



Tropentag, September 19-21, 2012, Göttingen -
Kassel/Witzenhausen

“Resilience of agricultural systems against crises”

The Role of Islamic Micro-Finance Institutions on Poverty Alleviation and Environmental Awareness in Indonesia

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Abstract

Micro finance institutions have expanded in Indonesia as well as in large parts of the world. The expansion of micro finance programs has been reviewed as an effective means of empowering poor people, smallholder farmers and entrepreneurs relying on the agriculture sector. At the same time, the Islamic micro finance institutions (IMFI) have well developed to support financial schemes, particularly in rural communities during planting periods. However, the nexus between Islamic micro finance, poverty reduction and environmental awareness has remained largely unexplored.

This study examines the role of Islamic micro finance on poverty alleviation and environmental awareness in Indonesia. The data analysis is based on randomly collected primary level data from three different areas, including: lowland, coastal and mountain areas (180 respondents) using standardized questionnaires, focus group discussions and multistage approaches. In advance, an in-depth literature analysis of the role of Islamic micro-finance to eradicate poverty and increase the environmental awareness has been utilised. The preliminary findings a) give strong evidence that Islamic micro finance has positive effects on improving the welfare of the recipients compared to the control group (90 respondents); 93.3 % of 90 entrepreneur respondents said that their welfare improved after adopting Islamic financial schemes. b) Despite these positive impacts, Islamic micro finance does not affect significantly the environmental awareness although it has contributed positively to the well-being of the poor in general. c) It is captured that litter straggles along the coast and local people do not care about the hygienic quality of their food due to lack of social training on environmental issues. 66 % of 90 (IMFI) entrepreneur respondents did not receive such training on ecological sustainability from the institutions. Nevertheless, Islamic micro finance institutions are concerned about environmental issues but they do not have a mandate to enforce the environmental awareness and the behavior. This would be the task of the local, regional and national governments. The potential role of Islamic micro finance systems in poverty reduction and environmental training should be investigated at larger scale.

Keywords: East Java, environmental awareness, Indonesia, Islamic micro finance, poverty alleviation