

Empowering Woman in Islamic Microfinance: Lesson from Grameen Bank in Bangladesh, BMT and MBK Venture Capital in Indonesia

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Abstract

Recently, microfinance have become an important component to reduce poverty. By involving the poor in the economic activities, most of microfinance institutions (MFIs) have succeeded in running their programs and have been flourished to improve the quality of poor people life. This study indicated that women entrepreneurs have contributed positively either to household income or economic development. However, their contributions have not optimized yet in the microfinance program. The study attempts to describe and review the microfinance program that might encourage the development of empowering women. The objective is to analyze the successful of microfinance programs that have been applicated by some famous MFIs namely Grameen Bank in Bangladesh, MBK Venture Capital and BMT (Baitul Maal wa Tamwil) in Indonesia. It is found that BMT's marketing strategy and MBK's financing services are the suitable criterias to enhance the number of women entrepreneurs and optimize the profitability of MFI. Meanwhile, Grameen Bank's management model is useful for minimizing the risk of microfinance program.

Keywords: *microfinance, Grameen Bank, MBK, BMT*

Introduction

In September 2000, United Nation Millineum Summit has consensusly agreed on the achievement of eight goals by 2015, and put the poverty alleviation as the first target of the

goal. They have established that access to credit, savings or other financial services is one of the effective strategy to reduce poverty. One such mechanism that attempts to provide the financial

services to the poor is called microfinance.

According to Asian Development Bank (2000), microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low income households and microenterprises. Furthermore, Obaidullah and Khan (2008) implied that microfinance is a provision of financial services to poor and low-income people whose low economic standing excludes them from financial systems. Access to permanent microfinance such as credit will help poor people to engage in economic activities which subsequently increase their income and build their assets.

At the heart of the idea of microfinance is the belief that poverty can be reduced and eventually eliminated through provision of credit to those who are too poor to access to the formal financial system (Koveos and Randhawa, 2004). Hence, it can be summarized that most of microfinance activities are providing financial services in the form of microcredit to the poor.

The concept of microfinance which provides financial services targetted to the poor customers concurs the objectives of microfinance by Ledgerwood and White (2006). The objectives of microfinance are; To reduce poverty, to empower women or other disadvantaged population groups, to create employment, to help existing business grow or diversify their activities and to encourage the development of new business.

As an effort to achieve the objective of microfinance, some famous MFIs such Mitra Bisnis Keluarga (MBK) and Baitul Maal Wa Tamwil (BMT) in Indonesia and Grameen Bank in Bangladesh attempt to enhance the empowerment of women on their programs. It can be known from the number of its clients where they are 100% women microentrepreneurs (MEs) in MBK, 95% women MEs in Grameen Bank and many women MEs have empowered by BMTs. These MFIs have proven that women MEs are very potential customers who can minimize the risks that often face in microfinance program, such default of payment.

In case of Grameen bank in Bangladesh, a study by Ratnasari

(2010) indicated women MEs are more incline to spend the money for family such enhance the quality of food, health or education. Hence, it preserves to increase the prosperity of household life and also economic development globally. Meanwhile, MFIs in Indonesia such BMT and MBK Venture Capital also indicated that women MEs as the customers who have high responsibility to return the loan, thus, it can reduce the number of non-performing loan. However, eventhough the women MEs have proved in contributing to the economic of a country, these prospective customers have not optimized yet in the microfinance program. Therefore, learn from the three famous MFIs, this study tries to combine the special program for women MEs that have been applicated by creating the new model. It is expected, the study can provide the mechanism for improving inconsistency.

Literature Review

Applications microfinance programs in several countries will be different depending on the country conditions. The differences in terms of the empowerment of women due to several factors such household and village characteristics, cultural and

religious norms in society, behavioral differences between the respondents and their family members, and the types of training programs attended by women micro entrepreneurs (MEs) (Swain and Wallentein, 2007). Apart from these factors, the potential of women MEs turned into a positive impact on the economy. However, in reality, many MFIs are paying less attention to the potential of women who actually can improve their profitability and performance. Therefore, the exact model of financial services will affect to the quantity and quality of women's involvement in the microfinance sector. To understand the concept of business model of the famous MFIs which will be focused on this study, the next discussion will explain the business model of BMT, Grameen Bank and MBK.

BMT's Business Model

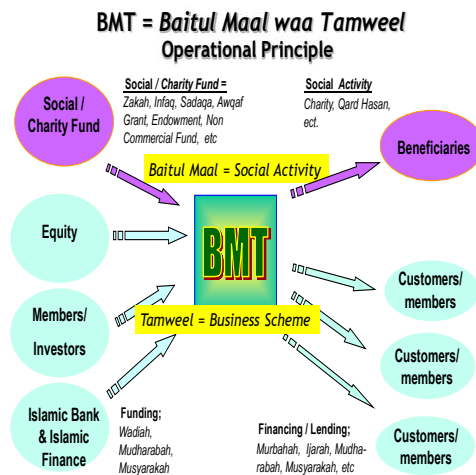
Islamic Financial Cooperatives or BMTs are Islamic microfinance institutions, established by individual or group initiatives with the objective of eradicating rural poverty by helping micro-entrepreneurs through their various programs (Kholis, 2009). BMTs also can also

be defined as *da'wah*¹ movement through economic activities of the ummah in order to empower the microenterprises (Suharto, 2011). Based on above definitions, BMTs with cooperative principles were established as an answer to fulfill the needs of the poor people to improve their life standards by being involved in income generating economic activities. These institutions were set up by individual or group initiatives as a strategy to improve the economic condition of the poor in Indonesia. BMTs also considered as *da'wah* movement, because it's embraces Islamic values when implemented, either on economic or other daily activities of a Muslim and attempt to divine the Islamic message to society.

Baitul Maal wa Tamwil (BMT) divides its role into two missions. Baitul Maal operates on social missions by collecting and distributing charity fund to the poor as the main objective (*zakat, infaq, sedekah*). Meanwhile, Baitut Tamwil operates based on commercial or economic activities, where the money collected are distributed to productive activities.

It is clearly stated on the figure as follows;

Figure 1 BMTs System



Source: Suharto (2011)

Figure 1 explains BMT's function is considered as a financial intermediary where the main function of Baitul Maal is performing its role as intermediary between the people whose have surplus their funds with those who need the fund (charity funds). Then again, the Baitut Tamwil shall manage the deposits for commercial use or place them on productive investments, whilst also assisting the micro-entrepreneurs to be bankable customers.

¹In Islam the term used to introduce the divine message to others is called *da'wah* (Solihin, 2008)

Meanwhile, socially the system required the MFIs to focus in delivering micro credits to low income people. Whereas economically, MFIs have to make profits in order to be sustainable.

BMTs activities are focused on members' welfares. It indicates the BMTs involvement in increasing the quality of life and supporting self-empowerment among members or society through shariah based financing facilities. Kalkausar (2010) indicated that some of the pre-eminences of BMTs are the implementation of shariah principles in their financing operations which is based on honesty and justice, and the creation of an environment that support strong religious attachment among members. These pre-eminences may reduce the risks which may appear in BMTs activities, such as default in payment.

In order to control the business activities, the BMTs staff had to monitor and supervise the customers periodically by assisting them to keep the business on the right track. The BMT's staff also conduct Islamic training on Islamic principles to enhance the spiritual side of every member. The customers will be taught to

understand the Islamic values in business, to understand the concept of Islamic contracts or implement Islamic values in daily activities. Usually, the training is held every week to a group of customers at the mosque, a customer house, or at the market. Therefore, the supervision of BMT's staff in assisting the members in business and Islamic classes are its business strategy. This strategy is used by BMTs to develop the performance of micro-entrepreneurs economically and spiritually.

The trustworthiness and spiritual approach of BMTs have created the relationship between BMT and customers. It effects to enhance the number of poor to involve in business activities, especially the women. It is due to the target market of most BMTs are women MEs in the traditional market. A study by Adnan (2003) indicated that many customers joint to BMTs due to it's consistency in implementing shariah principles. It is expected that the self control by every customers who have awareness with Islamic norms and values might reduce the risks and increase the profitability of BMTs.

A study by Alwan (2011) that used interviews to 50

respondents from women who have been partners in two BMT in South Tangerang- Indonesia, proved that BMT has contributed to empowering the economic of women, increase their income, fulfill the daily needs and become more independent. Besides managing the family finances, they also have more active to involve in household decision-making.

Grameen Bank Business Model

Grameen bank was started by the passion of Prof. Yunus that realize about economic theory heroics but did not touch the substance of the problem, which called poverty. Prof Yunus also noted that financial institutions see the reluctance of banks to provide formal credit, especially for the poor who are considered not to be potential customers of the Bank. In fact, an observation by Prof. Yunus found that poverty is not because they are lazy and stupid, but because of the fundamental problems in the system such the capital, whereas to borrow to formal credit institutions they knock on collateral issues . Therefore, Prof. Yunus summarized that there is no guarantee that the collateral is worth more than the lives of the poor social capital.

The lending pattern of Grameen Bank is different with commercial bank. The transactions are made as simple as possible. Without any collateral, poor people can take the loan and use it for determination of the interest at 20% per year based on a consideration of the Bank's operational needs. Provisions for capital accumulation imposed mandatory savings of 5% of the group members were cut borrowing in advance. In addition to group savings, Grameen Bank also add 1 (one) Taka (Bangladeshi currency) at any time that an installment payment installment payment of membership shares worth Tk 100 (100 Taka) per share.

In the recruitment process, Grameen Bank prefers the poorest of the poor class. The credit system starts by choosing two people from the poorest groups. After 10 weeks, the first 2 people to get loans and after they pay the loan, then the next person will earn the credits. This provision led to all members of the group and is responsible for overseeing the use of credit. After 10 weeks later, if the return is smooth, the last man, the head of the new group will get the credit loan. If the loan payment is going well until the finish, the group

allows to propose the bigger credit limit ceiling. Therefore, the more smoothly the returns, the greater the amount of member savings and the greater the credit limit provided.

Furthermore, since 1976, Prof. Yunus launched a research project to examine the possibility of designing a credit system that provides banking services to the rural poor. This program is the origin of Grameen Bank. Grameen Bank Project (Grameen means rural or village in Bangla) has the following objectives²:

1. Providing banking facilities to poor and women;
2. Remove exploitation of the poor by money lenders;
3. Creating self-employment opportunities because many unemployment in rural Bangladesh;
4. Bring most unable women from the poor households, into simply organization that can be understood and managed by themselves.
5. Reverse the vicious cycle of the ancient state of "low income, low savings, and low investment", into

virtuous circle of "more income, more savings, more investment."

Based on the objective, it has clearly stated that Grameen bank is more focus to empowering the poor women to be independent in the economy in order to release them from poverty. Until the year of 2008, the most members of Grameen Bank 95% consists of women (Ratnasari, 2010).

MBK's Business Model

Regulated by the Ministry of Finance, Mitra Bisnis Keluarga" (MBK), or "Family Business Partners", is a microfinance institution (MFI) that using the *Grameen Bank* methodology to provides working capital to low-income women in Java, Indonesia. Some of MBK's objectives are fighting poverty and empowering women. It is stated by the number of its clients that 100% are women. In March 2013, MBK has 214 branches, 341,831 clients with outstanding portfolio US\$ 40 million (Rp 388 billion). In addition, the personnel of MBK 99% are women (1,410 employees) where 1,010 were account officers.

MBK believes that the

² A short history of Grameen Bank, as retrieved on 8th April 2013 on http://grameen_info.org

effective tools to fight poverty and unequal income distribution is due to the lack of working capital. Using Grameen Bank approach that delivered the loan by groups, MBK extends working capital of US\$ 100-500 to low-income women. The market segmentation of MBK to disburse the credit is focusing on the bottom 25 % of the households, such housewives, women who outside labour force and women who has a few times daily to earn additional income.

Moreover, the programme is implemented using a specialized delivery mechanism where clients are divided into groups consists of 5 women each. MBK delivers working capital between Rp 1-1.5 million, without any collateral, and repayment in full on a timely basis. To control the work of its clients, MBK's staff visit the client in the village weekly in centre meetings or during weekly installment the clients can get any assistance from BMT's staff. This strategy has optimized the microfinance program in MBK and also minimize the risks that always been faced by MFI, such default of payment. In addition, MBK provides two types of products, namely;

1. Micro working capital

(MWC) or basic working capital with the capitalsize between Rp 1.2 to Rp 2 million. These loan should be repaid within 50 weekly installment in weekly centre meetings.

2. Small Business Working Capital (SBC). This product focuses on clients that not served by formal banks (e.g moneylenders), clients that need higher working capital, microenterprises and family business. If they are prospective clients who have a good track record in MBK's report, they do not need to provide the collateral.

Conclusion

Based on some reviews from three famous microfinance institutions , it can be concluded that BMT's marketing strategy and MBK's financing services are the suitable criterias to enhance the number of women entrepreneurs and optimize the profitability of MFI. It is due to some easiness and some services that offered by these MFIs in activate the role of women in microfinance program. Meanwhile, Grameen Bank's management model is useful for minimizing the risk in microfinance program. Based on

the group lending mechanism, each member in group must responsible with the loan that has taken. Therefore, they will attempt to pay the loan together. On the other hand, the controlling by Grameen bank's staff are also useful to minimize the risk. They will come to visit regularly , either for collecting the loan or analyze the

weaknesses of group progress. It will impact to efficiency of controlling the disbursement loan, hence, the number of default of payment can be reduced. Overall, these three MFIs have contributed positively for empowering women in enhancing the household income.

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