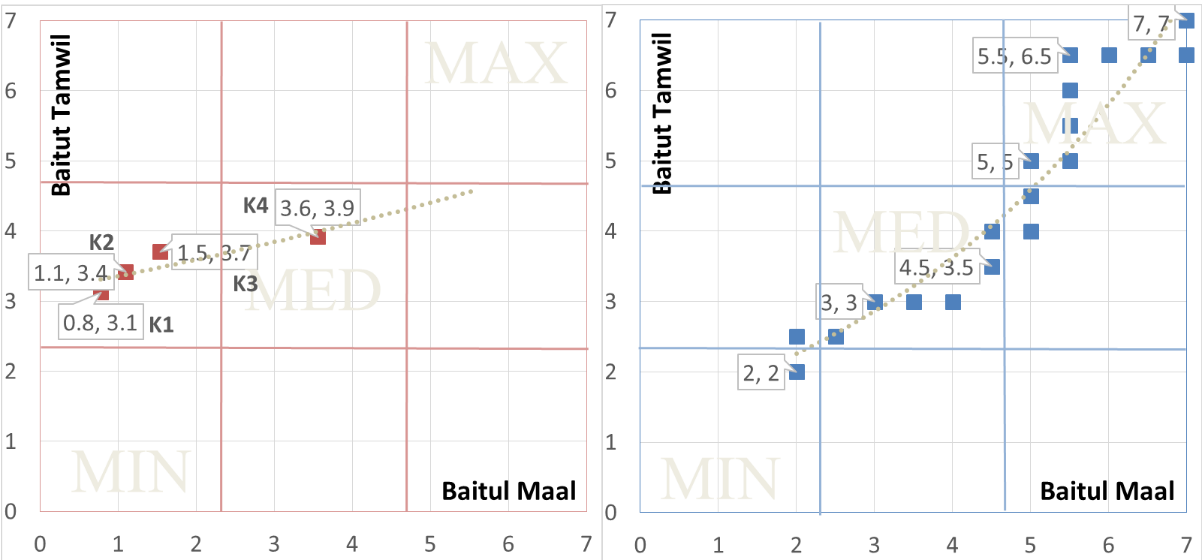


Figure 59. BM-BT HFI Map from Survey (left) and ANP (right)

All BMTs have minimum Social Program and Development Program by Baitul Maal (BM) division, except K4 BMT. Minimum ZISWaf funds and minimum manpower have forced BMTs to do more Social Program and less Development Program (at the least, they extend *Qardh* financing). The actual Social Inclusion map from survey (left) is still far from what they perceived from ANP (right), so that something must be done to fill these gaps.

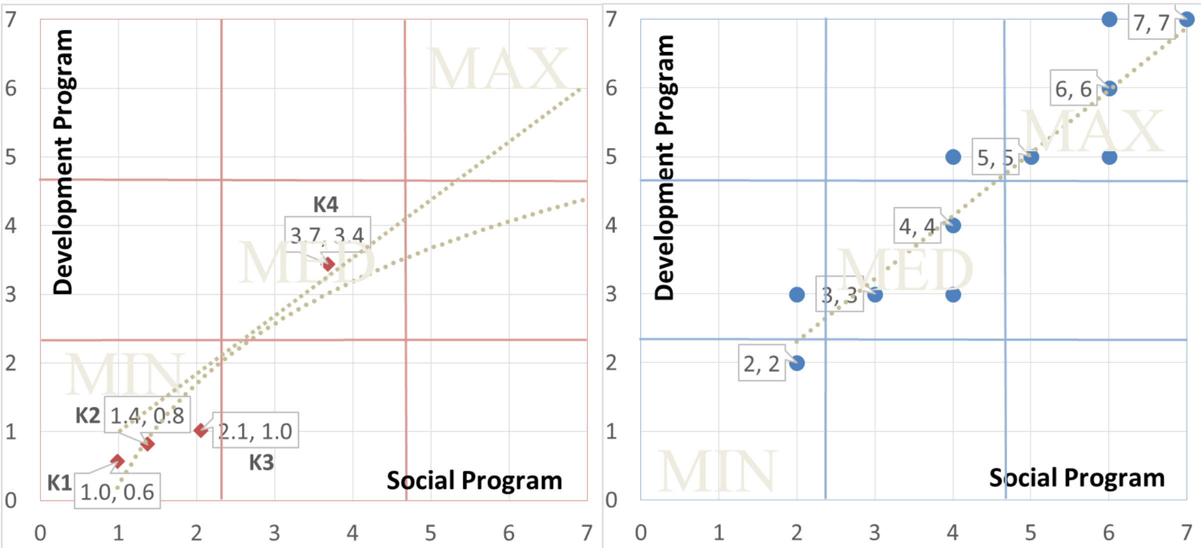


Figure 60. Social Inclusion Map from Survey (left) and ANP (right)

All BMTs already have medium-high Financing Program by their Baitut Tamwil (BT). Islamic MF Services have gradually developed from minimum to medium. The actual Financial Inclusion map from survey (left) is still far from what they perceived from ANP (right), especially Financing Program which is worsen or stagnant as assets increase.

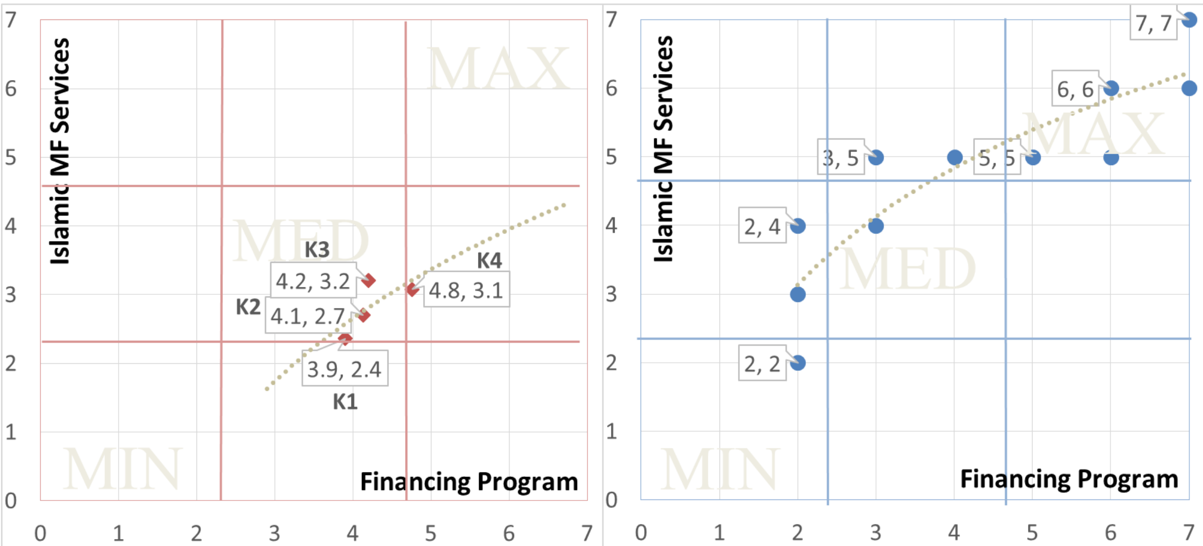


Figure 61. Financial Inclusion Map from Survey (left) and ANP (right)

All BMTs have achieved medium-high Double Bottom-line, Welfare Impact have been achieved gradually in medium range. The actual Multiple Objective map from survey (left) is still far from what they perceived from ANP (right), especially minimum and worsen Welfare Impact of large BMTs.

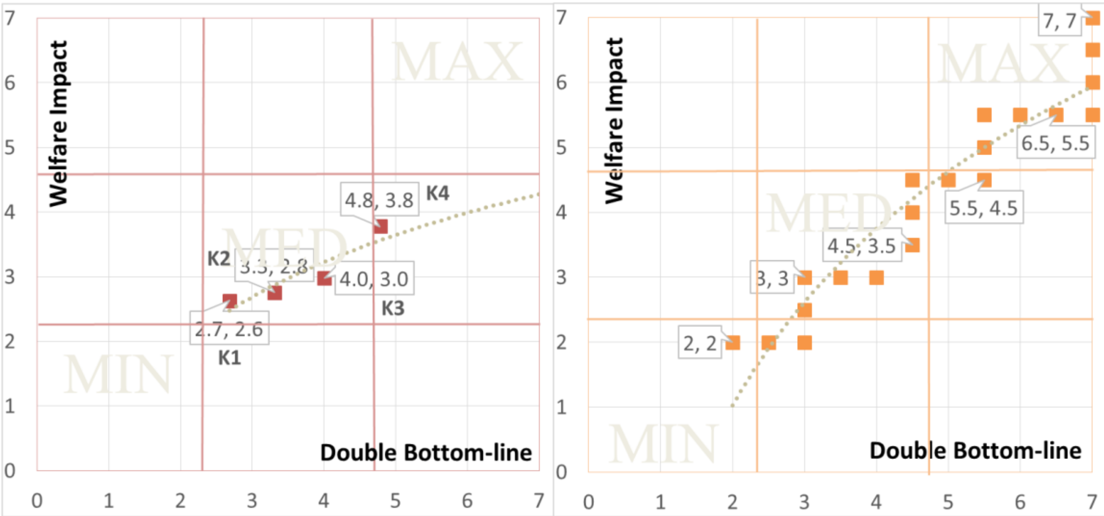


Figure 62. Multiple Objective Map from Survey (left) and ANP (right)

All BMTs have medium to high Sustainability and all BMTs have minimum to high Outreach. Sustainability and Outreach could be achieved simultaneously. Sustainability has higher priority than Outreach to be achieved. The actual Double Bottom-line Impact map from survey (left) looks somewhat in line with what they perceived from ANP (right).

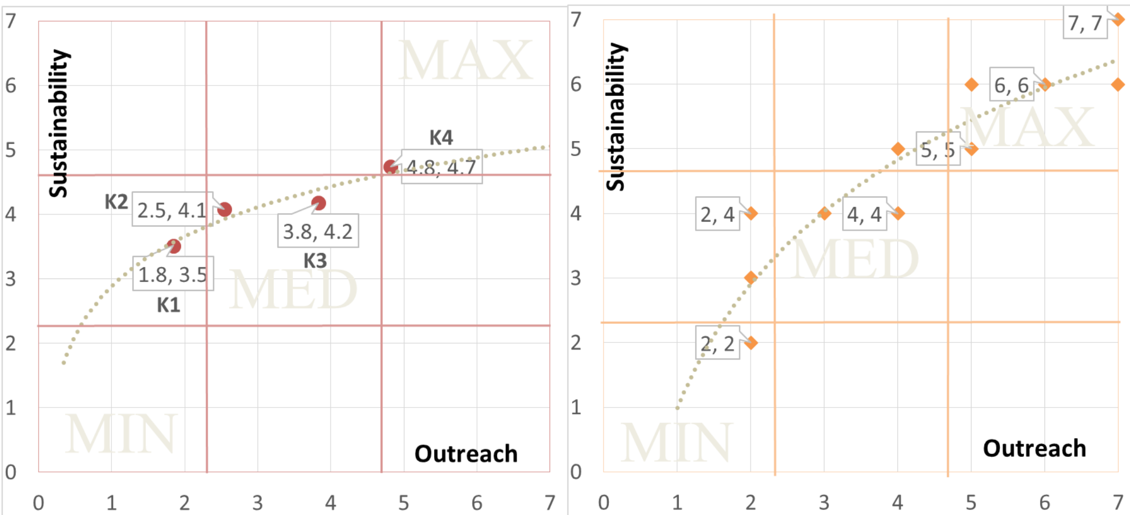


Figure 63. Double Bottom-line Map from Survey (left) and ANP (right)

Almost all BMTs have achieved minimum Social Impact, except very large (K4) BMT, and most BMTs have achieved medium Economic Impact. The actual Welfare Impact map from survey (left) is still far from what they perceived from ANP (right), especially for small (K1), medium (K2) and large (K3) BMTs.

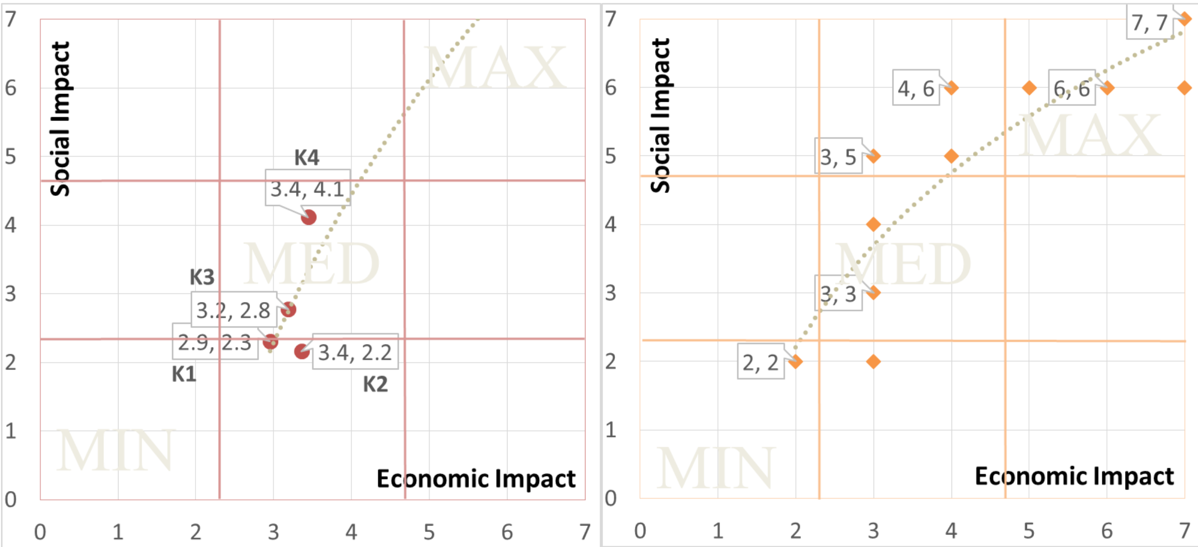


Figure 64. Welfare Impact Map from Survey (left) and ANP (right)

V. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Holistic Financial Inclusion from Islamic perspective based on Maqashid Shariah comprises of social inclusion, responsible to carry out social program and development program, as well as financial inclusion, responsible to carry out financing program and Islamic micro-financial services, which should be able to achieve double bottom-line and welfare impact simultaneously.

The ANP results show that the most important Maqashid Shariah to be achieved by HFI are safeguarding the wealth (28.7%), since poverty leads to infidelity (Imam Al-Bayhaqi), to preserve safeguarding the faith (20.0%), which are in line with the objective of Islamic social tools, especially zakat, infaq, shadaqah and waqf (ZISWaf), to alleviate poverty, as well as to empower the poor (mustahiq).

The most important aspects of HFI are commercial objective of financial Sustainability (17.59%), followed by Economic Impact (14.05%) and Social Impact (12.75%) of welfare impact, Financing Program (12.48%) and Islamic Microfinance Services (11.70%) of financial inclusion, Development Program (11.30%), and Social Program (10.53%) of social inclusion. Social objective of Outreach (9.60%) is the least important.

Meanwhile, the most important elements of HFI are funding independent (2.26%), consumption smoothing (2.17%), simplicity (2.16%), micro financing (2.15%) and income increase (2.14%), followed by easy access (2.10%), mindset change (2.10%), empowered (2.06%), micro savings (2.05%) and basic needs fulfillment (2.01%).

Minimum HFI by BMT includes basic needs fulfillment and bailout debt (social program), savings program and regular meeting (development program), simplicity and easy access (financing program), micro financing and micro savings (Islamic MF services), total deposits and number of members (outreach), funding independent and operational efficiency (sustainability), consumption smoothing and income increase (economic impact), as well as mindset change and empowered (social impact).

Survey results show that higher financial inclusion associates with higher social inclusion, higher double bottom-line and higher welfare impact. Higher social inclusion associates with higher double bottom-line and higher welfare impact. There is no conflict between financial inclusion and social inclusion, where both contributes to double bottom-line (outreach and sustainability) and welfare impact. Moreover, higher outreach associates with higher sustainability, which indicates that there is no conflict in achieving outreach and sustainability at the same time.

Survey results also show that larger BMT has reached better Holistic Financial Inclusion (HFI) score. K1 BMT (2.30) still serves as minimum HFI, K2 BMT (2.65) and K3 BMT (3.06) serve as medium HFI, while K4 BMT (4.01) has become medium-high HFI. All BMTs already have medium-high (3.90–4.76) Financing Program by their Baitut Tamwil (BT), but they still have minimum (0.78–1.54) role in Social Inclusion by their Baitul Maal (BM), except very large (K4) BMT, which has already achieved medium Social Inclusion (3.56). Meanwhile, almost all BMTs have medium-high (3.51–4.74) Sustainability, while almost all BMTs have medium (2.63–3.78) Welfare Impact, due to medium Economic Impact and K4 BMT which has already achieved high medium (4.07) Social Impact. K1 and K2 BMT still have minimum Social Impact, with scores 2.31 and 2.16, respectively.

Primary focus of BMT is Financing Program (of financial inclusion) and Sustainability (of Double Bottom-line), while it gives second priority to social inclusion (Social Program and Development Program). However, there are no problems of commercialization and mission drift in surveyed BMT. The issue of double bottom-line (Sustainability and Outreach) or triangle of microfinance (Sustainability, Outreach and Welfare Impact) could also be achieved simultaneously by surveyed BMT, based on their priority.

5.2 Recommendation

Holistic Financial Inclusion in Islamic perspective, where not-for-profit division doing social inclusion using Islamic social tools and for-profit division doing financial inclusion related business using commercial funds, is not really a new concept, but it is part of Islamic economics and finance. There is no dichotomy between real and financial sectors, as well as between for-profit and not-for profit activities or institutions.

However, secular dominated world has made Islamic institutions and their activities adjust their functions, so that not-for-profit activities could only be carried out by not-for-profit or charity based institution, while for-profit activities could only be carried out by for-profit or market based institution. Consequently, social inclusion activities have been carried out by charity based Islamic institutions, such as zakat institution. In Indonesia, there are thousands institutions which focused on the management of zakat, infaq and sadaqah funds, nationally, regionally or locally, either public or private institutions.

These dichotomies should be ended so that Islamic institutions could play their roles as they meant to be. One unique and well-known Islamic institution in Indonesia, which could operate as charity based and market based organization is called Baitul Maal wa Tamwil (BMT). Baitul Maal division manages ZISWaf funds to carry out social inclusion, while Baitut Tamwil division is an IMFI managing commercial funds to provide Islamic micro-financial services in line with the goal of financial inclusion. BMT is known as one of the most sustainable model of microfinance for micro-enterprises in Indonesia (Ascarya, 2014).

However, most Baitul Maal (BM) divisions are not fully operate in par with their Baitut Tamwil (BT) divisions, since most BMTs are initially developed commercial BT first and they need separate permit to operate the not-for-profit Baitul Maal as ZISWaf institution. BMT should have its own regulation to be able to operate as it should be to carry out the duty of holistic financial inclusion effectively.

BMT has not been well supervised and developed, so that BMTs are widely diverse. Therefore, BMT needs architecture, development roadmap and business models, as well as standard reporting, standard soundness and regular supervision to be able to grow sustainably. The first step could be standardization of Annual Member Meeting Report (Laporan RAT).

Assets of BM division, on average, is mostly only 1% of its BT division's assets, since it only focus on zakat collection. BM should expand to collect infaq and shadaqah, as well as waqf, especially, so that BMT could accumulate BM assets to be able to provide better social program and development program.

Small BMTs with less than Rp1 billion assets are susceptible to go out of business. Therefore, there should be technical and management assistances provided by the authority which could guide them pass through this difficult period.

Although there are no significant evidences of commercialization and mission drift, larger BMT tends to have longer processing time and higher margin of financing. Therefore, BMT should be encourage to split its big branches, and adopt small branch policy, where each branch managed by < 5 employee, maintains < 1000 customers, and manages < Rp5 billion assets.

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APPENDIX 1

ELEMENTS OF HOLISTIC FINANCIAL INCLUSION: REFERENCES

VARIABLE	DEFINITION / REFERENCE
	REFERENCE
1. SOCIAL PROGRAM	
1. Basic Needs Fulfillment	*Basic needs, including food, clothing and shelter, are provided to those (mustahiq) who can not afford them using zakat funds.*
	Ali (2014: p.14), Obaidullah (2008: p.16, p.29, p.53), Kahf (2002: p.64)
2. Bailout Debt	*Bailout debt using zakat funds is provided to those debtors (al-gharimin) who overburdened with debt with no means of payments.*
	Obaidullah (2008: p.33), Kahf (2002: p.64 & 66)
3. Health Care	*Health care service is provided to the poor through free or low cost clinics in order to reduce economic burden.*
	Obaidullah (2008: p.2), Kahf (2002: p.62)
4. Social Services	*Social services provide social capital based on brotherhood and comradeship that is used to set aside funds to be used in an emergency, such as an illness, death or unexpected injury.*
	Obaidullah (2008: p.10), Ahmed (2002: p.39)
5. Motivational Support	*Motivational Support is provided to the poor to inculcate a new spirit of thrift, to save, to be productive and to be succeeded.*
	Obaidullah (2008: p.29), Kahf (2002: p.64)
6. Halaqah	*Halaqah is a religious gathering that facilitates the poor to have a study-circle which discuss behavior, ethics, and religious duty.*
	Obaidullah (2008: p. 29), Ahmed (2002: p.57)
7. Basic Education Scholarship	*Education scholarship is provided to children from poor families to enhance human capital and knowledge skills as their first essential investment.*
	Kahf (2002: p.56)
2. DEVELOPMENT PROGRAM	
1. Regular Meeting	*Regular meeting is a meeting which aims to generate personal and social consciousness by inculcating the aspects of behavioral changes, moral teachings, and social customs.*
	Obaidullah (2008: p.64), Ahmed (2002: p.32)
2. Saving Program	*Saving program is a program which aims to train households to have a discipline to manage cash flow, smooth consumption, save income, and build working capital.*
	ADBI (2014: p.47), Ali (2014: p.11), Cull, *et al* (2014: p.4), Armendariz and Morduch (2010: p.16); Hadisumarto and Ismail (2010: p. 70)

VARIABLE	DEFINITION / REFERENCE
3. Skill training	*Skill training is a training which aims to provide technical skill to those who economically inactive to be productive, as it becomes an important step to start a business and to raise income.*
	Ali (2014: p.10), Obaidullah (2008: p.29, p.60), Kahf (2002: p.62)
4. Family Financial Management Training	*It is a training which aims to provide foundational understanding of family financial management for planning and protecting family's financial future.*
	Tamanni and Mukhlisin (2013: p.54), Sahih Muslim (2006: Hadith No.562, p.1361), An-Nawawi (2001: Hadith No.2984, p.199)
5. ME Management Training	*It is a training which aims to provide basic skill to manage micro enterprise. It includes how to plan, organize, command, coordinate, and control micro business.*
	Rahman and Dean (2013: p. 302), Obaidullah (2008: p.2 & p.64), Ahmed (2002: p.57), Kahf (2002: p.62)
6. ME Marketing Training	*It is a training which aims to provide basic skill for the micro-enterprise regarding how to deliver product to market and how to build networking for business success.*
	Hadisumarto and Ismail (2010: p. 71), Obaidullah (2008: p.29), Ahmed (2002: p.57), Kahf (2002: p.62)
7. Qardh Financing	*It is a non-interest paying loan that relieves the debtor from any return on the principal.*
	Zada and Saba (2013: p.154), Hadisumarto and Ismail (2010: p. 67), Obaidullah (2008: p.64), Ahmed (2002: p.38), Ahmed (2004: p.130), Mohieldin, *et al.* (2012: p.66)
3. FINANCING PROGRAM	
1. Easy Access	*Financing program is easy to be accessed by the poor people. It doesn't need high documentation requirements for financing and it provide a wide network of infrastructure. There should be no obstacles for the poor to access financial services.*
	ADBI (2014: p.45), Karpowicz (2014: p.6), GPFI (2012: p.3), World Bank (2010: p.143), Obaidullah (2008: p.62)
2. Simplicity	*Financing program is easy to be understood by those who do not have financial literacy.*
	GPFI (2012: p.4), Demirgüç-Kunt *et al* (2008: p.28),
3. Cheap	*Financing program can be delivered at affordable cost to under-served poor families.*
	Karpowicz (2014: p.2), GPFI (2012: p.4), *Demirgüç-Kunt, et al*(2008: p.43), Obaidullah (2008: p.59), Kahf (2002: p.63)

VARIABLE	DEFINITION / REFERENCE
4. Flexible Collateral	*Financing program set a relaxing financing constraints in the form of collateral requirements precluding greater financial sector inclusion.*
	Karpowicz (2014: p.6), GPFI (2012: p.4), Obaidullah (2008: p.61), Kahf (2002: p.64)
5. Pick-Up Service	*Financing program provides pick-up service which facilitates alternative approach for banker to meet and visit customers personally in their homes and workplaces.*
	Ascarya and Cahyono (2011: p.13); Armendariz and Morduch (2010: p.97); Rhyne (2009: p.164)
6. Risk Mitigation	*It is a process to control, evaluate, and reduce risk exposures to the borrowers.*
	Naceur, *et al* (2015: p.21), Hadisumarto and Ismail (2010: p. 72), Obaidullah (2008: p.10)
7. Monitoring	*Monitoring in financing program is a process to ensure that performance of the borrower meets the objective and target.*
	Hadisumarto and Ismail (2010: p. 70), Ahmed (2004: p. 113), Ahmed (2002: p.56), Kahf (2002: p.63)
4. Islamic MICRO-FINANCIAL SERVICES	
1. Micro Financing	*Micro financing is a financing program which provides loan in small amount and require repayment at short time period (weekly or monthly intervals).*
	Ali (2014: p.12), Obaidullah (2008: p.63), Kahf (2002: p.61)
2. Micro Savings	*Micro saving is a saving program which offers secure and convenient deposit services for small amount of balances and transactions.*
	Ali (2014: p.12), Bank Indonesia (2014: p.4), Obaidullah (2008: p.60), Ahmed (2002: p.57), Kahf (2002: p.64)
3. Micro Takaful	*Micro takaful is a financial service which aims to mitigate risks, such as the death or illness, and managing shocks from losing an asset among low-income individuals.*
	ADBI (2014: p.41), Ali (2014: p.12), Bank Indonesia (2014: p.4), Cull, *et al* (2014: p.5); Mohieldin, *et al.* (2012: p.74); Obaidullah (2008: p.64); Ahmed (2004: p. 130)
4. Micro Transfer	*Micro Transfer is a financial service which provides remittance services for low-income individuals to transfer a small amount of money. Since many poor people earn money from far-off places, they need to transfer money to their family.*
	Ali (2014: p.2), GPFI (2012: p.4), Obaidullah (2008: p.4), Obaidullah and Khan (2008: p.12), Ahmed (2002: p.41)

VARIABLE	DEFINITION / REFERENCE
5. Micro Pension Fund	*Micro pension fund is a financial service which provides protection and retirement plans for the poor when they reach the end of their working period.*
	Yunus (2004; p.4079); Rhyne (2009: p.33); Obaidullah and Khan (2008: p.28); Reyes (2010; p.2)
6. Emergency Financing	*Emergency financing is a financing program which is given for the poor who are in disaster and emergency situations, such as sickness or injury, theft, and the loss of employment.*
	Obaidullah and Khan (2008: p.11&12)
7. Bill Payment	*Bill Payment service is a service which is provided for poor household and micro entrepreneurs to access payment services, such as electricity bill and water bill.*
	Demirgüç-Kunt, et al (2008: p.112)
5. OUTREACH	
1. Members/ Depositors	*The number of adults having an account at a formal financial institution.*
	Bank Indonesia (2014: p.9), GPFI (2012: p.2)
2. Deposits	*The number of deposit accounts at a formal financial institution.*
	Naceur, *et al* (2015: p.27), Bank Indonesia (2014: p.9), GPFI (2012: p.2), *Demirgüç-Kunt, et al* (2008: p.27)
3. Borrowers	*The number of adults who borrow from formal financial institutions.*
	Naceur, *et al.* (2015: p.15), GPFI (2012: p.2), Demirgüç-Kunt *et al* (2008: p.26)
4. Total Financing	*Total number of outstanding loans that borrowed from a formal financial institution.*
	Naceur, *et al.* (2015: p.15), GPFI (2012: p.2), Demirgüç-Kunt and Klapper (2013: p.284)
5. Avg. (Mode) of Deposits and Financing	*The most frequent amount of deposits and outstanding loans.*
	AfDB (2013: p.142); Ascarya and Sanrego (2007: p.17)
6. No. of Branch	*The number of branch network providing various services to its customers.*
	Naceur, *et al.* (2015: p.12), GPFI (2012: p.3)
7. Area Coverage	*Any access area where individual can perform cash-in/cash-out transactions (Bank, ATM, financial service intermediary unit).*
	Bank Indonesia (2014: p.9), GPFI (2012: p.3)
6. ECONOMIC IMPACT	
1. Consumption Smoothing	*A stable amount of consumption over time. When there's income shock, consumption of the poor shouldn't change. They can use their savings or other source of financing.*
	Demirgüç-Kunt, *et al* (2008: p.105), Obaidullah (2008: p.63)

VARIABLE	DEFINITION / REFERENCE
2. Income Increase	*The increase in amount of income generated by the poor.*
	Ali (2014: p.11), Hadisumarto and Ismail (2010: p. 69), Obaidullah (2008: p.59)
3. Asset Building	*Asset in the form of building, which is able to empower the poor families by increasing broaden access of financial and tangible assets, such as savings and business.*
	Ali (2014: p.2), Hadisumarto and Ismail (2010: p. 71), Ahmed (2002: p.53)
4. Poverty Alleviation	*Poverty alleviation is the main objective of financial inclusion by giving positive impact on human well-being, survival rate and school attendance.*
	Ali (2014: p.2), Hadad (2010: p.5), Hadisumarto and Ismail (2010: p. 69), Demirgüç-Kunt, *et al* (2008: p.107), Obaidullah (2008: p.11), Ahmed (2002: p.57), Ahmed (2004, p.63), Kahf (2002: p.64)
5. Entrepreneurship	*The quality of being entrepreneur.*
	Ali (2014: p.11), Obaidullah (2008: p.63)
6. Skill Improvement	*The improvement in skill and knowledge, including technical skill, managerial skill, marketing skill, business strategy)*
	Naceur, *et al.* (2015: p.22), Ali (2014: p.10), Hadisumarto and Ismail (2010: p. 71), Obaidullah (2008: p.63),
7. Employment Increase	*The increase in employment, as the impact of increased of poor with improved skill and knowledge which make them to be work-ready.*
	Ahmed (2002: p.53)
7. SOCIAL IMPACT	
1. Mindset Change	*A progress towards higher level of the way of thinking so that the poor are able to change their bad to good behavior.*
	Hadisumarto and Ismail (2010: p.71)
2. Empowered	*Poor people is empowered when they have opportunity to access services for improving their financial literacy and financial capability.*
	Ali (2014: p.13), GPFI (2010: p.5)
3. Health Improvement	*Drive quality improvement in health for poor families.*
	Obaidullah (2008: p.2), Ahmed (2004: p.54),
4. Knowledge Improvement	*An improvement in knowledge among the poor as the impact of entrepreneurship and social development.*
	Obaidullah (2008: p.61)
5. School Attendance	*Number of enrolling education for the children from poor families.*
	Ali (2014: p.2), Demirgüç-Kunt, *et al* (2008: p.103)

VARIABLE	DEFINITION / REFERENCE
6. Social Improvement	*Improvement in social life among poor families, so that it overcome social exclusion and improve lives by establishing social safety-net.*
	Ali (2014: p.13), Ahmed (2002: p.41)
7. Religious Improvement	*Improvement in religious life among poor families, as reflected by honesty, discipline, patience, piety, and social responsibility of the poor.*
	Hadisumarto and Ismail (2010: p. 72), Ahmed (2002: p.41)

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