

Investigating Sustainability of Social Enterprises in Vulnerable Regions: The Case of Baitul Qiradh Baiturrahman in Aceh

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Abstract

This paper aims to provide empirical evidence on the ability of organization to survive and continue their operations in providing financial services for poor people in vulnerable regions resulting from separatist rebellions, military operations and/or natural disaster. This study departs from the assertion that organization respond to their environment on the basis of perceived problems or concerns. The paper builds on a qualitative case study at the *Baitul Qiradh* (House of Loan) *Baiturrahman* (BQB) in the specific territory of Aceh, Indonesia. This study examines how BQB can survive and grow despite operates in the difficult socio-economic and political situation, with no support and supervision from the government. Therefore, the paper presents the descriptive development of BQB from its emergence during the conflict, its growth during the post-conflict period and its resurgence after the tsunami disaster that had affected the lives and livelihoods of millions of Acehnese. Through the adoption and analysis the various stages of the organisational life-cycle, this paper provides evidence that sustainability organisation operates in vulnerable areas such as during war and/or post-natural disaster is dependent on the context specific factors such as history, socio-cultural aspect, and the politico-economy situation.

Keywords: Sustainability, social enterprise, vulnerable area, Islamic microfinance, *Baitul Qiradh*

1. INTRODUCTION

Social enterprise (SE) is considered as a hybrid institution as it pursues both social and commercial goals (Dart, 2004; Cornforth, 2011). Driven by social purposes, SE is considered as a new way of running a business in achieving self-sufficiency, financial independency as well as creating social value (Alter, 2007; Leadbeater, 2007). As stated by the founder of the Grameen Bank, Muhammad Yunus “social enterprise is not a charity. It is a business in every sense. It has to recover its full costs while achieving its social objective...” (Yunus, 2007: p.22).

SE has been practised across the globe (Kerlin, 2006; Alter, 2007) and become the new economic engine for social change (Harding, 2004). In the UK and the US, SE plays a significant role in improving social welfare and the green environment, while in the global south such institution helps in providing public goods to overcome poverty (Nicholls, 2009). SE as a topic has gained popularity among scholars (Short et al., 2009; Zahra et al., 2009). Literature on SE largely focuses on the initiative in creating SEs (Cohen and Peachey, 2015; Sekliuckiene and Kisielius, 2015) and exploring the motivation for individuals becoming social entrepreneurs (Neck et al., 2009; Braga and Ferreira, 2014). Scholars have proposed a conceptual framework for the development of social entrepreneur initiatives (Perkmann and Spicer, 2008; Sekliuckiene and Kisielius, 2015) or model for the process of institutional entrepreneurship (Battilana et al., 2009).

However, there is a dearth of literature exploring how such institutions evolve and continue their operations, with the exception of Battilana and Dorado (2010) and Dorado (2013). Both papers discuss how microfinance institutions (MFIs), the case of BancoSol and Los Andes transform from a not-for profit organisation into a business model and regulated institution. Being a commercial institution, MFIs benefits from gaining legitimacy to mobilise funds from society, enhancing their ability to attract savers and borrowers as well as acquiring access to commercial capital markets to broaden the financial structure (Campion and White, 1999; Hishigsuren, 2006). Such transformation

enables MFIs to achieve financial sustainability to support the continuation of their operation in the long run. However, in becoming more commercialised, MFIs often experience mission drift from the social goal of providing financial services for poor people (Mersland and Størm, 2010).

Similar to Battilana and Dorado (2010) and Dorado (2013), this paper seeks to understand how *Baitul Qiradh Baiturrahman* (BQB), a pioneer of Islamic MFIs (IMFIs) in Aceh, is still able to provide financial services to micro-enterprises for more than 20 years without transforming into a commercial institution. Unlike BancoSol and Los Andes, BQB operates within an unregulated environment and with no adequate supervision and support from the authorised body. Moreover, while both papers only focus on a particular stage of the organisation's life, this article goes further in discussing the emergence, development and resurgence of BQB, following the organisational life-cycle as suggested by Jawahar and McLaughlin (2001). Therefore, this paper aims to investigate how BQB survives despite operates during the difficult situation resulted from relentless conflicts with no supports from the government, and particularly they were able to wake after the tsunami that devastated the majority parts of Aceh, including the BQB. The contextual situations are discussed to describe the different challenges encountered by BQB in various stages of their life-cycle. The remainder of this paper is structured as follows. It begins with outlining IMFIs and sustainability issues encountered by MFIs, followed by a discussion of the research method. Next, there is a presentation of findings and discussions of these and in the last section offer the conclusions.

2. THE IMFIS AS A SOCIAL ENTERPRISE (SE)

MFIs provide a wide range of financial services on a small scale and are dedicated to helping a poor people who are forsaken from formal banks. The loan provided is utilised as initial capital to start productive activities which make it possible to generate income (Weiss and Montgomery, 2005). Thus, the main aim of MFIs is to create micro entrepreneur and enable them to become financially independent. Empirical evidence across the globe reveals that MFIs have positive impacts in improving social welfare, empowering the poorest people and ultimately reducing poverty (Banuri, 2006; Brau et al., 2009; Aigbokhan and Asemota, 2011). For this reason, MFIs are considered as an imperative tool in alleviating poverty in Muslim countries since almost half of the world's poor population reside in Muslim countries (Obaidullah, 2008a). IMFIs emerge and develop to meet the demand for financial services based on *shari'ah*/Islamic law (Karim et al., 2008).

IMFIs share the characteristics of conventional MFIs : they provide financial services on a small scale (Aubuchon and Sengupta, 2008) for low-income people (Ruit and May, 2009) and do not require collateral (Cull et al., 2009). The distinctive feature of IMFIs is that they are dictated by Islamic principles that strictly prohibit *riba* (interest) in financial transaction due to their exploitative and unfair reasons. Thus rather than being interest-based, IMFIs are interest-free and adopt profit and loss sharing formula (Mirakhor and Zaidi, 2007). Some observations in a number of Muslim countries such as Bangladesh, Turkey and Indonesia found that services provided by IMFIs comprising of credit, training in business skills and technical assistance significantly support the growth of small enterprises and micro enterprises in those countries (Obaidullah, 2008b).

The microfinance sector is inhabited by multiple forms of organisations, from for profit organisations, not for profit organisations and cooperatives (Mersland, 2009). Regardless of the organisational forms, there are two aspects embedded in MFIs : the social aspect that is reflected in their objective to empower poor people through providing financial services and the enterprise aspect whereby the economic activities that have potential to generate income (Sriram, 2012). This feature is more akin to the characteristic of SE which is "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners" (UK Department of Trade and Industry, 2002: p.1). Since the objectives of SE straddle between creating social value and economic value, SE obscures the traditional boundaries between public, for profit and not for profit sector" (Jelen, 2009). Given that MFIs share the distinctive characteristics of SE, therefore MFIs, including IMFIs, can be classified as SEs.

3. THE SUSTAINABILITY OF MFIS

In the context of microfinance, sustainability is defined as "the ability of microfinance provider to cover all cost. It allows the continued operation of the microfinance provider and the ongoing provision of financial services for the poor" (CGAP, 2004: p.1). The issue of sustainability in MFIs became paramount following the closure of numerous MFIs in the US, Latin America, Nigeria and Malawi due to their inability to obtain a sufficient number of clients, the high level of default rate and high dependence on subsidies (Bhatt and Tang, 2001; Pollinger et al., 2007). Thus, research on sustainability in MFIs is urgently required to help in identifying factors that may contribute the continuation of their operations. As Schreiner (2000: p.425) suggests, "unsustainable microfinance organisations

might help the poor now, but they will not help the poor in the future because the microfinance organisations will be gone”.

Most of the studies on sustainability of MFIs focus on measuring the level of financial sustainability related to subsidies, their ability to reach more clients and their impacts on the community (CGAP, 2004; Kremer and Miguel, 2007; Doshi, 2010; Kinde, 2012), whereas the concept of sustainability itself has to be broadened beyond the financial issues. Hence, a framework of different aspects of sustainability is introduced : organisational, benefit, demand, mission, regulatory framework, and ownership (Mahajan and Nagasri, 1999; Doshi, 2010). Learning from the failures of MFIs, factors posing challenge to sustainability are also identified (Adongo and Stork, 2005; Aveh et al., 2013; Britzelmaier et al., 2013), such as unstable legal status, lack of resource funds and restriction for business expansion. With regards to MFIs, a number of such institutions were reported to be bankrupt and ultimately forced to close due to internal mismanagement (Seibel, 2004). This suggests that sustainability issues should be seen comprehensively, not only in terms of financial performance but also social impact such as empowering participants to become successful entrepreneurs. Therefore, this paper broadens the concept of sustainability as “the capabilities to survive in crisis situation during its life cycle..” (Putnik, 2009: p.261) and bring the contextual factors in assessing the sustainability of MFIs. This is because the major constraints of MFIs operating in unstable circumstances such as in refugee setting or post-civil war are often related to the socio-political process that evolves in that particular areas (Morais and Ahmad, 2011). In exploring sustainability, this paper adopts the organisational life cycle as this model has empirically provided evidence of the predictability of organisational transformation from one stage to another (Moore and Yuen, 2001).

4. ORGANIZATIONAL LIFE CYCLE

Organizational life cycle approach has been used to predict the design, development and behaviour of organization (Quinn and Cameron, 1983). Scholars propose different models of organizational life cycle, but the development of organization may follow uniform patterns (Smith et al., 1985). In general, the life cycle of typical organization consists of four phases : start-up, emerging growth, maturity and revival (Jawahar and McLaughlin, 2001). The start-up stage is the development and implementation business plan with dominant concern in obtaining initial financial source, introducing product or services and entering the marketplace. Hence, the crucial problems that threaten the organizational survival are securing financial resource and gaining customer acceptance for the product or services they offered. The emerging growth stage is a period when a firm achieve a certain degree of success in overcoming the survival problem. During this stage, company is actively seeking for expansion opportunities, followed by increasing new investment, number of employees and customers. The typical problems faced are matching demand increases, maintaining cash flow as well as formalizing organizational structure. Despite these needs may be significant, but these problems are unlikely critical enough to threaten the sustainability of organization. The mature stage is characterized by the overconfidence of succeed but slowing in the rate of growth. This stage is often attended by strong cash flows, excess cash and the absence of critical needs. The last stage of organisational life cycle is a period when the demand for products or service declines sharply that prompt the management to consider new strategies to ensure the organizational survival. Although organizational decline is considered as part of organizational life cycle, but none models concerned with this stage (Quinn and Cameron, 1983). This may be because there is little consensus on the definition of organizational decline (Whetten, 1987). Moreover, many organizations revert to the earlier stage of development after they achieve maturity stage (Quinn and Cameron, 1983). Furthermore, there is gap in the literature on the length of time organization in particular stages. This suggests identifying organizational development should consider the specific context in which organisation operates.

5. RESEARCH METHOD

This study focuses on sustainability of BQB by exploring the development of such institution from the emergence, growth and resurgence over the period from 1995 to 2012. BQB operates in Aceh which is believed to be the most devout Islamic region compared to the rest of Indonesia. Aceh is well known as *Serambi Mekkah* (Verandah of Mecca) and remains the only one province in Indonesia that applies Islamic law (*shari'ah*) (Milallos, 2007). Aceh has had also experienced of conflicts for more than 30 years resulting from the rebellion against the Indonesian state (Grayman et al., 2009). Such historical and political junctures have constructed the Acehnese characteristics, culture and live (Thalang, 2009). For the purpose of this paper, therefore case study is deemed the most appropriate method to investigate the sustainability of BQB.

Following case study design from Yin (2009), this study is conducting in a number of stages: selecting case, gaining access to the research's site, interviewing, observing, analysing and reporting. Due to high number of *Baitul Qiradh* (BQ) that exist in Aceh, thus purposive sampling was adopted (Merriam, 2009) to select a case by establishing two

criteria : has been operated for more than 10 years (CGAP, 1995) and has asset for more than 1 billion rupiah (INKOPSYAH BMT, 2011). Through an internet survey two BQs met such criteria, but only the address and contact number of BQB was available. Then key informant for gaining access to BQB was obtained through Facebook. Once access to BQB was acquired, the field research was conducted for 10 days during office hour from 9.00 am to 5.00 pm. The interview guide was prepared, draft, re-draft and revised several times. During the development, pilot test was also conducted through phone interviews with volunteers of Islamic MFIs in West Java and Aceh. A series of interview was conducted in a natural setting through informal conversation with ten interviewees comprising one of the founders, a member of the boards, managers, employees and customers of BQB. An interview appointment with the founder and member of the board had to be made as they were not at the BQB's office most of the time. For managers and employees, the conversation was started when they appeared to be free from their duties. The interviews were recorded through both voice recorder and video recorder with the interviewee's permission. A number of documents such as the company's profile, organisational structure and annual report were also obtained during the interviews. All the interviews were transcribed manually by the researcher herself. This study also conducted observations on how BQB are providing financial services, including collecting savings directly from the stalls of small traders in the traditional market. During and after the observations, the researcher wrote what they had seen and experienced or called fieldnotes. The fieldnotes were written everyday describing the activities during the day, what happened and which people were involved in these activities; including the researcher's impressions and reflections on the data collected. In analysing the data, this study expands three major processes of analysis as suggested by O'Dwyer (2004) into four stages : 1) integrating data from interview's transcriptions, fieldnotes and documents, 2) linking data to research questions, 3) identifying key terms for further explanation and, 4) interpreting data. In the early stage, NVivo software was utilised for the coding process then interpreted using narrative analysis to create the story of this study.

6. ANALYSIS AND FINDINGS

The analysis begins with setting the scene on how Aceh becomes the most vulnerable areas in Indonesia in terms of political and geographical aspects. Introducing the setting of this study helps in understanding the politics and socio-economics factors that pose varying degree of uncertainty for an entity, and ultimately affect the sustainability of such institution. This is followed by a narrative of how and why BQB was established, and then continuing with its growth. However, BQB has not evolved into the maturity stage which is characterised by overconfidence of success and excess of cash flow (Jawahar and McLaughlin, 2001) due to the tsunami that have devastated Aceh's infrastructure. BQB was reactivated by the founders a few months later through support from local and international non-government organisations (NGOs)

6.1 Aceh: the special territory

Nanggroe Aceh Darussalam or Aceh is considered as a vulnerable areas for two reasons. First, from its geological structure, whereby the western coast of Sumatra, including Aceh is located on the subduction zone (Rusdi et al., 2015). Therefore, the Acehnese frequently experiences earthquakes but the most powerful earthquake followed by tsunami was one on 26 December 2004 which hit Aceh; more than 167.000 people died, 500.000 people were displaced and it devastated a major part Aceh's infrastructure (Pearlman, 2014). The tsunami changed the economic situation in Aceh after that, following a massive recovery assistance provided by local and international donors. Second, politically and historically Acehnese has been traumatised resulted from the relentless conflicts (Crow, 2000) since Dutch colonialism. Being a centre of Islamic learning during the 16th and 17th centuries had led to Aceh's resistance to external authorities (Noor, 2004). Therefore, the attempt by the Dutch to conquer this region resulted in the great Aceh war which dragged across three decades (Noor, 2004). Following Indonesia's independence in 1945, Aceh continue to exhibit their resistance to the central government of Jakarta through the *Darul Islam* rebellion which was aimed at establishing an Islamic state. It started in 1953 and ceased after the central government in Jakarta promised to provide special autonomy status to Aceh in 1961 (Sukma, 2004). However, such promises were never fulfilled. Hence, a separatist rebellion movement called *Gerakan Aceh Merdeka*/GAM (Free Aceh Movement) emerged in the 1970s. For the sake of political stabilisation, the Indonesian government under General Suharto who came into power in 1965 imposed a military approach to oversee Islamic activities and repress separatisms (Effendy, 2003). The GAM was defeated in 1977, but was revived in 1989. To suppress this movement, the government mobilised military force extensively and designated Aceh as a special military operation area or *Daerah Operasi Militer*/DOM (Sukma, 2004). Throughout the period of the conflicts in Aceh, the cost of struggle has been high. Thousands of Acehnese civilians have been killed, lost, tortured, raped and left orphaned (Crow, 2000). After Suharto stepped down in 1998, the DOM's status on Aceh was released and about 15,000 Indonesian military forces were withdrawn from this province. This was followed by the government conferring the status of "special region of Aceh" with authority to implement *shari'ah* principle in 1999 (Grayman et al., 2009). Effort to build peace in Aceh was reached after the 2004 tsunami

through signing of a peace agreement between GAM and the Indonesian government in 2005 (Noor, 2004). Overall, the conflicts and natural disaster altered Aceh's landscape in terms of politics, economics and socio-culture.

6.2 The establishment of BQB during the conflict

While the majority of IMFIs in Indonesia were established from grass root initiatives, the establishment of IMFIs in Aceh, including BQB was considered as a political will to improve the relationship between the central Indonesian government and Aceh. This was made possible through the role of *Ikatan Cendekiawan Muslim Indonesia/ICMI* (Association of Indonesian Intellectual Muslim). ICMI was the first broad-based organisation of Muslim that established after Suharto provided permission aimed at poverty alleviation and improving education in Indonesia. Later, ICMI played a significant role in influencing Suharto's policy towards Islam in Indonesia.

IMFIs in Aceh developed from embryonic beginning when 30 young-male Acehnese from different regions of Aceh were invited to attend basic training on the establishment of IMFIs in Jakarta during May 1995. They were funded by the Aceh provincial ICMI and ICMI at the municipal level. The training was provided by the PINBUK/*Pusat Inkubasi Bisnis Usaha Kecil* (the centre for small business incubation) who actively proliferated IMFIs throughout Indonesia. PINBUK was an autonomous body under the supervision of the central ICMI Jakarta.

"To the best of my knowledge, the idea of providing such training was to deploy the concept of Islamic bank on a small scale by establishing Islamic financial institution that can reach customers in remote areas. As we know, at the time Bank Muamalat, the first Islamic bank in Indonesia was only available on Java Island. Therefore, we were required to establish the miniature version of Islamic bank in our hometown" (BQ06, the founder and member of the boards)

The training was followed by apprenticeships in a number of existing IMFIs in Greater Jakarta had provided the trainees with a basic knowledge of fundraising and administering loans as well as bookkeeping. After completing the training, they were required to prepare a proposal for the establishment of MFIs. The proposals were presented in a meeting attended by the Governor of Aceh and the chairmen of ICMI at the provincial and municipal level. At this meeting, the provincial government and the participants committed themselves in establishing IMFIs throughout Aceh as an attempt to boost economic growth there through providing financial access for those on a the low-level income. Following the meeting, the administrator of ICMI Aceh prepared the establishment of IMFIs in a number of places, primarily in mosques at district level to facilitate the socialisation process in the community. Since the 1990s, there had been a crisis of trust among Acehnese towards the government and they refused to support any of the government's programmes. Hence, Islamic financial institution created and developed through the mosques and their *ulama* (Islamic scholars) were deemed as an appropriate starting point in establishing IMFIs. Furthermore, the Acehnese's have high regards on *ulama* rather than the government and hence if the *ulama* provide their blessing to the IMFIs program, it was expected to succeed as society was willing to follow their *ulama*'s suggestions.

Moreover, ICMI also took initiative to introduce this idea among the *ulama* (Islamic scholars) in Aceh. During the biggest annual gathering of *pesantren* or *dayah* in the Aceh language (Islamic boarding schools), a prominent *ulama* from Aceh Barat (West Aceh) proposed the term *Baitul Qiradh* to be used as a designation for IMFIs in Aceh.

"While in Java and other regions in Indonesia use the term of Baitul Maal wat Tamwil/BMT to address IMFIs, we have a unique term, called of Baitul Qiradh (BQ). Qiradh was rooted from Qard al Hasan (benevolent loan). The reason was because the term has been known by those studying fiqh (Islamic jurisprudence) in Aceh. Adopting a familiar term will facilitate in introducing this program to society"

It was Mr. SH, an activist of *Baiturrahman* Grand Mosque who was appointed by ICMI Aceh to prepare the establishment of BQB in the greatest mosque and icon of Aceh.

"Once I was appointed, I approached Mr. IS, an Islamist activist and a successful businessman as a candidate for the chairman of BQB. However, I heard that the imam (chief) of Baiturrahman seemed to disagree with the ICMI's proposal to establish BQB in the mosque. Then, ICMI changed the strategy by providing a mandate to the imam to prepare the establishment of BQB. Then, I followed the strategy of ICMI to find a suitable candidate who could be accepted by the imam. Then, I proposed Mr ZA, one of relatives of the imam. The imam and Mr ZA agreed and suggested to coordinate with the secretary of the Baiturrahman" (BQ06, the founder and member of the board).

To prepare the establishment of BQB, they appointed a number of people to become the administrators and management of BQB. Later, on 8th July 1995, the founder and chairman of ICMI Jakarta officially inaugurated the establishment of BQB, along with 49 other BQs in the *Baiturrahman* Grand Mosque. To start their operation, ICMI provided the initial capital for each BQ of 2 million rupiah or about US\$ 145¹. After three months, on 2nd October 1995, BQB started its operation.

6.3 The growth phase: post-conflict

At first, BQB only offered saving product. BQB received innumerable support from *ulama* of the Grand Mosque as the *ulama* introduced the concept of an Islamic bank which strictly prohibited *riba* (*interest*). During the *ceramah* (religious talks) after prayers, they encouraged the *jamaah* (people who perform prayers in the mosque) should deposit their money at the BQB. As a result, after a few months BQB succeed in mobilising enough funds and started introducing funding products, namely *Bai Bithaman Ajil* (deferred payment sale) and *mudharabah* (profit sharing).

Moreover, the management of the Grand Mosque was also provided with a donation of 16 million rupiah; 10 million from the grand mosque's cash and 6 million from the administrator individually. However, the demand for funding/loan increased slowly beyond the ability to collect savings. Since BQB and BQs had operated without funding support from the government or donors, it was not surprisingly that among the 50 BQs inaugurated in 1995, only about 50% of them were able to continue their operations. In an area called Pidie, the 17 BQs were closed due to lack of commitment from the administrator and management in providing services for the poor people. Therefore, the founder said:

“During the first two-years, I approached different groups intensively from media, education institutions, leaders of political parties and members of parliaments to provide their support. I encouraged them how as Moslem could help the poor people through depositing their money at BQB. The money will be distributed as loan for additional capital for poor people to expand their small business” (BQ06, the founder and member of the board).

By adopting such an approach, BQB gradually succeeded in mobilising funds and distributing the loan for poor people in the community. The BQB started to grow in terms of number of clients, saving and loans. However, after being in operation for only two years, Indonesia was badly affected by the 1997/1998 financial crisis. The purchasing power of society plunged significantly; people could not afford to buy anything, even their basic needs. As a result, the goods sold by the traders were unaffordable. Since these traders make up the majority of BQB's client loans, they were unable to repay their credit. The delinquency rate was high, they went bankrupt, and many of the businesses have to be closed as they could not repay the loan. The situation got worse from 1999 following the repeal of Aceh status as DOM.

“During the conflict, many people migrated to Banda Aceh which was considered as the safest area and did business as traders. When the conflict ended, the clients returned to their kampong/villages without giving any notice and left unpaid debt to BQB. We lost a significant amount of account receivable because we could not trace where they had gone” (BQ1, the director)

“Occasionally, members of GAM visited our office and force us to buy their gasoline. We tried to explain that BQB was an institution dedicated to help poor people, but they did not want to know. They insisted on asking for some money and asserted that they were fighting for the independence of Aceh. At the end, we always surrender and gave in to them” (BQ02, the head of branch).

Despite operating in difficult political and socio-economic situation, BQB still managed to continue their operations in providing financial services for people who needed it using the remaining funds available. At the same time, they strived to increase public saving and these were distributed as loans.

“We felt fortunate that we could get through the tough times. We believe that we still survive because of the sincere prayers of the jamaah the Baiturrahman grand mosque” (BQ02, member of supervisory boards)

¹ 1US\$ = Rp. 13.854, per 20 January 2016

Moreover, due to their persistency in helping poor people, BQB received funds of about 110 million rupiahs or almost US\$ 8,000² from the three state-owned companies in 2001 as part of their corporate social responsibility activities. With such injection of additional capital, BQB continued to grow. During the period 1995-2004, they succeeded in acquiring 600 memberships, their assets reached 350 million rupiahs, the saving was about 155 million rupiahs and they have distributed loans of 109 million rupiahs.

However, this success story did not last long. A massive earthquake followed by tsunami on 26 December 2004 hit Aceh, causing the death of hundreds of thousands people and devastated the majority of vital infrastructures. Aceh was in deep mourning without hope, no one knew how they could continue their live. The *Baiturrahman* grand mosque was one of the buildings that steadily stood during the tsunami. However, the lower part of the building was flooded, including the BQB office which was located in the north part of the mosque.

6.4 The revival phase: post-tsunami disaster

A month after the tsunami, the founder of BQB Mr. SH and the director, Ms. NF made a contact and sought information to trace staff members who had evacuated to their family homes or refugee shelters. Fortunately, all the administrators and staff of BQB had survived, but most of them lost their family members and livelihood. They were sceptical whether the BQB could operate once again as office building was damaged and all furniture, office equipment, and documents had been swept away with the flood with nothing left. Furthermore, about 10.5 million rupiahs in the safety box of the office building had also been stolen.

It was the director of BQB who actively strived to re-establish the organisation. Supported by other staff, she started to identify BQB's clients and made contacts with banks to access the existing funds of BQB. About 75% of their debtors had died or were unable to be traced. However, they still had bank deposits of about 32.3 million rupiahs or almost US\$ 2,330³ that could be utilised for the initial capital. At the same time, the BAZNAS/*Badan Amil Zakat Nasional* (the National Zakat Management Body) created a programme of livelihood recovery to provide financing in disasters area. The director of BQB was contacted by BAZNAS who committed to provide capital injection of 605⁴ million rupiahs or about US\$ 43.670. BAZNAS also invited three members of staff from BQB to attend training on Islamic microfinance in Jakarta. Moreover, BAZNAS also provided funds to renovate the building and donated office equipment, furniture as well as computer with application software suitable for financial institutions. After not operating for two month, BQB re-started their operation on 17th March 2005 and it was officially inaugurated by Mrs. Mufida Jusuf Kalla, the wife of the vice-president.

“Once BQB was re-opened, a number of depositors visited our office and claimed their deposit at BQB. We understood that it was not our money and we had known them for a long time, so we trusted them. For the sake of accountability, we asked them to provide an affidavit and stated the amount of their deposit, and then we could release the money. Therefore, a large portion of the initial capital from BAZNAS was utilised to pay the depositors. On the other hand, a number of honest debtors also came forward and made instalment payment towards settling their loan. Funds from such payments could then be distributed as loans. This was the way BQB still survived” (BQ1, the director)

Post-tsunami, Aceh was flooded with hundreds of national and international agencies that helped to rebuild the infrastructure and for Acehnese to recover their livelihoods, among others through microfinancing programs. The ILO (International Labour Organisation) offered a grant of about 550 million rupiahs or about US\$ 36.000 and they required the BQB to establish a branch office in the shattered location affected by the tsunami. People were provided loan of 2-3 million rupiahs or about US\$ 144-216 to start their businesses. However, after operating for a few months BQB decided to close the branch office as the head of the branch said :

“The tsunami has changed community's behaviour since house, food and other basic needs were provided for free. It caused the survivors to be highly dependent on aid rather than doing productive activities. Therefore, any loan that the BQB distributed was considered as a donation and they did not want to repay. The branch of BQB could not continue their operation as there was no repayment and they could not afford to fund the operational cost” (BQ6, the founder and member of the boards)

^{2,3,4} 1US\$ = Rp. 13.854, per 20 January 2016

The governmental body for the reconstruction of Aceh and Nias called BRR/*Badan Rehabilitasi dan Rekonstruksi* (Reconstruction and Rehabilitation Agency) also provided microfinancing programme. Among 50 BQs established in 1995, there were only six BQs that survived before the tsunami. Therefore, to boost the economic recovery, BRR donated 3 billion rupiahs or about US\$ 216.000 for each BQ and cooperatives. Since the grant involved a large amount of money, a number of new BQs started to emerge and succeed in accessing BRR's grant. Like the ILO's programme, BRR grant was also unsuccessful.

"BRR forced us to distribute loan as much as we can. BRR dictated the BQB should dispense all the funds within a certain period. Therefore, they only focused on the amount we distributed and neglected the capability of clients to repay the loan. On many occasions, BRR provided a letter of recommendation asking BQB to give credit to the bearers. Furthermore, BRR also required BQB to distribute loans for people who stayed in refugee shelters. Once their house was rebuilt, they returned to their homes, we did not know their address; so we could not collect the repayment" (BQ8, head of the branch3).

During the period of post-tsunami 2005-2008, BQB also received grants from a number of other local donors: the Indonesian Ministry of Cooperatives provided 500 million rupiahs, the Indonesia Clean Energy Development and the Aceh Relief Fund both donated 250 million rupiahs. However, the fund was not managed effectively by the BQB as the donors had intervened in deciding the clients and setting a particular lending system. In addition, society perceived a loan/credit as a donation, so they did not think that they were required to repay it. As a result, the majority of loans were uncollected.

Starting from 2008, most donors' agencies left Aceh. The BQB no longer received grants or donations and this forced them to obtain commercial funds. They encouraged different groups to deposit their money with them, developed a number of services to facilitate their customers and established branches near the traditional market to be closer with the clients. They also established a network and cooperation with banking sectors and individual investors. Through all their hard work, BQB has managed to establish three branches, the number of administrators and staff has reached 20 people, they have distributed credit of more than 5 billion rupiahs and the assets reached more than 12 billion rupiahs.

7. CONCLUSIONS

This paper highlights the sustainability of IMFI with references to BQB, their ability to survive and continue providing financial services for low-income people for more than 20 years in vulnerable areas such as in Aceh. The BQs were established with a limited support from the ICMI as an effort to improve the relationship between Aceh and the Indonesian government. During the first stage of their establishment, the main challenge of the BQs that might affect their sustainability was gaining support from the society. In this stage, the *ulama* play a significant role in introducing the concept of Islamic banking that has adopted by the BQB and encouraging the *jamaah* to get involved in developing Islamic economic by saving their money to such institutions.

A few years later, the majority of BQs were closed due to inability to obtain enough funds to continue their operations, mismanagement or went to bankrupt. However, the BQB exhibited their ability to grow as the number of depositors increased significantly, so could raise the loans they distributed. During this stage, the financial crisis 1997/1998 hit Indonesia and caused the decreasing ability of BQB's debtors in repaying their loans. From 1999, the BQB was also lost a great number of their debtors as they migrated to their hometown following the repeal of DOM's status in Aceh. As a result, the BQB lost significant amount of account receivables. In order to maintain their sustainability, the management of BQB encouraged their debtors to deposit more money and diminished the demand for loans. These efforts succeed in recruiting more debtors, increasing their assets and distributing more loans. However, the earthquake and tsunami on 26 December 2004 had devastated the majority part of Aceh, including the BQB. The management of BQB committed to re-operate the organisation and after a vacuum for two months the BQB was re-established with grants or donations from the international and local donor agencies. However, the funds from such grants could not be managed efficiently by the BQB as the donors intervened and dictated the policies in distributing loans. As a result, a large amount of loans could not be collected. Started from 2008 when the donor agencies left Aceh, the BQB no longer enjoys funds from grants or donations. Therefore, they implemented strategies by broadening networks with banking sectors and other companies to support their sustainability.

This paper demonstrates how specific context in which the organisation operates affect their operations. It also illustrates how historical, political and socio-economic changes also have impacts on the different stages of the organisation life-cycle. This suggests that assessing sustainability should taking into account the contextual factor in which organisation operates.

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