



## Shariah-based Microfinance for Limited-Resource Farmers: The Practice of Baitul Maal Wal Tamwil-Tamzis in Wonosobo, Central Java, Indonesia

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### Abstract

Programs that provide financial services to alleviate poverty have been promoted in recent years. These have been evaluated and disseminated in various fora. However, there is only limited documentation on the success of Islamic microfinancing programs. Islamic financing is the provision of financial services on a basis that is compliant with the principles and rules of Islamic commercial jurisprudence. The limited-resource farmers (LRF) are those with low level of education, barely finishing elementary school, and are poor. They usually do not have access to loans. In Asia, China alone accounts for almost half the world's LRFs. Other leaders in the region include India, Indonesia, Bangladesh, and Vietnam. This study describes the practices of Baitul Maal Wal Tamwil-Tamzis (BMT-Tamzis) in providing capital to limited-resource farmers in Wonosobo, Central Java in Indonesia. The method includes office visits, interviews, and discussions with the officials and staff of BMT-Tamzis and with the farmer-beneficiaries. The lending scheme is Mudarabah, on which two parties are involved; the financier who provides money, and the farmer who uses his or her skill to invest in farming. Profits and risks are shared on pre-arranged terms. The BMT-Tamzis is a registered cooperative and has established its financing system for the farmer-members. It also caters non-Muslim clients. Its system is worth replicating in the Philippines. In Philippine communities where farmers are predominantly Muslims, such as in Maguindanao, Islamic microfinance is an alternative to local money lenders who can set interest rates as high as 30%.