ASEAN-ROK COOPERATION FUND Collaborate. Communicate. Coexist.

Translating Women's Experience into Classroom Teaching

Gender and Development Cases in ASEAN and Korea

Edited by

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Foreward

The Korean Women's Development Institute (KWDI) is a research think tank under the Prime Minister's Office of South Korea. Since its establishment in 1983, KWDI has strived to advance women's rights and gender equality by providing policy recommendations and legal advice to the South Korean Government.

During its thirty three years of history, KWDI has been working in the international arena as well. While our global network traces back to the 1980s, it was only from 2011 that we began to have closer cooperation with the Asia-Pacific and ASEAN regions for research projects.

As part of the ASEAN-ROK Cooperation Project, KWDI has been conducting collaborative research with universities and research institutes in ASEAN member countries since 2012 on gender and development curriculum. We began this research with a goal to encourage universities to teach and study gender and development.

Today's compilation is a compendium of sharing the achievements of the second phase of this research project. I wish this research project produce more studies on women's policy and more women leaders in ASEAN countries. I hope the readers of this compilation will take proactive roles in women's policy of the respective countries.

I would like to extend my deep appreciation to the ASEAN-ROK Cooperation Fund for sponsoring this project and also to the authors and editors of this compilation for their hard efforts. I hope that ASEAN countries and Korea may share their knowledge and experiences about research on women's policy to make progress together.

Myung-Sun Lee, Ph. D.
President
Korean Women's Development Institute

Contents

Introduction

Introduction

Eun Kyung Kim[1]

The basic idea of this book is to provide a source for awareness-raising for students, linking it with a broader perspective on women's life and experience in ASEAN countries. This book also aims to deepen students' understanding and their perspectives on the inequality and women's empowerment issues. With these objectives in mind, the first target audience of this book is university lecturers and professors who need to draw various commonalities of women to share with the students. Ultimately, this will help the students who will become the leaders to influence national development policies with a more gender focused approach.

This book is a part of the ASEAN-ROK Cooperation Project of Korean Women's Development Institute (KWDI) from 2014 to 2015. The KWDI's project seeks to strengthen gender and development education at higher institutions in ASEAN countries by 1) developing a gender and development (GAD) curriculum that can be used in ASEAN universities, and 2) seeking ways to support GAD research in ASEAN universities, for example, through establishing a GAD research centre or convening a GAD workshop. As far as KWDI's preliminary research is concerned, there have not yet been any initiatives to support curriculum development of GAD,[2] or to support GAD research.

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[2] There have been various researches carried out on how to mainstream gender in curriculum, gender responsive teaching skills, sensitizing education practitioners and curriculum developers…etc. However, there exist no initiatives on GAD curriculum development. Please see UNESCO's http://www.ibe.unesco.org/fileadmin/user_upload/Documentation/Special-Search/Gender_May_2012.pdf

5. Islamic Microfinance in Indonesia : An Alternative for Poverty Alleviation and Women Empowerment

Ninik Sri Rahayu[22]

Abstract

The purpose of this paper is to demonstrate the potential of Islamic Microfinance as an alternative instrument for poverty alleviation and women empowerment in Indonesia. Islamic microfinance offers an alternative solution to poverty alleviation among women through more human oriented financing due to the underlying Islamic principle. In the context of Indonesia in which Islamic microfinances grow significantly during two decades, the existence of these institutions can be an option for poverty reduction particularly among women for following reasons, first, many studies found there were link among these variables. Secondly, women own about one-third of small enterprises and most of them lack of financial services. Third, the evidence of increasing number of women heading poor families. Fourth, many elements from developmental agency and groups of experts support poverty alleviation and women empowerment through Islamic microfinance programmes.

Keywords: Islamic Microfinance, instruments of Islamic microfinance, poverty alleviation, poverty in Islamic view, women empowerment.

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1. Introduction

Islamic microfinance empowers social and economic role of women in the society and, at the same time, helps to eradicate women's poverty in Muslim societies. Indonesia, having the world's largest Muslim population, is still facing acute poverty problem where more than 32 million of people currently live below poverty line and approximately half of all households remain clustered around the national poverty line set at IDR 200,262 ($ 22) per month (World Bank, 2014:1). Women in Indonesia are particularly vulnerable to perpetual poverty due to persistent gender inequalities in income distribution, access to credit, control over property and natural resources, access to employment and livelihood opportunities.

The Government of Indonesia has been trying various approachs to embrace poverty among women. Based on Law Number 25/2000 on National Development Program, three approaches have been undertaken to address the issue of poverty, namely (a) provision of basic needs such as food, basic health services, education and shelter for the poor; (b) development of business ethos among the poor; (c) development of social protection and insurance for the poor. The main target groups are the poor, deprived children and the handicapped. Accordingly, the Committee on Poverty Reduction has formulated the following policies targeting the poor: (a) opportunity creation; (b) community empowerment; (c) capacity building and (d) social protection.

With regard to women and the socio-economy, gender equality and equity as well as women empowerment, the policies designated are: a) In the economic field: (i) to increase the access of the micro-level groups to credit; (ii) to provide incentives (facilitating the acquisition of business licenses; eradication of high-cost economy; (iii) to determine provincial minimum wage standard; (iv) to provide social protection for informal sector workers. b) In the social field: (i) to develop social protection for the poor; (ii) to enhance human resources quality through education and health; (iv) to strengthen organization and institutional mechanisms, social economy and culture; (iv) to reduce the gender gap, including gaps in terms of the quality of life in national development. c) In the political field: (i) to increase the institutional strengthening of local community organizations in democracy development, participation and conflict resolution in building community resilience. The above policies target the poor who are mostly women.

It is true that there has been a lot of progress in term of women empowerment efforts in Indonesia, but there are also still many things to do to advance women's status in this country, particularly on how to enable them to have financial access. It is the fact that access to the commercial banks is still a major challenge for many women as they do not have the required collateral. Islamic microfinance provides an alternative solution to poverty alleviation among women through more human oriented financing due to the underlying Islamic principle. From the Islamic perspective, poverty is viewed not just from material side but also moral side. Thus, any poverty alleviation strategy should reflect on both aspects (Chapra, 2008: 10). Islamic microfinance operates based on the Islamic concept which aims to promote social justice for all and to achieve economic development with building human capability as the centre of attention. In the last two decades, Islamic microfinance has been an emerging sector in Indonesia particularly for financial cooperatives.

This argumentative research paper aims to present the Islamic microfinance as an alternative of poverty reduction and women's empowerment in Indonesia. In order to meet this objective, the paper has been divided into three parts. The first explains poverty in Islamic view. This section explores how Islam interprets poverty as both a matter of material and moral dimension. From material side, the definition of poverty in Islamic economic is derived from The Quranic, The Prophet's Hadith and The Islamic Thinkers. Another concept of poverty in Islam goes beyond material side andcomprises of moral, social, and political aspect. This part will also disscuss principle and instruments of Islamic microfinance, and typology of Islamic financial products. The final section will elaborate the possibility of Islamic microfinance as an alternative for poverty alleviation and women's empowerment in the context of Indonesia.

2. Poverty in Islamic View

Poverty in Islamic perspective is both a matter of material and moral dimension as well-being has two sides: material and spiritual, which include mental peace, happiness and social harmony. To realize it, it imposes justice and human brotherhood, without considering gender, race, age *etc* (Chapra, 2008: 10). Regarding the matter of material, the definition of poverty in Islamic economyis derived from The Quranic, The Prophet's Hadith and The Islamic thinkers (Korayem and Neamat, 2014: 3). The verses in Quran denote levels of poverty which virtually represent all such groups of individuals potentially present in any economy atany time. There are: a) those living at or under the poverty level defined as the poor (*al fuquara*) and b) those living much lower than poverty line, defined as the destitutes (*al masakin*). The former are those who do not possess the necessities, while the latter implies those whose level of necessities do not reach half of that of the poor. It is the destitutes who should receive more attention. Beside the two previous definitions, The Quran points out two other groups because they fall below their sufficiency level due to hazardous unexpected causes. The first are those overwhelmed by debts contracted in good faith, for consumption needs or for business needs, and who are unable to repay it: They are simply in chronic debt. They become poor and get poorer while trying to pay back their debts, with no resources available to them or their families. The second are those who lose their properties due to natural catastrophes: fire, agricultural epidemic, etc.

The Prophet's Hadiths out linethe following foundation to interpret poverty. Islam takes the issue of poverty quite seriously to the extent that it is acknowedged in the words as the Prophet seeking refugee from poverty (*fakr*) juxtaposing it with another thing he sought refugee from *kufr* (disbelief) as Hadith by Iman Ahmad and Imam Muslim affirm: "O Allah, I seek refuge in You from disbelief and poverty" and "O Allah, indeed I seek refuge in You from the Hell, the torment in hell, in the grave, and poverty" (Muna, 2011: 4).

The Islamic thinkers such as Al Ghazali, Al Shatibi, Al Mawardi and Ibn Ashour came to the conclusion that fulfilling needs must be through conserving and protecting the five objectives of Islam, which form the foundation of the well-being of man in this life and in the hereafter. These objectives are to protect religion, life, mind, property (wealth), and posterity (offspring). These objectives according to Korayem and Mashhour (2014: 5) are divided into: necessities, conveniences, and refinements. Necessities comprise all things and activities that are essential to the preservation of the five foundations or requirements of good individual and social life according to Islam, while Convenience of sufficiency need to cover all things and activities that are not vital to the preservation of the five foundations, but rather are needed to relieve or remove impediments and difficulties in life. They include matters that alleviate constraints or facilitate performing duties. Refinements include things that go beyond the limits of conveniences which embrace matters that complement, brighten or adorn life.

The further concept of poverty in Islam goes outside material side, in this points Naqvi (2003: 119) highlights three aspects of poverty comprised of moral - since it reduces the self respect - social – because it pulls the poor out from society - and political – due to the higher probability to create higher gap between society's social ranks. Islam has a definite way of viewing richness, as the *Hadith* declares that "Richness does not lie in the abundance of worldly goods but richness is richness of the heart itself " (Mannan, in Riwajanti, 2013: 256). Eventhough conventional view takes account of human aspect, such as freedom of choice, capability, *etc*, this spiritual aspect is left behind and not included in the poverty aspect.

Islam does not see poverty as a virtue, but accepts it as a serious social problem that must be alleviated, and brings some suggestions concerning its solution. Islam does not offer unique theory of battling poverty as in conventional paradigm populer with "the theory of sustainable development", however, it presents powerful principles for its realisation called social justice. This is a broader concept compared to the normative approach to development that has economic, social, and ecological dimensions. In a society, the welfare of individuals is interdependent, and this interdependence is a type of externality. The principle of mutual interest is used to establish social optimality in distribution of resources and wealth. *Zakah* and *waqf* are part of social security system to ensure social justice. *Zakah* is the obligation to pay certain amount of wealth to the poor, thus certain amount of the assets of the well-off individuals is expected to be returned to the society with the notion that it is the right of the poor (Ahmed, 2004: 22) and *waqf* as an voluntary sector institution is an institutionalised charity aiming to deliver welfare services to the poor. *Waqf* can be in the form of assets (such as land, building, car etc) or, becoming more commonly now, in cash *waqf*. In most cases, the actual *zakah* and *waqf* collected from Muslim society are inadequate to meet the financing needs of the poor so it implies that other recourse must be found in a commercial approach. Obaidullah (2008a: 15) argues that Islamic microfinance institution is the most appropriate approach to mobilize resources, either through accepting savings deposits or obtaining funds from local Islamic banks for onward financing or from the capital market. This commercial approach entails charging and sharing of profits and is quite consistent with Islamic Shariah.

3. Islamic Microfinance: The Growth and Its Practice in Indonesia

In the last twenty years, the growth of Islamic microfinances in Indonesia increased significantly and have contributed positively to the development of socio economic progress of the country. The legal status of these microfinance institutions is Islamic-based cooperative, which is known as Baitul Maal wat Tamwil (BMT). The Islamic financial cooperatives in Indonesia are not part of the formal financial sector. They may or may not be registered with the Ministry of Cooperatives. Accordingly, they may be placed into either the semiformal or the informal financial sector. As they are not formally regulated, the distinction is of limited relevance (Siebel, 2007: 6). However, in general, the BMT institutions have been initiated and led by leading Islamic organizations such as PINBUK (Centre for Micro Enterprise Incubation), Dompet Dhuafa foundation, Syaria' banks, Islamic boarding schools (pesantren), respected clerics and Muslims patrons who have strong socio-economic and religious influences in the community. The root of BMT was developed in decade of 1980 by Muslim activists and it has flourished since in the mid of 1990s, after the establishment of Bank Muamalat Indonesia, the first Syaria' bank in the country. According to an estimated figure from PINBUK, financing has reached 1.67 billion IDR in total out of 3,068 BMTs under their supervisionby September 2010 (Hasanah and Arief, 2013: 5).

Practically, BMT is established by individual or group initiatives to help micro entrepreneurs as a strategy for eradicating rural poverty, especially in villages or traditional markets. The operational system of BMT is based on Sharia' principles and cooperation. Rusydiana and Devi (2013: 1) explain the concept of BMT derived from two words Baitul Maal which means the socially-religious oriented financial institution whose main activities are accommodating and distributing community wealth in the form of *Zakah, infaq, and shadaqah* (ZIS) based on the terms defined in the Qur'an and Sunnah of His Prophet. While Baitul Tamwiil means financial institution whose main activities is to raise public funds in the form of savings and deposits and then channel them back to the community in the form of Sharia' financing through a common mechanism in the banking world. Thus the conception of BMT in an institution includes two types of activities: a) Activities to raise funds from various sources such as *zakat*, as well as other *shadaqah infaq* and shared/distributed to the beneficiary in order to overcome poverty, and b) Productive activities in order to create new value-added to economic growth and develop human resources.

3-1. Principle and instruments of Islamic microfinance

The principles of Islamic finance are laid down in Islamic law (*syaria'*) which is based on the concept of a social order of brotherhood and solidarity. The participants in banking transactions are considered business partners who jointly bear the risks and profits. Islamic financial instruments and products are equity-oriented and based on various forms of profit and loss sharing. The structure of Islamic financial institutions in Indonesia is grouped into Islamic banks, Islamic rural banks, Islamic insurance and Baitul Maal wat Tamwiil (BMT) in which each of them has different products and markets, but in terms of principles and instruments, there are no substantive differences. In brief, the general principles of Islamic financial institutions operations are as follows:

- Prohibition of interest or *riba*. *Riba* means an increase or addition or growth. Technically it refers to the 'premium' that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or an extension in its maturity. Interest as commonly known today is regarded by a predominant majority of *fuqaha'* to be equivalent to *riba*. The prohibition on *riba* is intended to discourage any taking advantage of those in need that would possibly result if profit could be made from the dire circumstances of another (Walterst, 2012: 265).
- Prohibition on excessive uncertainty (*Ghahar)*. The concept of *gharar* has been broadly defined by the Islamic scholars in two ways. First, *gharar* implies uncertainty. Second, it implies deceit. The *Quran* has clearly forbidden all business transactions, which cause injustice in any form to any of the parties. It may be in the form of hazard or peril leading to uncertainty in any business, or deceit or fraud or undue advantage. *Gharar* is considered to be of lesser significance than *riba*. While the prohibition of *riba* is absolute, some degree of *gharar* or uncertainty may be acceptable in certain forms of contracts (Obaidulah, 2008b: 22).
- *Prohibition on Realizing a Gain from Speculation (Mayseer)*. While it is recognized that some amount of speculation is incumbent in any commercial arrangement, Sharia' prohibits speculation beyond a certain limit, and with certain intent. The line is a nebulous one, but focus falls on whether the intention behind the

transaction is realizing gain from some productive effort, which is permissible or realizing gain from pure speculation, which is not.

- All activity must be for permitted purposes. When choosing which enterprises in which to invest, a Muslim must not engage in, or derive benefit from, any activity that is prohibited by Sharia'. Such prohibited activities include gambling and casino games, alcoholic beverages, pork consumption, pornography and prostitution, weapons/defense, and financial services dependent on *riba.*
- Loss of profit sharing. Islamic banks and their clients are partners, both sides of financial intermediation are based on sharing risks and gains: the transfer of funds from clients to the bank (depositing) is based on revenue-sharing and usually calculated ex post on a monthly basis. The transfer of funds from the bank to the clients is based on profit-sharing (lending, financing).

3-2. Typology of Islamic financial products

In accordance with Islamic law, Islamic financial products are based on specific types of contracts. These Sharia-compliant contracts support productive economic activities without betraying key Islamic principles. The contracts cannot create debt, cannot involve the payment of interest, and must provide for a sharing of risk and responsibility between the involved parties. The *Sharia'* compliant instruments comprise of fund accumulation, financing, and risk management. Obaidullah and Khan (2008c: 18-22) summerize it in the following table :

Tabel 1 : *Sharia'* compliant instruments

Shariah Instrument	Underlying contracts
Fund accumulation	a. charity (*zakah*, *sadaqah*, *awkaf*, gift that include *hiba* and *tabarru*) b. deposits (*wadiah*, *qard hasan* and *mudarabah*), c. equity (*musharakah*)
Financing	a. profit and loss sharing (PLS) (e.g. *mudarabah*, *musyarakah*), b. sale based mode (*murabahah*), c. lease-based modes (*ijarah*), d. caring loans (*qarn hasan*).
Risk	a. guarantee (*kafalah*), applied in group financing, b. collateral (*daman*) for individual financing and micro-takaful.

Source : Obaidullah and Khan (2008c: 18-22)

Specifically, the characters of the above financing products according to Siebel (2007: 4) are described below:

Tabel 2 : Typology of Islamic financial products

1. Financing products	
Profit sharing financing products:	
Musharakah ةأر اشـم	Equity participation, investment and management from all partners, profits are shared according to a pre-agreed ratio, losses according to equity contributions.
Mudarabah ةبر اضــم	A profit-sharing partnership to which one contributes the capital and the other the entrepreneurship; or the bank provides the capital, the customer manages the project. Profit is shared according to a pre-agreed ratio
Qard Hasan نســح	Charitable loans free of interest and profit-sharing margins, repayment by instalments. A modest service charge is permissible
Wakalah	An authorization to the bank to conduct some

ةلاآو	business on the customer's behalf
Hawalah ةلاوح	An agreement by the bank to undertake some of the liabilities of the customer for which the bank receives a fee. When the liabilities mature the customer pays back the bank
Advance purchase financing products:	
Murabahah ةحبـارم	A sales contract between a bank and its customers, mostly for trade financing. The bank purchases goods ordered by the customer; the customer pays the original price plus a profit margin agreed upon by the two parties. Repayment by installments within a specified period
Istithna' ءانتشـــا	A sales contract between bank and customer where the customer specifies goods to be made or shipped, which the bank then sells to the customer according to a pre-agreed arrangement. Prices and instalment schedules are mutually agreed upon in advance
Mu'ajjal Bai al Salam عيـب لجـوم	Purchase with deferred delivery: A sales contract where the price is paid in advance by the bank and the goods are delivered later by the customer to a designee
Ijarah Mutahia Bittamlik اجا	Lease and hire purchase: A contract under which the bank leases equipment to a customer for a rental fee; at the end of the lease period the customer will buy the equipment at an agreed price minus the rental fees already paid.
2. Deposit products	
Wadi'ah ةعيـدو	Sight deposits, including current accounts (*giro wadi'ah*)
Mudarabah ةبراضــم	Deposit products based on revenue-sharing between depositor and bank, including savings products withdrawable at any time and time deposit products
Qard al-Hasanah نســح	Unremunerated deposit products, usually for charitable purposes (*widespread in Iran, but not found in Indonesia*)

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3. Insurance products	
Tadamun, Takaful تضامن	Islamic insurance with joint risk-sharing

Source : Seibel (2007: 4)

Among the above instruments, *murabahah, mudarabah* and *qard hasan* seem to be the most practical and suitable scheme due to easier operation and monitoring of equal instalment derived from buy-resell model.

4. Islamic Microfinance: An Altenative for Poverty Alleviation and Women Empowerment

Indonesia is one of the most densely populated countries in the world with an estimated population of 237 millions (The Indonesian Bureau of Statistics/BPS, 2010: 1). Poverty is one of the major social problems in Indonesia that is epidemic throughout the country. The BPS has developed national poverty indicators and in some areas between 20% and 50% of the population is considered to be living under the Indonesian poverty line (PEKKA and AusAID, 2010: 33) and majority of them are women (Endarwati, 2009: 1). They have limited access to economic and income generating activities outside their home and consequently, less opportunity to contribute to their families and get out of poverty. They alsosuffer from lack of access to fund, lack of technology based knowledge, market knowledge and lack of support from family members. Those situation is parerel with The Gender Inequality Index (GII) which reflects gender-based inequalities in three dimensions–reproductive health, empowerment, and economic activity. Reproductive health is measured by maternal mortality and adolescent birth rates; empowerment is measured by the share of parliamentary seats held by women and attainment in secondary and higher education by each gender; and economic activity is measured by the labor market participation rate for women and men. The detail is presented as follow:

Table 3 : Indonesia Gender Inequality Index

GII value	GII Rank	Maternal mortality ratio	Adolescent birth rate	Female seats in parliament (%)	Population with at least some secondary education (%)		Labour force participation rate (%)	
0.500	103	220.0	48.3	18.6	39.9	49.2	51.3	84.4

Source : Human Development Report, 2014

Indonesia has a GII value of 0.500, ranking it 103 out of 149 countries in the 2013 index. In Indonesia, 18.6 percent of parliamentary seats are held by women, and 39.9 percent of adult women have reached at least a secondary level of education compared to 49.2 percent of their male counterparts. For every 100,000 live births, 220.0 women die from pregnancy related causes; and the adolescent birth rate is 48.3 births per 1000 live births. Female participation in the labour market is 51.3 percent compared to 84.4 for men. Moreover, 53.3% women compared to 86.2% men are in formal employment. Unemployment remains high, with more women than men being unemployed, or engaged in risky and vulnerable work in the informal sector. Unemployment is a key reason for out-migration and poverty. In this situation, microfinance is an important instrument for women's empowerment and poverty alleviation.

Women's empowerment means the expansion in people's ability to make strategic life choices in a context where this ability was previously denied to them (Kabeer, 2001 in Malhotra, 2002: 5). This concept is about getting out of disempowered position where one cannot make any choices and to be in an empowered position where one can be able to make choices. Mayoux (2000: 6) explained that microfinance precisely empowers women through three dimensions :

- ***Economic empowerment:*** women's access to savings and credit gives them a greater economic role in decision-making through their decision about savings and credit. When women control decisions regarding credit and savings, they will optimize their own and the household's welfare. The investment in women's economic activities will improve employment opportunities for women and thus have a 'trickle down and out' effect. The financial sustainability and feminist empowerment paradigms emphasize women's own income-generating activities. In the poverty alleviation paradigm, the emphasis is more on increasing incomes at the household level and the use of loans forconsumption. In the feminist empowerment paradigm, individual economic empowerment is seen as dependent on social and political empowerment.

- ***Increased well-being:*** access to savings and credit facilities and women's decision about what is being done with savings and credit strengthens women's say in economic decisions of the household. This enables women to increase expenditure on the well-being of themselves and their children. This is the main concern in the poverty alleviation paradigm. Women's control over decision-making is also seen as benefitting men through preventing leakage of household income to unproductive and harmful. Other welfare interventions are advocated in addition to micro-finance, typically nutrition, health and literacy campaigns to further decrease vulnerability and improve women's skills. In the financial self-sustainability and feminist empowerment paradigms, improved well-being is an assumed outcome from increasing women's economic activities and incomes.
- ***Social and political empowerment***: a combination of women's increased economic activity and control over income resulting from access to micro-finance with improved women's skills, mobility, access to knowledge and support networks. Status within the community is also enhanced. These changes are

> reinforced by group formation, leading to wider movements for social and political change. The financial self-sustainability paradigm and the poverty alleviation paradigm assume that social and political empowerment will occur without specific interventions to change gender relations at the household, community or macro-levels. By contrast, the feminist empowerment paradigm advocates explicit strategies for supporting women's ability to protect their individual and collective gender interests at the household, community and macro-levels.

The success of Grameen bank in Bangladesh to empower poor women and its lead of 58% of the member out from poverty level is evidence that microfinace is a true innovation for women's empowerment. Its success flies in the face of traditional banking theory, which holds that destitute residents of third-world villages, often lacking any property of their own at all, do not make reliable borrowers. And the methods of the Grameen Bank have been emulated around the world. According to the United Nations, some 67 million people had access to micro-credit in 2003. Institutions modeled after the Grameen Bank have sprung up in seventy countries.

However in Islamic community the existing of conventional microfinance has been critizied and rose critical discussion among scholars and religious leaders though basically microfinance and Islamic microfinance have much in common. Both focus on developmental and social goals, as well as involve participation by poor. Nevertheless, Costa el all (2010: 9) identify some differences between them as follow; *First*, the microfinance institutions are not usually appropriate for the chronically poor because they need more than financial services necessary for starting a micro-enterprise, thus, these individuals must use loans for providing to their basic needs, such as food, house, clothes, etc. While in Islamic system, the major priority is given the needs to the chronically poor and Islam provides with many voluntary forms of charity, such as *zakah*. *Secondly*, the interest rate in conventional microfinance is higher than banking rates because returns on investment are very high with respect to the low amount of the loans, the administrative charges as well as monitoring costs are more expensive and riskier than a traditional financing portfolio. On the contrary, in Islamic microfinance the interest rate is prohibited and the profit is made through sharing system.

The best-practices of Islamic microfinance respect the Islamic ethics in order to achieve mutual cooperation, solidarity and economic empowerment for alleviating poverty. Yasin and Tahir (2002: 17) point out that the comprehensive implementation of full Islamic values through profit- and loss-sharing, in place of the interest system, and encouraging *zakah* will prove to be the best way of solving the poverty problem.Interest rate, high or low, is rejected by large sections of the Muslim societies as tantamount to *riba* (Obaidullah, 2008a: 28). Micro-credit as offered by conventional microfinance institutions in Muslim countries violates the fundamental prohibition of *riba* that the Islamic Shariah mandates. The Islamic microfinances offer micro-credit using a variety of Shariah-nominate mechanisms, such as, *qard alhasan* (with recovery of actual costs of service), *murabahah* with *bay-bithamanajil*, *ijarah*, *bay-salam* etc.

In the contex of Indonesia in which Islamic microfinance institutions grew significantly during two decades as the consequence of the growing of Islamic banking in this country, the exsistence of these insitutions can be an option for poverty reduction particularly among women as they are the poorest among the poor. A number of studies had well documented that there were the link between Islamic microfinance, poverty and women's empowerment. The study of Aseanty and Hasan (2013: 87) confirmed that there was positive link between Islamic microfinance and the socio-economic well being of women. It was found that under micro credit scheme from Islamic microfinance institution, women's income and asset had increased which eventually lead to women's economic independence and sense of self confidence. The research of Obaidullah & Khan (2008: 42) also supported those finding. They confirmed the significance of Islamic microfinance as a tool to boost economic growth, to counteract the effects of economic instability and to empower women. The research findings of Balogun et al (2014: 1) showed that finance remained a major impediment to women entrepreneurs' business performance. The study found that the current mode of financing for business women such as personal savings,family and friends, commercial banks, government, has not been able to produce positive results in terms of their business performances, therefore, there is a need for an alternative source of founding. The study concluded that Islamic finance has a role to play in financing women entrepreneurs through its microfinance products such as Mudarabah, Musharakah, Murabahah, Ijarah, Wakalah etc. Similar studies from Sakai (2010: 418) found that Islamic microfinance in Indonesia (BMT) contributes to the improvement of women's economic independent through their financial services. Islamic microfinance offers alternative solution to poverty alleviation through more human oriented financing due to the underlying of Islamic principle. Islamic microfinance provides a moral approach through a profit and loss-sharing method in the form of *musharakah* and *mudarabah* modes of financing (Asutay, 2010: 26) to prevent individual borrowers to be dragged into further debt. As Islamic microfinance is based on asset-based approach as opposed to a debt-based approach, it is more appropriate for the needs of microenterprises, since their profits from their businesses can be hard to predict. It is particularly true in Indonesia since the typical of microenterprises running by women generally operate in informal sector and have no formal management or accounting system so that many of them face revenue fluctuation in their enterprise. In Indonesia, women own about one-third of small enterprises, this figure is growing by 8% annually while the number of small enterprises owned by men is currently declining (The Asia Foundation, 2013: 10). Women in micro enterprise usually have the following characteristics: *Firstly*, they have low level of education, lack of training opportunities, and mostly poor family background. *Secondly*, they have burden of heavy household chores. Especially in rural areas, women have more children, and they are more demanded to do their traditional role as being responsible for housework and child care, and therefore they have fewer hours of free time than men, both during the weekend and on weekday. *Thirdly*, there may be legal, traditional, customary, cultural or religious constraints on the extent to which women can open their own businesses. *Fourth*, they have lack of access to formal credit and financial institutions. This constraint is related to ownership rights which deprives women of property ownership and, consequently, of the ability to offer the type of collateral normally required for access to bank loans. In Indonesia, men are still perceived as the head of the family, and thus, in general, men are still perceived as the owner or inheritor of family assets such as land, company and house. *Fifth*, motivation to undertake own businesses instead of staying home doing traditional domestic works is for survival reason. Based on those facts, Islamic microfinance in Indonesia should take advantage of this niche area of women in micro enterprises and explore the untapped opportunities by making finance accessible to them through their Islamic finance products as mentioned above. Also, the government should provide more financial support to women in the marginal sectors.

Other reason Islamic microfinace is extremely important for women's empowerment is related to the evidence of increasing number of women heading families, including both widows and single women. In 2010, The Indonesian Bureau of Statistics estimated that there were 65 million households, 14%, or 9 million of which are headed by women (Hartanto, 2010: 55). Households headed by women are in general relatively poorer compared with those headed by men. Poor households headed by women are the poorest in Indonesia. Their average daily income is around IDR 7,000 (USD 0.73) or less than a dollar a day. These households have on average three dependents, and many are located in rural and remote areas. The education level of people in these households is very low, for example, more than half have only elementary school education. Household members work mostly in the informal sector as small traders, daily labourers in small paddy fields, or small farmers. Those situations confirm that poverty has a different impact on women and men due to different gender roles and gender bias. Some indicators show that women are in a worse situation than men in Indonesia. For example, the maternal mortality rate is still high, 373 per 100,000 live births and the infant mortality rate is 40 per 1,000 live births, and this is the highest among ASEAN countries. Education is another revealing indicator since it shows that the number of illiterate or under-educated women is twice the number of men.

Aseanty and Hasan (2013: 89) argue that Islamic microfinance is specifically important for women because they often lack the necessary collaterals and pre-conditions to obtain a credit from a formal lending institution. They insist Islamic microfinance programmes are increasingly targeting women because of several reasons: first, a cost-efficiency rationale since women's repayment rates are much higher than men, second, an equity reason because women have less access to productive employment in the developing countries, and third, because women invest largely in their children and households, engendering a multiplier effect that improve the effectiveness of the funds. The offer of different Islamic microfinances is supported by different developmental agency and groups of experts, each according to their ideology. Firstly, the defenders of development serving people argue that Islamic microfinance puts people in the heart of the process of development and policy elaboration. Secondly, the women's rights defenders believe that Islamic microfinance empowers women since it promotes development while focusing on eliminating gender discrimination. Thirdly, the poverty reduction approach encourages the offer of Islamic microfinance because it empowers the poor; make them economically independent and less vulnerable when facing economic crises. Finally, the offer of Islamic microfinance is supported by the economic growth experts because it promotes the development of the least advantaged and developed regions, promoting growth over the long term.

5. Conclusion and Recommendation

Islamic microfinance is a relatively new approach in Islamic finance compared to conventional approach, but its growth and performances in general are quite promising in Indonesia. It provides services particularly to meet the demand of a specific market whose members cannot accept the conventional financing product due to their adherence to Islamic tenets. The existence of these insitutions can be an option for poverty reduction and empowering women in Indonesia for several explainations; first, a number of studies showed that there were the link between Islamic microfinance, poverty and women's empowerment. Islamic microfinance offers alternative solution to poverty alleviation through more human oriented financing due to the underlying of Islamic principle.Islamic microfinance provides a moral approach through a profit and loss-sharing method in the form of *musharakah* and *mudarabah* modes of financing to prevent individual borrowers to be dragged into further debt. Second, women own about one-third of small enterprises in Indonesia, but most of them have lack of education and access to formal credit and financial institutions, and most come from poor family. Islamic microfinace should take advantage of this niche area of women in microentreprise and explore the untapped opportunities by making finance accessible to them through Islamic finance products. Third, there is an increase in families headed by women who are relatively poorer compared with those headed by men, and poor households headed by women are the poorest in Indonesia. Fourth, many elements from developmental agency and groups of experts support poverty alleviation and women's empowerment through Islamic microfinance programmes.

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