

THE JOURNEY OF ISLAMIC MICROFINANCE IN INDONESIA: A SOCIAL MOVEMENT'S THEORETICAL APPROACH

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Abstract

Although Islamic Microfinance Institutions (IMFIs) have become a new and developing financial industry, the Indonesian community has not explored this organization's journey. Therefore, this study analyzes how the IMFI journey in Indonesia gained public trust and the development to date. A library research approach based on archival records and previous studies was used, and the social movement theory framework was employed to identify factors that influence society's trust in this institution. This paper shows three factors that affect the societal acceptance of IMFIs, which were, first the differences in the roles and functions of other Islamic finance organizations. Second, the passion of IMFI activists for the development and lastly, strengthening legitimacy for IMFIs is significantly needed to establish regulatory legislation. Hence, the findings in this study can become a reference for policymakers towards IMFI development in Indonesia, particularly on the uniformity of legal umbrellas applying to all types of this institution. This paper adds to the literature on IMFIs and contributes new research by employing a social movement approach in the development analysis of the organization, particularly in Indonesia.

Keywords: *Islamic microfinance; Interest-free microfinance; Social movement; Baitul Maal wa Tamwil*

Abstrak

Meskipun Lembaga Keuangan Mikro Islam (LKM) telah menjadi industri keuangan yang baru dan berkembang, namun perjalanan organisasi ini belum digali secara mendalam oleh masyarakat Indonesia. Oleh karena itu, studi ini menganalisis bagaimana perjalanan LKM di Indonesia mendapatkan kepercayaan publik, serta perkembangannya hingga saat ini. Pendekatan penelitian perpustakaan berdasarkan catatan arsip dan



studi sebelumnya digunakan, dan kerangka teori gerakan sosial digunakan untuk mengidentifikasi faktor-faktor yang mempengaruhi kepercayaan masyarakat terhadap lembaga ini. Tulisan ini menunjukkan bahwa ada tiga faktor yang terbukti mempengaruhi penerimaan masyarakat terhadap LKM, pertama, perbedaan peran dan fungsi dari organisasi keuangan Islam lainnya. Kedua, semangat para pegiat LKM untuk pembangunan, dan terakhir, penguatan legitimasi LKM sangat dibutuhkan untuk membentuk peraturan perundang-undangan. Sehingga temuan dalam penelitian ini dapat menjadi acuan bagi pengambil kebijakan terhadap perkembangan LKM di Indonesia, khususnya tentang keseragaman payung hukum yang berlaku untuk semua jenis lembaga ini. Makalah ini menambah literatur tentang LKM dan menyumbangkan penelitian baru dengan menggunakan pendekatan gerakan sosial dalam analisis perkembangan organisasi, khususnya di Indonesia.

Kata kunci: Keuangan mikro Islam; Keuangan mikro bebas bunga; Gerakan social; Baitul maal wa tamwil

INTRODUCTION

Islamic microfinance, or Baitul Maal wat Tanwil (BMT) in Indonesia, is in demand by the public after the COVID-19 pandemic, as evidenced by the many requests for Islamic microfinance services. Purwanto et al., (2022) explained that the increase in financing applications is partly due to the implementing the Islamic microfinance system that follows Islamic law (sharia principles) in its operations. Apart from the application of sharia principles, Islamic microfinance is an alternative to accessing financing for people who have difficulty accessing banks. Increased public knowledge of Islamic microfinance is also the cause of the high demand for Islamic microfinance services, indicated by an increase in Islamic financial literacy, which was previously indicated by an increase in financial literacy from 8.1% in 2016 to 8.93% in 2019 (Purwanto et al., 2022). This increase in demand for Islamic microfinance services shows the public's desire to adopt Islamic microfinance is relatively high.

The Islamic Microfinance Institution operates based on sharia principles, both in the products and services (Ulfi et al., 2023) and interest prohibition (Nasim et al., 2020). The Islamic Microfinance Institution also has different mechanisms from the conventional microfinance institutions (Abouchatir, 2023; Fianto et al., 2019). Islamic microfinance institutions (IMFIs) have experienced rapid development over the past three decades in various countries, such as women entrepreneurs in Malaysia is prefer to choose Sharia principles that seem easy to understand and defend their



interests. They have primary knowledge of *Mudharabah* and *Musyarakah* and quite practice intrinsic and extrinsic religiosity but lack the proper entrepreneurial skills. Therefore, women entrepreneurs in Malaysia prefer to use the services provided by IMFIs over other microfinance institutions (Islam & Ahmad, 2020).

However, in Bangladesh, there is an increase in the urban population of the poor and slums caused by the migration of people from the village to city for the job, displacement from houses, insecurity, poverty, education, natural disaster, etc. It is the government's responsibility to overcome these problems (Mia, 2023). The establishment of IMFIs in Bangladesh can provide financial assistance for the poor to start small businesses without incurring miserable interest expenses (Hossain, 2019).

In Pakistan, the development of IMFIs is caused by the performance factor of the State Bank of Pakistan, which is considered less good in providing services to the community. The lack of initial capital and targets owned causes not all people to transact at the Bank. This is one of the problems that the government must solve by promoting IMFIs as microfinance institutions that can be accessed by all levels of society in Pakistan (Ayaz et al., 2019). Meanwhile, in China, The anecdote which states that the use of interest is usury causes the Muslim community to try to avoid transactions using conventional banks. This has become a driving factor for the development of IMFIs in mainland China, which began in Ningxia, China (Sarker et al., 2019).

The development of IMFIs in India has increased since Bait-un-Nasr (BuN) Urban Cooperative Credit Society, located in Mumbai, India, has been successfully providing interest-free microfinance services (Mohammed & Waheed 2019). The development of IMFIs in Indonesia has progressed a lot since its establishment in the early 2000s. Currently, the government is trying to maintain consistency in the performance of IMFIs, which have helped the poor in rural areas (Fianto et al., 2019). However, to increase the reach of IMFIs, each agency needs to channel and provide a reliable source of funds from the government. In addition, to increase its role in providing non-financial facilities, interested parties need to cooperate with external parties, such as universities, government, non-governmental organizations, private companies, and state-owned enterprises (Wasiaturrahma et al., 2020).

Indonesia is a developing country that has the fourth largest population in the world, with a Muslim population as the majority. Therefore, a great opportunity exists for IMFIs to significantly assist this country in overcoming development and poverty problems (Setyowati & Rahayu, 2020; Solikhah et al., 2020). In Indonesia, most IMFIs are known as *Baitul Maal wat Tamwil*



(BMT), and their legal statuses are designated as cooperatives under the supervision of the Ministry of Cooperatives and small-medium enterprises (Wulandari, 2019). According to No. 16, 2015 of this ministry's regulation, IMFIs is a cooperative that runs a savings and loan business based on Sharia principles (Mawardi et al., 2019).

The development of IMFIs in Indonesia can be perceived from history and institutions. From the historical angle, these organizations emerged in 1984 as Baitul Tamwil Teknosa in Bandung (Choiruzzad & Nugroho, 2013), and this was followed by *Ridho Gusti* in the same city in the year 1990 (Masyita & Ahmed, 2013). In 1992, *BMT Bina Insan Kamil* (Antonio, 2011; Solikhah et al., 2020) was formed, and other IMFIs in several regions in Indonesia came afterward. Studies by Yusri (2011), as well as Adnan and Ajija (2015), showed that sharia cooperatives under the new label BMT in 1995 increased rapidly until the end of 2010 after being promoted by *Pusat Inkubasi Bisnis Usaha Kecil* (PINBUK). This rapid growth started in 1995 with a giant leap during the Asian financial crisis of 1997 and 1998. According to the database of the Center for PINBUK, there are presently 3,874 BMT, and based on reports from the *Komite Nasional Keuangan Indonesia* (KNKS), 4,500 BMT units are currently serving 25.67 million poor people in Indonesia (Komite Nasional Ekonomi dan Keuangan Syariah, 2019). The second aspect is based on institutions, indicating that IMFIs in Indonesia has developed in terms of organizational and managerial completeness, increasingly varied products (Solikhah et al., 2020), as well as in the totality of the internal control system (Wardiwiyono, 2012).

Several previous studies have discussed the evolution of IMFIs in Indonesia. Amalia's (2016) book entitled "Keuangan Mikro Syariah" discusses forms of Islamic microfinance institutions to study the case in Islamic financial institutions. As Sakti (2013) found, the need for regulation and supervision of IMFIs in various regions, such as East Java, Central Java, and West Java, has quite a high demand. Despite the previous study, the IMFI's evolution into an important industry is a neglected area of research and current studies have adopted a static approach without analyzing emerging growth pathways and organizational survival. Furthermore, none has upgraded the explanation for the efforts of IMFIs in seeking social legitimacy in Indonesia.

Efforts to gain this public legitimacy can be seen as a movement with roots in sociological research (Jenkins, 1983; Mccarthy et al., 2009) and management (Hambrick & Chen, 2008). Meanwhile, Hambrick and Chen (2008) examined strategic management science in an attempt to gain legitimacy among US academics, and three factors were noted to function in



the acceptance of this strategy. These were differentiation from existing knowledge, mobilization of community members, and legitimacy building.

Consequently, Hambrick and Chen (2008) theory is used extensively for management research (Greckhamer & Cilesiz, 2020; Schrempf-Stirling & Buren, 2020), entrepreneurship (Servantie et al., 2016), international business (Engwall et al., 2018), and accounting (Peng et al., 2013). This concept is used to understand and analyze institutions' origin, change, and evolution under various circumstances. Therefore, this study aims to improve the understanding of institutional transformation by examining the factors that cause the development of IMFIs and general acceptance by society. The findings in this study practically become a reference for policymakers towards IMFI development in Indonesia, particularly on the uniformity of legal umbrellas applying to all types of this institution. By reviewing IMFIs through a social movement approach, the process of gaining the trust of the Indonesian people by these organizations can be reviewed.

LITERATURE REVIEW

Islamic Microfinance Institutions

Unlike Islamic banks, the history and development of IMFIs have not been documented by much research. Several studies have written this history as part of the development of the Islamic philanthropic institution of zakat and waqf (Sadeq, 2002), and as the establishment of an Islamic bank in Egypt during the early 1960s (Dusuki, 2008). The Muslim Fund Deoband in India was the first Islamic microfinance institution formed in 1961 (Hamidah et al., 2017), which was not entirely based on Islamic principles. However, it has played an essential role in alleviating the poor from moneylenders' bondage by providing interest-free loans (Khan & Nisar, 2004). The next IMFIs was created in 1986 when the Malaysian government started an agenda to provide interest-free loans without collateral through Amanah Ikhtiar Malaysia (Ismail, 2001). Although several IMFIs have appeared in various countries since then, there is limited documentation concerning their history and development, including in Indonesia.

In Indonesia, several studies have been conducted on the development of IMFIs. These include research by Seibel (2008), which discussed the advancement of these institutions with a segment on cases that occurred in Aceh before 2008. Furthermore, Sakai (2010) analyzed the role of IMFIs in women's empowerment and how the product services in Yogyakarta are perceived, while Antonio (2011) tried to highlight IMFIs's potential role in developing small and medium enterprises. Anwar et al., (2023) analyzed



Islamic microfinance's role in empowering MSMEs in Indonesia. As a comparison, Samad (2014) stated the role of IMFIs in overcoming poverty experienced by people in India. This matter has been proven by the survey services provided to its customers. Racism against the Indian Muslim community makes it difficult for the poor Muslim community to obtain access to finance in India. Therefore, the role of IMFIs in providing financial access for the Indian Muslim community has an enormous impact in overcoming rampant poverty. However, no research so far has studied IMFIs' efforts to gain legitimacy in the community.

Social Movement Theory

The social movement theory has comprehensive and useful elements to explain complex and dynamic processes (Bewley et al., 2018), such as IMFIs development. Therefore, the social movement approach can explain the complexity of this community development process. Meanwhile, these movements have been studied repeatedly in sociology and management research, but little has been done on IMFIs.

The term "social movement" describes the process of a new practice, method, or perspective to gain greater public acceptance (Merton, 1973). This theory was initially developed to understand the various mass movements in the 1960s, such as the civil rights movement in America (Jenkins, 1983). However, the social movement model is confrontational because it desires change and opposes established institutions (Mccarthy et al., 2009). The implementation of the social movement model in Indonesian financial institutions has previously been studied by Handayani et al.. (2018). Adopting Bourdieu's field concept to place the institution in its broader environmental context shows that the urgency and development of the IMFI in Indonesia have been shaped by an extensive process of socio-political change, particularly for the role of Islamic movements and politics in Indonesia.

The social movement model evolved during development to explain movements seeking admittance or legitimacy in various contexts. For example, the rise of shareholder activism (Davis & Thompson, 1994) and the emergence of new intellectual movements such as pragmatism in philosophy (Frickel & Gross, 2005) were explained. Also, the strategic management community movement, which sought admittance as a new discipline separate from management (Hambrick & Chen, 2008) was described by this model. This admittance-seeking social movement (Hambrick & Chen, 2008) seeks to fix already established organizations to promote mutual development and not to overthrow them. Therefore, this research views the IMFIs development



process in Indonesia as a process of seeking recognition rather than confrontation to conquer other financial institutions.

The model generally includes three elements: differentiation, mobilization, and legitimation building (Hambrick & Chen, 2008). Differentiation refers to the presence of important problems that are unresolvable by current institutions, therefore strongly validating the existence of IMFIs. Mobilization is the process where the IMFIs community controls owned resources to perform joint efforts for the advancement of the institutions while building legitimacy is an acknowledgment of their existence.

METHOD

This research is based on data archives that are accessible by the public. These include scientific articles related to IMFIs sourced from Scopus and Google Scholar, IMFIs laws, government regulations, and fatwas, as well as documents issued by related institutions, as shown in Table 1.

Table 1. Data sources

Data	Data source	Explanation
Scientific articles	Scopus Google Scholar	Keywords used to search for articles: "Islamic microfinance," "Islamic micro finance," "Interest free microfinance," "Baitul maal wa tamwil"
Regulations	www.depkop.go.id	Law No. 25 of 1992 concerning Cooperatives
	www.ojk.go.id	Law No. 1 of 2013 on Microfinance Institutions
	www.dsnmui.or.id	Fatwa regarding the Product contract of Islamic financial institutions
Other documents	www.knks.go.id	Islamic microfinance strategy on Indonesian Sharia Economy Masterplan 2019-2024

Source: Author's Analysis (2023)

Table 2. Coding used in data analysis

Acronym	Organization
D	Differentiation
M	Mobilization
LB	Legitimacy Building

Source: Author's Analysis (2023)

The data analysis followed a study by Peng et al., (2013) and used a coding system based on the classification of collected data. Then, these articles were grouped according to a conceptual matrix in which the rows were designated by 'code' and the columns were titled 'findings', sorted by time as shown in Table 2. This improved the ease of finding patterns and relationships from the collected data. Furthermore, it was outlined as arguments to answer the research problem.

RESULT

The Evolution of Islamic Microfinance Institutions Development in Indonesia

Islamic economic development and microfinance in Indonesia differ from other countries, and this growth occurs in a changing political economy (Choiruzzad, 2012). Subsequently, the IMFIs development in Indonesia, shown in Figure 1, was marked by establishing the first Islamic microfinance institution. This was called *Baitul Mal wa Tamil* and was formed by *Masjid Salman* of the Bandung Institute of Technology (ITB) in 1984. BMT originated from the Tenos Expertise Services Cooperative which was founded in 1980 (Choiruzzad, 2012), and during this time, the development was slow because of the possession of minimal knowledge related to Islamic finance practices.

The government began to support the development of BMTs through Law No. 25 of 1992 concerning Cooperatives, as most of these institutions were classified as such (Choiruzzad, 2013). Consequently, this development was increasingly significant in 1994 (Choiruzzad & Nugroho, 2013), and in 1995, the Small Business Incubation Center (PINBUK) was established. This institution advocates for weak economic communities by developing micro and small businesses and pioneering the development of microfinance institutions, including BMT (Handayani et al., 2018).

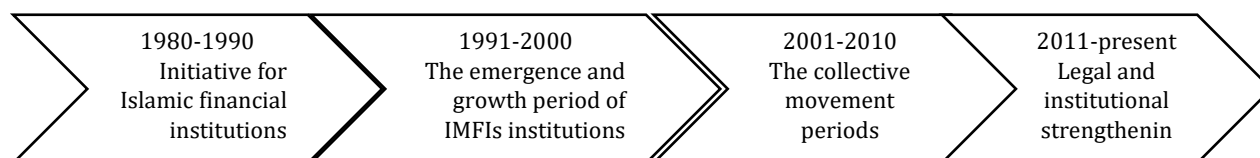


Figure 1: The evolution of the development of IMFIs in Indonesia

Source: Handayani et al., (2018)

In the early 2000s, the government, through relevant ministries, initiated the Joint Movement for the Development of Indonesian Microfinance, which then urged Bank Indonesia to issue special regulations for microfinance institutions. Subsequently, in 2001, the microfinance institution Law Draft was submitted by *Bank Indonesia* to the Ministry of Finance and then forwarded to the parliament to be ratified, which took a long time afterward. In 2003, *Bank Indonesia* and the Promotion of Small Financial Institution conducted a formulaic review of microfinance institution management and produced suggestions on their legalization, service coverage expansion, and operational areas.

Then, in 2004, the Minister of Cooperatives regulated a sharia microfinance institution, popularly known as BMT, while the Indonesian BMT



Association (*Perhimpunan BMT/PBMT*) and the BMT Association of Indonesia (*Asosiasi BMT Seluruh Indonesia/ABSINDO*) were born in 2005. Also, PBMT Ventura and PBMT Institute were established in 2007, while Law No. 1 of 2013 on Microfinance Institutions was passed in 2013.

DISCUSSION

IMFIs Social Movement

The theory in this section explains how IMFIs can be accepted by the community. Consequently, a social movement approach highlighting how new institutions seeking acceptance can be successful by employing three (3) factors, namely differentiation, mobilization, and building legitimacy, was used (Hambrick & Chen, 2008) as compiled in Table 3.

Table 3. Element of IMFIs Movement

Acronym	Organization	Argument	Author
D	Differentiation	1. Product scheme 2. IMFIs Role	(Rahman, 2010; Smolo & Ismail, 2011; Antonio, 2011; Wulandari, 2019) (Riwajanti, 2014; Ulfi 2018; Sakai 2010; Adnan & Ajija, 2015; Mariyanti & Mahfudz, 2016; Riwajanti, 2014; Rokhman, 2013)
M	Mobilization	1. Community movement 2. Organization movement 3. Government movement	(Sakai, 2010; Samad, 2014) (Choiruzzad & Nugroho, 2013; Hadisumarto & Ismail, 2010) (Handayani et al., 2018)
LB	Legitimacy Building	1. National 2. International	(Wahyudi, 2014; Masyitoh, 2014) (Beik et al., 2018)

Source: Author's Analysis (2023)

Differentiation

The IMFIs have established themselves as a differentiated institution, which requires it to complement and not threaten existing organizations. Therefore, they must "position themselves at the intersection of several existing fields, not within them." Also, the new institution should demonstrate some unique benefits for the "advancement of knowledge and a wider society" (Hambrick & Chen, 2008).

IMFIs emerged because of an unbankable society's need for microfinance services according to Islamic principles. Poor people have limitations in accessing banking services because they are deemed unfulfilling



in the requirements for obtaining credit or financing support (Anwar et al., 2023). Although IMFIs have similar product schemes to other Islamic finance institutions, they target the unbankable or underprivileged group (Ulev et al., 2023). These product schemes IMFIs use are *mudharabah*, profit and loss sharing, and *musharakah* or partnership. Also, *murabahah*, which means cost plus markup sale contracts; *ijarah*, meaning leasing contracts; as well as *qardhul hasan*, or benevolent loan, are utilized by these institutions (Rahman, 2010; Smolo & Ismail, 2011).

An example of the implementation of the product scheme was carried out by BMI in 1998, which succeeded in creating a profit-sharing-based subsidized credit program called KKPA as a credit facility for cooperative members (Antonio, 2011). Moreover, as one of the IMFIs, BMT has two main functions: *Baitul Maal*, which focuses on social functions by collecting and distributing *zakat*, and voluntary charities such as *infaq* and alms. *Baitul Tamwil* functions as a financial intermediary that manages funding and savings activities that low-income people need through various Islamic financial products and services (Wulandari, 2019).

Bank Indonesia stipulates that Islamic bank financing for micro, small, and medium enterprises should be performed directly or through partnerships with other financial institutions, such as IMFIs. This cooperation program can take the form of several schemes, such as distribution, implementation, or co-financing (Bank Indonesia, 2013). The contribution of IMFIs to the total microfinance industry in Indonesia is higher than other Islamic financial sectors, including banks, capital markets, and other non-bank financial institutions. Therefore, in July 2019, the Islamic financial sector contributed 8.71% of Indonesia's total assets.

IMFIs that are structured as BMTs are unique in their dual functions. On the one hand, BMT, acting as *Baitul Maal*, operates as *amil* in managing social funds, such as *zakat*, *infaq*, and alms. These funds can also serve as sources of capital to provide financing with a *qardhul hasan* contract (Al-ani, 2013; Wulandari & Kassim, 2016). Meanwhile, BMT became *Baitul Tamwil*, which performs financial intermediation by managing funding and lending. This financing mechanism can be implemented via two schemes, namely profit-loss and non-profit loss-sharing (Fianto et al., 2019; Maulida, et al., 2019).

Generally, the differences between IMFIs and conventional microfinance organizations can be observed from three main aspects. The first involves their three missions, which are commercial, social, and religious. Then, the wider business scope, which includes microfinance and social



finance, and finally, regulation by the Sharia supervisory board. Ahmed (2002) noted several differences between IMFIs and conventional microfinance, the most important being the ability to receive funding from Islamic charities. These funds include zakat and waqf, which IMFIs can provide to serve the most destitute people and assist them in meeting their basic and business capital needs.

Antonio (2008) argued that IMFIs serve the poor through a better approach than conventional microfinance organizations due to simple administrative processes and product flexibility. However, these institutions face problems with Islamic and conventional commercial banks, which have more branches, thus making competition difficult (Riwajanti, 2014).

Several studies have been conducted to assess the potential role of IMFIs. One discovered that BMT contributes to women's empowerment (Ulfi, 2018), helps the development of MSMEs (Antonio, 2011), and alleviates poverty (Adnan & Ajija, 2015; Mariyanti & Mahfudz, 2016; Riwajanti, 2014; Rokhman, 2013) by applying Islamic values and work ethics (Rokhman, 2014).

Mobilization

The social movement's success in developing IMFIs has received immense support from structural opportunities through the description of political, social, and economic situations (Mohamed & Elgammal, 2023). The movement to establish IMFIs and BMTs received strong support from Islamic community organizations in the 1990s and attracted the interest of newly graduated Muslim academics to create or work at BMTs (Sakai, 2010).

The establishment of Islamic microfinance through BMT is for poverty alleviation. The results of the study stated that the ME selection process; business control; incentive system; and fostering good relations are substantial factors that can not be ignored in achieving the effectiveness of BMT financing (Hadisumarto & Ismail, 2010). Hans Dieter Seibel and Agung (2005) stated that BMT was an answer to ICMI's (*Ikatan Cendekiawan Muslim Indonesia*) concern, which observed that the Islamic banks' development until 1998 entailed only one headquarter with ten branches and as such, was unfulfilling of the public's demand for Islamic financial services. The ICMI also initiated the establishment of the Small Business Incubation Center (PINBUK) to support BMT growth (Handayani et al., 2018).

In 1994, ICMI sponsored establishing eighty-five BMTs in Aceh and Lampung. Meanwhile, Dompot Dhuafa collaborated with *Republika* and in the same year, the 1001 IMFIs programs in Indonesia were launched by this organization (Choiruzzad & Nugroho, 2013).



Furthermore, the Suharto government in 1995 provided full support for the development of BMTs (Handayani et al., 2018), which was replicated by other institutions. This includes the *Induk Koperasi Syariah* (Sharia Cooperative Center/Inkopsyah), a secondary cooperative at the national level that provides savings and loans for its members. Others are the *Perhimpunan BMT* or PBMT center, and *Asosiasi BMT* (Handayani et al., 2018) *Dompot Dhuafa*, *Nahdlatul Ulama* (NU) (Choiruzzad & Nugroho, 2013). Mass organizations, such as NU and *Muhammadiyah* are associated with IMFIs, and play significant roles in their development (Handayani et al., 2018). Seibel (2008) states that 95% of BMTs are affiliated with NU, while 5% are associated with *Muhammadiyah*.

Associations involving the IMFIs community have important roles in pushing their agenda, therefore, the government is willing to accommodate the need for legal guarantees and special regulations (Handayani et al., 2018). This results in combining several laws and regulations governing IMFIs with other microfinance organizations, such as conventional cooperatives. It does have resulted in various problems and unclear legal differences for sharia micro-institutions and conventional cooperatives.

IMFIs correspond with the government program in providing financing for MSMEs and can also be of assistance and this has occurred since the reign of President Soeharto (Antonio, 2011). Meanwhile, several factors have been shown to support the mobilization of IMFIs. These include providing government regulations, and cooperative and microfinance institution laws to assist, supervise, and evaluate BMTs. Also contained are the implementation of standard operational management guidelines that regulate the establishment, management, and assessment up until the dissolution of BMT. Further included are the establishment of BMT associations to function as forums in Indonesia, such as the Indonesian BMT Association (PBMT), and the BMT Association throughout Indonesia (ABSINDO). Finally, Liquidity providers or APEX, such as *Permodalan Nasional Madani*, *Permodalan BMT*, Inkopsyah BMT, and PBMT Ventura, as well as BMT consultants such as *Microfine Indonesia*, BMT Center, PINBUK, also provide support (*Komite Nasional Keuangan Syariah*, 2019).

IMFIs development is a "unique grassroots" financial Islamic movement in Indonesia (Sakai, 2014), and these institutions exist largely outside regulatory mechanisms because they operate as member-based cooperative organizations without government assistance or intervention. Also, they are immune to the systemic risks arising from interdependence



because each IMFIs is an independently operating entity (Obaidullah & Khszan, 2008).

Legitimacy Building

A logical argument that can explain the legitimacy of IMFIs is the United Nation Development Programme's (UNDP) recognition of the involvement of these institutions in the realization of the SDGs. Through four categories of Islamic microfinance instruments, namely profit-sharing financing, non-profit financing, and loss sharing, Islamic social enterprise-based financing, and charity-based financing, it turns out that it has positive implications for the real sector of a sustainable economy that will lead to the achievement of the SDGs (Rashid et al., 2018). Moreover, UNDP acknowledged the role of IMFIs in supporting the poor by contributing to productive activities and increasing income and savings. Therefore, UNDP has collaborated with IMFIs in various countries, including Indonesia, to support entrepreneurs in building their SMEs by providing technical assistance, business development, training, awareness, capacity building, and monitoring (Beik et al., 2018).

The Indonesian government provided full support for developing the Islamic economy, including IMFIs, by transforming the National Committee for Sharia Economics and Finance (KNEKS) into was National Sharia Finance Committee (KNKS) before 2021. This committee is tasked with accelerating, expanding, and advancing the development of Islamic economics and finance to support Indonesia's economic resilience. KNEKS has specifically published the book, "Recommendations on Sharia Microfinance Strategies" (*Komite Nasional Keuangan Syariah*, 2019).

However, a problem exists with the legitimacy of BMT. According to Masyitoh (2014), from inception until now, there has been no legality and many of these institutions merely choose to be regulated by cooperative legal bands. Therefore, BMTs are subject to the cooperative rule, Law No. 25 of 1992 concerning Cooperatives which has been amended into Law No. 17 of 2012, as well as Ministerial Decree Number 91/KEP/ M.KUKM /IX/2004 concerning Guidelines for the Implementation of Sharia Financial Service Cooperatives and Business Activities. The Implementation Guidelines, Technical Instructions, Standard Operating Procedures, and Management Operational Standards further outline these legal rules. Consequently, all these regulations are subject to Ministerial Regulation Number 352/PER/M.KUKM/X/ 2007 concerning Standard Operational Guidelines for managing Sharia Financial Service Cooperatives and Business Units.



Hence, *Baitul Maal wa tamwil* (BMT) exists as an Islamic financial service cooperative and not as a microfinance organization, which has presented an excellent application on several issues. First, as cooperatives, BMTs are not permitted by regulation to withdraw public funds, either as savings or time deposits, which controls the amount they can easily raise. Therefore, these institutions can only rely on members' primary, mandatory, and voluntary savings, all of which are limited in amount and bound by a charter or household budget. Other accessible funding sources are loans and third-party donations. Second, BMTs cannot channel their funds to the greater public through financing, except for their members, which creates boundaries in the operations of these organizations (Wahyudi, 2014).

Since Law No. 1 of 2013 concerning Microfinance Institutions, the institutional status of BMT legal entities has become a separate burdening issue. Most of the existing institutions are legal cooperatives with small and medium scale enterprises and a wide range of businesses covering several cities, districts, and provinces. However, regulating BMTs as Micro Finance Institutions as in Law No. 1 of 2013 limits their business scope. Therefore, if these businesses wish to expand to other cities or regencies, they must transform into microfinance institutions (Masyitoh, 2014), which are under the supervision of the Financial Services Authority (Wahyudi, 2014).

CONCLUSION

Although IMFIs is an Islamic financial institution that plays essential roles such as community empowerment, provision of financing for SMEs, and poverty alleviation, these functions are insufficient to acknowledge IMFIs' existence in the community. Therefore, in the context of social movements, three (3) factors were shown to influence acceptance in society. The first was the performance of different roles and product schemes from other Islamic finance institutions, followed by community, organization, and government mobilization for the IMFI development. Lastly, the legitimacy area still needs to be strengthened by issuing uniform and specific laws to regulate all types of IMFIs in Indonesia.

The theoretical implication of this study is to develop a social movement theory to analyze the development of IMFIs in Indonesia. Conversely, the practical implication is the consideration of the research results by academics, activists, and the government in developing IMFIs. Finally, since this study only used data from scientific articles, laws, and other documents, another data collection method, for instance, interviews with



stakeholders such as a regulator, expert in IMFIs, and practitioners, might strengthen and extend the data.

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