

House of Gold: The Politics of Faith, Accessibility and Diplomacy in Navigating Islamic
Microfinance (*Baitul Maal wat Tamwil*) in Surakarta, Indonesia

by

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B. Comm. Honours, Memorial University of Newfoundland, 2007

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Supervisory Committee

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Abstract

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This research investigates how Islam is informing capitalism in Indonesia through an analysis of the *Baitul Maal wat Tamwil* (BMT) model of Islamic microfinance and how it operates as a local variant of the global phenomenon of microfinance. Using an ethnographic case study of BMT Solo, in Colomadu, Surakarta, Indonesia, this thesis examines the relationship value between Indonesia's historical religious tensions and the influence of this form and practice of Islamic microfinance in Indonesia. This is a qualitative study for which original data was collected through field work conducted from August to November 2013. Qualitative methods and narratives were employed to ensure that the voices and stories of the participants, as they see the issues from their perspective, are heard. Field observations, event analysis and data from 14 semi-structured interviews reveal that: while global conventional microfinance aims to eradicate poverty by providing the poor with access to credit, BMT Solo does not issue loans to the poor but rather works to combat poverty through the *baitul maal* function. As the data demonstrate, the way in which BMT Solo administers their *baitul maal* function results in the exclusion of the poor non-Muslim community in Colomadu reinforcing already delicate religious tensions between Muslims and non-Muslims in Indonesia. The data also elucidate the three main reasons for which founders, managers, staff and customers became involved with BMT Solo. One pattern that can be identified

from the analysis, is that generally, with a few exceptions, founders and managers were motivated by reasons of faith while staff primarily by reasons of accessibility and customers by both reasons of accessibility and diplomacy. Diplomatic reasoning refers to community diplomacy and the elements of social pressure and conformity which are often associated with maintaining peaceful and harmonious relations. The reasons of diplomacy bring new insights into how the few non-Muslim BMT Solo customers are using Islamic microfinance to diplomatically co-exist in a majority Muslim community and to manage delicate religious tensions to mitigate potential difficulties.

Key words: Microfinance, *Baitul Maal wat Tamwil*, BMT, Islamic microfinance, rotating credit association, *arisan*, *gotong royong*, *rukun*, Colomadu, Surakarta, Indonesia, field work, ethnography, Islamic banking and finance, IBF, Islam, and religious tensions.

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Dedication

For Papa,
who taught me to push the limits of the proverbial box.

For Elliott (πR^2),
that you will squish the box.

In memory of my Godfather, Ray Siwec.

01.26.1947 – 11.11.2014

Preface

This study is based on intensive field work conducted by the author in an Indonesian city. The following three excerpts from the author's field work journal offer some insight into reflections while conducting the 2013 field work. These are meant to provide the reader with a mere glimpse into the relations through which the research material were collected and into field experiences that yielded the thesis.

Friday August 9, 2013.

It was the beginning of my 2013 field work and I was full of anticipation and excitement. I was also exhausted, having spent more than 24 hours traveling via ferry, train, bus, and plane from Canada to Indonesia. I was nearing the end of my journey and had just settled into my seat on board a flight headed from Jakarta to Surakarta, my final destination, when there was a commotion. I stood up to discover that the other passengers were all crowding around a handsome Indonesian man who had graciously stopped to let them shake his hand and smiled as he posed with them for multiple photos. By his popularity I assumed that he was one of the many famous Indonesian movie stars. Surprised that a presumed celebrity had chosen to sit in economy class with me and the rest of the common people, I dismissed the excitement, too tired to be more interested, and sat back down hoping to get some rest. Curiosity, however, got the better of me and I leaned over to the woman sitting next to me asking her for the identity of the man. The man, she said, was Joko Widodo, former mayor of Surakarta and the man who would go on to become Indonesia's 7th president in 2014. Little did I know, how important this man would be to my research....

October 2013

I remember the first time I wore a *hijab*.¹ It was a warm Sunday night in May 2012, shortly after the sun had set. I was conducting a pilot project at BMT Solo and was going to meet the manager, Ibu Dwi, for the first time. I found myself sitting on the back of a motorcycle behind my friend as she drove slowly down the road towards Ibu Dwi's house. By rights we could have walked since our destination was just a few blocks around the corner. However, together with the humidity and daytime temperatures in the high 30s (centigrade), sometimes reaching the low 40s, and evening temperatures in the high 20s, it's considered too hot to walk anywhere in Indonesia and thus only ignorant tourists and those who have no other choice walk.

I pressed down on my one-size-fits-all helmet to make sure it was still snugly on my head having tried to put it on without messing up my *hijab* which my friend and her sisters had painstakingly helped me to pin up. I had insisted on wearing a helmet over top of my *hijab*, despite being told it was unnecessary since no police would be around to give us a ticket; helmets, in Indonesia, are less about safety and more about avoiding hefty fines and bribes which explains why the protective gear rarely fit properly.

Muslim fashion is playing an increasingly important role in the Indonesian couture² industry and in Islamic finance. I found myself mesmerized by the colors,

¹ Most Indonesian Muslims use the word *jilbab* to refer to the *hijab* or the covering of the head and neck using a veil or scarf. However, outside of the Indonesian context the term *jilbab* can refer to a cloak or long garment worn by Muslim women. Thus, to avoid any confusion I have chosen to use the term *hijab* to refer to the covering of the head and neck using a veil or scarf. For more information, see Hijab, (2003).

² With 18 Muslim fashion designers featured at Jakarta Fashion Week 2015, Sapta Nirwandari, Deputy Minister of Tourism and Creative Economy, expects Indonesia to become the world's leader and trendsetter for Muslim fashion by 2020. For more information, see <http://www.ummid.com/news/2014/October/17.10.2014/islamic-fashion-indonesia.html>

accessories and infinite number of styles and ways of adorning the *hijab*. Though I am not a Muslim, as an amateur seamstress I appreciated the elegant, glamorous and often sexy look of the *hijab* and wished to have an opportunity to model the veil. Thus, I was delighted when Ibu Dwi informed me that one of the conditions of my being able to conduct research at BMT Solo required that I wear a *hijab*. Although many customers choose to go unveiled, the *hijab* is part of the dress code for female employees and managers of Islamic banks and BMTs in Indonesia.

There is a growing popularity among young Indonesian Muslim women in their 20's and 30's in choosing to wear the *hijab* of their own accord.³ For many, it is simply a fashion statement. Others wear it for spiritual reasons. For instance, one of my friends, who began wearing the *hijab* when she was 27 years old, told me that it made her feel closer to *Allah*. Some women explained to me that the *hijab* protected them from unwanted attention. There is an unspoken rule of etiquette in Surakarta and many parts of Indonesia that a man cannot touch or call out to a woman wearing a *hijab*. I found that the *hijab* silenced the daily whistling, cat-calling, and marriage proposals I received when I did not wear it. Instead I was told repeatedly that I was a very good person. My experience reflects the widely held belief in Indonesia that a modestly dressed Muslim woman is inherently good, holy and deserving of respect while the woman who wears revealing clothing is sometimes seen as immoral, loose and asking for whatever abuse may pursue her.

In addition to the safety I felt my *hijab* provided, it also afforded many other benefits. I did not need to wear sunscreen, a hat or mosquito repellent and I never had to

³ For more on the *hijab* fashion industry in Indonesia see Elise Young's (Perth, Australia) and *Héloïse* Pierre's (Manosque, France) documentary titled "*Hijab* Style: Faith or Fashion." http://www.youtube.com/watch?feature=player_embedded&v=-xydQQTEAFM

worry about having a bad hair day. Status is extremely important in Indonesian society and I discovered that the *hijab* generated instantaneous respect both personally and professionally. It made going through customs and immigration a breeze and it facilitated my research.



Figure 1: The author wearing an elaborate *hijab* and traditional Javanese dress for a neighbour's wedding reception.

For both Muslim and non-Muslim Indonesians, the *hijab* is a sign (not necessarily a sign in Islam) that one has already converted or is in the process of converting to Islam. Thus, I endeavoured to ensure that all of my research respondents and as many of my neighbours as possible knew that I am not, nor would I become Muslim, despite my wearing the *hijab*.

Believing it to be a rejection of their non-Muslim beliefs, a few of my Christian Indonesian friends took great personal offense to my covering my head with a *hijab*. At first I was confused as these same individuals were initially supportive of my research on

Islamic microfinance and repeatedly told me how well Indonesian Christians and Muslims work together. In hind sight I realized that these friends were attempting to deny the existence of religious tensions while also competing for my conversion. Despite my assertions to the contrary, my *hijab* was their evidence that I had been indoctrinated. Religious tensions are high in Indonesia though they lie just under the surface of a seeming peace; sadly, my *hijab* caused an irreconcilable difference for three of my non-Muslim friends.

Friday November 8, 2013

From outside, the *rumah makan* or restaurant looked like a small private home with lace curtains in the front window. The only indications that it served food were the bowls of cold, fried whole fish, boiled chicken legs, and dark green leafy vegetables displayed on shelves in the window in front of the lace curtains. Two girls dressed in identical blue uniforms were sitting on a white bench in the front entrance laughing quietly with each other as they looked intently at something on their Blackberry. A man was sitting in the corner smoking a cigarette. He acknowledged us with a nod and a stare as we passed him but otherwise ignored our presence. A young girl, dressed in plain street clothes hesitantly approached us with two plates and a spoon, ready to dish up our food out of the buffet that was spread out in front of the window. We took our plates of rice, chicken and salty boiled eggs and walked past the two giggling girls through a doorway into what looked like a dingy cafeteria from a Vietnam War movie. The dirty fans above our heads spun rhythmically casting shadows across the very dimly lit room. There were several long wooden tables and benches at which sat more young women all

in blue uniforms, some wearing a matching blue *hijab*, others not, and still others wearing a light blue hair net over their heads. Some of the ladies were preoccupied with watching the TV in the corner while others read magazines, talked softly or texted on their cell phones. We sat down at an empty table and started eating our lunch. I had long ago lost my appetite due to a stomach bug and spent the meal fending off three stray cats as they hopped onto the table and attempted to eat out of our plates before getting relegated to the floor where they purred and begged, unsuccessfully, for scraps.

It was noon on a Friday and my father and I were on the edge of Cilegon, a city in the north-west end of the island of Java in the province of Banten, about a two-hour drive from Jakarta. We had stopped for lunch at this *rumah makan* in order for our driver to attend *Sholat jumat* or Friday prayers at a nearby mosque as per both his and his boss's request. Though women are welcome to attend *Sholat jumat* at the Mosque, they are not required to do so as are the men hence the *rumah makan* was virtually void of men apart from my father and the solitary Indonesian gentleman smoking his cigarette in the corner. As Williams (1990) notes, Islamic piety is an important part in the identity of the people of Banten and thus given that this man was not at the Mosque, it was highly unlikely that he was Muslim. More probable, he was Christian, a minority in Indonesia.

Our driver soon returned from *Sholat jumat* and we continued on our journey back to Jakarta after having spent two nights camping on a small island in the Sunda Strait: a live volcano called *Anak Krakatau*. In 1883, two-thirds of the island of Krakatau disappeared after "one of the most severe volcanic explosions" in recorded history (B. Holden, personal communication, September 29, 2014). A tsunami resulted which is estimated to have killed more than 36,000 people on the island of Java. The eruption was

heard as far south as Australia and “the shock wave in the atmospheric pressure ... was recorded at the gas works in Jakarta” and around the world (B. Holden, personal communication, September 29, 2014). In 1927, a new volcanic island began to grow out of the caldera and this was called *Anak Krakatau* (the child of *Krakatau*).



Figure 2: Leaving *Anak Krakatau* by boat. November 2013.

Having read about the 1883 *Krakatau* eruption and tsunami back in the mid 1980’s, my father, a retired physical oceans engineer specializing in coastal erosion and shoreline flooding, including tsunamis, decided to go to *Anak Krakatau* while visiting me in Indonesia during my 2013 field work.



Figure 3: One of the many factories we passed while driving through KIEC.

Getting to *Anak Krakatau* involved a three-hour drive from Jakarta to Carita, via Cilegon, and then a four-hour boat ride from Carita to the volcanic island. On the car ride to and

from Carita along the coast road, we passed several enormous, once extravagant and now neglected beach resorts and hotels, all of which were virtually empty and void of life. Plans to compete with Bali in luring tourists to the region had failed miserably. The depressed state of the economy was evident in Cilegon as well. Our journey took us through the Krakatau Industrial Estate Cilegon (KIEC), which takes its name from the Krakatau volcano. The blue uniformed ladies from the *rumah makan* worked at one of the many factories in this industrial zone. As we drove through KIEC, I observed the dilapidated state of the factory buildings and the grounds. Even the dull and gloomy atmosphere in the run-down, road side *rumah makan* reflected the feeling of a once thriving area that never realized its full potential. It also reflected my feelings. Field work had drained me and I was ready to go home.

These contrasts show the conditions and context in the research location that were the backdrop to the materials presented in this study.



Figure 4: Map of the island of Java, Indonesia.

Original map specially prepared for this thesis by Charles Conway, Cartographer, Memorial University of Newfoundland, St. John's, Canada.

Chapter 1: Introduction

Generally represented as the panacea to global poverty, the microfinance model leapt to prominence in 2006, with the award of the Nobel Peace Prize to the Grameen Bank and its founder Muhammad Yunus in Bangladesh.⁴ Although Muhammad Yunus has been credited with the “discovery” of microfinance as “a popular if [not] controversial method of facilitating development,” historically many different types of microfinance have existed in various forms around the world (Hollis and Sweetman, 1998, p. 1875). For example, Hollis and Sweetman conducted an analysis of the sustainability of microcredit systems in 18th century London and 19th century Germany, Italy and Ireland. Many different microfinancing schemes have also been found in Africa, Latin America and Southeast Asia. In Indonesia, for instance, an experimental system of credit was documented at the end of the 19th century, though it is generally suspected that many undocumented systems have long existed before this time (Henley & Goenka, 2010, p. 174-175).

In spite of the fact that the Grameen Bank started in Bangladesh, a country with one of the world’s largest Muslim populations, one of the criticisms of the Grameen Bank relates to promoting an ‘un-Islamic’ model of microfinance. An Islamic version of microfinance has been developed that makes financing available without resorting to interest-based lending. Islamic banking and finance (IBF) is seeing significant growth in Indonesia (Warde, 2010, p. 224), the largest majority Muslim nation in the world, where it “[reached] 6.5 million customers in 2010” (Lindsey, 2012, p. 109). Distinct to

⁴ Some of the key sources on this subject include but are not limited to Bateman, 2010; Dichter and Harper, 2007; Karim, 2011; Khandker, 1998; Rahman, 1999; Schuster, 2015; and Sherratt, 2016.

Indonesia and currently not found anywhere else in the world are Islamic microfinance cooperatives known as *Baitul Maal wat Tamwil*, or BMTs, the subject of this thesis.⁵

Definition of Key Terms

What is microfinance? What is Islamic microfinance? What is a BMT? Where and how do BMTs operate? Who participates in BMTs? The idea of the global conventional microfinance model is generally understood as a development tool with two functions: financial and social. First, it is designed to make “a broad range of financial services [available] to the poor⁶ such as credit, savings, insurance, and pensions” at low interest rates, and with no required collateral (Karim, 2011, p. xiii).⁷ Thus, individuals and groups who would not otherwise qualify for funding from large, traditional financial institutions should, theoretically, be able to do so through conventional microfinance. Second, the idea of microfinance is to bring about positive developmental change in society through “a process of enrichment for its borrowers ...simultaneously [empowering] them” and resulting in a sustainable social impact at the community level (Sherratt, 2016, p. xiii). One form this social component has taken is in the empowerment of women by targeting female borrowers. Another form has taken shape through Islamic microfinance.

⁵ While Sakai describes BMTs as “Islamic Savings and Credit Cooperatives” (2014, p. 202), Indonesian managers and employees with whom I spoke described BMTs as Islamic microfinance cooperatives. I have opted to use the same term used by those working in the BMT industry where I conducted my field work.

⁶ The pejorative nature of this term is recognized however, Karim uses this term and I have kept it within the quote. In chapter 4, I discuss BMT Solo’s definition of poverty in relation to the United Nations’ definition.

⁷ See also Bateman, 2010; Chhary, 2011; Corsi, Botti, Rodinella & Zacchia, 2006; Dichter & Harper, 2007; Donaghue, 2004; Guerin, Labie & Servet, 2015; Hollis & Sweetman, 1998; Khandker, 1998; Rahman, 1999; Riwayatanti, 2013; Schuster, 2010, 2015; Sherratt, 2016; Vonderlack & Schreiner, 2002; Yunnus, 2003, 2007, 2010.

Islamic microfinance, like IBF, differs from its conventional counterpart, what is often referred to as Western banking or conventional microfinance, in that the former is based on Islamic law, also called *Shari'ah*.⁸ Islamic law forbids the use of interest and speculative risk and instead endorses partnerships and profit sharing contracts (Sakai, 2010). It is the legal framework which guides the type of financing and how this financing is provided. For example, Islamic microfinance requires that debt be backed by a physical asset and prohibits late penalties from being levied, stipulating that any such charges should be redirected to charity (Economic Research Department, 2009, p. 62). Additionally, gambling and alcohol prohibitions of Islamic law make financing for business ventures involving these activities forbidden and thus unavailable (Economic Research Department, 2009, p. 62). While the global conventional microfinance model is essentially an interest based system, Islamic microfinance can be summed up by the *Qur'an*'s strict prohibition of *riba*, an Arabic term which means "increase" but is often translated as interest or usury (Maurer, 2005, p. 27) as illustrated in the following verse:

Those that live on usury shall rise up before God like men whom Satan has demented by his touch; for they claim that trading is no different from usury. But God has permitted trading and made usury unlawful. He that has received an admonition from his Lord and minded his ways may keep his previous gains; God will be his judge. Those that turn back shall be the inmates of the Fire, wherein they shall abide for ever (*Qur'an* 2:275).⁹

The challenge of IBF and Islamic microfinance is to adhere to this admonition while still being able to provide essential, practical and value added financial products and services to clients. Islamic scholars, economists and financiers are continuously innovating new products and services which are *Shari'ah* compliant. Pepinsky describes "the essential

⁸ For more information on *Shari'ah* law see Shariah, 2003.

⁹ I have used Dawood's 1993 translation of the *Qur'an* here.

nature of Islamic economics as an attempt to reconcile religious principles with economic activity” (2012, p. 158). For example, whereas global conventional microfinance models often focus on lending to women, Obaidullah cites two verses from the *Qur'an* to reinforce his argument that the “women only approach” is an “alien [concept] to [the] Islamic religion and culture” because Islam places the focus on the family (2008, p. 19).¹⁰ Chapter 3 of this thesis will present data supporting Obaidullah’s viewpoint. While there is considerable ongoing controversy within the industry and among academics on what constitutes “true” Islamic finance and microfinance, for the purposes of this thesis, this short, definition presented above is sufficient.¹¹

The subject of this thesis, the *Baitul Maal wat Tamwil* or BMT, is a unique form of Islamic microfinance found exclusively in Indonesia. On several occasions during my 2013 field work period in Indonesia, different BMT managers advised me of this, stating it as fact. For example, one BMT manager in Surakarta informed me that she had plans to open a BMT in Singapore in the near future making it the first BMT outside of Indonesia.¹² These reports that BMTs are not found outside of Indonesia were confirmed as fact in discussions with Dr. Mehmet Asutay at the Durham Centre for Islamic Economics and Finance at Durham University Business School (personal communication, February 4, 2014).

Sakai argues “that BMT development is a unique grass-roots Islamic financial movement in Indonesia” (2014, p. 207) and is “one of the fastest growing areas of Islamic finance” (Sakai, 2008, p. 267) in Indonesia going from approximately 20 BMTs

¹⁰ The two verses Obaidullah cites are: *Qur'an* 51:49 and 4:32.

¹¹ It should be noted that no judgment on the part of the author will be made on the authenticity of IBF or Islamic microfinance.

¹² At the time of writing no documented cases of BMTs operating outside of Indonesia have been found.

operating in 1988, to almost 2,000 in 1999 (Sakai, 2008, p.267), to an estimated 3,200 BMTs in 2006 (Hamzah, Rusby, & Hamzah, 2013, p. 217; Riwayatanti, 2013, p. 112). Hamzah et al., report 4,000 BMTs in 2010, while Riwayatanti reports 5,200 in the same year (Hamzah et al., 2013, p. 217; Riwayatanti, 2013, p. 112).¹³ This inconsistency in the data reflects the fact that BMTs in Indonesia are difficult to track as they have been unregulated until 2013 and many BMTs still do not register their operations. As a result, accurate and up-to-date data is both unreliable and unavailable.¹⁴

Despite the lack of accurate and current data, just as Hamzah et al. (2013) describe it and as this thesis will show, BMTs are providing employment for middle-class Muslims, financing for small and medium sized enterprises (SME) and social and religious community development. *Baitul Maal wat Tamwil* is described as a “house of funds and finance” reflecting the two primary functions of the BMT: *baitul tamwil* and *baitul maal* (Sakai, 2014, p. 207). The former, *baitul tamwil*, operates similarly to a traditional financial institution by providing financial services such as loans and savings, to both men and women irrespective of gender, ethnicity or “of their adherence to Islam” (Sakai, 2010, p. 413). However, unlike non-Islamic financial institutions, BMTs offer their services and financing solely in accordance with Islamic jurisprudence. As will be shown in chapter 4, the poor are not offered loans but are given assistance through the *baitul maal* or “*Bayt al-Mal*” function which, historically, was an Islamic financial institution that “administered [the] distribution of *zakah*¹⁵ (obligatory alms) revenues for

¹³ For more on the growth of Islamic banking and finance in Indonesia see Amianti, 2013.

¹⁴ The most recent data available is from 2011/2012 and these estimates are conflicting and unreliable. For example, while Riwayatanti reports 5,500 BMTs in 2011, Sakai reports 3,900 BMTs in 2012 (Riwayatanti, 2013, p. 113; Sakai, 2014, p.209).

¹⁵ *Zakah* or *zakat* is one of the five pillars of Islam and “is an integral part of formal Islamic systems,

public works” (Bayt al-Mal, 2003).¹⁶ Building on this history, the *baitul maal* function of the BMT is designed to improve the welfare of the community by assisting the poor through the collection and “[redistribution of] the various types of *alms*” to those in need (Sakai, 2008, p. 269).

This thesis examines these issues in the case study of BMT Solo,¹⁷ a registered Islamic microfinance cooperative located in the heart of the municipality of Colomadu, Surakarta, in Central Java, Indonesia. The case study of BMT Solo points to the importance of the social function of microfinance and elucidates how the idea of microfinance is dynamic. While the financial side of microfinance is often the focus, the social dimensions, which are endorsed in the discourse at a theoretical level, are often neglected in practice. As will be shown, the way in which BMT Solo assists the poor and builds community solidarity through the *baitul maal* function demonstrates an example of another form of the social function of microfinance. Despite that BMT Solo does not offer credit to the poor, the BMT is serving a niche market by filling a gap in the Indonesian economic system in offering credit below the minimum funding available from larger Islamic and conventional banks in the country. Thus, small traders, individuals and groups who cannot access credit through large, traditional financial institutions in Surakarta, are able to do so through BMT Solo.

affecting community development, society, and economy” requiring Muslims, who are financially able, to give an obligatory 2.5 percent of their annual wealth towards those most in need (*Zakat: Socioeconomic Function*, 2009, para. 1).

¹⁶ Italics inserted.

¹⁷ BMT Solo is a pseudonym, used in order to protect the identity of the BMT’s founders, management, employees and customers as well as research participants. Pseudonyms have been used for all the research respondents throughout this thesis.

Research Problem and Questions

Though microfinance is currently a popular development model,¹⁸ Islamic microfinance is still a relatively new practice and not yet well understood. Most of the research available is quantitative in nature and focusses on the functional characteristics of Islamic finance and microfinance (Abdalla Khiyar, 2005; Iqbal and Molyneux 2005; Junaidi & Rizkiyah, 2011; Venardos, 2006; Warde, 2010; Yumma & Clarke, 2011), their continual development (Ahmed, 2011; Ahmed, Asutay, & Wilson, 2014; Hunt-Ahmed, 2013; Venardos, 2006; Warde, 2010), the various types of contracts available and how these differ from their conventional counterparts (Abdalla Khiyar, 2005; Masyita & Ahmed, 2011; Sahut, Mili & Krir, 2011; Venardos, 2006). However, there is very little ethnographic research on the “Islamic economy” (Sakai, 2008, p. 268) and in particular the BMT model found in Indonesia.

The current ethnographic research available on BMTs is extremely limited. For example, Minako Sakai of the University of New South Wales, Canberra, Australia, has conducted research on BMTs in Jakarta, Central Java and Sumatra. These works provide a general overview of how BMTs operate and a brief summary of some of the reasons people participate in BMTs. Sakai primarily uses BMT case studies to explore the impact of Islamism on women arguing that, despite the number of ways in which Islam is perceived as restricting women’s rights, Islamic microfinance is benefiting Indonesian

¹⁸ There is an ongoing debate over the effectiveness of the global conventional microfinance model as a tool to eradicate poverty. While the global microfinance model has been advocated by many as a solution to poverty and as an effective means by which to empower women (Chhay 2011; Corsi, Botti, Rondinella & Zacchia 2006; Vonderlack and Schreiner 2002; Yunus & Jolis 2003; Yunus and Weber 2007; 2010), some critics suggest that, in certain cases, microfinance results in the disempowerment of women and perpetuates poverty through a cycle of “microdebt” (Hulme, 2007). For more on this debate see Bateman 2010; Dichter and Harper 2007; Donaghue 2004; Henley & Goenka, 2010; Hulme, 2007; Guérin, Labie, & Servet, 2015; Karim, 2011; Rahman 1999; Schuster 2010. These issues are outside the scope of this research project and will not be addressed in this current work.

women (2010). In her doctoral work Nur Indah Riwijanti, of the Durham Doctoral Training Centre for Islamic Finance at Durham University in the United Kingdom, presents an extensive, in-depth socio-economic analysis comparing the challenges faced by two different kinds of Islamic microfinance in Indonesia: BMTs and *Shari'ah* Rural Banks (2013). The dissertation provides background literature comparing conventional and Islamic conceptual perspectives. The analysis focuses on measuring the economic impact of BMTs versus *Shari'ah* rural banks in alleviating poverty showing a number of challenges faced by BMTs, rural banks and their customers. Similarly, Hamzah, Rusby and Hamzah from the Islamic University of Riau in Pekanbaru, Indonesia, explore the internal and external causes of the many difficulties encountered by BMTs in Pekanbaru (2013). Their recommendations focus on practical solutions involving training, education and the implementation of regulations governing the operation of BMTs.

None of the above studies explore the relationship between Indonesia's historical religious tensions and the role played by BMTs in this ongoing struggle. My thesis emerges in response to this gap in the literature and aims to build upon this body of research. The goal of this project is to present an analysis of how Islam is informing capitalism in Indonesia and how Indonesians are attempting to remake society in the image of a modernist Islam specifically through Islamic microfinance. Using the case study of BMT Solo, this project explores how the BMT Islamic microfinance model differs, as a local variant, from the global conventional model in terms of poverty reductions methods and reasons for which both men and women choose to become involved with BMT Solo and how historical religious tensions play out in this context. Through an analysis of original data and texts of interviews collected in Colomadu,

Surakarta, in Central Java, Indonesia, during the 2013 field work period, this thesis aims to answer the following specific research questions to reference themes of poverty, religion and gender participation: How does BMT Solo define poverty and how does this definition influence the ways in which BMT Solo combats poverty in Colomadu? How does BMT Solo engage both women as well as men and Muslims and non-Muslims? What are some of the main factors motivating people to become involved with BMT Solo? These specific issues show how BMT Solo operates as a local case of a wider global phenomenon and the social relations that surround and frame it, microfinance in this case.

Theoretical Underpinnings: Spiritual and Economic Reform

Though similar to Bornstein's research on faith-based development, such as the Christian non-governmental organizations (NGOs) in Africa (2003), this thesis differs in two significant ways. First, and most obviously, while Bornstein's research looks at Christian models of economic development, this study examines the intersection of Islam and microfinance in the BMT model found in Indonesia, for which there is very limited research. Second, NGOs and other development programs tend to operate as not-for-profit associations which results in a dramatically and fundamentally different way in which funding is sourced and used by for-profit businesses. Conversely, as the discussion ahead shows, BMTs are not faith-based development organizations but are for-profit businesses with a built-in, religiously driven corporate social responsibility unit of sorts: *baitul maal*.

The case study of BMT Solo offers insight into how Indonesian Muslims are attempting to reconcile religion with modernity and bridge the gap between what is often perceived as two separate realms: the secular (economy) and the religious (spiritual reform). By their participation in BMTs, Muslims in Indonesia are exhibiting a unique economic rationality based in the tenets of Islam. This unique economic rationality reflects the Islamic moral economy (IME) which, as described by Asutay, is based on the imagination of “a morally oriented individual ... *'homoIslamicus'* [sic]” (2012, p. 96) whose objective is to “[restore] a lost sociability without implementing secular state socialism [and to abolish] individualism by linking people through economic activity” (Tripp, 2006, p. 119). Thus, IBF which is based on principles of “economic and sustainable development, social justice and social investing” is being used as a catalyst for the achievement of the goals of the IME (Asutay, 2012, p. 96). A study of the economic rationality of Islamic microfinance will illuminate how Indonesians are attempting to remake society in the image of a modernist Islam where religion, globalization and neoliberalism converge (Rudnyckyj, 2009, p. 129; 2010, p. 18).

As field researcher Rudnyckyj describes it, “contemporary human life in Indonesia” is shaped by “a legacy of nationalist development, a resurgence of religious practice, and economic transformation associated with neoliberalism” (2010, p. 5-6). In his related research at Krakatau Steel, in West Java, Indonesia, Rudnyckyj defines spiritual economies as the manner in which “economic reform is conceived of and enacted as a matter of religious piety and spiritual virtue” (2011, p. 131). Similarly, using my field work data, chapter 5 shows how work at BMT Solo is perceived as an act of worship, and Islamic piety is equated with ethical business practices of transparency

and productivity all of which is managed by one's individual spiritual journey. The case of BMT Solo elucidates "how reformers in Indonesia [intentionally and by design] combine the asceticism and rationalization intrinsic to both Islam and neoliberalism to produce a new configuration of being in the world" (Rudnyckyj, 2010, p. 131, n1-3). The Islamic ethic, as practiced by the management and staff at BMT Solo, is the result of intentional design linking "corporate success and religious piety" (Rudnyckyj, 2010, p. 145). Because BMT Solo is intentionally founded on the five pillars of Islam,¹⁹ it gives believers a confidence in the attainment of their salvation by following a prescribed Islamic eschatological formula for financial matters.

As a related study on economy and Islamic culture in contemporary Indonesia, my study diverges from Rudnyckyj's research in a few ways. First, while Rudnyckyj's study focuses on ways that "enable the transition away from [secular] state-led modernization," (2011, p. 3) I examine how spiritual economies enable "national prosperity by means of individual austerity" (Garon, 1997, p. 155) and accountability, specifically through the grass-roots, economic, Islamic initiative. Second, the Suharto government situated Krakatau Steel in a low-socio economic region in order to bring economic prosperity to the area through job creation. In contrast, as will be shown, BMT Solo grew up out of the detritus of the 1997-1998 Asian financial crisis and was not a proactive state-led design but rather an organic evolution to which the state is retroactively reacting. Third, spiritual reform was imposed on the Krakatau Steel factory workers from upper management and state directives, while BMT Solo invites individuals to voluntarily be transformed by *Allah* through their individual involvement

¹⁹ The five pillars of Islam include: 1. the faith declaration that "there is no god except God and Muhammad is the messenger of God"; 2. regular daily prayers; 3. payment of zakat; 4. the completion of the pilgrimage to Mecca; and 5. fasting during Ramaḍān (Pillars of Islam, 2009, para. 1).

as founders, customers or employees of the cooperative. Finally, while Rudnyckyj suggests that the Islamic ethic is leading to the emergence of a new kind of globalization, the results of my research lead to the view and argument that Islam is being used to reconcile the human element of morality with the impersonal elements of arithmetic “by linking people through economic activity” (Tripp, 2006, p. 119) and how power and quantification affect these human relationships (Graeber, 2011, p. 14).

Approach and Expected Findings

This case study of BMT Solo involved ethnographic field work conducted from August 2013 to November 2013 at BMT Solo in Colomadu, Surakarta in Central Java, Indonesia. Semi-structured interviews with both women and men enabled the collection of comparable data across survey respondents through audio recordings of narrative responses. Participant and event observation allowed for the documentation of BMT discourse which occurred naturally among informants, thus avoiding discourse directly elicited in response to the intervention of the researcher. Content and document analysis were used as a method of reducing the risks of subjectivity. Triangulation of sources provided a test for reliability in the responses from study participants and representativeness in the accounts.

These methods used in the data collection and analysis elucidate the voices of the participants by building narratives into the analysis of the ethnographic data reflecting the approach that research “is not only composed of what [field workers] think is important or relevant but rather what those who participate in our fieldwork identify as significant” (Rudnyckyj 2010, p. 15). Such a method of analysis is particularly useful for qualitative

research because it provides the audience with clear descriptions and images that are meaningful to participants and explain their practices and stated beliefs.

The case study of BMT Solo provides a way in which to examine the intersection of the relationships between religion and economics within the historical development and current practice of Islamic microfinance in Indonesia. Ultimately, this research seeks to provide a better understanding of the economic rationality of Islamic microfinance as it is practiced by the daily choices of those participating in BMTs in Indonesia. Such an understanding facilitates an analysis on “how religious practice can be conducive to globalization” (Rudnyckyj, 2010, p. 19) allowing conclusions to be drawn on how Islam is informing capitalism in Indonesia.

While theoretically global conventional microfinance was conceived as a development tool designed to eliminate global poverty, this case study elucidates and argues how the way in which the BMT model operates keeps non-Muslims on the margins of society, suggesting, as will be shown in chapter 5, that there are politics of diplomacy, of accessibility and of faith influencing the continued growth of the BMT model in Indonesia.

Significance of the Research

Considering the on-going effects of the world economic crisis of 2008, the question remains as to what alternatives to existing financial networks exist and whether new ones might be created. BMTs offer alternative forms of banking which eschew speculative risks and which may present viable, transnational solutions to global and community economic problems. As the search for more effective development models continues, my

research will become even more important, as one of the few in-depth ethnographic studies of BMTs involving field work in Indonesia.

While there is a vast amount of information available on global conventional microfinance, this thesis aims to build upon the incomplete body of ethnographic studies on BMTs. Sakai notes the need for more research “to understand Islamisation in Indonesia” (2014, p. 218) and thus my study attempts to fill this need by offering an in-depth analysis of how founders, management, employees and customers of BMT Solo are working out their faith in the context of the politics of religion in Indonesia. While many Muslim Indonesians believe that Islamic banking is superior to conventional finance and that it is a viable alternative to capitalism, my study reveals the irony of how the BMT model actually is very “closely tied to a capitalist lifestyle that echoes earlier [colonial discourses] about correct ways of living, about being ‘civilized,’ and about progress” (Bornstein, 2003, p. 4).

Overture: Structure of the Thesis

The resulting narratives are arranged as follows. Chapter 1 defines key terms, sets out the research problem and outlines the research questions, theoretical underpinnings, approach and expected findings, and significance of this thesis. Beginning with an overview of the main critiques of global conventional microfinance, Chapter 2 provides the reader with a literature review which examines the history of finance, moneylending institutions and debt relationships in Indonesia and how ethnicity, religion and politics have all played an important role in the development of Islamic banking and finance in this country. Chapter 3 describes the research methodologies used and the challenges and

limitations encountered during data collection and analysis. This chapter also provides a detailed description of the research location (Colomadu, Surakarta in Central Java, Indonesia). Beginning with an overview of the research institution (BMT Solo) and the research participants, chapter 4 examines how BMT Solo is involved in combating poverty in Colomadu through the *baitul maal* function. This chapter specifically investigates how BMT Solo defines poverty and engages with the poor in Colomadu providing insight into the interdependent relationship of BMT Solo's *baitul maal* function with religion and economics in Indonesia. Chapter 5 addresses how BMT Solo engages women and men as founders, managers, employees and customers of the BMT. This chapter presents an analysis of the three main reasons for which these groups of people choose to be involved with BMT Solo: faith reasoning, accessibility reasoning and diplomatic reasoning. Both chapters 4 and 5 provide narratives of the stories of the women and men who participated in this study and demonstrate how Indonesian Muslims and non-Muslims in Colomadu, are navigating a very delicate and tense political and territorial relationship on a daily basis. Chapter 6 provides a summary and discussion on the findings of this case study and the implications of these findings offering recommendations for future research.

Chapter 2: A Social History of Transformation and Continuity

In a historical study, Schrader (1997) presents a chronological account of finance and moneylending in pre-colonial and colonial Indonesia. His account provides evidence which effectively demonstrates the strong ethical component of the interdependent relationship between moneylending and trade and its importance in the development of Islamic banking and finance (IBF) and Islamic microfinance in Indonesia. The development of IBF can be better understood within the context of the cultural, religious and social histories of Indonesia which also provide a space for understanding the kind of organisation and operations produced by Islamic microfinance. This chapter begins with an overview of some of the critiques of the global conventional microfinance model providing the background for the discussion in the following chapters about the *Baitul Maal wat Tamwil* (BMT) model of microfinance. Then I give an overview of the history of credit and debt in Indonesia looking at how ethnicity was used by the colonial administration and how this practice has shaped the historical development of Islamic microfinance in Indonesia today.

Critiques of Conventional Microfinance

This section presents an overview of some of the critiques of the global model of conventional microfinance providing necessary background information for the analysis in the chapters to come.

As defined in greater detail in the preceding chapter, microfinance has been conceived of as an ideal way in which to empower women through “the provision of financial services to the poor, on a scale appropriate to their needs” often by specifically

targeting poor female borrowers (Henley & Goenka, 2010, p. 1). However, Dichter and Harper, together with many others, ask: “Is microfinance, especially credit, harmful” (2007, p. 5)?

Karim contends that it is as she delivers a compelling argument showing how microfinance is used as “a strategy of constituting and regulating political subjectivities of the ‘empowered’ [where] ‘empowerment’ is itself a power relationship” (Cruikshank, 1999, as cited in Karim, 2011, p. 171). Bateman argues that, rather than empowering the poor, specifically women, “economic history indisputably shows that self-employment and microenterprises have most often been promoted as part of the programmed *disempowerment* of the poor” (2010, p. 31). For example, as a result of the 1834 Poor Law Amendment Act, the poor were forced into “a range of ‘survivalist’ individual activities” which effectively

[justified] reducing the charitable burden then placed on the rich...[and caused] much less upward pressure on factory wages. ...Supporting the expansion of petty survivalist activities helped to steer the poor away from more transformational activities that risked upsetting the social order. Wrapped up in the act of merely surviving from one day to the next, the poor tended to have very little time, energy or knowledge to get involved in anything else. They therefore offered very little participation in the great number of popular [labour] movements ... movements [which] held up the very real prospect of an eventual exit from extreme poverty and degradation (Bateman, 2010, p. 32).

Contemporary microfinance programs have resulted in similar survivalist practices among the poor today through the promotion of “self-employment as a way of disempowering organized labour in particular, and the lower classes in general, thereby to (re-) empower the narrow business class” (Bateman, 2010, 33).

Karim argues further that non-governmental organizations (NGOs) use microfinance and their power to “conduct the conduct” of the poor by changing the way

they “think about themselves as actors in this world, and of the possible kinds of selves they believe they can be and of the actions they believe they can perform” (2011, p. xxv). These strategies employed by NGOs “treat society as an object of government, so that [NGO]-designed cultural forms shape attitudes and behavior” (Ong, 1999, p.187) fundamental to the NGOs achieving their goals of abolishing poverty, empowering women and “[spreading] free enterprise” (Karim, 2011, p. xxi). Karim suggests that this shaping of attitudes “through the enactment of treaties, policies, and programs” (2011, p. 35) is a form of “organised power of [oppression]” by the NGOs on the poor (Marx & Engels, 1978 p. 490).

The rhetoric of gender empowerment is created through microfinance NGOs which, Bateman argues, is “based upon a number of questionable assertions, critical misunderstandings and deliberately created confusions” (2010, p. 43) resulting in women being “shifted into a far weaker and less remunerative self-employed position than hitherto” (Bateman, 2010, p. 43). From the “specific and peculiar rationalism of Western culture” gender disempowerment is embodied in the restraint of the freedom of women through practices such as *pardah*²⁰ (Weber, 1976, p. 27). The act of lending money to these women appears, on the surface, to be evidence of progress towards gender equality and the empowerment of women. However, understanding the “economy of shame” and the “webs of indebtedness to multiple NGOs, kin, small moneylenders, and the traditional moneylenders” in which these women become entrapped, provides one with another point of view on the issue (Karim, 2011, p. 85). It is too simplistic a conclusion to suggest that microfinance empowers women, without understanding the context in which

²⁰ *Purdah* is a term referring to the practice of covering, veiling and seclusion of women. For more on *pardah* see Haque, 2010; Minault, 2006; and Rahman, 1999.

these women negotiate their loans. For example, evidence of increased violence against women borrowers in Bangladesh was found by both Karim and Rahman who argue that “these loans repositioned [women] with increased vulnerability within the household and community” (Karim, 2011, p. 87) as “the intrahousehold [sic] relations of members are fluid in nature, constantly negotiated, renegotiated, and manipulated by the members of the unit” (Rahman, 1999, p. 109). Rahman describes in detail how these “intrahousehold relations” in Bangladesh work out in practice stating that

in Bangladesh, women in general, and rural women in particular, have only one option open to them – marriage and children....there is evidence that passing on their loans to men is used by women both consciously and unconsciously as a marriage survival strategy....In the structure of patriarchy, in case of a breakdown of the marital household women not only become economically vulnerable; they are also socially more vulnerable than men to being accused and scorned in society...Women in rural society rarely have access to alternative...economic resources outside their marriage. Therefore, women often tie their own interests to the success of the household unit... (1999, p. 111-112).

Thus, the women negotiate these relationships which “are usually mediated through the socioeconomic and political customs of the society” (Rahman 1999, p. 40). Microfinance results in the creation of a population of women dependent on microfinance NGOs for survival through “loans, jobs, and services that are channelled through the NGO sector” (Karim, 2011, p. 65). NGOs, Karim argues, “operate through a careful exploitation of this relationship of dependency with their borrowers at the grassroots [sic]” resulting in a population of poor, forever trapped in their poverty by their powerlessness (2011, p. 65).

This dependent power relationship is fuelled by the fact that microfinance loans are more often used for consumption spending rather than to “support income-generating activities” (Bateman, 2010, p. 29). Hulme (2007) suggests that microfinance should more appropriately be called “microdebt” which reflects my observations in Colomadu as

well as Karim's research findings that "often women borrowed from one NGO to pay off another" thus perpetuating the cycle of debt (2011, p. 74). Karim found that borrowers who experienced little hardship with making loan repayments had additional sources of income upon which they relied such as a spouse's regular salary. In Rahman's study, borrowers found "the interest rate of the bank incompatible with the profit they [made]" (1999, p. 112) due to the "low-return activities" in which they were involved (Hulme, 2007, p. 19).

Yunus' original idea for the Grameen Bank was to provide loans based on the lowest-possible interest rates thus allowing the poor to reinvest a greater portion of their profits back into their entrepreneurial work increasing their chances of getting out of poverty (Bateman, 2010, p. 55). However, although Yunus claimed that "the poor paid back their loans, on time, every time" (Yunus & Weber 2007, p. 47), Bateman found that the microfinance industry as a whole was operating at a loss and was largely dependent on government and donor subsidies (2010, 12). With the push for self-sustainability the Grameen Bank, like other microfinance organizations, was forced to increase their interest rates to match prevailing market rates. The poor suffered as a result as documented in 2005 by the National Sample Survey Organization in India which found that

since higher interest rates on microcredit do not provide scope for savings and for investing in insurance, the dominant risk-covering factors for the poor, microcredit seldom propels the poor out of poverty. Further, there are no businesses that can generate profit after an interest of 24-36 per cent on capital (Bateman, 2010, p. 55-56).

While Yunus states that the "Grameen Bank has always believed that if a borrower gets into trouble and cannot pay back her loan, it is our responsibility to help her" (Yunus & Weber, 2007, p. 13) Karim "did not come across any instance of loans that were forgiven

by the NGOs” (2011, p. 86). Rather, NGO field-workers were “very strict about timely collections and maintained a tight control over fiscal discipline” (Karim, 2011, p. 76) relying heavily on the “economy of shame” through “group coercion and public humiliation” (Karim, 2011, p. 87). When the latter failed, NGOs would use formal systems of governance including “the police and courts to recover the defaulted sum” (Karim, 2011, p. 87).

NGOs often exert their power over the poor using microfinance to “align people to a deregulated market as efficient producers and consumers” (Karim, 2011, p. xvii). The NGOs have used, and sometimes abused this power “to utterly transform the lives of citizens, usually according to a presumed utopian plan” (Scott, 1998, p. 37). The focus and outcome of this plan have resulted in the transformation of development into a thriving sector of the economy, in which to invest or with which to make business arrangements. Such arrangements are built on the premise that the goals of the NGO in helping the poor can be achieved in an economically rational manner which mutually benefits for-profit corporations (Karim, 2011, p. xix). However, if the NGOs achieve their goals in the “eradication of poverty, the empowerment of women, and the spread of free enterprise”, then the NGOs would either be out of business or would have to create or find a new subject to objectify (Karim, 2011, p. xxi).

As Schuster notes, the “reconciling [of] debt...is replete with paradoxes and promises that are not easily subjected to the rigors and rules of arithmetic accounting” (2010, p. 48). Debt is a morally fraught domain and the debate as to its benefits continues. For example, high repayment rates as a criteria used to measure the success of microfinance does not necessarily correlate to business success and therefore does not

provide reliable evidence of “sustainable development and poverty reduction successes” (Bateman, 2010, p. 57). According to David Ellerman, a “former World Bank staff member,” the impact assessment models and methods used to prove the effectiveness of microfinance were based on a comparison “to the alternative of ‘doing nothing’” and thus such methods are “fundamentally mistaken” (Bateman, 2010, p. 34). One may argue that the microfinance industry has “[created] its own reality” (Bateman, 2010, p. 59) and that its development and perceived success are simply a “research experiment made possible by the political experiment that it studied” in which “agencies and arrangements that framed” the idea of microfinance also “framed the conclusions reached in the experiments on the experiment” (Mitchell, 2005, p. 301).

The History of Credit and Debt in Indonesia

This section shows what forms of debt relationships were practiced in Indonesia and establishes the background and historical context of the *arisan* model of the rotating credit associations which is still in use today.

The Oxford English Dictionary defines debt as “that which is owed or due; anything (as money, goods, or service) which one person is under obligation to pay or render to another” (Debt, 2013). In his investigation into the history of human economies and the relationship between debt and society, anthropologist David Graeber aptly describes debt in reference to today’s global economic situation, as “the lifeblood of our economy” (2011, p. 4). In pre-colonial and early post-colonial Indonesia, debt very literally was the lifeblood of the economy as evidenced by the system of patron-client relationships.

Historian Reid argues that, in the pre-colonial era, there were “three conditions [which] gave rise to a system of [vertical] bonding [which was] based largely on debt, where loyalties were strong and intimate, yet at the same time transferable and even salable” (Reid, 1988, p. 129). The three conditions included “control over manpower,” the cash value of oneself and low state intervention ensuring welfare and security (Reid, 1988, p. 129). These three conditions necessitated the patron-client relationship as land was in abundance and people were scarce. People thought of themselves in financial terms in the sense that they saw themselves as an asset with a price tag which could be bought or sold or used to pay off a debt. It was the primary method by which safety, security and welfare were ensured as were the costs of the necessary religious and ritual occasions such as marriage, funerals and circumcision. Debt was used as a form of payment for such future expenses.

Political scientist and anthropologist James C. Scott theorizes that the patron-client relationship was a result of peasant economic activity in Southeast Asia, including Indonesia, which focused on ensuring and maintaining a minimum standard of living required for subsistence. Profit maximization and the minimization of costs were not as important as providing a “social insurance against the ‘normal’ risks of agriculture through an elaborate system of social exchange” (Scott, 1976, p. 9). Scott describes the system of debt in patron-client relationships as relying heavily on loyalty and patterns of reciprocity where people (the client) were “[linked] to a patron who [would] help in a crisis” and offer protection during war in return for loyalty and deference (1976, p. 37). Thus, the client was indebted to the patron for providing security and subsistence after a crop failure for example, while the patron was also indebted to the client for loyalty. It

was a system based upon mutual assistance in which loyalty was cultivated by the patron who was mitigating the potential loss of population to another patron.

The interdependent nature of patron-client relationships reflects the reciprocal character of credit and debt as aspects of the morality that characterizes these debt relationships which are still evident in Indonesia today. For example, while conducting pilot research in Yogyakarta in 2012, the house of one of my neighbours burned down from an electrical fire. As figure 5 below shows, the men in the community worked together providing manual labour using a bucket brigade to help clean up the mess and salvage what they could. The women cooked food, collected monetary donations and gathered basic necessities such as tarpaulins, furniture and clothing for the family. This family became indebted to each member of the community who offered their physical labour, material or financial support. In turn, each community member or family who helped now held a credit with the neighbour whose house burned down and could call upon them for help in the future. Just as one might deposit cash into a bank account upon which they can draw funds in the future, these credits, held by different members of the community, represented a deposit or an investment in the future capacities for labour, material or financial support from the neighbour whose house burned down. The power of debt was and still is found in its imagined morality particularly in daily Indonesian society. In these relationships, its morality entails a sense of duty or responsibility in fulfilling one's obligations and thus it is framed as a reciprocal debt relationship (Graeber, 2011, p. 13). Community diplomacy relies on such a shared framework.



Figure 5: The men use a bucket brigade to clean up the debris.

While I argue that the above story demonstrates the reciprocal nature of debt, one of the community members told me that it was also an example of *gotong royong* in action (Pak Sukia, personal communication, May 18, 2012). The general understanding of *gotong royong* is “cooperation between members of a community” where such cooperation is spontaneous, voluntary, and represents the “desire to serve the common good” (Koentjaraningrat, 1961, p. 2).²¹ Geertz describes *gotong royong* as “mutual assistance” in the context of his research on rotating credit associations which, in Indonesia, are known as *arisans* (1962, p. 243). As will be shown, although Koentjaraningrat and Geertz were writing about Indonesia in the 1950’s, I observed that both *gotong royong* and *arisans* were very much a part of community and work life in Colomadu in 2013. I also observed that the obligations and reciprocal qualities of credit and debt that have

²¹ Koentjaraningrat uses a less common spelling: *gotong rojong*.

been associated with patron-client relationships were present in the BMT Solo *arisan* for example.

The *arisan* is a rotating credit association which Geertz defines in the 1960s as

...a device by means of which traditionalistic forms of social relationship are mobilized so as to fulfill non-traditionalistic economic functions [which acts as] an ‘intermediate’ institution growing up within peasant social structure, to harmonize agrarian economic patterns with commercial ones, to act as a bridge between peasant and trader attitudes toward money and its uses (1962, p. 242).

A rotating credit association, thus, is a way in which the traditional social patterns of a village or small neighbourhood, for example, were used to facilitate economic action “which fits into community patterns and yet aims at planned and ‘goal-directed’ savings” (Geertz, 1962, p. 242). My observations of the *arisan* reflect Geertz’s description: *arisans* are made up of a group of people, women, men or even children, who live in the same neighbourhood or are members of the same club, social organization, political party, or school association for example. While traditional *arisans* in Indonesian villages are most often formed according to geographic and residential proximity, in urban areas “ideological factors, the bases of the clubs, play a more important role” (Geertz, 1962, p. 248). The group usually meets together on a regular basis such as every week, every few weeks, or once per month and shares food and drink in a social atmosphere, a gathering which is hosted by a different member of the group each time (Ibu Nu, personal communication, April 2012). At each meeting, every member contributes the agreed-upon amount in cash or kind and the pooled amount is either divided amongst the group according to their need or requests²² or is given to a different member of the group at

²² Ibu Nu, personal communication, April 2012. Ibu Nu is a member of an *arisan* in her neighbourhood in Yogyakarta, Indonesia.

each meeting based on a rotating order determined “by lot, by agreement, or by bidding” (Geertz, 1962, p. 243).

As Geertz reported, I also observed and confirmed through interviews that there is a social aspect to the *arisan* which members hold is “more important than the economic aspects ...in the sense that [the] symbolic, expressive aspects have precedence over their technical [and] instrumental aspects” (1962, p. 245). For example, translated, *arisan* means “cooperative endeavour” or “mutual help” (Geertz, 1962, p. 243). As this thesis will show, in most instances the meaning of the word *arisan* is reflected in the practice of it as a social gathering and the ways in which the people involved perceive their participation as an opportunity to contribute to “the strengthening of community solidarity” (Geertz, 1962, p. 243). In other words, as Geertz found in his extensive research, I also found that “the primary attraction of the *arisan*, ... is not the money you receive, but the creation of *rukun* (communal harmony) which occurs, [and] the example of *gotong rojong* [sic] (mutual assistance) which is demonstrated” (1962, p. 243).

The *arisan* is an example of one aspect of morality and the social dimension of debt relationships in the 1950’s and today. The life of a peasant farmer is a “very labor-intensive pattern of rice cultivation” which requires the cooperation of many people (Geertz, 1962, p. 244). Thus, “strengthening community solidarity” through social gatherings over food in the form of the *arisan* is a way in which *rukun* or communal harmony is created which is fundamentally necessary to ensure effective and efficient cooperation between many people (Geertz, 1962, p. 243).

In other words, the *arisan* has represented debt relationships which allows for the cultivation of loyalty and provides a form of insurance against unanticipated misfortunes

in much the same way the risk-averse choices of the peasant in tying himself to a patron and choosing more conservative crops and farming techniques ensured him “the highest and most stable payment for labour” (Chayanov, n.d., as cited in Scott, 1976, p. 19). By combining the social with the economic, the *arisan* provides a source of financing which at the same time “[supports] specific, carefully delineated social mechanisms which can mobilize labor, capital, and consumption resources ... and [concentrates] them effectively at one point in space and time” (Geertz, 1962, p. 244) in a similar way to the traditional patterns of reciprocity found in patron-client systems. The *arisan* provides a means to save for religious and cultural rituals such as circumcisions, weddings, and funerals and as such also provides a social and financial investment group. The *arisan* demonstrates the reciprocal ebbing and flowing quality of credit and debt in the past that continues today when many relationships in Indonesian society are still perceived by both parties from an exchange point of view where “exact reciprocity is maintained ...and such obligations, no matter how complex they become, are remembered” (Geertz, 1960, p. 64).

The Ethnic Side of Moneylending

While religious and ethnic tensions have long existed in Indonesia, this section shows how colonial practices exacerbated the situation and the legacy it has left with the historical development and practice of IBF in Indonesia today.

The Dutch colonials held the belief that the indigenous population (*pribumi*) of the Netherlands Indies (Indonesia) was “a ‘pre-capitalist’ category with weak economic ‘instincts’” and a predisposition towards idleness, as evidenced by what the colonials regarded as a lack of business acumen and capitalist attitudes towards work (Schmit,

1991, as cited in Schrader, 1997, p. 212). Additionally, it appeared that the *pribumi* were incapable of being good stewards of money as in the words of J.H. Boeke there was a “perpetual famine of money and widespread need of credit” (Boeke, 1953, as cited in Henley & Goenka, 2010, p. 3). The colonials understood this situation to be a result of the attributes of the psyche of *pribumi* where “indebtedness [was] an outcome of the sudden incursion of money into traditional village life, an economic development which the socio-psychological development of the population could not keep pace” (Schrader, 1997, p. 177).

This “perpetual famine of money and widespread need of credit” (Boeke, 1953, as cited in Henley & Goenka, 2010, p. 3) can be better understood in light of the historical studies of patron-client relationships, “since the community provided security” through the mutually assistant nature of the social structure, “no savings or credit were necessary at the individual level” (Schrader, 1997, p. 165). As a result, these reciprocal debt relationships were misunderstood by the Dutch who saw only a situation of perpetual debt and so called “thirst for credit,” (Boeke, n.d., in Schrader, 1997, p. 177).

It can also be understood in light of the Cultivation System. This system was introduced by the Dutch in 1830, “as a strategy to revitalize the state treasury of the Netherlands Indies,” and had a significant impact on the way of life of the *pribumi* (Schrader, 1997, p. 169). The Cultivation System was designed as a way in which profit could be generated for the Dutch through export crops such as coffee and sugar. However, it soon turned into a system of forced and compulsory labour resulting in the indigenous population resorting to cash-crops (instead of subsistence crops) in order to make the required cash payments for land and other taxes imposed on them (Schrader,

1997, p. 170). Reports from the time indicate that due in part to the tax impositions and demands of the Cultivation System, which could not be met through the reciprocal features of the traditional credit system based on *gotong royong* and *rukun*, the *pribumi* were forced into a system which put them into a state of constant debt and so called “hunger for money” (Ringrose, 1940 as cited in Schrader, 1997, p. 177).

According to the logic of the Dutch colonial regime, rational economic conduct demanded the maximization of profits at the least cost, in the most efficient manner possible while maintaining stability and consistency through rigidity and inflexibility (Schrader, 1997). Anything less or “any type of labour which did not conform to this conception was rejected as a deviation” and, as characterized from the perspective of the colonial capitalists, reflected laziness and indolence (Alatas, 1977, p. 70). In contrast to their perception of the indigenous *pribumi*, the Dutch colonizers saw the people of Chinese descent in the Netherlands Indies “as an ‘ultra-capitalist’ category with strong economic ‘instincts’” (Schmit, 1991 as cited in Schrader, 1997, p. 212). As such, moneylending became the primary work of what Schrader calls “aliens” in particular the people of Chinese descent (1997, p. 188).²³ It is further reported that these people were heavily involved in the business of minting coins throughout Southeast Asia and they were favoured over the other “aliens” in the Netherland Indies by the Dutch to play the role of intermediary between them and the *pribumi* (Schrader, 1997, p. 167, 189). The pawnshops provide an excellent example of the ways in which the Dutch used ethnicity

²³ Although some Europeans were involved there is limited documentation available and thus Schrader focuses on the “foreign Oriental moneylenders” (1997, p. 188). In addition to Chinese moneylenders, there were also Arab moneylenders who lent mostly “to factory workers and civil servants” in North Western Java and Indian Chettiar who lent against promissory notes in eastern Sumatra (Schrader 1997, pp. 188-191).

to classify populations in an effort to maintain control. Although they existed in some form since 1746, pawnshops were privatized in the Netherlands Indies in 1811, and then farmed out to the Chinese in 1814 which generated a significant profit for the Dutch colonial administration (Schrader, 1997, p. 217-218).²⁴

Interestingly, Chinese Indonesians have continued to hold a certain amount of economic power through to today. Though the Chinese constitute only 1.2 percent of the total population of Indonesia they play a central role in the Indonesian economy (Central Intelligence Agency, 2016). For example, as will be seen in the next chapter, in 1998 in Surakarta, Chinese Indonesians operated 80 percent of shops (Purdey, 2006, p.126). A similar situation was noted by Geertz in the 1950's in the town of Modjokuto, in east Java where there existed "an overcomplex [sic] economic system in which the Chinese minority [controlled] the main stream of trade" and where they "[formed] the heart of the economic circulatory system" (Geertz, 1960, p. 2).²⁵

Such conditions are a direct result of the historical legacy of the Dutch colonial administration who favoured the Chinese over the *pribumi*. Racial and ethnic divisions are a distinctive feature of high colonialism and race was used in the 19th century as a concept to "divide and rule."²⁶ The Dutch used ethnicity to classify the population and maintain control exerting power through exploitation. This created and perpetuated

²⁴Under the Popular Credit System and "in accordance with the Ethical Policy" (Schrader, 1997, p. 218) the profiteering through the farming out of pawnshops was halted and public pawnshops were introduced alongside the private pawnshops allowing "pawnbroking [to become] a state monopoly in 1901" (Henley & Goenka, 2010, 7).

²⁵ Geertz notes however, that Chinese Indonesians "are prevented from totally dominating the economy by only one restriction: they are forbidden, by a Dutch law continued into the Republican period, to hold farm land" (1960, p. 2).

²⁶ An example of this is evidenced in the Netherland Indies law of 1835 which required "foreign Oriental people to live in their own quarters under officers of their own nationality" (Schrader, 1997, p. 189).

stereotypes which represented the Chinese as a population with a natural propensity for business; a population who were financially well off as a result of their business acumen and hard work. Such stereotypes were created by the colonial system, to benefit the colonial system though not all Chinese Indonesians fit this description. These stereotypes persist in Indonesia today.

Ethnic tensions between Chinese Indonesians and the *pribumi* are also tightly intertwined with religious conflict, the history of which is long and complicated with much bloodshed.²⁷ Religious and ethnic contentions were exacerbated by colonization and particularly “with the increasing influence of religious orthodoxy among the believers, relations between Muslim and Christian Javanese became more apologetic and confrontational” (Picard, 2011, p. 10). *Pribumi* are usually identified as Muslim, and Chinese Indonesians often Buddhist, Confucian, or Christian. Based on this generalization, ethnicity, religion and economic status conflate and this has been a part of the social conflict, producing anti-Chinese sentiment in the past. However, not all non-Muslims are of Chinese descent and vice-versa as is evidenced by a case during riots in Surakarta in May 1998 in which

rioters attacked a house situated next to Sholat Magnih church. When the owner came out of the church to meet the rioters they were surprised to find it was not Chinese Indonesian-owned. A few of them apologized to the owner and left (Purdey, 2006, p. 126).

This case suggests that anti-Chinese sentiment is associated with economic conflict, and at times and given particular circumstances and conditions, is stronger than general sentiment against non-Muslims. These social divisions are relevant to the perception of Islamic banking today. For example, in 2012 I heard a rumor that Islamic banking is a

²⁷ For more on the history of ethnicity, religion and politics in Indonesia see Geertz 1960; Picard and Madinier 2011, and Purdey 2006.

code word for "non-Chinese banking" and was designed to marginalize the Chinese Indonesians by reducing their involvement and attempting to remove their position of power in the Indonesian economy. The 'non-Chinese banking' rumour capitalizes on the enduring historical ethnic and religious tensions as well as the powerful role the Chinese Indonesians continue to play in business and economics in Indonesia. Islamic banking could be construed as a continuation of the colonial legacy as *pribumi*, who are predominantly Muslim, attempt to regain control of business and economic matters from the Chinese Indonesians, who are predominantly non-Muslim. This rumour suggests that IBF is a system designed intentionally to marginalize the Chinese and non-Muslim Indonesians. No known research has been conducted on the particular details surrounding this rumour. I address this rumour in more detail in chapter 6.

The Political History of Islamic Banking and Finance in Indonesia

The above descriptions on the critiques of conventional microfinance, the history of credit and debt and the ethnic side of moneylending offer the appropriate context in which to situate this section which looks at the economic policies and the politics which led to the development of IBF in Indonesia.

Islamic Banking and Finance was formally launched in Indonesia in 1990, although it did not really take off until after the 1997-1998 Asian financial crisis. Prior to the 1990's, Suharto, Indonesia's president from 1967 to 1998, was "extremely wary of Islam in the aftermath of rebellions in the 1950's and 1960's that sought to establish an Islamic state in Indonesia" (Rudnyckj, 2010, p. 45). Suharto perceived Islam as a political threat and sought to marginalize it. He did so by instituting his "New Order,"

reinforcing and legitimizing his presidency through *pancasila* “to restore political stability and promote economic growth” while maintaining “a middle ground away from religious and other ideological extremes” (Islam and Chowdhury, 1997, p. 210-211). Islam and Chowdhury describe *pancasila* as the “five principles of belief in God, national unity, humanitarianism, social justice and democracy” which Cribb explains as guiding “a society modelled on the traditional family, in which individual interest was subordinate to the well-being of the community” (Cribb, 1995, as cited in Islam and Chowdhury, 1997, p. 210-211). Thus, “neither the Islamic religion nor its leaders played any significant political role” as the Suharto government emphasized “unity through diversity” maintaining “a system of ‘religious secularism’” due to “the delicate ethnic, religious, political, and economic balance” reflecting an attempt at constitutional separation of religion and state (Warde, 2010, p. 222-223; Venardos, 2006, p. 161).

Suharto viewed Indonesia’s development “as a technological problem” which he aimed to solve using “authoritarian political rule” through a strategy of “faith in development” (Rudnyckyj, 2010). In other words, in order for Indonesians to achieve the standard of living enjoyed by the west, Suharto’s New Order focused on technological innovation by importing “a critical mass of scientists and engineers trained outside the country” (Rudnyckyj, 2010, p. 36) and directing economic policy towards increasing foreign investment (Islam and Chowdhury, 1997, p. 216). The rationale for Suharto’s development strategy was premised on Walt Rostow’s five stages of growth (1960) and the assumption that economic growth, evidenced by higher living standards, reaches its final stage when there is “high mass consumption” by a consumer driven economy and society. Indonesia experienced positive, economic growth and success with a population

which became contented and preoccupied with their consumer lifestyle such that they were less likely to have the incentive to cause any societal problems or political dissent as has occurred in the past. Thus, there was much less fear of communist uprisings. Dreams of becoming part of the consumer driven society with its improved standard of living and increased disposable income, convinced strategic segments of the Indonesian population to have faith in the government's drive for "development" (K. Endo, personal communication, September 25, 2012).²⁸

It was in an effort to appease the "rise of Islamist opposition" and "following the emergence of a growing university-educated middle class inclined toward Islam" (Rudnyckyj, 2010, p. 60), that the Suharto government began to "court" Islam and the IBF sector was officially established in 1990. This move to appeal to the Islamist opposition for support was caused in part by a rift between Suharto and the army (Schwarz, 2000). With this loss of political backing from the army, Suharto began looking to Muslim groups.²⁹ Amidst Suharto's technological and economic policy reforms, corruption was rampant, a legacy of Sukarno's presidency which lived on through Suharto's New Order. The 1997-1998 Asian financial crisis³⁰ was seen as a national crisis of morality in which "spirituality was invoked as something that had been lost due to the regime's faith in development during the New Order" (Rudnyckyj, 2010, p. 146).

²⁸ It should be noted that many may not have viewed consumerism as either desirable or attainable. Before the 1997-1998 Asian financial crisis a significant portion of the Indonesian population, particularly students and urban professionals, felt that Suharto's development strategies were not enough. There was a growing push towards ending nepotism and corruption. Bodden (2010) argues how those involved in theatre contributed significantly to the opposition. See also Aspinall, 1993 and 2005. Thanks to Dr. Michael Bodden for clarifying this point.

²⁹ Thanks to Dr. Michael Bodden for clarifying this point.

³⁰ For more details on the Asian financial crisis see Sheng, 2009.

With Suharto's resignation on May 21, 1998, the solution was found in a shift in the country's development strategy from one of "faith in development" to "developing faith" specifically the Islamic faith. Fusing the strategy of "faith in development" with that of "developing faith" was based on the belief that adaptation to neoliberalism through personal accountability and transparency, which would be led by and through Islamic teaching, was the only way to ensure the survival of the Indonesian nation. It was a co-opting of the idea of "focusing ... on the expression of religious faith through social programs, education, and moral guidance" through the support of various Islamic initiatives such as *Shari'ah* or Islamic banking and finance (Warde, 2010, p. 223).

Rather than being state led, the development of non-bank Islamic organizations in Indonesia such as *Baitul Maal wat Tamwil*, has been directed and "supported largely by individuals and private organisations" (Sakai, 2008, p. 267). Most BMTs in Indonesia are grass-roots operations managed independently or as cooperatives and "are not regulated by the Bank of Indonesia" (Sakai, 2010, p. 413). There is minimal oversight by a foundation called PINBUK which provides BMT supervision and training (Sakai, 2014, p. 207-208). The limited regulations combined with the ease of establishing a BMT has caused much public concern and distrust. For example, my host mother told me of an all too common case in Surakarta where a BMT manager ran away with all the customers' money. At the International Indonesia Forum conference in Yogyakarta in August 2013, one of my co-presenters, Dr. Roberto Akyuwen, Senior Lecturer in the Ministry of Finance for the Republic of Indonesia, addressed some of the many complex challenges of the supervisory aspects of non-bank institutions such as BMTs (Akyuwen, 2013). In 2013, law No.1/2013 regulating banks and institutions offering financial services

including BMTs came into effect.³¹ The practical application and outcomes of this new law remain to be seen. While the regulating of BMTs presents an interesting area of research, it is outside the scope of this thesis.³²

This literature review covers some of the necessary historical, political and economic background in order to better understand the analysis in the subsequent chapters. The ideas of *gotong royong* and *arisan* are introduced to facilitate the reader's understanding of how these key concepts are important elements in the operations of BMT Solo. The main critiques of the global conventional microfinance model are presented together with a history of some of the different forms of financing in Indonesia to contextualize the discussion on the ethnic and religious tensions. Exacerbated by colonial practices, these tensions continue to exert a significant impact on the development and practice of Islamic microfinance in Indonesia.

³¹ Sakai refers to regulations governing all bank and non-bank institutions which came into effect in 2013 and which she cites as Law No. 21/2011 (2014, p. 209). However, she fails to offer any details or insight into this new law and its practical application. Furthermore, I am not convinced Sakai has cited the correct law as it differs from the law which Dr. Roberto Akyuwen, Senior Lecturer in the Ministry of Finance for the Republic of Indonesia, referred to in his lecture in August 2013 and again in our November 10, 2014 email correspondence: law No. 1/2013 which pertains to the regulations concerning governance of microfinance institutions launched by the Indonesian government at the beginning of 2013. Furthermore, law No. 1/2013 was discussed at the Central Java BMT Association Meeting in Surakarta in November 2013. Dr. Akyuwen's knowledge of the laws is more reliable than Sakai's thus I am relying on his data as the most accurate.

³² For more on the history of Islamic microfinance in Indonesia see Seibel, 2008 and Riwayatanti, 2013.

Chapter 3: Methods and Field Work

This chapter describes how and what methods were used and the challenges and limitations encountered during data collection. While economic and financial studies usually follow a quantitative methodology I have chosen to use qualitative methods instead. As discussed in chapter 1, there are very few ethnographic studies of BMTs in Indonesia. This chapter will describe how qualitative methods were applied for this project, particularly considering the types of challenges presented by both the research location and the nature of the topic. This chapter provides a detailed description of the research location (Colomadu, Surakarta, Indonesia) and the research participants. The account of methods and conditions in the field also contextualize the analysis and discussion in the chapters ahead.

Methods of the Research

The purpose of this section is to describe and justify how and what methods were used during data collection and analysis. Generally, a study of microfinance would signal a quantitative methodology. However, this project is not a financial analysis. It is an investigation into how Islam is informing capitalism in Indonesia. It explores how, in light of historical religious tensions, Indonesians are attempting to remake society in the image of a modernist Islam specifically through Islamic microfinance. Using the case study of BMT Solo, this project looks at how the BMT model differs, as a local variant, from the global conventional model in terms of poverty reductions methods and reasons for which both men and women choose to become involved with BMT Solo. Given all of the above and that debt is a morally fraught domain, the use of quantitative methods, such

as questionnaires distributed on a broad scale, might not yield verifiable results. Thus qualitative methods, including semi-structured interviews, participant observation, and event and document analysis, were used instead.

Additionally, qualitative methods were employed to ensure that the voices and stories of the participants, as they see the issues from their perspective, are heard. This choice of methods reflects Liamputtong's argument that

it is only through qualitative enquiry which allows the researchers to work closely with the participants, and which allows them to build trust and rapport with them [that] the participants have [the] opportunities to articulate their needs and concerns in great depth (2010, p. 7).

Thus, I chose to live in Colomadu with a local Indonesian family. Doing so offered convenient access to BMT Solo's main office and to many of its customers. More importantly, it allowed me to build rapport in the community and offered many opportunities for impromptu discussions on Islam and Islamic banking that may not have been possible if I had lived in another neighbourhood or city.

Recognizing the limits of objective and subjective analytical interpretations which come with being an outsider the rapport established with BMT Solo and the surrounding community helped to mitigate these limitations. My aptitude for the Indonesian language was a key factor in my being able to establish a relationship of mutual trust in the community of Colomadu and with potential research respondents. Of the 14 interviews conducted, 13 were in Indonesian while one was conducted in English at the request of the interviewee. A translator was deemed unnecessary since, after intensive study, beginning in 2010, and continued learning by immersion in the community, my Indonesian language skills were adequate for the project. I also participated in the Indonesian language program at Gadjah Mada University in Yogyakarta, Indonesia,

while studying with a private tutor in 2012. Both my language acquisition and cultural sensitivity were greatly facilitated as a result of living with Indonesian families in 2010, 2012 and during the first half of the field work period in 2013.

Part of the cross-cultural research process includes an “emphasis on trust building, reciprocity and rapport” (Liamputtong, 2010, p. 50) achieved, in part, by building relationships with participants, securing appropriate permissions from community leaders, BMT managers, staff and customers prior to conducting research. Having spent a combined total of one year in Indonesia since April 2010, such rapport was established and I had a number of personal contacts in the Islamic banking and finance (IBF) industry which facilitated the logistical aspects of securing a BMT where I could carry out my 2013 field work. I made these personal contacts by attending several public events in Indonesia since 2010 which focused on the country’s economic development and IBF including conferences sponsored by the Indonesian Council of World Affairs, Ernst and Young and other key institutions.

The study of conventional banking and finance, much less Islamic banking and finance, demands a solid understanding of accounting and economic concepts. My Bachelor of Commerce together with my work experience in audit and accounting at Ernst and Young, Chevron and Nalcor Energy, have prepared me well for this research. I have been building up a knowledge base of Islamic finance since 2011 working as a research assistant at the University of Victoria (UVic). I also participated in a Master’s level course on Islamic business contracts offered through the Faculty of Law at Indonesia’s Islamic University in 2012. Additionally, in 2012, I conducted two pilot projects: one at a BMT in Yogyakarta and one at BMT Solo in Colomadu, Surakarta.

The time spent at BMT Solo in 2012 allowed me to gain a first-hand and an in-depth understanding of IBF and the BMT model as well as to build a strong relationship of mutual trust with the manager and employees which was instrumental to the success of my 2013 field work.

Original data was gathered from August 9, 2013 to November 24, 2013 at BMT Solo in Colomadu, Surakarta in Central Java, Indonesia. The data collection period was completed in three overlapping phases. The first phase began August 9, 2013 and lasted to the end of the research period. This phase was used to build and maintain rapport in the community of Colomadu while brushing up on my language skills and familiarizing myself with the research location. During this phase I also attended a total of four formal events including the 6th International Indonesia Forum August 21 and 22, 2013, in Yogyakarta; the *Halal-bi-halal*³³ for BMT Solo financiers September 1, 2013; the BMT Solo staff *pengajian*³⁴ September 21, 2013; as well as a two-day conference for Central Java BMT managers in Surakarta, November 23 and 24, 2013. Many informal discussions and road-side chats with both participants and non-participants occurred at these as well as informal events which brought richness to the analysis that would not otherwise have been possible without such informal dialogue.

The second phase began September 9, 2013, and ended in November 2013. From September 9, 2013 through until mid-October 2013, I spent most days in the BMT Solo main and satellite offices, in management or BMT Association meetings or

³³ *Halal-bi-halal* is a Muslim tradition in Indonesia that occurs in the days and weeks following *Idul Fitri*. Family, neighbours or work colleagues gather together sharing food, building community and offering forgiveness to each other. For more information see van Doorn-Harder, 2004, p. 649.

³⁴ The term *pengajian* is used by Indonesian Muslims to refer to a gathering intended for group recitation and study of the Muslim holy books. Food and drink is often shared, and after praying, reciting and reading the *Qur'an* together a speaker gives a short talk offering insight into the Islamic faith.

accompanying the marketing staff on their daily rounds. This allowed me the opportunity to get to know BMT Solo operations more intimately as well as to meet a number of BMT Solo customers and potential research respondents. I took pictures and notes each day and would spend the evenings typing out details of my observations and informal discussions. From mid-October onwards, I would drop by the BMT Solo offices, attend meetings or meet with BMT Solo staff only as required in order to follow up with information gathering.

The third and final phase began October 16, 2013 and ended November 24, 2013. During this time, I conducted a total of 14 semi-structured interviews all of which were digitally recorded and then transcribed by paid transcription services. Informed consent was obtained from each interviewee using forms that were translated “accurately but also culturally appropriately,” and written simply (Liamputtong, 2010, p. 48). Pseudonyms have been used for all the participants and for BMT Solo. This research was conducted in accordance with the guidelines of UVic’s ethics standards.

Limitations and Challenges

It is recognized that language and communication, insider/outsider positioning among many other issues, as outlined by Liamputtong (2010), pertaining to cross-cultural collection of empirical data create a number of limitations in being able to conduct objective ethnographic research. To the best of my ability I tried to mitigate such limitations, as much as possible.

While I was able to mitigate potential language and communication issues, I did not anticipate challenges associated with the fact that Colomadu is a very traditional and

extremely conservative Muslim area of Surakarta. Being an unmarried, non-Muslim, female outsider, and traveling alone presented unexpected concerns in this traditional, conservative, Muslim dominated society. For example, as I attempted to build rapport with potential research participants I spent a lot of my time at *pengajian* and other religious activities and events, including volunteering with the children's after-school mosque program (*Taman Pendidikan Al-Qur'an* or TPA). Many people perceived my involvement as evidence of a deeper thirst for knowledge of the truth they claimed to hold and a desire to convert to Islam. Combined with the requirement by BMT Solo that I wear a *hijab* while conducting my research, the situation resulted in a keen interest by many in the community and some at BMT Solo in converting me to Islam. To the best of my ability I tried to ensure that my neighbours and all of my research respondents knew I am not Muslim and had no intention of converting. I smiled and politely declined the increasingly regular invitations to convert.

My situation was particularly difficult given the fact that I was travelling alone. Being a single, unmarried woman on the wrong side of thirty with no male companion accompanying me is very unusual in Indonesian society, particularly in Colomadu. In an attempt to secure my conversion to Islam, my host father, Pak Fachry³⁵ and his wife proposed to find me a suitable Muslim husband. Indonesian law prohibits inter-religious marriages (i.e. both the man and the woman must be of the same religion to marry) therefore I would be expected to convert to Islam.

Nonetheless, Pak Fachry and his wife were genuinely concerned for me, for my future, my status in society and especially for my spiritual well-being. It was out of this

³⁵ Pak is a polite term used when addressing older men in Indonesia.

deep, caring, thoughtfulness that they offered me the only thing they believed to be the solution to cure my presumed loneliness. This particular situation was very confining to myself personally and as a researcher. However kind and accommodating my host family was, their impositions on my personal life and restrictions enforced on my mobility made it difficult to conduct my research effectively and efficiently. For instance, while living with Pak Fachry and his wife I had a curfew and was seldom allowed to go out alone which made it difficult to conduct interviews with respondents. Thus, for the second half of the research period I moved into a studio apartment (*kost*), still in Colomadu, across the street from BMT Solo.

However, I began to realize that the friendly hospitality of some of my local neighbours masked their incessant, persistent yet subtle attempts to convert me to their religion. As such attempts continued and increased I decided it would be best for my emotional and mental health and safety to leave Colomadu and Surakarta on a temporary basis. Beginning in late October 2013, and continuing until the end of the research period, for a few days at a time, I stayed in the city of Yogyakarta where I had lived in 2012. This arrangement made it much easier to focus and work in the evenings. By this point during the field work period rapport was already very well established in Colomadu so I was able to easily conduct my research from Yogyakarta, making the one-hour train commute to Surakarta whenever I needed to attend a meeting or interview or meet with respondents.

These experiences brought a richness to the analysis that otherwise would have been missed had I not lived it. I learned how to diplomatically decline the constant invitations to convert to Islam while maintaining a good relationship with my Muslim

neighbours and be able to continue my research. This experience allowed me to identify better with some of my non-Muslim respondents when they spoke of the religious tensions they navigate on a daily basis living in Colomadu which will be addressed in chapter 5.

The Research Location Then and Now: Colomadu, Surakarta

The purpose of this section is to give the reader a background of the research location describing particular economic, political and religious conditions surrounding the time of the research and the relationship with sources as a field researcher. This accounts sets the stage for the detailed analysis of core issues in the chapters ahead.

The busy, smoggy city of Surakarta, also known as Solo, is situated in the centre of the island of Java on one of the main thoroughfares connecting east and west Java. There are four train stations in the city and an international airport (Adi Sumarmo International Airport) which offers daily flights servicing Singapore and Kuala Lumpur in addition to many domestic destinations. Tourists and students alike flock to this cultural, arts and university hub. The main tourist attractions include the royal palace, the antique markets and the traditional, live-theatre and musical productions known as *wayang orang*. The city is well known across the country for its textile markets and traditional batik industry. There are more than 50 universities and colleges between which students can choose, including two of the country's top educational institutions: *Universitas Muhammadiyah Surakarta* and *Universitas Sebelas Maret Surakarta*. Environmental initiatives in the city have resulted in the establishment of several green spaces and public parks where people take their families to relax on the weekends. Every Sunday morning from 5:00am to 9:00am two of the city's main streets are blocked off to

motor vehicle traffic. Designated as “Solo Car Free Day,” this weekly event aims at the promotion of carbon emissions reductions efforts.

With an estimated half a million³⁶ people squished into 44 square kilometers Surakarta is a very densely populated metropolis where the traditional and modern coexist. Surakarta was founded in 1745 as the Kingdom³⁷ of Surakarta and where the royal family still resides in *Kraton* Surakarta or the royal palace. The royal family hold no formal political power and there is a separation of royalty and state in government (Siegel, 1986, p. 34-35). Surakarta, together with its neighbouring royal province and city of Yogyakarta, has been described as the heart³⁸ of the island of Java and to where many Javanese look “in search of their identity and, ultimately, for a sense of belonging in the Indonesian archipelago of more than 13,000 islands” (Beek, 1990, p. 1). It is through Javanese traditional art and culture and in the ritual and magical powers believed to be held by the royal family that this identity is found.

However, the very foundation of this identity was shaken by anti-Chinese riots in Surakarta in the aftermath of the 1997-1998 Asian financial crisis. Excess deregulation throughout Suharto’s time as president precipitated the crisis leading to a “deterioration in credit and governance standards” in the emerging private banking sector, demonstrating “a classic banking problem: credit growth at the expense of credit quality” (Sheng, 2009, p. 231). The average value of the Indonesian rupiah (IDR) in 1997 was

³⁶ The most recent population data available for Surakarta is from 2010. For more information, please see <http://population.city/indonesia/surakarta/>

³⁷ For an extensive historical analysis of the history of the Kingdom of Surakarta and Javanese culture see Pemberton, 1994.

³⁸ Woodward (2011) discusses the ongoing debate about whether it is Yogyakarta or Surakarta that is truly the heart of Javanese culture (p. 5, n. 13).

2,909 IDR³⁹ to the U.S. dollar (USD). The IDR began decreasing in value in the second quarter of 1997 and by July 1998 it had plummeted to a historic low of 16,650 IDR to the USD.⁴⁰ The price of consumer products such as petrol and rice, the latter a staple in the Indonesian diet, soared as did poverty and unemployment.

The economic crisis revealed a political crisis as corruption and ‘crony capitalism’ were endemic to the Suharto regime. In response, student initiated protests broke out across the archipelago. In Surakarta “student protesters called for an end to corruption, collusion, and nepotism ...the military role in politics, and increasingly the end of Suharto’s rule” (Panggabean and Smith, 2010, p. 236). In an effort to distract protesters from Suharto’s failures as president, the army was called into Surakarta on May 14 and 15, 1998, to incite riots.⁴¹ These riots were directed at Chinese⁴² owned shops, capitalizing on pre-existing tensions and prejudices between indigenous (*pribumi*) and Chinese Indonesians the latter of which owned 80 percent of the businesses in Surakarta though they only accounted for an estimated 4.4 percent of the city’s total population (Purdey, 2006, p.126). Additionally, acts of sexual violence including sexual assault, rape and torture were committed primarily against Chinese Indonesian women;

³⁹ For more historical exchange rates please see Official Exchange Rate, 2016.

⁴⁰ The historical data on 1998 was accessed 4 November 2014, from <http://www.tradingeconomics.com/indonesia/currency> For more in-depth analysis of the historical fluctuations in the value of the IDR see Indonesian Rupiah, 2016.

⁴¹ Panggabean and Smith argue that anti-Chinese protests in Surakarta in May 1998 “were [an army-orchestrated] form of contentious politics aimed at changing the frame of mass political mobilization from one aimed at the state to one aimed at economically dominant ethnic minorities” and would “not have occurred without the active interventions of state security forces and their proxies” (2010, p. 232). See Panggabean & Smith (2010) for more on this subject.

⁴² In this section I have chosen to use the term “Chinese Indonesian” rather than “peoples of Chinese descent” because the former was used by the Indonesians with whom I spoke when our conversations were in English. Interestingly, when people spoke Indonesian, they would use the term *orang cina* which is perceived by many to be more derogatory. There is a long history on the debate over the various terms which have emerged for “Chinese” in Indonesian (*orang cina*, *orang tiongkok* and *orang tionghoa*). For more information see Aguilar, 2001.

most never reported.⁴³ The riots and the violence exposed “a treasured city and its people facing not only a physical [and economic] crisis but also a crisis of identity” as they searched for a way in which to make sense of and overcome the discrimination and racial intolerance (Purdey, 2006, p. 131).

In the wake of the 1997-1998 Asian financial crisis and the May 1998 riots, as the people of Surakarta attempted to rebuild their lives, they found a saviour in Joko Widodo. As mayor of Surakarta from 2005 to 2012, Joko Widodo successfully revived the city and afterwards attempted to do the same for Indonesia’s capital in his position as elected Governor of Jakarta before winning the 2014 presidential election. Believing that Surakarta’s “cultural richness and heritage [could] distinguish it from other cities in the country” allowing it to compete on an international level with “Zagreb (Croatia), Budapest (Hungary) and other European and Asian cities” Widodo’s strategy was to rebrand and revitalize the city as the “Spirit of Java” (Poer, 2008, para. 6 & 8) by “preserving and promoting [the city’s] historic attributes without discouraging modernisation” (Lowry, 2014, para. 4). He did so by supporting the work of street vendors and others involved in the informal sector including them in the rebranding process through discussions on how to effectively renovate, relocate and improve traditional markets. According to my host family’s youngest, and most politically active daughter what made Widodo so famous was that “he [had] close relations with small traders and poor people” (Mbak Epri,⁴⁴ personal communication, August 9, 2013) and that he gave particular attention to the needs of these people as well as grass-roots communities. Widodo opened up his home to receive ordinary citizens, social and

⁴³ See Purdey, 2006 for more discussion on the controversy of the sexual violence.

⁴⁴ Mbak is a polite term used when addressing young women in Indonesia.

political activists as well as official dignitaries to listen to their concerns and problem-solve together (Sudiarno, 2010). During the rebranding process he provided street vendors with access to “credit facilities to develop their businesses and provided simpler procedures for them to obtain business licenses” stating that “as long as they are well managed and empowered, street vendors can also contribute a great deal to the city’s economy. That’s why we never consider them as enemies but partners of development instead” (Poer, 2008). Widodo’s statement belies the fact that since 1998, poverty has been a persistent problem for Surakarta and that it is closely correlated to the employment of street vendors and small traders who make up a significant portion of the business population and played a significantly vital role in the success of Surakarta’s economy and Widodo’s rebranding strategy. Despite the ongoing problems of poverty and unemployment,⁴⁵ by 2007 Surakarta had joined the Organization of World Heritage Cities (Poer, 2008, para. 9) and in 2012, Widodo was named third World Mayor by the City Mayors Foundation (vom Hove, 2013).

Almost a year later, in August 2013, I arrived in Surakarta to find that Brenner’s 1998 description of the city accurately reflected Surakarta as I experienced it, 15 years later. She vividly portrays the significant position street vendors and small traders held and continue to hold despite Widodo’s work and amidst Surakarta’s development as she states that it

has the feeling of a once-sleepy provincial city that has been rudely awakened by the tremors of modernization ...Bicycles, *bécaks* (bicycle-powered pedicabs), and an occasional oxcart or horse-drawn carriage crowd the roads alongside new BMWs, motorcycles, and double-decker buses. Multimillion-dollar textile factories compete for cheap labor with small batik workshops that are run much as they were in the nineteenth century. At night, hundreds of makeshift food stalls selling everything from skewers of grilled *saté* to hot milk and toast take over

⁴⁵ For more on this topic see Dewi & Ayuningtyas, (2013).

the sidewalks, obscuring the modern department stores, banks, and hotels that local officials proudly point to as signs of [Surakarta's] urban sophistication (1998, p. 3).

The streets of Indonesia never sleep and the streets of Surakarta are no exception as Brenner's account implies. In 2013, I witnessed peddlers and street vendors driving, bicycling or walking around dodging chickens, dogs and playing children from five in the morning until long after the sun had set. The peddlers sell everything from toys, balloons and brooms to fresh guava juice, meat-ball soup and spicy fried-rice. For example, Ibu Yuli,⁴⁶ a Muslim woman in her early forties, operates a mobile grocery stand. As illustrated in figure 6 below, Ibu Yuli uses her bicycle to transport her inventory of fresh vegetables, fruit and snacks. Other food sellers have their "kitchens" set up on the back of their motorcycles or in a cart with wheels. They honk their horn or tap a spoon against a bowl to let everyone know they are in the neighbourhood. There are more permanent food establishments set up along the main roads selling a variety of food including, but not limited to, deep-fried tofu, peanut-sauced chicken, spicy vegetable salad, noodles, and rice. Fancy restaurants serving local delicacies such as cat fish or foreign foods such as sushi can be found closer to the centre of Surakarta and in the popular shopping malls alongside fast food chains such as McDonald's and A&W. Large traditional markets spread throughout Surakarta and its suburbs also sell home-cooked meals in addition to almost anything one can imagine from live and freshly killed chickens, fish, eggs, grains, to clothing, shoes, pots, and motorcycle accessories.⁴⁷

⁴⁶ Ibu is a polite term used when addressing older women in Indonesia.

⁴⁷ Parts of this section were first published by the author as part of her travel blog in September 2013 at <http://coffee.bc.ca/>



Figure 6: Ibu Yuli pushing her bicycle, overflowing with produce, up a hill on her way home.

Street vendors and small traders are ubiquitous and do not limit themselves to the busy downtown core of Surakarta. They set up shop anywhere and everywhere including and especially residential areas. Many of the homes in Surakarta have a sign above the door advertising home-based businesses. For example, every few blocks in my neighbourhood someone was offering laundry services. For Rp 2,500⁴⁸ per kilogram I could get my clothes washed in a machine, ironed, folded and ready in four days. If I was willing to pay double the price, I could have next day service. Some homes had the front entrance set up to sell candy, cold and hot beverages, snacks and toiletries. The narrow, enclosed veranda of one house had two rows of desks with almost a dozen computers where the local children went to play video games and surf the internet every afternoon paying Rp

⁴⁸ The average exchange rate during the 2013 field work period was 10,810 IDR to the Canadian dollar (CAD). Thus, Rp 2,500 was approximately \$0.23 CAD at the time. For more information on the IDR-CAD exchange rates see the Daily Noon Exchange Rates: 10-Year Lookup, (2016).

3,000⁴⁹ per hour of entertainment. Although there are gas stations every few kilometers on the main thoroughfares, many of my neighbours sold gasoline by the litre which was kept in clear, glass, bottles in a locked box or set up on shelves in front of their homes. Less often, I saw signs advertising English lessons for children. My host family's eldest daughter offered private tutoring in English, Arabic and Indonesian while teaching English part time at a local college. One of my neighbours and also one of the few Christians living in my neighbourhood, Pak Hari and his wife, opened an Indonesian version of a steak-house restaurant in their front yard building an extension onto their house such that it was difficult to see where the restaurant ended and where their private space began.

The small traders and street vendors as described above were abundant where I lived and conducted my research in the municipality of Colomadu, roughly seven kilometers west from the downtown core. With a population of approximately 61,000 people, Colomadu is made up of 11 residential neighbourhoods which include a number of rice fields and small farms, several hotels, traditional markets, a golf course, a few swimming pools, the Indonesian Air Force Base, most of the Adi Sumarmo International Airport and the Colomadu Sugar Factory (Kecamatan Colomadu, 2013). For the first half of the 2013 research period I lived east of the Colomadu Sugar Factory in a neighbourhood which was bordered on one side by a busy, two-lane road. The other three sides morphed into other neighbourhoods until they were interrupted by more farms, rice fields or the river. The accompanying figure 7 below shows one of these

⁴⁹ Based on historical exchange rates, Rp 3,000 was approximately \$0.28 CAD at the time of the 2013 field work. For more information on the IDR-CAD exchange rates see the Daily Noon Exchange Rates: 10-Year Lookup, (2016).

small farms which is owned and operated by one of my research respondents, Ibu Vina and her husband who supply the local grocery stores with fresh, organic produce.



Figure 7: Ibu Vina's husband, on their small fruit and vegetable farm in Colomadu which is surrounded on all four sides by residential homes.

Small, single-lane roads, measuring 8 feet across, formed a north-south-east-west grid and made up the little “streets” of the neighbourhood. The houses varied in size, style, and color. Some were built in a traditional Javanese style with elements of colonial Dutch architecture though they appeared run down, decrepit and sometimes abandoned with chickens running through the dirt yard; seemingly the only living thing around. Other houses were built of cement and expensive local woods in a modern style, fenced in with ten-foot-high walls protecting the verdure and rich, extensive interiors from the harmless buskers and food peddlers. My Indonesian, university-educated, Muslim host family lived in a recently built, one-story, three bedroom, unassuming, ground level house next to a Mosque.

Prior to 1998, Colomadu was primarily a sugar cane farming area and the Colomadu Sugar Factory, originally founded in 1861 by the royal family (Pemberton, 1994, p. 86) was the main employer in the region (Fitriana, 2011). However, as the character Eyang Kakung in Jono Hardjowirogo's novel *Noto of Java II: The Rebirth* notes, due to the decreasing price of sugar "many of those small-time farmers [began] planting different crops which are more profitable than sugarcanes" (Hardjowirogo, 2013, p. 51). A search of historical, global sugar prices confirms a general downward slope in price beginning in 1995, declining sharply in the fourth quarter of 1997, until mid-1999 (Sugar, 2016). Additionally, according to Kakung, the value of the land was increasing and thus farming it was not as lucrative as selling it for real-estate development (Hardjowirogo, 2013, p. 51). Fitriana's 2011 research on the socio-economic changes and impacts of the development of the Colomadu Sugar Factory in the 1990's confirms Kakung's description of what occurred in Colomadu. Many of the sugar cane farms were replaced with rice paddies or sold for residential development, as the population density of Surakarta increased and the city expanded into Colomadu (Fitriana, 2011, p. 60). Farms which lie on the outskirts of many Indonesian cities are often transformed into residential areas as the cities grow (Ibu Nu, personal communication, April, 2012). In 2013, Colomadu had all the markings of a former farm area turned into a typical city suburb complete with several small neighbourhoods of newer homes, schools, mosques, churches, cemeteries, shops, canteens, restaurants and traditional markets amongst all of which the remaining small farms and rice fields were interspersed.

As land use in Colomadu changed, the availability of raw materials (i.e. sugar cane) steadily decreased and the Colomadu Sugar factory became unsustainable

eventually closing in 1998 due to bankruptcy (Fitriana, 2011). With the heavy reliance on the Colomadu Sugar Factory as a primary source of employment either directly (for those working at the factory) or indirectly (for those farming sugar cane or otherwise involved in the business), its closure in 1998 had serious effects on the population of Colomadu. Combined with the impacts of the 1997-1998 Asian financial crisis including the significant devaluation of the Indonesian Rupiah and the soaring “price of major consumer goods such as rice and kerosene” (Panggabean & Smith, 2010, p. 234), unemployment and poverty in Colomadu, the rest of Surakarta and Indonesia became a critical problem (Mujiyati, Rudhiyoko and Sholahuddin 2010). It is from within this context that the informal sector, of small traders and street vendors, as described in detail above, emerged as an increasingly vital source of employment for residents of Colomadu; for many, it was their last resort.

The Colomadu Sugar Factory still stands on *Jalan Adi Sucipto* (Adi Sucipto Street), a symbol of historical and colonial legacies living on through modernization and a physical reminder, for many, of the delicate balance between economic prosperity and crisis. At night, small traders and street vendors set up food stalls along the street in front of the closed factory. Following Widodo’s strategy to collaborate with street vendors and create new jobs, local government announced plans in early 2014 to revitalize the factory as a tourist destination developing it into an industrial and culinary heritage museum relocating small traders and street vendors to this location. By creating a space for tourists to eat and relax the hope is that Colomadu will become a tourist destination rather than simply a pit-stop on the road between the airport and downtown Surakarta (PG Colomadu Bakal Dijadikan Wisata Kuliner, 2014). The above description summarizes

related studies, historical data and my own observations on Colomadu. It offers the reader the necessary context in which to situate the analysis of field work data in the chapters ahead.

The Research Participants

Having an understanding of the research location naturally leads into a discussion on the research participants, all of whom either lived or worked in Colomadu and were connected to BMT Solo either as financiers, BMT Solo management (or management of other BMTs), employees or customers. The participants in this research involved both men and women from these four different groups. A total of 14 semi-structured interviews with 17 people were conducted. The selection of interviewees was determined by the following factors, listed in order of importance:

1. Their willingness to voluntarily participate in the research.
2. Their religious affiliations. Given the importance religious tensions have played and continue to play in both Indonesia's history and in the development of Islamic banking in Indonesia, it was determined that a selection of Muslim and non-Muslim customers would provide the most insight into the research.
3. The depth and variety of their life histories.

Of the 17 voluntary participants, nine were women and eight were men. I interviewed five financiers of BMT Solo, two women and three men. One of these women was also the manager of BMT Solo, Ibu Dwi. Including Ibu Dwi, I interviewed three BMT managers from three different BMTs. Ibu Hapzah is the manager of a BMT in another part of Surakarta and holds an account at BMT Solo. I met Ibu Hapzah at a BMT

Manager's Association meeting⁵⁰ to which both women belong as members. Pak Budi is the manager of a BMT just outside Surakarta but still within the Central Java region. I met him at the two-day conference for Central Java BMT managers in Surakarta, November 23 and 24, 2013. With the exception of two BMT Solo employees, one man and one woman, the rest declined an interview with no reason given. The male employee was a marketing agent and the woman was BMT Solo's teller. Finally, I interviewed six BMT Solo customers: five women and one man. The husbands of two of the female customers insisted on participating in the interview alongside their wives. These men were not BMT Solo customers, however, husbands play a pivotal role as the leader of the family both in Indonesian society and in Islam (Ibu Dwi, personal communication, October 17, 2013). Thus, refusing these men's wishes could be considered very rude and had the potential to offend both the husband and the wife which may have caused them to become uncomfortable and decide to withdraw from the research. Out of respect for the Islamic religion and the Indonesian culture I honored the requests of the husbands to be interviewed and allowed them to participate voluntarily as they desired responding to the same questions I asked their wives.

While approximately 60 percent of BMT Solo's customer base are women, BMT Solo does not specifically target a female demographic, as I originally thought (Ibu Dwi, personal communication, October 17, 2013). The higher percentage of female BMT Solo customers reflects the fact that the Islamic microfinance market in Indonesia is growing "in the informal sector including the trading and cottage [industries]" (Sakai, 2010, p. 412) where women played an important role "in premodern Southeast Asia" (Reid, 1988,

⁵⁰ Ibu Hapzah and Ibu Dwi originally met at a BMT Managers' Association meeting. This particular association, one among many in Surakarta, includes 18 member BMTs offering managers the opportunity to meet on a monthly basis to discuss ideas and challenges while sharing resources and information.

p. 162) and where women in Indonesia continue to “dominate the workforce” today (Sakai, 2010, p. 412). Echoing Obaidullah’s ideas of the importance of the family unit in Islam (2008, p. 19), Ibu Dwi explained to me that in Islam, women and men are equals, although they have different roles within the family (Ibu Dwi, personal communication, October 17, 2013). Thus, while the global conventional microfinance model often focuses on lending to women, BMT Solo does not. Including men in the research became extremely valuable to providing a more balanced and in-depth understanding of BMTs in Indonesia. Furthermore, it mitigated some of the challenges of finding a sufficient number of employees and non-Muslims to participate in the research.

As described in chapter 1, the term *baitul tamwil* refers to a type of “Islamic business centre” with the purpose of providing financial services based on Islamic principles to both men and women “*irrespective of their adherence to Islam* [emphasis mine]” (Sakai, 2010, p. 413). Although Islamic banking is thought to be superior to conventional finance and thus, good for both Muslims and non-Muslims alike, (Sahut et al., 2011; Alam, 2011) BMT Solo does not specifically target non-Muslims through any special marketing campaigns. Thus, not surprisingly, of its 1,562 customers at the end of 2011, approximately 10 (or 0.006 percent) were non-Muslims. BMT Solo staff estimated that the number of non-Muslim customers had only increased to approximately 15 (or 0.0056 percent) by the third quarter of 2013 despite the total number of customers exceeding 2,642.⁵¹ As such, it was especially difficult to find any non-Muslim

⁵¹ On September 20, 2013 after morning prayers, Ibu Dwi announced that the value of the Indonesian rupiah (IDR) was decreasing. Though she did not know or understand the reasons for the decrease, she wanted to share this information with the BMT staff to prepare them for an expected influx of new customers to BMT Solo. She explained that as a result of the decrease in the value of the IDR, interest rates used by conventional banks would increase. However, the profit margin used by BMT Solo and other Islamic financial institutions would remain unchanged, for as long as it could be sustained thus making Islamic banking more attractive to customers resulting in customers moving from conventional to Islamic banks.

participants for this research, particularly given the fact that BMT Solo requires that all management, employees and staff be Muslim.⁵² I was able to secure interviews with two Christians: one male BMT Solo customer and one female BMT Solo customer.

During the course of my field work I discovered that none of BMT Solo customers are poor. Many BMT Solo customers work as small traders as described above and are working middle, and upper middle class Indonesians who could easily qualify for funding from larger banking institutions. Initial interviews revealed that one of the drivers of this phenomenon is the ease and speed with which financing is provided through BMT Solo compared to larger banking institutions. The poor are defined by BMT Solo using prescribed criteria taken directly from the *Qur'an* which will be addressed in greater depth in chapter 4. At BMT Solo's discretion, anyone who meets these criteria is provided with charitable assistance in the form of gifts of money or food on specific occasions (such as semi-annual charitable events planned through the *baitul maal* function of BMT Solo). Such gifts are gifts and not loans and are not paid back in any form. Thus, the poor are not considered customers of the BMT but rather irregular

In a subsequent conversation with Ibu Dwi and her husband on October 20, 2013, I inquired for more information on this event. It is generally understood that the change in the value of the IDR was a direct result of the US Federal Reserve's decision to delay tapering of the "Quantitative Easing Program" on September 18, 2013 and the consequential closure of congress from October 1 – 16, 2013. Although Ibu Dwi and her husband both had completed graduate work in economics, neither of them knew about the situation in the US with congress as they told me that Indonesian news reports very little on the US. They were able to comment on the macroeconomics and the reasons for which the Bank of Indonesia had increased its interest rates, only to say that they understood the potential impacts it could have on BMT Solo and its customers. Ibu Dwi explained further that since BMT Solo deals in micro-loans, BMT Solo's goal is to maintain the lowest fee schedule possible to ensure the most benefit to the customer. This event has important implications for the understanding of the role played by Islamic banking and specifically by BMT Solo in the global economy. However, such a discussion is beyond the scope of this project and thus presents an opportunity for future research. For more information, see Board of Governors of the Federal Reserve System, 2013; Bank Indonesia press releases during that period such as Johansyah, 2013; and Parker, 2013.

⁵² While BMT Solo requires all employees be Muslim, working in the Islamic banking and finance industry outside of Indonesia, for example in the United Kingdom, one is not required to be Muslim (British Non-Muslim Islamic Financier, personal communication, April 16, 2012).

recipients of the social/spiritual function of the BMT (*baitul maal*). No recipients of the *baitul maal* function were interviewed for this research as it was determined by the manager of BMT Solo that it would be too embarrassing for the *Baitul Maal* recipients.

The above discussion offers a good overview of the methods used in this study as well as some of the limitations and challenges encountered while conducting field work in Colomadu. The description of the research location helps to contextualize some of these challenges and strengthen the argument for the decision to use qualitative methods for this project. The information on the four different groups of research respondents who participated in this project provide a basis for the narratives that will be given in the following chapters on the lives of some of these people.

Chapter 4: Combating Poverty and Building Community

This chapter examines how BMT Solo is involved in combating poverty in Colomadu through the *baitul maal* function. Beginning with a description of the research institution, this examination specifically focuses on how BMT Solo sources funding for the *baitul maal* function, how eligibility to receive assistance is determined and how BMT Solo fosters community solidarity in Colomadu. As the data demonstrates, the way in which BMT Solo administers their *baitul maal* function results in the exclusion of the poor non-Muslim community in Colomadu revealing issues of religious tensions which are explored in greater depth in chapter 5. This chapter offers important insights into the significant differences between how BMT Solo assists the poor as compared to how the global conventional microfinance model aims to achieve this goal.

The Research Institution: BMT Solo

This section gives a brief overview of the history of the research institution, BMT Solo, and its daily operations. BMT Solo is located east of the Colomadu Sugar Factory, on a busy street in the heart of Colomadu, surrounded by small farms and residential homes. The office is set back from the road, in a two story structure designed to house up to 10 businesses on the main level with the option for living accommodations or more business space above. Sandwiched between a mini-mart and an empty office, BMT Solo is the third business along the row, painted canary yellow and lime green, with ample employee and customer motorcycle parking in front. BMT Solo's 2013 renovation plans included an extension into the recently acquired empty business space next door effectively

doubling the size of their office.⁵³ In front of the parking lot, by the edge of the road, under the shade of a tree there are a couple of snack stands where the cooperative employees often go for their morning coffee break. Most nights, after the BMT closes and with the manager, Ibu Dwi's permission, a young newlywed couple living nearby, set up their mobile fried rice food stall (*warung nasi goreng*) in the parking area in front. Pak Hari's steak-house restaurant is across the street as well as a mobile phone store, a few bicycle and motorcycle repair shops and another Islamic microfinance cooperative.

Just as Widodo recognized the importance of making credit accessible to street vendors and small traders such as the young newlywed couple above, so too did Pak Anteng, a newly graduated student of economics who was eager to contribute practical solutions for social and economic development in Colomadu (Ibu Dwi, personal communication, October 17, 2013). He began promoting his idea at community groups such as *arisan*⁵⁴ and *pengajian*⁵⁵ in Surakarta. Ibu Dwi was invited by her friend to attend one of these meetings. The meeting focused on discussions about starting a joint venture to effect social change by assisting low income individuals in obtaining capital. The creation of BMT Solo resulted.

BMT Solo was established as a cooperative in 2006 with funding from both private donors as well as by bank loans from Bank Muamalat Indonesia (BMI), Bank BTN Syariah, and Bank Jateng Syariah. Despite liabilities of Rp 4,309,583,300 BMT

⁵³ In his address at the BMT Solo founder's *halal-bi-halal* on September 1, 2013, the chairman of the board described the renovation plans as an extension of the office into the empty business space next door. This description reflected the blueprints for the renovations which were completed in early 2014.

⁵⁴ As described in detail in chapter 2, the *arisan* is a type of rotating credit association in Indonesia used to build community and social solidarity. For more details on the *arisan* and how it functions see Geertz, 1962.

⁵⁵ As described in chapter 3 the term *pengajian* is used by Indonesian Muslims to refer to a gathering intended for group recitation and study of the Muslim holy books. Food and drink is often shared, and after praying, reciting and reading the *Qur'an* together a speaker gives a short talk offering insight into the Islamic faith.

Solo's assets in 2013 totalled Rp 10,050,596,450 allowing for the lavish office extensions and renovations. The initial 25 founding members each contributed Rp 1,000,000⁵⁶ in 2006. Since then, more people have joined BMT Solo as financiers however, all latecomers are required to commit a minimum of Rp 6,000,000 to become a member of the group. Ibu Dwi, her husband along with, my host father, Pak Fachry, his wife and their eldest daughter were among the initial 25 founding members.

The involvement of each founder is limited only by their expressed interest in participating beyond their role as financiers. A supervisory group (*pengawas*) and a management team (*pengurus*) were created, each composed of three founding members. My host father Pak Fachry, a full-time professor of Islamic finance at a local Surakarta university, became the one-member supervisory board (*pengawas Syariah*) for BMT Solo. In other words, he is the official authority on all questions of Islamic jurisprudence as it relates to the daily operations of BMT Solo. Pak Fachry's wife, a stay-at-home mother of three adult daughters, volunteers to assist with the charitable side of the BMT through the *baitul maal* function. The *pengurus* was charged with the task of searching for and hiring a manager and a team of marketing, accounting and administrative staff to handle the daily operations of BMT Solo. With her husband's support and endorsement, Ibu Dwi, who was looking for a career change that would provide her with a more balanced work-life and allow her more time to spend with her family and children, applied for and consequently was appointed to the position of manager of BMT Solo.

During my pilot project in 2012, I observed that BMT Solo had a total of eight employees: four men and four women. Of the four women, one was the manager (Ibu

⁵⁶ The estimated average exchange rate for 2006 was 8,074 IDR to the Canadian dollar (CAD). Thus, Rp 1,000,000 was approximately \$123.85 CAD at the time. For more information on the IDR-CAD exchange rates see the Daily Noon Exchange Rates: 10-Year Lookup, (2016).

Dwi), one was the teller (Ibu Wien), one was the administrative assistant and one worked as a marketing agent.⁵⁷ Two of the four male employees worked as marketing agents (including Pak Jamal) while the other two men worked in accounting. By 2013, BMT Solo had hired an additional 3 employees: one woman and one man as marketing agents (including Pak Irman) and one man as a full-time, day-time security guard.

A typical day at BMT Solo begins shortly before 8:00 am when the security guard arrives to open the BMT and sweep the floors and small parking lot. He then joins Ibu Dwi and the staff for approximately 20 minutes of recitations of the *Qur'an*, group prayer and reflection. As illustrated in figure 8 below, a sign is displayed on the BMT Solo counter in the lobby advising patrons that morning prayers are in progress. However, if customers come in, the teller, Ibu Wien, leaves the prayer meeting to assist the client.



Figure 8: Sign advising customers that morning prayers are in progress.

After group prayers, the marketing staff meet with Ibu Dwi to discuss pending loan applications before heading out with a list of customers to visit, gathering the clients' account books and enough cash to handle the requested withdrawals.

⁵⁷ I have included pseudonyms only of the staff who volunteered to participate in this research either through interviews or by introducing me to clients and who are also mentioned again in later chapters of this thesis.

BMT Solo's operations are premised on what I call a "home-based" banking system.⁵⁸ While BMT Solo does not yet have an automated teller machine (ATM) or an online banking option, Ibu Dwi described the marketing staff as mobile ATMs. The marketing staff spend their days on their motorcycles going all over Colomadu and Surakarta from one customer's home or place of business, such as a traditional market or an elementary school, to another. Customers wanting to meet with the marketing staff either have a pre-arranged daily, weekly or monthly appointment time or they send the marketing staff a text message or call to request a visit. Most BMT Solo customers have never stepped foot in the BMT Solo office but instead have obtained loans or hold accounts from which they deposit and withdraw through the marketing staff.

In addition to his daily rounds, Pak Irman, the newest male marketing agent to join the BMT Solo team, is also in charge of the BMT Solo satellite office located in a local traditional market.⁵⁹ On May 29, 2012, during my pilot project, I accompanied Ibu Dwi and one of her accounting staff as they surveyed a potential satellite office site. It was a small space deep in the heart of the market squished between a soup canteen and a vegetable stall. Despite the fact that at least five other BMTs operate in this particular market, it was selected because of its proximity to many of BMT Solo's existing customers and the potential to attract new customers. In September 2013, Ibu Dwi brought me to the same traditional market and proudly showed me the new satellite office which was located on the perimeter of the market in a much larger and open space, offering better visibility and access to a greater number of potential clients.

⁵⁸ I encountered other BMTs as well as Islamic and non-Islamic rural banks both in Surakarta and in Yogyakarta in 2012 and 2013, all of which used a similar "home-based" banking system.

⁵⁹ The name of this traditional market has not been provided as it would compromise the identity of Ibu Dwi and BMT Solo's staff.

Clients can avail of a number of different Islamic financial products and services at BMT Solo. As outlined in chapter 1, BMTs have two primary functions: *baitul tamwil* and *baitul maal*. Through the *baitul tamwil* function BMT Solo offers both savings and loans. For example, there is a standard every day savings account called *tamara* from which a customer can make unlimited withdrawals and deposits with no fees. The *tadika* savings account is a children's education savings account from which funds can only be withdrawn for the purpose of paying school or university fees for one's child. The *tapeni* savings account is for the costs of one's pending wedding or marriage. Additionally, there are savings accounts specific to the Islamic faith to assist with the costs for the *Haji* and *Umroh* pilgrimages⁶⁰ to Mecca. The *taduri* savings account is for the costs associated with the Islamic religious holiday *Idul Fitri*.⁶¹

A number of different types of Islamic financing options are available at BMT Solo, including but not limited to contracts defined in the terms: *Mudharabah*, *Musyarakah*, *Murabahah*, *Bai' Bitsaman Ajil*, and *Ijarah*⁶² (BMT Solo, 2012). BMT Solo's most common financing method is the *Murabahah* or cost-plus contract.⁶³ A *Murabahah* loan is usually obtained from BMT Solo in order to fund the purchase of a

⁶⁰ *Haji* and *Umroh* are Indonesian words for the Arabic *Haji* and *Umrah* respectively. The former is an annual pilgrimage to be completed at least once in a Muslim's lifetime if they are physically and financially able. The latter is similar to the *Haji* however not obligatory and can be done at any time of the year (Umrah 2003). Both pilgrimages are made to Mecca, Saudi Arabia, considered to be the "holiest city of Islam, birthplace of Muhammad, site of the Kaaba ... and the city Muslims face during prayer" (Mecca, 2003).

⁶¹ *Idul Fitri*, as it is known in Indonesian, occurs at the end of the month of Ramadan fasting and "...in Muslim-majority areas, businesses are closed and invitations are extended to family, neighbors, and friends to join in the celebrations. Children receive gifts and sweets. Almsgiving is required prior to attending the morning feast prayer, in remembrance of the poor" (*Id al-Fitr*, 2003, para. 1).

⁶² For a description of each of these types of contracts and how they function please see sources such as Abdalla Khiyar, 2005; Ahmed, 2011; Ahmed, Asutay, & Wilson, 2014; Hunt-Ahmed, 2013; Iqbal and Molyneux 2005; Venardos, 2006; Warde, 2010.

⁶³ Sakai also found in her research that the *Murabahah* contract was "the most popular of the four schemes offered by BMTs" (2010, p. 272).

new motorcycle, or to assist with paying for a child's school fees or access credit for current business operations for example. Sakai provides a concise definition of the *Murabahah* contract as "a scheme whereby the BMT buys outright the item required by the client [and] the client then makes regular repayments to purchase the item from the BMT, paying the purchase price plus a margin or spread" which is not interest but a nominal fee (2010, p. 272).

Pak Irman, one of the male marketing staff, used the Indonesian expression *gali lubang, tutup lubang* when explaining how some BMT Solo customers use the *Murabahah* loans. When discussing BMT Solo's liabilities and the renovations, Ibu Dwi used this same expression explaining that it meant "to make one hole [in order] to fill another hole" (Ibu Dwi, personal communication, October 20, 2013). Many of BMT Solo's customers have multiple accounts and loans with different BMTs, banks, loan sharks or moneylenders and sometimes they use the *Murabahah* loan to pay off these other loans similar to a kiting situation.⁶⁴

Mudharabah or profit-sharing contracts and *Musyarakah* or joint-venture contracts are not used as often at BMT Solo due in part to the fact that customers often report false profits and losses thus making these contracts less desirable financially for BMT Solo.

At the end of 2011 the smallest amount of funding offered by BMT Solo amounted to Rp 300,000 (approximately \$34 CAD)⁶⁵ and the largest amount of funding

⁶⁴Cornell University's Legal Information Institute provides an excellent definition of kiting which is a way in which a person "obtains an illegal, interest-free loan" from themselves. See Kiting [Web page]. (n.d.). Retrieved from <http://www.law.cornell.edu/wex/kiting>

⁶⁵The average exchange rate for 2011 was 8,855 IDR to the Canadian dollar (CAD). Thus, Rp 300,000 was approximately \$33.88 CAD at the time. For more information on the IDR-CAD exchange rates see the Daily Noon Exchange Rates: 10-Year Lookup, (2016).

available was Rp 100,000,000 (approximately \$11,293 CAD). By the last quarter of 2013, due to positive business growth, BMT Solo had increased their funding range to a minimum of Rp 500,000 (approximately \$50 CAD)⁶⁶ and a maximum of Rp 300,000,000 (approximately \$29,768).⁶⁷ Customers without collateral must maintain 10 percent of the loan amount in a *tawab* account. Ibu Dwi explained that individuals or groups seeking loan amounts of less than Rp 500,000 will not receive financing but rather, if they qualify, will receive a charitable donation through the *baitul maal* function.

The above information provides insight into BMT Solo's daily *baitul tamwil* operations and how they differ from the global model of microfinance. This description provides the context in which the *baitul maal* function will be discussed below.

Baitul Maal: What it Is and How it is Funded

As shown in chapter two, microfinance is generally and globally understood and defined as a development tool designed to make “a broad range of financial services [available] to the poor such as credit, savings, insurance, and pensions” at low interest rates, and with no required collateral (Karim, 2011, p. xiii). Thus, individuals and groups who do not possess the required collateral, documentation or credit history and who would not otherwise qualify for financing through traditional banking institutions should, theoretically, be able to do so through microfinance. This function is part of the general

⁶⁶ The average exchange rate for the year 2013 was 10,078 IDR to the Canadian dollar (CAD). Thus, Rp 500,000 was approximately \$49.61 CAD in 2013. For more information on the IDR-CAD exchange rates see the Daily Noon Exchange Rates: 10-Year Lookup, (2016).

⁶⁷ Given that BMTs are unregulated in Indonesia and that there is no clear range defining microfinance each BMT's range of funding differs based on their capital available. Microfinance is used in Indonesia as a general term to refer to financing at a micro level (which the large banks do not) but with no clear upper limitations.

definition of microfinance and was the expected finding with which I began my field work at BMT Solo in 2013. However, as I compiled information in the field, I discovered that BMT Solo does not follow this delineation of microfinance.

BMT Solo's manager, Ibu Dwi, directly explained that my assumption was faulty and that microfinance is not for the poor. Both she and BMT Solo staff confirmed that it is impossible for people who do not possess the required collateral, credit history, or a co-signer, to obtain a loan from BMT Solo. Each morning I watched as BMT Solo's secretary opened the large safe hidden under the stairs. Inside there were three deep shelves filled with motorcycle and car certificates of ownership, house and land deeds and gold jewellery. These items constituted collateral for loans given out to BMT Solo customers, some of whom I met when I accompanied the marketing staff on their daily rounds. For example, I met one BMT Solo client who ran a little snack shop as a sideline to her real-estate business. Her husband had been living and working in Saudi Arabia for the past two years as a machine technician. Her most recent loan from BMT Solo was to help pay for the flights for her children to go work there as well. Thus, rather than assisting the poor in obtaining capital, BMT Solo only offers financing to individuals who are bankable. The poor are assisted through the *baitul maal* function.

Despite the fact that BMT Solo does not issue loans to the poor, this Islamic microfinance co-operative still works to combat poverty through the *baitul maal* function of the business by issuing semi-annual charitable donations of food and money to poor or needy Muslim individuals and groups in Colomadu. As noted in chapter 1, historically, *baitul maal* or "*Bayt al-Mal*" was an Islamic financial institution which "administered [the] distribution of *zakah* (obligatory alms) revenues for public works" (Bayt al-Mal,

2003).⁶⁸ *Zakah*, or *zakat*, is one of the five pillars of Islam and “an integral part of formal Islamic systems, affecting community development, society, and economy” which requires Muslims, who are financially able, to give an obligatory 2.5 percent of their annual net worth towards those most in need (*Zakat: Socioeconomic Function*, 2009, para. 1).⁶⁹ Thus, in much the same way, BMT Solo’s *baitul maal* function administers the collection and distribution of *zakat* to the poor and needy in Colomadu. Charity of alms rather than microloans are the means of assisting the poor.

Although there are various different possible sources of funding for *baitul maal*, there are three ways in which BMT Solo fundraises for their *baitul maal* function. First, BMT Solo allocates the business’s required *zakat* contributions of 2.5 percent of their annual profits⁷⁰ to the *baitul maal* function to be redistributed to the neediest in the community. Ibu Dwi and her husband explained that *zakat* obligations apply both to individuals and also to organizations including BMT Solo. They described it in terms of foregoing rights to profits earned in order to help society. In other words, although BMT Solo holds legal ownership of the profits, under Islamic law the BMT must dedicate 2.5 percent of these profits to help the poor. One of BMT Solo’s customers explained to me that, as a percentage of total profits, as the BMT’s profits increase, so too does the *baitul maal* funding.⁷¹ Thus, in the long run, it is to the benefit of the poor that the BMT should be successful and profitable.

⁶⁸ Italics not in original.

⁶⁹ For the purposes of this thesis, I have provided a very basic definition of *baitul maal* and *zakat*. For more information please see Bayt al-Mal, 2003; *Zakat: Socioeconomic Function*, 2009; and Coulson, et al., 2016.

⁷⁰ BMT Solo’s profit is calculated based on total income from all revenue sources less all expenses including, for example, overhead costs such as electricity, building rent and employee salaries.

⁷¹ This particular BMT Solo customer, Ibu Hapzah, is also the manager of another BMT on the other side of Surakarta. Her story is documented in further detail in chapter 5.

The second source of *baitul maal* funding is received from private *zakat* contributions and voluntary donations from individuals and groups wishing to invest in the community in which BMT Solo operates. As per the brochure in figure 9 below, *zakat* contributions as well as voluntary donations can be transferred directly into BMT Solo's *baitul maal* accounts from three different national Islamic banks including BMI. The brochure reminds the reader of their religious obligation to help those less fortunate citing two verses from the *Qur'an*: *Az-Zaariyaat* chapter 51, verse 19 which in English reads "...And in their wealth and possessions (was remembered) the right of the (needy), him who asked, and him who (for some reason) was prevented (from asking)" and *Al-Anam* chapter 6, verse 141 which in English reads "...eat of their fruit in their season, but render the dues that are proper on the day that the harvest is gathered. But waste not by excess: for Allah loveth not the wasters."⁷² Using the authority of the *Qur'an* through these verses, the brochure encourages and calls the reader to action providing BMT Solo's account information to make it as easy and convenient as possible for people to make direct deposit donations.

⁷² Here I have used the English translation provided in Rifhan & Al-Huda's (2011) edited version of the *Qur'an*. This is a tri-lingual *Qur'an* providing English, Indonesian and Arabic translations of each verse.

BMT
Mitra Pengelola Zakat (MPZ)
SK No.

DOMPET DHUAFA

ZAKAT PENGHASILAN

Penghasilan rutin (a'thoyat) atau pendapatan profesional (almaalul mustafaa) disepakati para ulama sebagai wajib Zakat.

Untuk mempermudah para profesional dalam memperoleh keberkahan dalam pendapatan seliap bulannya, kami menyediakan layanan kemudahan berzakat bagi anda yang berpenghasilan tetap dari aktifitas kerja profesional anda diberbagai bidang.

Menunahkan zakat dan mengutamakan pembayarannya adalah anjuran Al-Quran, Sunnah dan sumber pelengkapannya. Oleh karena itu, bagi mereka yang berpenghasilan senantiasa merujuk beberapa nash zakat penghasilan berikut ini :

"...Didalam harta mereka terdapat hak orang-orang yang memerlukan, baik yang meminta maupun yang tidak." (QS.Az-Zaariyaat:19)

"...Makanlah dari buahnya yang bermacam-macam itu bila dia berbuah dan tunaikantah haknya (dengan dikeluarkan zakatnya) pada hari memetik hasilnya (saat panen)..." (QS.Al Anam : 141)

Oleh karenanya segeralah bergabung untuk menyalurkan zakat penghasilan Anda, melalui :

Program Baitul Maal **BMT**
Mitra Pengelola Zakat (MPZ) **DOMPET DHUAFA** :

1. PEDULI EKONOMI UMAT
2. PEDULI PENDIDIKAN UMAT
3. PEDULI TPA & SYIAR UMAT
4. PEDULI KESEHATAN UMAT
5. PEDULI BENCANA

KEMUDAHAN PENYALURAN
Bisa Transfer Rekening via Nomor :

Bank Muamalat Indonesia
Bank Jateng Syariah
Bank Permata Syariah

BAITUL MAAL
BMT
MPZ DOMPET DHUAFA

Email :

Zakat Penghasilan
Sumber yang bersih
lebih aman, lebih barokah
Layanan Jemput Zakat

Datang dari *Hati*

Datang dari *Hati*

Figure 9: Two sides of a brochure advertising BMT Solo's *baitul maal* function. All identifying information has been removed.

There also was a wide collection method at the community level for BMT Solo's *baitul maal* function. As observed in November 2013, BMT Solo began distributing a total of 15 small BMT Solo *baitul maal* donation boxes to 15 different businesses around Surakarta. These individual businesses had agreed to display the boxes where customers would have the opportunity to voluntarily donate money directly to BMT Solo's *baitul maal* function.

The monies collected from these three sources constituted BMT Solo's *baitul maal* funds which are then distributed in the form of cash or kind to poor and needy Muslims in Colomadu. BMT Solo does not have the human resources nor the time to

dedicate to making regular *baitul maal* donations to individuals and groups throughout the year. Thus, mass distribution takes place on a semi-annual basis at formally organized BMT Solo, *baitul maal* specific events. Organizing such events currently falls to Ibu Dwi as well as one of the BMT Solo accountants, and a few volunteer founding members. However, Ibu Dwi plans to create a new position and hire someone specifically to handle all aspects of the fundraising, event coordination and follow up for BMT Solo's *baitul maal* function.

The most recent event took place in June 2013 prior to the commencement of *Ramadan*.⁷³ Ibu Dwi decided it would be best to hold the event at this time since such events traditionally involve sharing a meal together and this would be much more difficult to do during the fasting month of *Ramadan*. BMT Solo archival pictures⁷⁴ of the June 2013 event showed large crowds of people gathered in and around a local mosque sitting on mats eating a meal together while listening to a speaker. Other pictures showed Ibu Dwi and other BMT Solo founding members handing out bags of rice and money to individuals at the event, recipients of the *baitul maal* function.

Baitul Maal: Determining Eligibility

The various ways in which BMT Solo can fundraise for and distribute *baitul maal* funds are limited only by the creativity of the BMT Solo staff, management and founders. However, there are restrictions regulating who can receive *baitul maal* funding. As noted above, *baitul maal* funding is available for individuals or groups seeking loan amounts below Rp 500,000, however only if they meet specific criteria as outlined in the *Qur'an*.

⁷³ For more on fasting and *Ramadan* see Fasting, (2003).

⁷⁴ The pictures were not made available for publication thus, none are reproduced here.

Neither BMT Solo's staff nor Ibu Dwi could offer me any information on these criteria nor on the practical aspect of selecting *baitul maal* recipients. Instead, they directed me to speak with Pak Fachry, BMT Solo's one-member supervisory board.

BMT supervisory boards are known as *pengawas Syariah* and members are selected from among the local Islamic experts⁷⁵ in the community. With "no single official institution supervising or overseeing BMTs in Indonesia" (Sakai, 2010, p. 413) each BMT has the freedom to create its own individual supervisory board of directors to assist with questions relating to the practical application of complicated Islamic financial contracts and on any issues of *Shari'ah* compliance. At the time of my 2013 research Pak Fachry was working on his PhD in Islamic finance at a university in the nearby city of Yogyakarta.⁷⁶ Pak Fachry was also a full-time professor of Islamic finance at a local Surakarta university. Given his extensive knowledge and experience on the subject of Islam and Islamic finance, as well as his prominent leadership role in the local community, Pak Fachry had become the voluntary Imam⁷⁷ and *pengawas Syariah* for BMT Solo. Thus, any and all questions on Islamic jurisprudence, Islamic finance including *baitul tamwil* and *baitul maal* are directed to him.

According to Pak Fachry there is only one verse in the entire *Qur'an* that lists the eight qualifying criteria for *baitul maal*. He directed me to the 60th verse of the ninth chapter of the *Qur'an* which, in English, reads as follows:

Alms are for the poor and the needy, and those employed to administer
the (funds); for those whose hearts have been (recently) reconciled (to

⁷⁵ Given that BMTs are unregulated, and those considered as Islamic experts in each community have varying degrees of education and experience, each BMT operates slightly differently than the others and thus standardization is lacking.

⁷⁶ Pak Fachry completed his PhD and graduated in December 2014.

⁷⁷ At its simplest, an *Imam* is a leader in the Islamic faith who leads Islamic prayers and acts as "a role model for the Muslim community in all its spiritual and secular undertakings" (Imam, 2003).

Truth); for those in bondage and in debt; in the Cause of Allah; and for the wayfarer; (thus it is) ordained by Allah and Allah is full of knowledge and wisdom (*Qur'an* 9:60).⁷⁸

Based on this verse and my discussion with Pak Fachry, it is possible to identify criteria by which *baitul maal* funds are made available for any individuals or group organizations; recipients should be:

1. poor, **or**
 2. needy,
- and**
3. be employed, as a volunteer, in the administration of the collection of *zakat*, **or**
 4. have recently converted to Islam, **or**
 5. trying to escape slavery,⁷⁹ **or**
 6. trying to escape serious debt, **or**
 7. working for the cause of Allah; for example, those helping the local community by building a well to access clean water, or those teaching and running the children's after-school mosque program, or the costs to build a new mosque, **or**
 8. traveling for religious reasons; for example, someone making the pilgrimage to Mecca or traveling to teach others about Islam.⁸⁰

Pak Fachry emphasized that interpretations of these eight criteria are conditioned on the first two. Regardless if a person meets any of the criteria from 3 to 8, if they are not also either poor or needy, then they do not qualify to receive BMT Solo *baitul maal* funds. To

⁷⁸ Here I have used the English translation provided in Rifhan & Al-Huda's (2011) edited version of the *Qur'an*. This is a tri-lingual *Qur'an* providing English, Indonesian and Arabic translations of each verse.

⁷⁹ According to Pak Fachry slavery no longer exists and thus this criterion no longer applies.

⁸⁰ According to Pak Fachry travel must be a minimum of 80 kilometers as per the Hadith. The Hadith, "serve as a source of biographical material for Muhammad, contextualization of Quranic revelations, and Islamic law" (Hadith, 2003).

illustrate this point Pak Fachry gave an example of a new convert to Islam who is also very wealthy. The hypothetical individual in this example meets criterion 4, however, because he or she is wealthy and not poor or needy, he or she cannot benefit from the *baitul maal* funds. Based on this understanding, Pak Fachry and his wife, who had recently returned from the *Haji*, meet criterion 8 but because they are not considered poor or needy they would not qualify for *baitul maal* funds. Who then are the poor and needy? Are all applicants requesting loans of less than Rp 500,000 considered poor? What does it mean to be poor or needy in Colomadu? How does BMT Solo define poverty? Who in Colomadu receives help through BMT Solo's *baitul maal* function?

Yunus argues that, though “there are almost as many definitions of poverty as there are individuals and groups studying the problem” (Yunus & Weber, 2007, p. 19n1), developing a unique and specific definition “tailored to local conditions” is necessary in order to effectively monitor and measure the poverty reduction efforts (2007, p.111). Expanding on criteria 1 (being poor) and 2 (being needy), Pak Fachry has developed a definition of poverty which is grounded in the *Qur'an* and which is being practically applied within the local Colomadu context.

According to Pak Fachry, the poor constitute those who “do not have enough to eat” (*kurang untuk makan*) and the needy include those individuals or groups who do not have the means by which to provide for themselves and their families (*tidak ada aset untuk cari uang*). Pak Fachry made it clear that if a person does not have enough to eat but owns a motorcycle or a car, for example, such a person would not be considered poor and therefore would not qualify for funding from BMT Solo's *baitul maal* function. His statement implies intolerance, in the practical application of the *baitul maal* function,

towards a person who is not poor but rather has difficulty managing their finances and a failed understanding of how to effectively prioritize their needs and wants. Pak Fachry is addressing the mismanagement of financial assets in assessing qualification for BMT Solo's *baitul maal* funds. Thus, by purchasing a motorcycle or car instead of investing funds or buying food, an individual will not receive *baitul maal* funding since, according to Pak Fachry, they have wasted their available funds on non-revenue generating activities or non-essential consumables.

An individual who is needy is one who does not have the capacity to make money, in that they do not own the physical assets or knowledge assets to be able to apply themselves in a productive and profitable manner (*tidak ada aset untuk cari uang*). This includes individuals prevented from being able to make an effort (*usaha*) towards employability due to insufficient training or education (knowledge assets) or to the lack of tools (physical assets), or the lack of access to such tools, necessary to work at their trade or profession. Such a person will qualify for assistance from BMT Solo's *baitul maal* function.

One illustrative case is the example of Mbak Dewi and the children's after-school mosque program (*Taman Pendidikan Al-Qur'an* or TPA). Mbak Dewi spent a year in Egypt studying Arabic, the language required to read and pray the *Qur'an* and she has extensive experience teaching children and adults. Although she has the knowledge assets to teach the children, she and the other TPA instructors lack the physical assets such as teaching materials and an adequate learning space. Currently the children participating in the TPA program are crowded into a small room adjacent to the mosque to study Arabic and how to read the *Qur'an*. The play or physical education component

of the TPA program is limited by space and resources and thus the children play in the street. In figure 10 below, the author is teaching jiu-jitsu in an unused private parking lot to the children in the TPA program after their regular Islamic religious lessons.



Figure 10: Children participating in the mosque's after-school TPA program learning jiu-jitsu. Copyright 2013 by Mbak Ika.

The TPA program receives funding from BMT Solo's *baitul maal* function. The program meets criterion 7 as it is designed for the cause of *Allah* in its objective to provide Islamic education to all the neighbourhood children free of charge. It also meets criterion 2 as the program is lacking teaching material as well as appropriate learning and play space. Thus, the TPA program meet the eligibility requirements to receive BMT Solo *baitul maal* funding.⁸¹

⁸¹ It should be noted that every effort was made to interview individual recipients of BMT Solo's *baitul maal* function. However, in consultation with BMT Solo's manager, Ibu Dwi, it was determined that arranging such interviews had a great potential for causing the individuals shame, embarrassment and emotional distress. Thus, in an effort to mitigate such negative impacts, no interviews were conducted with individual recipients of *baitul maal*.

Baitul Maal: Gotong Royong and Rukun

As the TPA case demonstrates, Pak Fachry's definition of poverty is logical and practical in the Colomadu context. It is also very simplistic and at face value appears to only deal with physiological and employment needs, particularly when evaluated in isolation from the *baitul maal* function. However, Pak Fachry's definition of poverty is not meant to exist apart from but rather in tandem with *baitul maal* which then broadens the scope of his definition extensively. To elucidate this point further, it is useful to examine Pak Fachry's definition of poverty and *baitul maal* in light of the United Nations (UN) Statement of commitment for action to eradicate poverty. The UN states that poverty is

...a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or a clinic to go to, not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal and fragile environments, without access to clean water and sanitation. (United Nations, 1998, p. 1, para. 3).⁸²

Pak Fachry's definition does not specifically address the elements of choice, opportunity and the ability to participate in society as noted in the United Nations description above. However, these ideas are embedded in the very essence and meaning of *baitul maal*. As discussed above and in chapter 1, *baitul maal* represents "...the idea of properties and monies designed to serve the interests of the community as a whole" (Coulson, Cahen, Lewis, & le tourneau, 2016, para. 2). The very intention and meaning behind the *baitul maal* function, as it is applied in practice by BMT Solo in funding the TPA children's program for example, foster the elements of choice, opportunity and the ability to

⁸² While it is quite dated, this 1998 definition is the most comprehensive available and best suits the purposes of this thesis. Furthermore, it is significant as it resulted from the World Summit for Social Development in Copenhagen in 1995 which was "the largest gathering ever of world leaders at that time" committed to the eradication of poverty. For more information see World Summit for Social Development Copenhagen, 1995 [Website]. (2016, February 29). Retrieved from <http://www.un.org/esa/socdev/wssd/text-version/>

participate in society. Providing the neighbourhood TPA children's program with funding from BMT Solo's *baitul maal* function, gives the local children an opportunity to go on field trips to places like the local swimming pool. Such physical activity and socialization helps to develop confidence and self-respect in the children, rounding out their education. Additionally, the TPA program gives the children the opportunity to learn a new language (Arabic) and more about Islam. These opportunities further the children's education and assist them in becoming critical thinkers who are able to make good choices and to better participate in society, thus "[serving] the interests of the community as a whole" which is the idea behind the *baitul maal* function (Coulson, N.J. et al., 2016, para. 2).

The idea of community is the basis for BMT Solo's *baitul maal* function and is also extremely important in both the daily lives of the people in Colomadu and the concept of the *arisan*. In 2013, I observed what Geertz had noted in 1962 that "extended kin ties are of some importance, but the major unifying bonds are those of neighbourhood, village, and village cluster" (Geertz, 1962, p. 244). Made up of about 20 to 30 households found in one specific geographic area, the smallest unit of an Indonesian community is known as *Rukun Tetangga* (RT). Each RT is led by a rotating leadership position called *Pak RT*.⁸³ Most *Pak RT*'s in Colomadu organize weekly or monthly meetings with community members to discuss issues such as garbage collection, security and children's safety as well as to develop community solidarity, unity and help out those in need. Such meetings often involve the sharing of food and participation in an *arisan*.

⁸³ Pak Fachry explained to me that approximately five RTs combine to form one Rukun Warga (RW) also with a rotating leadership position known as Pak RW (Pak Fachry, personal communication, November 23, 2013).



Figure 11: One of the BMT Solo founders collects and records each individual's contribution to the *arisan*. She uses a small, plastic garbage can to collect the money.

Most research respondents indicated that they partake in at least one or more *arisan* through their RT or their mosque or church or their place of work for example. As discussed in chapter 2, the *arisan* is a traditional form of financing in Indonesia which also has a “positive effect on social solidarity” (Geertz, 1962, p. 247). Although Geertz was writing about a town in East Java in the 1950's, I observed that *arisan* were very much a part of community and work life in Colomadu in 2013. For example, at the BMT Solo founders' *halal-bi-halal*⁸⁴ gathering on September 1, 2013, those who wanted to participate were able to contribute to the BMT Solo founders' *arisan*. As depicted in figure 11 above, one of the founders is collecting and recording *arisan* contributions. Through observations and discussions with the BMT Solo founders I discovered that they are all independently wealthy or otherwise financially secure. Thus, the BMT Solo

⁸⁴ As described in chapter 3, *halal-bi-halal* is a Muslim tradition in Indonesia that occurs in the days and weeks following *Idul Fitri*. Family, neighbours or work colleagues gather together sharing food, building community and offering forgiveness to each other. For more information see van Doorn-Harder, 2004, p. 649.

founders' *arisan* was not being used as a tool for financing but rather as a way in which to foster community solidarity. Geertz made a similar observation of the way in which *arisan* were being used in the 1950's to build "*rukun* (communal harmony)" and "*gotong royong* [sic] (mutual assistance)" (Geertz, 1962, p. 243). Mbak Dewi, one of BMT Solo's founders, confirmed this when she told me how when the founders saw the need to create *rukun* and *gotong royong*, they decided to incorporate an *arisan* into their bi-monthly meetings and the *halal-bi-halal*, all of which are held at a different person's home each time. BMT Solo staff are also welcome, but not required, to attend these meetings.

The ideas of *rukun* and *gotong royong* permeate all aspects of the BMT Solo operations, even in the marketing of their financing contracts and in team building with staff. For example, in a brochure listing the different types of available loans, BMT Solo has labelled one of the financing options *gotong royong*. Ibu Dwi explained that this was done in an effort to help customers who have a limited education and who do not have a background in Islamic finance, better understand this particular type of financing contract.

Building and maintaining *rukun* and *gotong royong* among the staff of BMT Solo is particularly important for the success of the BMT operations. Every other Saturday morning BMT Solo hosts a *pengajian* for staff and any founding members who also wish to participate. As described in chapter 3, the term *pengajian* is used by Indonesian Muslims to refer to a gathering intended for group recitation and study of the Muslim holy books. Food and drink is often shared, and after praying, reciting and reading the *Qur'an* together a speaker gives a short talk offering insight into the Islamic faith. For instance, at the September 21, 2013, staff *pengajian*, BMT Solo's chairman of the board

gave a 30-minute talk on the subject of the science of Islam and living an authentic Muslim faith in all daily activities. In addition to drawing closer to *Allah* through group prayer and meditation, like the BMT Solo founders' *arisan*, the purpose of these staff *pengajian* is to build community as well as to ensure unanimity of spirit among the staff with respect to BMT Solo's mission and vision.

As illustrated above *arisan* and *pengajian* foster both *rukun* and *gotong royong* which are the basis of the *baitul maal* function as it is practiced by BMT Solo. Mbak Dewi equated the BMT model with the *arisan* because both foster community and solidarity while helping the poor. She explained further that unlike the BMT, the *arisan* has no religious component and is not based on Islamic principles. (Mbak Dewi, personal communication, September 4, 2013). It is this religious component and the way in which the *baitul maal* function is used to assist the poor which makes the BMT structure particularly unique compared to the *arisan* and other forms of conventional microfinance.

BMT Solo's *baitul maal* function takes into account the spiritual needs of the community, which is an important aspect lacking in the UN's definition of poverty. Of the eight *baitul maal* qualifying criteria outlined in the *Qur'an*, four have to do with religious matters: two of the criteria address doing work in the name of Islam or *Allah* (3 and 7), while criterion 4 deals with initial conversion to Islam and criterion 8 with the ongoing spiritual growth of Muslims. These criteria reflect three of the five pillars of Islam⁸⁵ which are "the foundations upon which the religion of Islam" is based and which

⁸⁵ As reported in chapter 1, the five pillars of Islam include: 1. the faith declaration that "there is no god except God and Muhammad is the messenger of God"; 2. regular daily prayers; 3. payment of *zakat*; 4. the completion of the pilgrimage to Mecca; and 5. fasting during *Ramaḍān* (Pillars of Islam, 2009, para. 1).

“constitute the basis of worship, of the sacred law that governs social interrelations, and of theology” (Pillars of Islam, 2009, para. 1 & 2).

It is not insignificant either that the source of the funding for the *baitul maal* function, the allocation of 2.5 percent of profits, represents BMT Solo’s *zakat* contributions. The BMT’s *zakat* contributions are more than a financial subsidy for the *baitul maal* function of the cooperative, as “it [*zakat*] connotes the path toward purity, the comprehension of material responsibility, and an enhanced sense of spirituality” and is also one of the five pillars of Islam (*Zakat*, 2009, para. 1). In paying *zakat* BMT Solo is demonstrating that spiritual wealth is more important than material wealth and thus BMT Solo employees, management and founders draw closer to *Allah* through this action which acknowledges that *Allah* is the source of their success.

Pak Fachry stressed the importance of *Shari’ah* compliance in financial matters and in assisting the poor. *Zakat* funded programs to assist the poor appear to be valued in higher esteem by the Islamic community than by non-*zakat* funded programs such as conventional microfinance (Pak Fachry, personal communication, November 23, 2013). In some sense, because they are *Shari’ah* compliant, *zakat* monies are believed to be rendered more holy than other monies and consequently their holiness holds greater power in effecting social change. Thus, the application of Pak Fachry’s definition of poverty and the way in which the *baitul maal* function is funded emphasize the significance of Islam and helping the Islamic community, however at the exclusion of the non-Islamic community.

Although non-Muslims are welcome to hold savings accounts and access financing through BMT Solo’s *baitul tamwil* function, Pak Fachry was unyielding in his

stance that the *baitul maal* funding is only available to poor or needy Muslims. When I inquired, Pak Fachry suggested that poor or needy non-Muslims in Colomadu should be able to go to their respective places of worship to get assistance (Pak Fachry, personal communication, November 23, 2013). Despite the importance of building *rukun* and *gotong royong* in Indonesian society and at BMT Solo, and despite that *baitul maal* represents the practical application of “...the idea of properties and monies designed to serve the interests of the community as a whole” (Coulson, et al., 2016, para. 2), Pak Fachry has placed greater importance on the community of Muslims in Colomadu, rather than “the interests of the community [of Colomadu] *as a whole* [emphasis mine].” Pak Fachry’s response underlined that being Muslim supersedes being poor or needy when it comes to the allocation of *baitul maal* funds, even if it means excluding members of the Colomadu community.

On the other hand, Pak Budi, manager of another BMT in Central Java, disagreed with Pak Fachry’s interpretation of the allocation of *baitul maal* funds based on religious affiliation. Pak Budi argued that being Muslim is not a prerequisite to receiving assistance from *baitul maal*. He firmly stated that any poor or needy individual, irrespective of their religious association, can receive assistance through the *baitul maal* function of a BMT (Personal communication, November 24, 2013).

The difference of opinions between Pak Budi and Pak Fachry reflects a controversy and the lack of standardization and regulation in the BMT industry.⁸⁶ It also reflects Indonesia’s ongoing struggle with historical religious and ethnic tensions which are investigated in further depth in chapter 5.

⁸⁶ The details of the controversy in Islamic banking and finance as well as issues pertaining to standardization and regulation of the BMT industry are outside the scope of this study.

The details provided in this chapter on the operations of BMT Solo offer the reader insight into how the *Baitul Maal wat Tamwil* model of Islamic microfinance operates compared to the global conventional model. This chapter elucidates how funding is sourced, how recipients are selected, and how community is strengthened through BMT Solo's *baitul maal* function. The discussion reveals a fundamental difference in the way in which BMT Solo assists the poor as compared to the global conventional microfinance model. While global conventional microfinance aims to eradicate poverty by providing the poor with access to credit, BMT Solo does not issue loans to the poor but rather works to combat poverty through the *baitul maal* function. Continuity is evident in how the *arisan* is still used in Colomadu and specifically by BMT Solo as a way in which to build *rukun* and *gotong royong* which are fundamental to the success of the *baitul maal* function. However, as the above analysis demonstrates, there is a breakdown in *rukun* and *gotong royong* as BMT Solo selectively discriminates against the poor based on religion: poor non-Muslims are ineligible to receive *baitul maal* funding. This business practice reinforces historical religious tensions between Muslims and non-Muslims in Colomadu. The ways that non-Muslims in Colomadu navigate these tensions are reported in chapter 5 as an aspect of politics and diplomacy around microfinance in the community.

Chapter 5: The Politics of Faith, Accessibility and Diplomacy

This chapter examines how BMT Solo engages both women and men as founders, managers, employees and customers of the BMT. An analysis is presented of the three main reasons for which these groups of people choose to be involved with BMT Solo: faith reasoning, accessibility reasoning and diplomatic reasoning. Faith reasoning reflects the influence of religion and the high importance it plays in the respondents' decision making process for everyday activities as well as financial investments and expenditures. In addition to the expected economic rationale, accessibility reasoning includes the ideas of employment advancement, job security and proximity to work and home. Diplomatic reasoning refers to community diplomacy and the elements of social pressure and conformity which are often associated with maintaining peaceful and harmonious relations.

As the interview materials in this case study show, these reasons revealed religious tensions for some of the people involved which will lead to a discussion in the concluding chapter. Finally, this chapter is important as it demonstrates how the driving factors motivating people's involvement with Islamic microfinance differ significantly from the primarily economic factors motivating people's involvement in global conventional microfinance.

Faith Reasoning

In his discussion on the religions of Java, Geertz discusses a group he calls the *santri* which he associates with Javanese traders and the Islamic reformist movement in

Indonesia. The *santri* were focused on practicing a purer Islam in their trade, one that was “less contaminated [sic] with either animism or mysticism” (Geertz, 1960, p.5). Geertz describes the “*santri* religious tradition, [as] consisting not only of a careful and regular execution of the basic rituals of Islam ... but also of a whole complex of social, charitable, and political Islamic organizations” (Geertz, 1960, p.6). This tradition is reflected in the reasons that some of BMT Solo founders, management, and customers gave for becoming involved with Islamic microfinance.

BMT members Ibu Dwi, Pak Eka, Ibu Hapzah and Ibu Vina are all Muslim and all became involved with BMT Solo as a result of their Islamic faith. Ibu Dwi and her husband Pak Eka are two of the initial founding members of BMT Solo while Ibu Dwi is also the manager and oversees the BMT’s daily operations. Ibu Hapzah maintains a business customer account with BMT Solo while Ibu Vina maintains a personal customer account.

Ibu Vina and her husband own and operate what they call their “home industry” supplying organic vegetables to local supermarkets. They live north of BMT Solo in a comfortable and well-furnished house that backs onto a small farm. In addition to what she and her husband grow themselves, Ibu Vina sources organic produce from farms as far away as Magelang.⁸⁷ They use the old, empty house next door as a warehouse where they receive, package and store the fresh produce before shipment. As shown in figure 12 below, Ibu Vina (wearing the white *hijab*) is working alongside her employees weighing lettuce, tomatoes and Chinese cabbage before sealing them with plastic wrap in preparation for delivery to a local grocery store.

⁸⁷ Magelang, a city west of Surakarta, is approximately 90 kilometres away.



Figure 12: The author visits with Ibu Vina as she and her employees prepare vegetables for shipment. Copyright 2013 by Pak Agus.

Ibu Vina has been a customer of BMT Solo since 2010. Prior to this, she and her husband used to save their money in a non-Islamic, conventional bank. However, they had a number of concerns about their finances as they perceived that their savings were diminishing rather than growing due to the fluctuating interest rates. Furthermore, if they needed money, they preferred to borrow from family as they feared the consequences of potentially being unable to make future loan payments. Around this time, Ibu Vina felt her faith was being tested by *Allah* when her three-year-old son became ill and required a hospital operation. Under stress, she accidentally withdrew most of the family's savings from their conventional bank account in order to pay the hospital bill. Shortly after her son's operation she and her husband decided to move the rest of their money to BMT Solo where she feels more comfortable with her perceived transparency of the cooperative's *Shari'ah* compliant financial system.

Ibu Vina regularly used the Arabic word *Alhamdulillah* to express her gratitude to God. She was thankful that she and her husband have enough to meet their family's

needs, to enjoy life and to be able to help the poor by making regular *zakat*⁸⁸ contributions to BMT Solo's *baitul maal* function.⁸⁹ Though she did not mention it, BMT Solo records showed that Ibu Vina also maintains a *taduri* account to which she allocates funds to assist her employees with *Idul Fitri* costs.⁹⁰ Ibu Vina said she feels closer to *Allah* now because she uses Islamic banking. Conversely, she feels very "uncomfortable in her heart" anytime she enters the door to a non-Islamic financial institution. Despite her discomfort, however, since her buyers use conventional banks for payments and transfers she is required to do the same if she wants to get paid.

The way in which Ibu Vina managed and described her financial situation in terms of how she relates to *Allah* reflects the importance her spiritual life plays in her daily life and work. Ibu Hapzah, another BMT Solo customer, spoke in very similar terms. Ibu Hapzah is the manager of another BMT on the other side of Surakarta and is also a BMT Solo customer. Ibu Hapzah described her work at the other BMT as the work of love and as a form of worship. She used the English phrase "nothing to lose" to emphasize her belief that the energy she and her colleagues expend working at the BMT will never be in vain since it is worship. She compared her work to Christians doing work in the church as a form of worship and as a way to serve the creator.

⁸⁸ *Zakah* or *zakat* is one of the five pillars of Islam and "is an integral part of formal Islamic systems, affecting community development, society, and economy" requiring Muslims, who are financially able, to give an obligatory 2.5 percent of their annual wealth towards those most in need (*Zakat: Socioeconomic Function*, 2009, para. 1).

⁸⁹ BMT Solo accepts *zakat* payments as well as voluntary donations from individuals and groups wishing to invest in the community in which BMT Solo operates.

⁹⁰ As described in chapter 4, *Idul Fitri*, as it is known in Indonesian, occurs at the end of the month of Ramadan fasting and "...in Muslim-majority areas, businesses are closed and invitations are extended to family, neighbors, and friends to join in the celebrations. Children receive gifts and sweets. Almsgiving is required prior to attending the morning feast prayer, in remembrance of the poor" (*Id al-Fitr*, 2003, para. 1).

Ibu Hapzah has held a business account with BMT Solo since May 2008. She maintains an account with BMT Solo as a way in which to show mutual support and solidarity. In the same way, the manager of BMT Solo, Ibu Dwi, also holds an account at Ibu Hapzah's BMT. Ibu Hapzah and Ibu Dwi originally met at a BMT Managers' Association meeting. This particular association, one among many in Surakarta, includes 18 member BMTs offering managers the opportunity to meet on a monthly basis to discuss ideas and challenges while sharing resources and information.

Other members of the association echoed Ibu Hapzah's beliefs about BMT work as a form of worship, including Ibu Dwi. Prayer plays a vital role in the daily operations of BMT Solo as Ibu Dwi and her staff dedicate their work as worship to *Allah* each morning with approximately 20 minutes of group staff prayers and recitations of the *Qur'an*. Additionally, cubical dividers created a make-shift prayer room on the second floor of the main BMT Solo office which provided a comfortable and private space for staff to pray, meditate or perform *sholat*⁹¹ anytime throughout their work day. Architectural drawings of the 2013 renovations to the main BMT Solo office showed plans for a slightly larger and more permanent *musholla*⁹² built behind the manager's private office at the back of the BMT on the first floor next to the washroom. In between the washroom and the *musholla* the drawings showed a dedicated space for the staff to perform *wudu*⁹³ as well.

⁹¹ *Sholat* is the Indonesian word for the Arabic *salat* which is the second pillar of Islam and consists of the five daily prayers. For more details on *salat* see Pillars of Islam, 2009.

⁹² *Musholla*, also known as *musalla* is a small Muslim prayer room often found in airports and offices for example.

⁹³ Prior to *sholat*, Muslims are required to perform the ritual purification called *wudu*. For more information on performing *wudu* please see Wudu, 2014.

Prior to 2006, when she moved into her current position as the manager of BMT Solo, Ibu Dwi, who has a master's degree in economics, taught as a part time lecturer at a local university. Her husband, Pak Eka, also has a master's degree in economics and teaches full time at a local college. They explained to me how the Indonesian Islamic financial system survived the 1998 economic crisis thus proving its superiority to conventional banking and *Allah's* omnipotence. Ibu Dwi and Pak Eka helped establish BMT Solo because they wanted to assist low-income individuals in Colomadu in obtaining capital and they believed that Islamic microfinance was the best way to achieve this goal because of the *baitul maal* function.

Both Pak Eka, Ibu Dwi and the other founders of BMT Solo believe that the BMT's success is wholly dependent on *Allah*. For example, at the BMT Solo founders' *halal-bi-halal*⁹⁴ gathering on September 1, 2013, the chairman of the board credited the positive growth development of BMT Solo to *Allah* thanking him and praying for continued growth of the BMT operations (...*Alhamdulillah juga, kita banyak mensyukuri karena perkembangan BMT yang ada di amanah kita yang insya Allah selalu meningkat dari banyak sisi insya Allah begitu*).

The trust and reliance which Ibu Dwi and the BMT Solo staff place in *Allah* extends to the security of their cash operations as well. Video surveillance and a building night security guard provide minimal protection. Although there is a heavy duty safe hidden under the stairs, large amounts of cash are not kept on the premises because insurance for cash is very expensive in Indonesia and BMT Solo cannot afford this

⁹⁴ As described in chapter 3, *halal-bi-halal* is a Muslim tradition in Indonesia that occurs in the days and weeks following *Idul Fitri*. Family, neighbours or work colleagues gather together sharing food, building community and offering forgiveness to each other. For more information see van Doorn-Harder, 2004, p. 649.

additional expense. Only small amounts of cash along with gold jewellery and motorcycle and car certificates of ownership, all loan collateral, are kept in the safe. Most of BMT Solo's funds are regularly deposited into a savings account at Bank Muamalat Indonesia (BMI)⁹⁵ which retains insurance for its cash operations. The BMT Solo security guard often accompanies Ibu Dwi on a separate motorcycle⁹⁶ when she goes to make a deposit at BMI. The local police offer a similar service for a nominal fee however, the expected kickbacks exceed the benefits. When sales and marketing staff are out on their motorcycles they are instructed to keep their bags hidden under their jackets so as not to attract attention and to prevent potential thieves from cutting the straps off their bags when stopped at a red light. Despite all these efforts to safeguard their cash operations, Ibu Dwi admitted that she has no other contingency plans and ultimately the BMT's fate is in *Allah's* hands. With the hopes that there will be no problems, Ibu Dwi ended her statement with the religious appeal "God willing" (*insya Allah*).

For both Pak Eka and Ibu Dwi their work and their private lives are a part of their spiritual journey. Even purchasing decisions of non-religious objects, are considered in light of the family's religious beliefs. For example, when Ibu Dwi and her husband were considering the purchase of their 2003 Chevrolet Spark she used the English word "confused" to describe her feelings as they debated about the priority and necessity of owning a car versus spending this money on going on the *Haji*.⁹⁷ Religion takes

⁹⁵ BMI is Indonesia's first commercial Islamic bank and was established in 1991 commencing operations in 1992. See Warde, 2010 for more on BMI.

⁹⁶ One of BMT Solo's rules is that male and female employees cannot shake hands with or otherwise touch employees or customers of the opposite sex who are not family. Hence the reason Ibu Dwi and the security guard ride on separate motorcycles.

⁹⁷ *Haji* is the Indonesian word for the Arabic *Hajj* which is the annual religious pilgrimage to Mecca. For more information see Hajj, (2014).

precedence for Ibu Dwi and her family thus she and her husband completed their religious duty and went on the *Haji* first, before buying their car. This example demonstrates that their primary value was for pilgrimage over consumption and that faith reasoning was the most important consideration in their spending and expenditures.

While religion is a priority and a driver of most, if not all family and work related activities for some Indonesian Muslims such as Ibu Dwi, it is not the case for all Indonesian Muslims. For example, my Muslim landlords bought a new 2013 Toyota Ayla during the period of my research while I was living in a studio apartment (*kost*) attached to the back of their house. When I asked them if they had completed the *Haji* pilgrimage they smiled and laughed saying they could not afford it, despite the fact that the cost of their new car was the equivalent of sending two, if not three, people on the *Haji*. Curiously, my landlords never actually drove their 2013 Toyota Ayla. It was washed regularly and displayed in the front yard of their house for all to see but I never saw it moved as illustrated in figure 13 below. I began to doubt whether they even knew how to drive a car, as many Indonesians who own a vehicle are incapable of driving it and often hire a professional chauffer.



Figure 13: My landlord's undriven Toyota Ayla displayed in the front yard.

Family and religion play a very important part of life in Indonesia. For Ibu Dwi, Pak Eko, Ibu Hapzah, and Ibu Vina, their religious life and beliefs are tightly intertwined with seemingly non-religious aspects of their family life, such as finance. Faith was a determining factor influencing their decision to become involved with BMT Solo. Nonetheless, for others, reasons of convenience and accessibility often supersede reasons of faith in determining where they choose to keep their money.

Accessibility Reasoning

When asked about the difference between Islamic banking and conventional banking both Muslim and non-Muslim respondents initially pointed to the most obvious distinctions: Islamic banking is based on the Islamic religion and does not charge interest. However, they would then follow up by pointing to BMT Solo's personalized customer service orientation as a differentiating factor. According to both Muslim and non-

Muslim respondents, BMT Solo's convenient home-based banking model is unavailable at conventional banks. BMT Solo customers only have to call or text one of the BMT Solo marketing staff to request same day service in the form of a visit to their home or office in order to deposit or withdraw cash or apply for a loan. Furthermore, customers described the loan application process as easy, short and efficient with less paperwork than large conventional institutions, resulting in applicants receiving their loans in cash as early as the next day. These same reasons were given by members of the BMT Manager's Association at their September 2013 monthly meeting. BMT Solo staff participating in the research pointed to the financial and career enhancing benefits of working with BMT Solo. There are, of course, a number of other significant differences characterizing Islamic banking and finance (IBF) and conventional banking. However, these responses demonstrate that accessibility reasoning is an important factor in determining why clients choose to bank with BMT Solo and why some of the staff choose to work at BMT Solo. This group of people includes BMT Solo staff Ibu Wien and Pak Irman as well as BMT Solo customers such as Ibu Yuli.

Accessibility of opportunity for employment, salary and income stability was cited together with religion by staff members Ibu Wien and Pak Irman. BMT Solo requires that all employees be Muslim and demonstrate, through testing, adequate proficiency in reading the *Qur'an* in Arabic prior to employment. While basic knowledge of accounting, marketing and Islamic economics are considered an asset, these are not required for employment at BMT Solo. Most current BMT Solo employees had a very limited knowledge of and formal education, if any, in these areas, including Ibu Wien.

Ibu Wien has worked at BMT Solo since 2011 as the teller handling all in-office customer transactions. Her understanding of Islamic banking and the Islamic financing contracts offered by BMT Solo is very narrow. She has a post-secondary diploma from a three-year computer-accounting program. Complicated customer inquiries beyond simple deposits and withdrawals are redirected to the marketing staff. The marketing staff also have a very limited understanding of the Islamic financing contracts and so they redirect to BMT Solo manager Ibu Dwi who redirects to Pak Fachry, who has a PhD in Islamic finance and who is BMT Solo's one-member *pengawas Syariah*.⁹⁸

As BMT Solo's only teller, Ibu Wien's days are very busy with constant interruptions from other BMT Solo staff as well as customers. Every morning the marketing staff give Ibu Wien the withdrawal slips, deposit slips and corresponding cash and bank books from the day before. Ibu Wien reconciles the slips and cash with the customer account information in the computer and prints the updates in the customer bank books. At the end of each day she prepares the customer bank books and cash withdrawals for the marketing staff for the following day. She has a number of other duties such that she often brings work home in the evenings in order to keep ahead of it all.

While her religion is important to her and she enjoys learning more about Islam through her work, these are not the primary reasons for which she chose to apply for employment and to bank at BMT Solo. Prior to working at BMT Solo, Ibu Wien used to work in administration at a laundromat. However, the commute to work was too long so she quit her job there and six months later started working at BMT Solo. She enjoys

⁹⁸ As discussed in chapter 4, BMT supervisory boards are known as *pengawas Syariah* and members are selected from among the local Islamic experts in the community.

working at BMT Solo because the office is located three blocks from her home thus eliminating a long and tiring daily commute by motorcycle. Additionally, she gains a much higher salary working at BMT Solo compared to what she was paid at the laundromat, an important factor considering that she got married in October 2013, and her monthly expenses are expected to increase as a result. Finally, she opened a *tamara* savings account shortly after she started working at BMT Solo. Though it is not required, she said it is a good idea as an employee to bank at BMT Solo as it demonstrates unanimity of spirit and that you support the work of the BMT.

Similarly, in order to show his solidarity as an employee, Pak Irman also opened a BMT Solo account shortly after he started working at the BMT. Pak Irman is in his mid-forties and has worked in sales and marketing at BMT Solo since July 2012. While he noted the importance for Muslims to maintain ties with Islamic institutions this was not the main reason he sought employment with BMT Solo. He decided to join BMT Solo's marketing team for the increased job security and stability offered as well as to advance his career.

Prior to working with BMT Solo, Pak Irman worked in sales for a children's educational counselling company selling and administering psychosocial IQ tests to elementary schools. His role required him to continuously find new schools or customers to purchase the tests. However, scheduling the administration of the tests was very challenging due to the schools' constantly changing timetables, enrolment, semesters and examinations. As such he found that his work was seasonal in nature with regular periods of unemployment for months at a time. The work at BMT Solo is consistent throughout the year thus ensuring him a regular and steady income.

Furthermore, the marketing job at BMT Solo was a natural career move for Pak Irman as it built on his extensive experience in sales and collections. Part of his role at BMT Solo requires him to constantly search for new customers in a similar fashion as his role with the children's education counselling company. Additionally, he had also worked in collections for a motorcycle company in east Java following up on delinquent customer accounts. Likewise, his role at BMT Solo also has a collections' component as it requires that he be able to effectively manage default loans and recover as much money as possible to mitigate the loss in sales.

BMT Solo provided Pak Irman with a convenient and timely alternative to his employment situation. In the same way, BMT Solo provided Ibu Yuli with a timely and convenient solution to her financial situation.

Ibu Yuli has been a BMT Solo customer since March 2010. She operates a mobile grocery stand. With very little education, having married in her late teens, Ibu Yuli is now in her early 40s and the mother of three daughters. Six mornings a week Ibu Yuli leaves the house at 4:00am with her home-made, oversized, saddlebags full of groceries and rides her one-speed bicycle south seven kilometers into Colomadu to sell her produce (Figure 14 below). She first stops at the local traditional market to purchase fresh fish and top up the rest of her inventory of food. By 9:00am she can be found a 15-minute walk down the road from BMT Solo having unloaded her bicycle and laid out her vegetables, fruits and snacks in plastic bags on a tarp on the ground along the side of the street. Ibu Yuli's grocery stand provides a convenient alternative for the local neighbourhood at an insignificant increase in price to the two traditional markets located approximately three kilometers in either direction. Aside from Ibu Yuli there were no

other mobile grocers in the area at the time of my 2013 field work and the nearest supermarket, which was about five kilometers away, charged much higher prices and thus could not compete with her small business.



Figure 14: Ibu Yuli rides her bicycle with home-made saddle-bags filled with fresh produce.

Ibu Yuli said that she initially lacked the courage (*tidak berani*) to borrow money from a bank or BMT Solo. During the course of my interviews and participation in the community, I discovered that many Indonesians have a general distrust of institutionalized forms of financing and prefer to keep their money hidden at home and borrow from family or loan sharks (*rentenir*). Rumours from the neighbours suggested that Ibu Yuli's husband was an alcoholic who drank all the family's money forcing her to seek the assistance of a loan shark (*rentenir*) in order to feed, clothe and educate her children. Due to the sensitive nature of this rumour and the potential embarrassment it

would have caused Ibu Yuli and her family, I chose not to inquire further on these allegations. Furthermore, during my interview with Ibu Yuli, her husband was present and actively participating in the interview making such inquiries completely inappropriate. However, in a general discussion on loan sharks, Ibu Yuli and her husband both denied ever having any personal experience with them.

Ibu Yuli told me that she was introduced to BMT Solo by one of her most trusted customers, Ibu Mia. Ibu Mia is Pak Fachry's wife and best friends with BMT Solo manager Ibu Dwi and is also the neighbour who initially shared the rumours with me about Ibu Yuli. Since Ibu Yuli did not have any collateral, Ibu Mia acted as a guarantor providing the necessary collateral documentation as well as a character reference for Ibu Yuli to obtain a loan. With these BMT Solo loans, Ibu Yuli was able to pay for her children's education, help her oldest daughter complete a bachelor's degree in economics⁹⁹ and save a small amount for the future. At the time of the research BMT Solo records confirmed that Ibu Yuli had paid all 14 of her loans in full within two to three months. She no longer has any loans but maintains two savings accounts: a *tamara* savings account into which she makes daily deposits and a *tawab* account in which customers without collateral must maintain 10 percent of the loan amount.

Like many other Indonesians with whom I spoke, Ibu Yuli admitted that she had never heard of Islamic banking before becoming a BMT Solo customer. Despite being Muslim, her faith had no affect (*tidak mempengaruhi*) on her decision to bank with BMT Solo. It was a decision made based on the circumstances of having Ibu Mia offer to co-sign for the loan combined with the low rates charged by BMT Solo. Ibu Yuli explained

⁹⁹ I met and became friends with Ibu Yuli's oldest daughter. We bonded over discussions on economics. She told me of the academic scholarships she had received and showed me her university text books and a framed photograph of her university graduation hung on the living room wall.

that the BMT rates are much lower than those charged by loan sharks, thus making it easier for people to pay back their loans. She elaborated her reasoning to say that private moneylending at exorbitant rates is prohibited in Islam because it puts a heavy burden on the borrower who is hassled daily and must pay extortionate borrowing rates of 30 percent for example.

Interestingly, both Ibu Yuli and her husband consistently used the Indonesian word for interest (*bunga*) when discussing the fees or profit margin (*bagi hasil*) charged by BMT Solo. They were of the opinion that these fees were no different but in fact the same as the interest rates charged by non-Islamic conventional banks. For them, it was a question of linguistic usage, semantics and technical details where one uses the word interest (*bunga*) and another uses the word fee or profit margin (*bagi hasil*); at a practical level, it all resulted in the same outcome. Despite that interest is forbidden in Islam, Ibu Yuli's husband did not believe charging interest was morally wrong. However, he preferred *Shari'ah* banking since the Indonesian Islamic scholars had recommended that Muslims save their money in Islamic banks. In making this statement, he belied a deeper issue affecting Indonesia as a nation: the increasingly powerful role Islam and the Islamic scholars are playing in economics and politics and the resulting tensions that are building between Islam and other religions across the archipelago.

Diplomatic Reasoning

As at December 2011, approximately¹⁰⁰ ten of BMT Solo's 1,562 customers were non-Muslim. By the third quarter of 2013, the customer base had grown to 2,642 of which an

¹⁰⁰ While BMT Solo collects information on gender and religious affiliation from every single customer application, this information is not entered into their computer systems. Thus, customer database searches

estimated 15 clients were non-Muslim. The small number of non-Muslim customers reflects both the fact that 87.2 percent of Indonesians identify as Muslim¹⁰¹ as well as the fact that Colomadu is a predominantly Muslim municipality of Surakarta. However, these low numbers can also be explained by the absence of any BMT Solo marketing plans which target special interest groups such as women, ethnic Chinese Indonesians, or non-Muslims.

During the 2013 research period, the primary focus of BMT Solo's weekly marketing meetings was a document on financing guidelines (*Pedoman Financing*) which outlined the proper procedures to be followed from the initial loan application through the verification process to following up on default loans. There was never any mention or discussion on how to concentrate resources effectively to increase sales or on pursuing opportunities in niche markets to gain a competitive advantage. As is standard practice in Indonesia, BMT Solo collects information on gender and religious affiliation from every single customer application. The collection of this information however, is only a formality as BMT Solo does not use the information for any purpose, much less for marketing and business growth strategies. BMT Solo marketing staff are instructed to follow the financing guidelines and find as many new customers as possible, regardless of gender, ethnicity, or religion.

by religion or gender cannot be executed. Exact numbers of specific customer groups such as women or non-Muslims are impossible to retrieve without going through all BMT Solo paper records individually by hand. Considering the condition of the records, it was determined by the author to be unreliable to go through the records manually, thus estimates provided by BMT Solo staff were used instead.

¹⁰¹ According to the CIA World Factbook, Indonesia's population was most recently estimated at 255,993,674 in July 2015. The predominant religion is Islam (87.2 percent) followed by Christianity (7 percent), Catholicism (2.9 percent), Hinduism (1.7 percent) and other including Buddhism and Confucianism (0.9 percent) with 0.4 percent unspecified (Central Intelligence Agency, 2016, People and Society section).

On October 3, 2013, I opened a *tamara* flexible savings account becoming BMT Solo's 16th non-Muslim customer. Three other non-Muslim BMT Solo customers include Pak Hari, Ibu Iin and Ibu Agra. All three of these customers are Christian and live in Colomadu, within a kilometer of the main BMT Solo office. Pak Hari and his wife live and work across the street from BMT Solo operating a steak-house restaurant out of their home. Ibu Iin lives east of BMT Solo and sells clothing and Muslim head scarves out of her home. Ibu Agra lives in a small Christian pocket of Colomadu between BMT Solo and the Colomadu Sugar Factory and operates a breakfast café out of her home. Each of them became involved with BMT Solo as a result of the religious minority position which they hold in Colomadu and as an attempt to abate some of the on-going religious tensions in this area of Indonesia.

In an effort to attenuate some of this tension, Pak Hari uses his business acumen and his steak-house restaurant to build positive alliances with Muslim groups and individuals in his milieu of Colomadu. For example, when Pak Hari first opened his restaurant in June 2013, Pak Jamal, one of his neighbours and one of BMT Solo's senior marketing agents approached him about providing advertising space for BMT Solo. At the BMT's expense and with Pak Hari's consent and endorsement, Pak Jamal designed a small, plastic, two-sided, counter top ad which is displayed on every table at the restaurant as seen in figure 15 below. BMT Solo's information is on one side with the restaurant information on the other side. In turn, BMT Solo is a regular customer of Pak Hari's restaurant putting in large steak orders whenever there is a BMT meeting. The mutual co-operation (*kerja sama*) between Pak Hari and BMT Solo reflects the attention

which both parties put on local/community diplomacy, in this case on maintaining good relationships with groups and individuals of the other religion within this community.

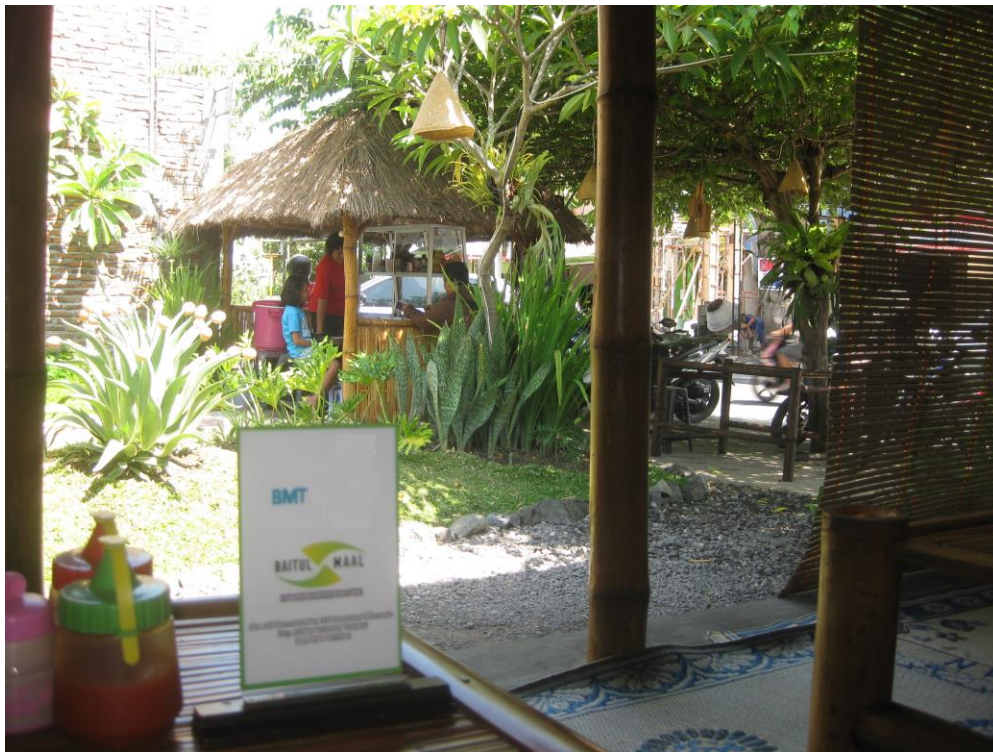


Figure 15: The BMT Solo ad displayed on a table at Pak Hari's steak restaurant.

Pak Hari is a successful businessman. He owns the two buildings next door to his restaurant which he rents out to vendors who run an internet café and a mobile phone store. He is also involved in a Suzuki and BMW joint venture with his friends where they have a showroom in another part of Surakarta. He explained that business is really about politics and since Muslims in Indonesia constitute the largest market segment, if one chooses not to do business with Muslims, it will be very difficult to gain any market share. Thus, he offers special discounts at his restaurant for all customers at important Muslim and Christian holidays for example *Idul Fitri*, Christmas and Easter.

Often, throughout our conversation, Pak Hari used the English words “territorial” and “political” to describe his reasons for becoming a BMT Solo customer. Since there

are very few Christians in this part of Colomadu, Pak Hari and his wife have worked hard to establish and maintain “territorial” and “political” diplomacy. Thus, becoming a BMT Solo customer was less a matter of choice and more about cultivating and preserving a healthy relationship with their Muslim neighbours. Their Christian friends and family who do not live within proximity to BMT Solo are not customers because the territorial issue does not apply to them in the way that it does to Pak Hari. He emphasized his point when he referenced my *hijab* stating that, in effect, despite the fact that I am not Muslim, as long as I was involved with BMT Solo, wearing the *hijab* was the right thing for me to do, otherwise I may experience difficulties (*kalau tidak memakai [hijab] itu mungkin agak mengalami kesulitan*). This case shows how social conformity is a part of the diplomatic approach to community relations and how people negotiate these relationships.

Like Pak Hari, Ibu Iin, is also a Christian and a successful businesswoman. She operates a clothing business out of her home while her children have inherited her husband’s quail farm next door. Ibu Iin attributes her success in business to good financial management and to the special consideration she gives to Islam in her business plans. For instance, she includes Muslim fashion in her clothing business and she has been a customer at BMT Solo since 2011 when she was introduced to BMT Solo staff by her sister who is also a customer. Ibu Iin has received a total of three loans, two for her clothing business and one for a rice farm venture. She has paid off all her loans in full and now maintains a savings account making deposits and withdrawals on a weekly basis when the BMT Solo staff come to her home.

She and her husband spoke in hushed tones as they explained how they perceived Christian institutions to be more inclusive, open and accepting of other religions than Muslim institutions such as BMT Solo. For example, she referenced a local Catholic school which accepts students of all religions, while one of the local Muslim schools requires conversion prior to being able to attend. She used this example and the fact that she is a customer of BMT Solo as evidence that Christians are inclusive and do not discriminate (*membedakan*) based on religion. In contrast, she believed that BMT Solo was discriminating by requiring all female staff to wear a *hijab*, and by only hiring Muslims. Ibu Iin suggested that if BMT Solo were a Christian institution it would have a greater number of customers representing other religions because, as she perceived it, Christianity is a more welcoming religion than Islam.

Ibu Agra's experience echoed Ibu Iin's concerns about the on-going Christian-Muslim tensions. Ibu Agra has been a BMT Solo customer since December 2007. According to BMT Solo records, her *tamara* savings account has been inactive since 2008, however she still has outstanding loans for which she is making regular payments. Ibu Agra operates a breakfast café out of her home, working six days a week, taking Sundays off to rest. She lives and works on a quiet residential street in one of the few Christian dominated neighbourhoods of Colomadu. In contrast to the predominantly Muslim area of Colomadu where Pak Hari, Ibu Iin and I lived and where BMT Solo is located, Christians are the majority in Ibu Agra's small corner of Colomadu, evidenced by the greater number of churches than mosques.

Despite living and working in a Christian neighbourhood, Ibu Agra faces religious tensions at home on a daily basis. She is a Christian and was raised by Christian parents,

but her mother was not always a Christian. Ibu Agra's mother used to be Muslim and was previously married to a Muslim man and raised their children in the Islamic faith. When her first husband died, she remarried. Her second husband was Christian and since Indonesian law precludes people of different religions from marrying, she converted to Christianity. Ibu Agra was a product of her mother's second marriage and thus was raised Christian while her step-siblings are all Muslim. Similarly, Ibu Agra's husband who is from Semarang,¹⁰² converted from Islam to Christianity in order to marry her. There were and still are a number of family problems surrounding his conversion, the details of which were withheld, such that they moved from Semarang to Colomadu to distance themselves from the problems. Though Ibu Agra initially agreed to participate in the research, in the end she withdrew due to these intense, familial religious contentions.

As discussed in chapter 2, the religious conflict in Indonesia is long and complicated with much bloodshed. It is also tightly intertwined with ethnic tensions between Chinese Indonesians and indigenous Indonesians (*pribumi*) and reflects a parallel with the historical ethnic side of moneylending. For example, the 'non-Chinese banking' rumour suggests that IBF has been intentionally designed to exclude Chinese Indonesians in order to remove them from their long standing position of power in the Indonesian economy. Indonesian Muslim, non-Muslim, Chinese and *pribumi* conference delegates and attendees at the 6th annual International Indonesia Forum¹⁰³ denied the rumour stating that there is no evidence of its veracity.

¹⁰² Semarang, a city north-west of Surakarta, is approximately 100 kilometres away.

¹⁰³ The discussions occurred on August 22, 2013 during the 6th annual International Indonesia Forum which was held at Sunan Kalijaga State Islamic University in Yogyakarta, Indonesia.

Instead, they pointed to various different Chinese Indonesians who endorse Islamic banking. For example, Mohammad Syafi'i Antonio,¹⁰⁴ a Chinese Indonesian who converted from Confucianism to Islam and is a well-known supporter of Islamic banking who is also a prominent active figure in the industry. Budi and Michael Hartono are two of the richest people in Indonesia, who own a significant stake in Bank Central Asia (BCA) which opened an Islamic window in 2010. The Hartono brothers are Chinese non-Muslim Indonesians. Hermawan Kartajaya, a Chinese Catholic Indonesian businessman described as a marketing guru, is the owner of World Marketing Association, the company hired by Bank Indonesia to assist with the marketing plan for the development of Islamic banking in Indonesia. Additionally, from 2008 to 2010, Kartajaya was a member of a Special Islamic Banking Committee of Central Bank of Indonesia Community Services (Choiruzzad, 2012, p. 102).

Though ethnicity was acknowledged as an ongoing issue in Indonesia, the examples above were provided as evidence that the rumour was untrue. Any further investigation into the ethnic side of moneylending and whether or not IBF is being used to exclude non-indigenous Indonesians is outside the scope of this study. Thus, while Ibu Agra, Ibu Iin and Pak Hari did not volunteer information on their ethnicity, their stories offer a glimpse into the ongoing historical religious conflict which Indonesians navigate on a daily basis. For, the few non-Muslim BMT Solo customers it is about diplomatically co-existing in a majority Muslim community and managing delicate religious tensions to mitigate potential difficulties.

¹⁰⁴ Antonio has published a book about Islamic banking. See Antonio, 2001.

All these respondents' stories effectively elucidate the three main reasons for which founders, managers, staff and customers became involved with BMT Solo. One pattern that can be identified from the above analysis, is that generally, by their accounts, with a few exceptions, founders and managers were motivated by reasons of faith while staff primarily by reasons of accessibility and customers by both reasons of accessibility and diplomacy. The reasons of faith and diplomacy are of particular interest as they reveal some of the historic religious tensions which continue to exist in Indonesia today. Furthermore, reasons of faith and diplomacy show how these religious tensions influence the ways people use microfinance as a tool to manage and negotiate problematic tensions at a local level. These relationships represent the local form of microfinance as it functions which contrasts in various ways to the general representations.

Chapter 6: Discussion and Conclusion

The goal of this project has been to investigate how Islam is combining with capitalism in Indonesia through an analysis of the *Baitul Maal wat Tamwil* model of Islamic microfinance and how it operates compared to the global conventional model. Using an ethnographic case study of BMT Solo, my intention has been to examine the relationship between Indonesia's historical religious tensions and how these influence the form and practice of Islamic microfinance in Indonesia. As a variant of the global conventional microfinance model, the case study of BMT Solo in Colomadu provides a way in which to examine the intersection of the relationships between religion and economics within the historical development and current practice of Islamic microfinance in Indonesia.

This study specifically answers the following questions: How does BMT Solo define poverty and how does this definition influence the ways in which BMT Solo combats poverty in Colomadu? How does BMT Solo engage both women and men as well as Muslims and non-Muslims? What are some of the main factors motivating people to become involved with BMT Solo? Ultimately, this research provides a better understanding of the economic rationality of Islamic microfinance as it is practiced by the daily choices of those participating in BMTs in Indonesia. Such an understanding provides an illustration of a trend noted by Rudnyckyj (2010, p. 19) that “religious practice can be conducive to globalization” and provides a specific account of how Islam is influencing capitalism in Indonesia through the BMT model of Islamic microfinance. This chapter presents a conclusion, summarizes the findings, and reflects on the particular findings to general themes ending with questions for the future.

Global Finance, Poverty and the Local Economy

In order to tease out the issues, I focused on two main areas of inquiry. First, I wanted to understand how BMT Solo defines poverty and how this definition influences the ways in which BMT Solo combats poverty in Colomadu. Chapter 4 revealed a fundamental difference in the way in which BMT Solo assists the poor as compared to the global conventional microfinance model. BMT Solo is a for-profit business which focuses its loaning activities on customers who have collateral. While global conventional microfinance aims to eradicate poverty by providing the poor with access to credit, BMT Solo does not issue loans to the poor but rather works to combat poverty through the *baitul maal* function. Chapter 4 examines how BMT Solo sources funding for the *baitul maal* function, how eligibility to receive assistance is determined and how BMT Solo fosters community solidarity in Colomadu.

As the material in chapter 4 shows, the ways in which BMT Solo's *baitul maal* funding is sourced and distributed results in the exclusion of poor non-Muslims in the community. While the purpose of *baitul maal* is to support and benefit the community as a whole, the current operations of BMT Solo's *baitul maal* function are focused on helping the Muslim community in Colomadu. Thus, it becomes apparent that BMT Solo is primarily focused on building mutual assistance (*rukun*) and communal harmony (*gotong royong*) within the Muslim community leaving non-Muslims on the margins of society, for their own to take care of them.

While the founders, managers, staff and customers I interviewed for this project all stated that they want to help the poor, none expressly and voluntarily admitted that they only wanted to help poor Muslims. Yet, in donating money to, or volunteering to

help administer BMT Solo's *baitul maal* function, Muslim respondents were working within a sphere of morality and obligation based on religion. In effect, in the form they are practicing, they are constructing borders around money as a commodity in a trend noted by Morgan (2000, p. 33). This situation is problematic, however, as it reinforces already delicate religious tensions between Muslims and non-Muslims in Indonesia.

The second area of inquiry offers insight into these religious tensions. I wanted to better understand how BMT founders, management, employees and customers are working out their faith, whether Muslim or Christian, on a daily basis in the context of the politics of religion in Indonesia. Chapter 5 presents narratives to show how participants navigate these religious tensions. The primary accounts clearly showed three main reasons for which the respondents became involved with BMT Solo: reasons of faith, accessibility and diplomacy.

Reasoning on grounds of faith offers insight into how Indonesian Muslims in Colomadu are attempting to reconcile religion with modernity and bridge the gap between what is often perceived as two separate realms: the secular (economy) and the religious (spiritual reform). The narratives in chapter 5 show, that people working at BMT Solo regard their participation in terms of an act of worship and part of one's spiritual journey. This gives the management and staff a confidence in the attainment of their salvation by following a prescribed Islamic eschatological formula for financial matters.

The accounts in chapter 5 emphasize some of the ways people in Colomadu invoke Islam to reconcile the human element of morality with the impersonal elements of arithmetic in a process that Tripp (2006, p. 119) describes generally as "linking people

through economic activity.” These narratives also reflect the Islamic resurgence among university students and the university educated (Rosyad, 1995). As discussed in chapter 2, while Suharto initially resisted Islamic banking, he eventually endorsed it in the interest of politics because of this religious resurgence among the educated, middle-class. The BMT Solo founders who participated in the research each had at least one post-secondary degree from a local university and were working in professional careers in economics and English, for example.

While generally founders and managers were motivated to participate in BMT work by reasons of faith, staff and customers were primarily motivated by reasons of accessibility. In addition to the expected economic rationale, accessibility reasoning includes the ideas of employment advancement, job security and proximity to work and home. Chapter 5 shows how two of BMT Solo’s employees felt that BMT Solo provided a good salary as well as opportunities to advance their careers with relative job security. According to both Muslim and non-Muslim customers, BMT Solo’s convenient home-based banking model and quick turn-around time for loan applications were key factors in determining why clients choose to bank with BMT Solo.

The non-Muslim respondents in this study however, were mainly motivated by diplomatic reasons. Diplomatic reasoning refers to community diplomacy and the elements of social pressure and conformity which are often associated with maintaining peaceful and harmonious relations. Non-Muslim BMT Solo customers are using Islamic microfinance as a tool to manage the religious tensions in Colomadu. As the narratives in chapter 5 show, for the few non-Muslim BMT Solo customers it is about diplomatically co-existing in a majority Muslim community and managing delicate religious tensions to

mitigate potential difficulties. Each non-Muslim respondent in this study became involved with BMT Solo as a result of the religious minority position which they hold in Colomadu and as an attempt to abate some of the on-going religious tensions in this area of Indonesia.

Although non-Muslims are being excluded from the *baitul maal* function of BMT Solo's operations, as the data, my observations and my own experience as a BMT Solo customer show, they are more than welcome to avail of the *baitul tamwil* services. This reveals that while many Muslim Indonesians believe that Islamic banking is superior to conventional finance and that it is a viable alternative to capitalism, there is an irony in how the BMT model is actually operating. BMT Solo's business processes are "closely tied to a capitalist lifestyle that echoes earlier [colonial] discourses about correct ways of living, about being 'civilized,' and about progress" in a similar way in which Bornstein (2003, p. 4) views Christian NGOs in southern Africa.

In conclusion, when looking at the practice of microfinance at the local level, it becomes evident that it operates differently from the global theoretical idea and discourse. In other words, discussions on microfinance are often talking about different things. The case study of BMT Solo reveals how microfinance is a discourse which presents in many different forms in practice. The two functions in this discourse (financial and social) take on varying levels of importance in practice, depending on the political, historical, religious and cultural context. While BMT Solo does not deal with poverty directly through the finance component of the cooperative, this does not mean that BMT Solo is not a form of microfinance. BMT Solo is serving a niche market by filling a gap in the Indonesian economic system in offering credit below the minimum

funding available from larger Islamic and conventional banks in the country. Thus, small traders, individuals and groups who cannot access credit through large, traditional financial institutions in Colomadu, are able to do so through BMT Solo.

The way in which BMT Solo operates makes poverty an indirect function where financial relations are being built first to foster mutual assistance (*rukun*) and communal harmony (*gotong royong*) in the community. However, it is more than simply about building community solidarity, as the *arisan* already accomplishes this task. Islamic microfinance in Indonesia, specifically the BMT model, reflects the Islamic resurgence in Indonesia as described by Rosyad as a phenomenon where it is about

...the application of Islamic law (*shariah*), making Islam a way of life, and the freedom from non-Muslim political and cultural domination. ...Religiously, these themes derived from a belief that Muslims have departed from true Islamic values due to the infiltration and assimilation of both local indigenous and foreign un-Islamic beliefs and practices [sic]. The political and economic life of the Islamic community, in their view, has for a long time been controlled by other religious and ethnic minority groups. Moreover, they also assert that Islam, as the religion of the majority, has not been able to inspire the social and cultural life of the Indonesian community (1995, p. 4-5).

The case of BMT Solo is an example of the Indonesian Islamic resurgence in action. This case elucidates how Islamic piety is equated with ethical business practices of transparency and productivity all of which is managed by one's individual spiritual journey.

Amidst this resurgence, the Indonesian government is actively involved in promoting the inter-faith dialogue both at a local level and at an international level participating in meetings in Slovakia in October 2014, and in Poland in November 2014 for example. Most recently, Indonesia hosted a panel discussion titled *Interfaith Dialogue: Faith Action on Global Climate Change* at the December 2015 Paris Climate Conference. The goal of these meetings is to bring about and maintain inter-religious

harmony through understanding. However, many Indonesians are asking the same question: “despite frequent meetings of Christian and Muslim leaders, ... why is religious violence, including anti-Christian campaigns in some areas of the nation, still continuing” (Al Qurtuby, 2013, para. 3)? This provokes the questions: is the Islamic resurgence movement in Indonesia influencing the BMT operations towards an “exclusion of individuals, households and communities” (United Nations, 1998) who are not Muslim? Or is Islamic banking and finance an attempt by Indonesian Muslims to reclaim their faith, to move past the colonial legacies of capitalism, ethnic divisions and reconcile religion with modernity as they search for their identity in an ever changing Indonesia?

Recommendations for Future Research

The above questions offer an avenue for future research beyond the scope of this study. As was established in chapter 1, there are a very limited number of ethnographic studies on BMTs in Indonesia and none, besides this one, which explore the relationship between historical religious tensions and Islamic microfinance. Thus, this area of inquiry demands more research. The fact that only two of the research participants in this study were non-Muslim (Christian) prevents any general conclusions from being drawn outside of this particular case. Thus, in order to ascertain if my findings are a trend among non-Muslims, additional case studies with as many non-Muslims as possible are required. Furthermore, an inquiry into the experience of other non-Muslim groups, for example Christians versus Hindus or Buddhists, would also be valuable. Would the same problems exist for Christians as for Hindus or Buddhists? Also, in order to establish if my findings are unique to Colomadu or can be expressed as a general trend in Indonesia, case studies in other jurisdictions must also be conducted.

As noted in chapter 2, law No. 1/2013, which pertains to the regulations concerning governance of microfinance institutions, including BMTs, was launched by the Indonesian government at the beginning of 2013. A study investigating these regulations and their impact on BMTs may provide further insight into how the *baitul maal* function may, or may not, change. As noted in chapter 4, the lack of regulations resulted in conflicting information about the interpretation of the allocation of *baitul maal* funds based on religious affiliation. Pak Budi argued that being Muslim is not a prerequisite to receiving assistance from *baitul maal* while Pak Fachry insisted that it was. The new 2013 regulations may clarify this issue as the BMT model continues to evolve.

Finally, while none of the research participants volunteered information on their ethnicity, the historical ethnic and religious tensions, combined with the “non-Chinese” banking rumour provoke a number of questions. Is IBF and Islamic microfinance an attempt by Indonesian Muslims to curb the economic power of Chinese Indonesians? Is IBF the evolution of the ethnic side of moneylending? Is IBF a code word for “non-Chinese” banking? Or it is simply evidence of Indonesians adopting a Muslim identity through business in their attempt to reclaim their faith, and “to carry out the commands of God upon which their religion is based” (Geertz, 1960, p. 123)? These questions provide an avenue for important future research into the role played by ethnicity in IBF and Islamic microfinance in Indonesia.

These areas of research are important considering the increasing growth of the IBF sector and the historical religious and ethnic tensions in Indonesia. Furthermore,

BMTs offers alternative forms of banking which eschew speculative risks and which may present viable, transnational solutions to global and community economic problems.

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