

The Role of Islamic Microfinance for Enhancing Financial Inclusion and Financial Literacy with ANP Method

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Keywords: Microfinance, Financial Inclusion, Financial Literacy.

Abstract: The aims of the research are to know how to solve inclusion and financial literacy problems in Indonesia, to know the priority of inclusion and financial literacy problems in Indonesia, and then to develop strategies to overcome the problems in increasing inclusion and financial literacy based on expert perspective, *BaitulMaalwaTamwil* (BMT) practitioner and BMT regulator. The research method used is qualitative research using ANP (Analytical Network Process). The result of consensus from the expert concludes that the strategy of increasing inclusion and financial literacy is to do it first internally and then externally. Internal strategy by exploring the potential and resources of BMT. Meanwhile, to support sustainability, external strategies are needed: cooperation with creative economic institutions, cooperative ministries, and deposit insurance institutions.

1 INTRODUCTION

Inclusive financial activities become one of the important agenda in the international world. International forums such as G20, APEC, AFI, OECD and ASEAN are intensively conducting discussions on inclusive finance. In addition, inclusive finance has also been included in the priorities of the Indonesian government. In June 2012, Bank Indonesia in cooperation with the Secretariat of the Vice President-National Team for Acceleration of Poverty Reduction (TNP2K) and the Fiscal Policy Agency-Ministry of Finance issued the National Strategy of Inclusive Finance.

Communities have barriers in accessing financial institutions. The high number of people that are unfit for banking or unbankable is caused by the poverty gap between provinces, low MSME financing, high micro credit interest rate, asymmetric information, inadequate management of MSMEs, bank monopoly on micro sector, and limited distribution of financial services. This is the reason for the importance of implementing financial inclusion. The limited number of people in Indonesia who know banks is ironic considering the role of banks being 75.80 percent of total financing assets in Indonesia. Financing of *UMKM* in Indonesia is still relatively low, which

is 20.1 percent of total banking credit. Total financing disbursed to MSMEs amounted to Rp612 trillion.

The Sharia Micro Financing Institution has now grown rapidly beyond the rapid development of other microfinance institutions in Indonesia. This is acknowledged by the Ministry of Cooperatives and SMEs, the government through the Ministry of Cooperatives and SMEs stated sharia financial services cooperatives (KJKS) in the form of *Baitul Maal wa Tanwil* (BMT) is developing very significantly. This is shown by the development of performance of BMT nationally in this year, which has reached assets of Rp4.7 trillion and the amount of financing of Rp3.6 trillion, BMT will play a role as a micro finance institution capable of moving the real sector in society (*Republika*, March 22, 2015). The number of Islamic microfinance institutions that the wider community recognizes as BMT (*Baitul Maal Wat Tamwil*) has now reached over 4,000 units throughout Indonesia (Rizki, 2013). The problems of this research are:

- How is the strategy of *Baitul Maal wat Tamwil* in order to increase literacy and financial inclusion among the community?
- What is the role of stakeholders in increasing literacy and financial inclusion in BMT?

- What is the policy formulation applied in increasing literacy and financial inclusion in BMT?

2 THEORITICAL REVIEW

2.1 Financial Inclusion

The financial literacy and inclusion policy in Indonesia is part of the government's efforts to increase community involvement and knowledge on financial institutions. It is hoped that if society gets more understanding about financial institution, then the utilization of financial institution products will increase. When their usage increases, the role of financial institutions will be more optimal. The optimization of the role of financial institutions is being realized with the allocation of investment toward productive sectors so that the people involved in development and improvement of economic performance become more widespread. Increasing community involvement in the form of productive activities will provide wider employment opportunities to working age so as to increase income and welfare. The government and the private sector also greatly require the involvement of the people in the country, especially in investment activities in financial institutions, through the role of fund raising so that the nation is more empowered from within the country and can reduce the burden of debt and foreign investment flows.

Financial inclusion programs are needed for several reasons. First, it provides financial access for every resident, especially the low-income population. Second, it also provides financial products and services tailored to the needs of the community. Third, it improves public awareness on community finance. Fourth, it strengthens synergies in the financial services industry including microfinance institutions.

According to Wibowo (2013), financial inclusion and access to financial services are two different issues. Financial inclusion is defined as the proportion of individuals or companies using financial services. Financial inclusion is multi-dimensional, reflecting a wide range of financial services, from payment facilities, savings accounts, credit, insurance, pension funds, and capital markets. Financial inclusion also differs between individuals and companies.

2.2 Financial Literacy

Financial literacy can be defined as the ability to effectively evaluate and manage finances in achieving good finance (American Institute of Certified Public Accountants, 2013). Conceptually, financial literacy has two dimensions of understanding financial knowledge in theory and using financial knowledge possessed by application.

In table 1, the financial literacy according to Hung et al. (2009) observations of several financial literacy studies indicates that the definition of financial literacy is used variably as:

Table 1: Definitions of Financial Literacy.

Definitions	Source
Knowledge	
"A basic knowledge that people need in order to survive in a modern society"	(Kim andNofsinger, 2008)
"Mathematical ability and the understanding of financial terms"	(Worthington, 2006)
"Knowledge of basic financial concepts, such as the working of interest compounding, the difference between nominal and real values, and the basics of riskdiversification"	(Lusardi and Mitchell, 2008)
Ability	
"The ability to read, analyze, manage and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future and respond competently to life events that affect everyday financial decisions, including events in general economy".	(Vittet al., 2000)
"Individual's ability to understand financial terms and instruments".	(Bashir et al., 2013)
Knowledge & Ability	
"Individual's are considered financially literate if they are competent and can demonstrate they have used knowledge they have learned. Financialilliteracy cannot be measured directly so proxies must be used. Literacy is obtained through practical experience and active integration of knowledge. As people become more literate they become increasingly more financially sophisticated and it is conjectured that this may also mean that an individual may be competent".	(Moore, 2003)
"The ability to evaluate the new and complex financial instruments and make informed judgements in both choice of instruments and extent of use that would be in their own best long-runinterest".	(Mandelland Klein, 2007)
Focus on debt literacy, a component of financial literacy, defining it as "the ability to make simple decisions regarding debt contracts, in particular how one applies basic knowledge about interest compounding, measured in context of everyday financial choices".	(Mandelland Klein, 2007)
"Measuring how well an individual can understand and use personal finance-related information".	(Huston, 2010)

“Necessary numerical skills and basic economic concept required for educated, saving and borrowing decisions”.

(Kharchenko, 2011)

Source: Hidajat(2015).

Bakhtiari (2006) studied about microfinance and poverty reduction. The resultsshow that microfinance is an effective tool for poverty alleviation. It also explains that microfinance services can contribute to increased allocation of resources, market promotion, and good technology. Therefore, microfinance can help in economic growth and development. The study also shows that the informal financial sector is a response to the shortcomings of the formal financialsector.

Abdul and Abdul (2010) argues that Islamic finance has an important role to contribute in promoting socio-economic for the poor (micro-enterprises) without involving the elements of interest in it. In this study, the author offers ethical schemes that can be tailored to the goals of microfinance for the poor. Such schemes are, *qardhulhasanscheme* within the scope of capital grant, *murabahascheme* within the scope of procurement of goods, and *ijarahscheme* relating to lease.

From previous research, this study along with other researches is trying to see whether the strategies implemented by microfinance institutions especially BMT is effective enough to support inclusive financial policy in Indonesia by

using local wisdom and local genuine owned by study area community.

3 RESEARCH METHODS

3.1 TypesofResearchand Approach

This research is both a qualitative and quantitative research. In this study, the data used is the primary data obtained from the interview (in-depth interview) with experts and practitioners, who have an understanding of the issues discussed. The Based on the results of the identification of previous research analysis reviews, literature studies and in-depth interviews, some problems are obtained in both internal and external nature of selection of respondents in the study is conducted by considering the respondents’ understanding to the problems in the development of BMT in Indonesia. The valid respondent requirement in the ANP (Analytical Network Process) is that they are the people who master or are experts in their field.

3.2 Research Model

BMT encountered in improving inclusion and financial literacy. The identification results are then included in the software superdecisions to obtain the model as shown in figure 1:

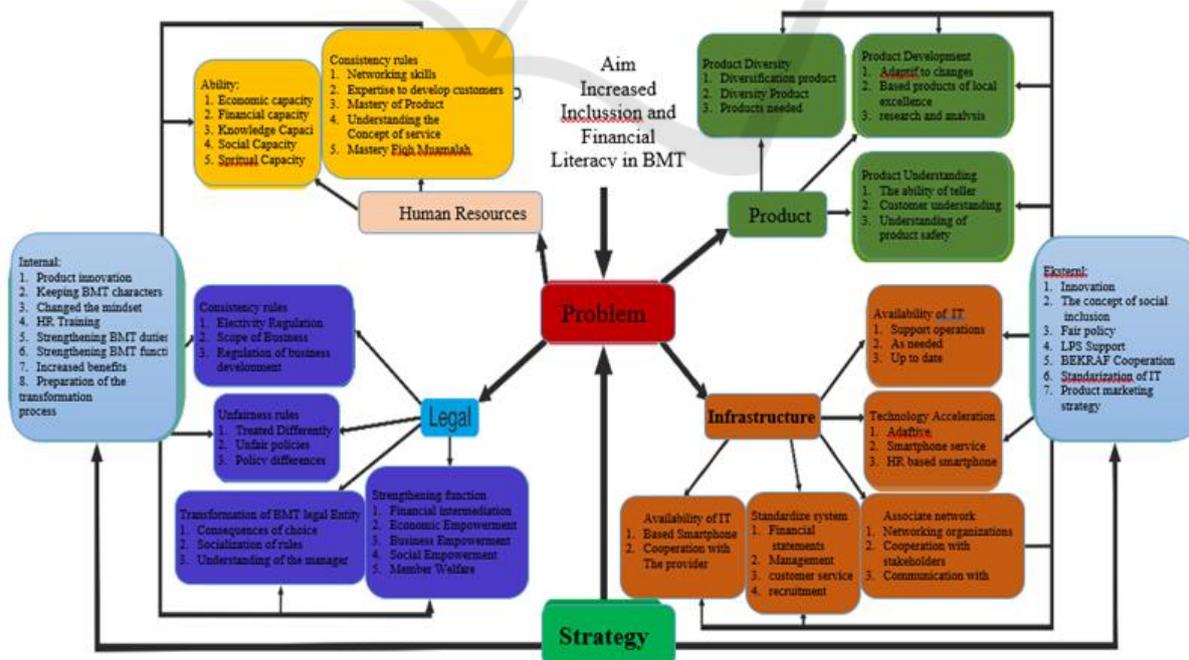


Figure 1: Research model was processed with Software Superdecisions, 2017.

4 RESEARCH RESULTS AND DISCUSSION

BMT have been able to act fairly inclusive in performing its function as a microfinance institution of sharia. This can be seen from the number of members and customers of BMT that experienced a good development in the number and variety of products used. The recruitment system of members with the member get member (word of mouth) system and the recommendations of the old members are able to increase the number of members significantly. In addition, the shuttle system in serving both in deposits and installment payments enhances the level of financing collectability and facilitate customers who have limited time. This strategy can minimize the risk of default in financing disbursed.

Another way to increase the inclusiveness and literacy in BMT is that managers and employees regularly conduct socialization and training or education cooperatives for new members. In the training they are given an understanding of product concepts and cooperative philosophy to strengthen the character of the members. BMT also develop service products based on local needs and in accordance with the economic characteristics of the region in order to support the economic activities of the members. For example, by making a financing product with a system of daily installment payments for traders, serving the financing in accordance with the type of business owned by the members. To answer the needs of consumer financing, BMT serve financing products for the purpose of celebration (wedding, circumcision, or other events). Thus, the attractiveness of BMT as an institution supporting the economic activities of local communities more effective and interested by the community.

To see the effectiveness and problems of inclusion and financial literacy based on expert perspective, the authors also provide questionnaires to expert respondents who are considered relevant and understand the problem of BMT development. There are five respondents who select writers based on expertise and experience in the management of BMT.

Based on the consensus of all respondents, the problems faced in inclusions and financial literacy on BMTs are, in descending order of priority, human resources, followed by legal issues, product problems, and the last is

infrastructure. The human resources problems faced in inclusion and financial literacy on BMT are expertise and ability, in descending order of priority.

The main legal problem encountered in inclusion and financial literacy in BMTs is the transformation of BMT legal entities, the second is the strengthening of functions, the third is the consistency of rules, and the last priority is the unfairness of policies. The main product problem encountered in inclusion and financial literacy on BMT are product development, second is product understanding, and the last priority is product diversity. Problems of infrastructure encountered in increasing the inclusion and financial literacy on BMT is the availability of IT, the second is the readiness of IT, the third is acceleration of technology, the fourth is the standardization of system, and the last is the association network with the cooperatives.

The consensus outcomes of respondents prioritizing the problems encountered in increasing inclusions and financial literacy on BMT are:

- HR issues, with priority issues: (1) ability and (2) expertise;
- Legal issues: (1) transformation of BMT legal entities, (2) strengthening of functions, (3) consistency of rules, (4) policy unfairness;
- Product problems: (1) product development, (2) product understanding, (3) product diversity;
- Infrastructure issues: (1) IT availability, (2) IT readiness, (3) technology acceleration, (4) system standardization, (4) association network with cooperatives.

Taking into account the geometric mean of all aspects and sub-criteria in the questionnaire, internal strategy is considered the main strategy, beating the importance of external strategy. Internal strategies to be performed by BMTs based on priorities include: (1) strengthening BMT function, (2) maintaining BMT character, (3) human resource training, (4) changing the mindset of managers, (5) improvement of benefit and preparation of transformation process, (6) product innovation.

Internal strategy will strengthen the identity and character of BMTs as a microfinance institution and sharia cooperative so it can be used as capital in improving its performance in the future. Strength of character is also one of the

advantages that distinguish BMTs with other financial institutions, such as the model of mutual responsibility and member empowerment. Strengthening the quality of members through training will increase participation and involvement of members/customers in maintaining the sustainability of BMTs. In order for BMTs to have the power of competitiveness and ability to answer the needs of customers, they will have to change the mindset of the board who are just waiting for opportunities and tend to be passive towards the development of other financial institutions both formal and informal. The board must have the vision and the strengthening of competing strategies to develop more progressively.

Another internal factor that needs to be strengthened is the improvement of benefits for members/customers when they take advantage of BMT services. Benefits given can be adjusted with the ability of BMT and sharia conformity. While the transformation opportunities of BMT business entities in the form of cooperatives as well as sharia microfinance institutions are the authoritative rights of the board and members, they still require a positive readiness and synergy between BMT and stakeholders. Socialization of the rules and legal processes needs to be improved so that more BMTs are positioning their legal entity firmly.

The last factor is product innovation. Innovation ability can be improved by researching the needs of members/customers as well as by looking to competitors. On the other hand, in the process of innovation the principle of prudence is also required in order not to violate the provisions of sharia.

From the external side, the strategies are: (1) cooperation with *Bekraf*, (2) social inclusion concept, (3) IT standardization and product marketing strategy, (4) innovation, fair policy, (5) LPS support.

Cooperation with the Creative Economy Agency (*Bekraf*) is one of the strategies that can be done to make BMTs more creative and innovative in facing competition especially at micro level. *Bekraf* provides synergized programs such as the socialization of financial technology (fintech) as an effort to respond to the challenges of technological development in support of various financial transactions including in BMT. Social inclusion as one of BMT identity. Social inclusion or social intermediation in the microfinance as the fulfillment of basic needs, the

formation of entrepreneurial character, and the process of capturing the capacity of the poor so as to be empowered to obtain commercial transactions. Social intermediation mechanisms generally include; introduction and self-development as well as basic accounting and financial management training for members. This is a business strategy to ensure viability and sustainability for the financial services offered. Increased social inclusion will also reduce the cost of supervision and improve the efficiency and effectiveness of better financial intermediation (Dasuki, 2008).

5 CONCLUSIONS

Based on the results of data analysis research, the priority strategy in improving inclusion and financial literacy on BMTs is to use internal strategies by exploiting the potential and resources owned by the BMT. Meanwhile, to support the sustainability of BMTs, external strategies are needed: cooperation with creative economic agencies, cooperative ministries, and deposit insurance agencies. Several recommendations from the results of this study require government support to improve inclusion and financial literacy by providing cooperation opportunities for BMTs with related institutions such as creative economy ministries and cooperative ministries in terms of regulations and policies that are responsive to change as well as in banking, so that BMTs can develop more dynamically and professionally on the interests of SMEs.

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