

## **The Red Zone of Islamic Microfinance Institutions (BMTs) in South Sulawesi: A Globalization Perspective**

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**Abstract:** *The aim of BMTs established was providing business development services and community empowerment in the rural area, through financing in micro-scale businesses to their members and the community, deposit management, and providing business development consulting services based on sharia principles. In South Sulawesi, BMTs seem to be unable to carry out their main objective, even though their existence is as the front guard in moving the economy of the people in the rural area. Therefore, this study is present to solve this problem. So the purpose of this study is to analyze the impact of financial sector digitization on BMTs in South Sulawesi, the efforts of digital transformation taken and the use of Information Technology in their management in the globalization era. The data used to discuss the three things above were collected via an interview method, a focus discussion group and documentation. These data were analyzed by a combination of globalization concepts according to Scholte and Bartelson. The results of this study showed that if BMTs in South Sulawesi are unable to adapt to IT in serving the community in this globalization era, they will lose their market share so that their conditions must be on the red zone. This should not be allowed to happen because BMTs are as the front guard in moving the economy of the people in the rural area*

**Keywords:** *Globalisation, BMTs, South Sulawesi, People, Rural Area.*

**Abstrak:** Tujuan BMT didirikan adalah untuk memberikan jasa pengembangan usaha dan pemberdayaan masyarakat di daerah, baik melalui pembiayaan dalam usaha skala mikro kepada anggota dan masyarakat, pengelolaan simpanan, maupun pemberian jasa konsultasi pengembangan usaha dengan prinsip-prinsip syariah. Di Sulawesi Selatan, BMT kelihatannya kurang mampu menjalankan tujuan utamanya tersebut, padahal keberadaannya merupakan garda terdepan dalam menggerakkan perekonomian masyarakat di daerah. Oleh karena itu, studi ini hadir untuk memecahkan hal tersebut. Tujuan studi ini adalah untuk menganalisis dampak digitalisasi sektor keuangan terhadap BMT di Sulawesi Selatan, upaya transformasi digital yang dilakukan dan penggunaan IT dalam pengelolaannya di era globalisasi. Data-data yang digunakan untuk membahas ketiga hal tersebut di atas dikumpulkan dengan metode wawancara, focus discussion group dan dokumentasi. Data-data tersebut dianalisis dengan kombinasi konsep globalisasi menurut Scholte dan Bartelson. Hasil penelitian ini menunjukkan bahwa jika BMT di Sulawesi Selatan tidak mampu beradaptasi dengan IT dalam melayani masyarakat di era globalisasi ini maka mereka akan kehilangan pangsa pasar sehingga kondisinya berada pada zona merah. Hal ini tidak boleh dibiarkan terjadi karena BMT merupakan garda terdepan dalam menggerakkan perekonomian masyarakat di daerah.

**Kata Kunci:** *Globalisasi, BMT, Sulawesi Selatan, Masyarakat, Daerah.*

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## **Introduction**

Studying on BMTs is always interesting to do because it is one of the Islamic microfinance institutions that is very much needed by the community in the rural area, where they have a strategic role in increasing the income and welfare of local people. In addition, they are also as the front guard in improving the economy of the people in the rural area. Indeed, Many studies on BMTs have been carried out, among others: The study conducted by Sanwani on the strategy of collecting and channeling funds in BMT (Sanwani, 2018), by Utami and Ridho on mudharabah financing at BMT (Utami & Ridho, 2018), by Latifah about HR management at BMT (Latifah, 2019), by Kudus and Naghfir about the effectiveness of financing contracts at BMT (Kudus & Naghfir, 2017), by Muhammad Anasrulloh about the employee performance at BMT (Muhammad Anasrulloh, 2013), by Prastiwi about the decision to use financial services at BMT (Prastiwi, 2018), by Khatmah and Husnul about sharia financial inclusion and literacy at BMT (Khatmah & Husnul, 2016), by Susilo about applying syariah compliance at BMT (Susilo, 2017), by Ali and Ascarya about BMT operational efficiency (Ali & Ascarya, 2010), but none of these studies examine the red zone of BMT development. Therefore, this study is here to examine this matter.

If this study is not done, it must be very difficult to ascertain whether the development of BMTs qualitatively and quantitatively has increased or has decreased or its development is on the stagnant position so that the red zone of its development can be ascertained permanently, and then efforts will be made to overcome the red zone of its development. Therefore, this study is needed to do. Regarding the issues raised, the purpose of this study is to analyze (1) the impact of financial sector digitalization on BMTs in South Sulawesi, (2) the efforts of digital transformation that they do and (3) the use of IT in their management in the globalization era. The data used to discuss the three things mentioned above were collected by an interview method, a focus discussion group and documentation.

These data were analyzed by a combination of globalization concepts according to Scholte and Bartelson. Bartelson in his research revealed three basic concepts forming globalization, where each of these elements became a process that creates the concept of globalization in an integral way. According to him, globalization as a medium of exchange, globalization as a process of change in form, and globalization as a transcendence (Bartelson, 2000). While Scholte expressed several important points related to the concept of globalization, namely: Globalization as internationalization, Globalization as liberalization, Globalization as universalization, Globalization as westernization (Scholte, 2002). On the basis of these two concepts, it is used as a basis for expressing the purpose of this study, and is also used as a solution to solve the red zone of the development of BMTs in South Sulawesi.

## **The zone of BMTs in South Sulawesi**

The term zone, both the green zone or the red zone is usually associated with the stock price index. The stock price index is said to be in the green zone if it is above yesterday's closing price or is strengthening, and is said to be in the red zone if it is below yesterday's closing price or weakening, for example the Dow Jones 30 or Dow Jones Industrial Average yesterday closed at the level 18,000. If today

opens at the level of 18,150 it is said that the DJIA is in the green zone, while if it is opened at the level of 17,425 it is said that the DJIA is in the red zone (Martin, 2015).

The term zone used to state the condition of Islamic microfinance institutions (BMTs) in this study refers to the term zone above. The green zone of BMTs means that their condition in quantity and quality has increased, and the red zone if their conditions in quantity and quality is stagnant or has decreased. Because of the limitations of the data, the discussion of LKMS in this study is only limited to BMT.

The true identity of the most important BMTs is their identity and Islamic characteristics. Historically, the establishment and development of BMTs movement in South Sulawesi has always been related to Islamic values and the response to the condition of Muslims. The activists also tried to put forward various Islamic identities in the operationalization of BMTs in South Sulawesi, including in the process and performance as business entities that implement sharia principles. Naming, the institution and its products, impress the Islamic image. The logical consequence of all that, BMTs have to be responsible consistently on such self-image. Not only to stakeholders who are sociological, but also responsible to Allah SWT (Interviews with Jafar Aras, 2018).

Another aspect of their identities is as a microfinance institution (MFI) which is the driving force of the micro and small business sectors. With the focus on channeling to the micro and small business sectors which are the foundation of life for the majority of people in South Sulawesi, their overall productivity has increased. In the next turn, the quality economic growth supported by the real sectors will occur adequately and sustainably, thereby strengthening the economic fundamentals of the people in the rural area. Microfinance is currently believed to be one of the most effective tools to overcome poverty, while creating a society that is responsible, independent and dignified. Such views are not only local, but also generally accepted nationally (FDG, 2018).

At present, there are 128 BMTs in South Sulawesi under the coordination of PINBUK (South Sulawesi Small Business Incubation Center) and serve approximately 210 thousand people with assets of around IDR 367 billion managed by around 768 people. The existence of these BMTs proved to be able to encourage the micro and small business sectors. This was considered important because they became a driver of the economy of the people in the rural area. The types of businesses that obtain financial assistance from BMTs are services (salons, pedicab drivers, tire patches, tailors), trade (vegetable sellers, fish sellers, fruit sellers, apparel sellers), and home industries (accessories and souvenirs, making cassava chips, etc.) (PINBUK South Sulawesi, 2017).

The rapid growth of BMTs was accompanied by the increasing challenges faced. The most important internal challenges are sharia compliance issues, the matter of maintaining movement idealism, the matter of management professionalism, the question of developing human resources, and the matter of cooperation between BMTs. Meanwhile, the main external challenges are macroeconomic dynamics, the

problem of poverty that still haunts the economy in South Sulawesi, the dynamics of the financial sector that have not placed microfinance as the main pillar, as well as legal and regulatory issues for BMTs. As a result, BMTs that are still active in South Sulawesi only have around 74 BMTs and the rest are in a state of suspended animation. Thus, the condition of the BMT in South Sulawesi is in the red zone. If 128 BMTs in South Sulawesi are all active, it is estimated that they can serve approximately 390 thousand people with assets of around IDR 951 billion managed by around 932 people and of course this can grow the economy of the people in South Sulawesi (PINBUK South Sulawesi, 2017).

### **The impact of Financial Sector Digitalization**

The rise of digitalization in all sectors, causing "disruption" to the old players. In the financial sector, the emergence of financial technology (Fin-Tech) companies has made the banking industry transform to welcome digital banking by developing electronic banking or digital banking services. Some banks have created versions of their own financial technology innovations, while others expanded collaborative relationships with - or only acquire - companies that offer new technologies or services that complement existing bank business plans, even though digitalization is not new to the banking industry (such as ATMs on the beginning). Making transactions with banks has never been easier. Customers can transfer funds from their smart phone using the mobile banking application. Even the public can open a savings account without the need to go to the branch office of the destination bank.

The development of Fin-Tech in Indonesia was able to increase the Gross Domestic Product (GDP) by IDR 25.97 trillion both directly and indirectly. In addition, household consumption can increase to IDR 8.94 trillion. Both of these indicate that the existence of Fin-Tech has been able to improve Indonesia's economy on a macro basis. Meanwhile, on the business side, labor compensation in the form of salaries and wages could increase by IDR 4.56 trillion through the trade, finance and insurance sectors. These three sectors have a direct role in the development of Fin-Tech. In addition, the presence of Fin-Tech is also able to contribute to employment of 215,433 people not only from tertiary sectors but the primary sector, agriculture, also experienced a considerable absorption of labor, which amounted to 9,000 people.

On the other hand, there are only half of the adult population who have accounts at the Bank. These figures show that banking services, especially in the credit service segment, are still very low in penetration rates. This is indicated by the ratio of lending to GDP which is still at 39.1%. While the portion of MSME loans to total credit is stagnant in the range of 20% -22% (World Bank, 2015).

This situation created a new service system called Fin-Tech. The services of Fin-Tech have managed to reach sectors that are currently untouched by existing financial service providers such as banking. So its nature is not a banking substitution but rather a complement of existing financial services. Fin-Tech 's role from year to year has increased significantly. In 2018, Fin-Tech credit disbursed IDR 7.64 trillion and much of it is channeled to the trade and agriculture sectors. In addition, investment in Fin-Tech in Indonesia reached IDR 5.69 trillion (OJK, 2018).

The development of Fin-Tech as stated above, has two effects, positive and negative one. The positive effect is to facilitate market growth. One of the real things is the open opportunity for people to become investors in the capital market. Communities spread across various islands, can access or have the opportunity to enter the capital market as investors. While the negative effect will damage the order or business that has been done so far. One of the real things is that sooner or later people will leave manual financial services offered by financial institutions, and the majority of BMT financial services in South Sulawesi are still done manually in serving their customers. If so, the sooner or later BMTs in South Sulawesi will lose their market share.

### **Digital Transformation**

Digital movements that occur in various fields, have created opportunities and challenges for BMTs in South Sulawesi. BMT have to follow the movement of digital economic ecosystems driven by data. The development of Fin-Tech, to changes in market demand and regulatory trends make BMTs have to choose between adapting or losing their market share. Adaptation is mainly needed in the application of digital-based smart technology (FDG, 2018).

Answering this, BMTs are required to modify the business model by putting forward the application of digital technology. This is certainly the result of collaboration with the Fin-Tech business model that tends to be agile and innovative. For example, financial services based on smart phones. These services can get closer to an increasingly dynamic consumer experience. As the internet and smart phones grow, BMTs need to offer flexibility in banking transactions whenever and from anywhere. Changes in consumer behavior and society want ways to transact in financial institutions that are easy, fast and practical.

In the current era of globalization, not only motorcycle taxis online or online stores. However, it has touched all aspects of people's lives. The existence of Fin-Tech at this time in Indonesia makes it easier for people to access financial products and make it easier for people to transact. The financial services authority regulation number 77 / PJOK.01 / 2016 states that information technology-based money lending services are providers of financial services that bring lenders together with loan recipients in order to make agreements in rupiah directly through electronic systems using the internet network. If this is the case, then BMTs in South Sulawesi need to apply smart technology based on digital so as not to lose market share.

Therefore, the use of Fin-Tech is expected to be able to touch BMTs in South Sulawesi in order to develop Islamic finance, of course the sharia vocabulary must be re-examined, especially on sharia transactions in accordance with the demands of the Qur'an and Hadith. On the other hand, amid the current limitations of human resources, BMTs can also work together with Fin-Tech startups in order to improve the quality of its technology. Because the business potential that is harmonized through Fin-Tech will make it easier for people to provide services in electronic money, virtual money, and others. Fin-Tech in Islamic finance will provide a good picture and service digitally. However, it must also be known that the performance of BMT HR will also affect the presence of Fin-Tech.

## **IT-Based Management**

The global changes in business conditions have spawned a variety of IT-based business giant in the field of transportation, travel, property, trade, and finance. The information technology revolution supported by internet literacy has encouraged business managers who master IT to be superior. For example, an online application company without a vehicle unit can determine the cycle of taxi business in various parts of the world. In the context of microfinance, the practice of online cooperatives and non-office banks is a model that can be replicated in the management of BMT.

IT-based BMT management will certainly be colored by various uses of software and internet networks so that it will provide space for efficiency and effectiveness. In 2017 several BMTs in South Sulawesi have been innovating with the creation of application-based transaction services. However, it needs to be emphasized that the characteristics of BMT that will never be eliminated are the concept of economic democracy in capital ownership even though meetings and services are already IT-based (PINBUK South Sulawesi, 2017).

The use of IT in BMTs has been following developments in banking technology such as ATM card usage services and integrated savings accounts. Most BMTs in South Sulawesi are financial institutions on a small and micro scale, so they have not been able to build a large-scale financial IT system such as banking and capital markets. Banking technology has used an automation level that requires a large investment value beyond the scope of BMT. If the BMT in South Sulawesi wants to implement financial services to customers, such as electronic money and ATM cards must work with Islamic banks with adequate IT capabilities. Regulations from the government through the Indonesian central bank, the Financial Services Authority, and the Ministry of Cooperatives and MSMEs have not provided space for BMTs to expand on the transaction lines (FDG, 2018).

Indeed, the BMT business model that is managed with sharia principles and cooperative identity, will form a strong community-based economy, so it will be difficult to compete. Community-based economic transactions are not rivals or competitors from bank financial institutions and credit unions. This condition is caused by a strong bond of solidarity among members. Community-based economies will reduce the rationality of the perpetrators due to psychological comfort of members, at the stage of awareness of making choices at a certain level. With the conditions of regulation, the availability of capital and the interests of members, future changes in BMTs are towards branch less and online systems. BMTs will use information technology and the internet system as the infrastructure that drives performance and reduces various operational costs.

The independence of BMTs will be maintained if the main capital of principal, mandatory, savings and member deposits become the main source of financing. BMTs are not trapped with large assets that are driven by excessive financing (third party funds) that are excessive. External financing can come from Islamic banks, BMT associations, or even angel investors from abroad with good IT systems. When BMTs

are supported by excessive external funds, their independence will be lost and become a tool linkage for community members. Strengthening the main capital from the internal sectors should be improved by providing good financial planning education. BMT members will know that awareness of saving is a top priority for raising BMTs and helping other members (Interviews with Jafar Aras, 2018).

Making IT systems for BMTs online will cover funding, financing and service activities for customers. The expansion of the use of IT BMTs will not lead to rivalry with other banking institutions, financial services and financial business platforms with a corridor of Indonesian law and regulations. The presence of IT usage will actually encourage the ease of their members. IT presence will also reduce operational costs, transaction effectiveness and monitoring among members. The presence of online and real time information technology cuts the number of employees and operational offices. So that the cost will be efficient in the long term that can be allocated to other fields. BMTs that develop online will employ more educated and professional personnel in the IT field.

## **Conclusion**

The theory and method of data collection used to examine the red zone for the development of BMTs in South Sulawesi were very limited so it so deficient in analyzing the problem risen. In analyzing that problem, three main points were derived from the concept of globalization according to Scholte and Bartelson, namely the impact of financial sector digitalization, digital transformation and IT-based management under the support of very limited data.

The result found that if BMTs in South Sulawesi are unable to adapt to IT in serving the community in this globalization era, they will lose their market share so that the development conditions must be in the red zone. This should not be allowed to happen because they are as the front guard in moving the economy of the people in the rural area. Because of this, it is suggested to the next researchers to refine the results of this study, so that the red zone for the development of BMTs in South Sulawesi specifically and in Indonesia in general, can be accurately ascertained so that it can be completed properly and correctly.

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