ANNUAL INTERNATIONAL CONFERENCE
On Religious Moderation
e-ISSN: 3046-9775
by Universitas Islam Zainul Hasan Genggong

MODERATE ISLAM, INCLUSIVE FINANCE: A QUALITATIVE MULTI-SITE CASE STUDY OF ISLAMIC MICROFINANCE INSTITUTIONS IN EAST JAVA, INDONESIA

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Abstract:

Faith-based financial institutions occupy a critical yet analytically underexplored role as agents of inclusive development, particularly within Muslim-majority societies navigating the dual pressures of religious polarization and socioeconomic marginalization. This study examines how moderate Islamic values as institutionalized within Nahdlatul Ulama-affiliated pesantren networks and cooperative traditions in East Java, Indonesia shape the organizational culture, lending practices, and social outreach of Islamic microfinance institutions (IMFIs). Adopting a qualitative, constructivist, multi-site case study design, the research draws on semi-structured in-depth interviews with 38 participants comprising institutional directors, field credit officers, and loan beneficiaries, supplemented by non-participant observation and documentary analysis conducted between January and July 2024. Three purposively selected IMFIs operating in Surabaya, Jember, and Malang served as the empirical sites, collectively representing the geographic, demographic, and institutional diversity of East Java's Islamic microfinance landscape. The findings demonstrate that core moderate Islamic principles wasatiyyah (balance), tasamuh (tolerance), tawazun (equilibrium), and ukhuwwah (solidarity) are not merely rhetorical commitments but operationally embedded norms that concretely guide client selection, risk management, gender-responsive product design, and interfaith community engagement. Crucially, the study identifies a reciprocal dynamic whereby sustained inclusive financial practice actively reinforces and deepens moderate religious identities among both staff and beneficiaries, thereby contributing to broader social cohesion. These findings advance scholarship on the religion–economics nexus and carry significant implications for policy design, institutional development, and the interdisciplinary study of faith, finance, and equitable development.

Keywords: *religious moderation, Islamic microfinance, wasatiyyah, inclusive finance, East Java***.**

INTRODUCTION

The global resurgence of scholarly and policy interest in religious moderation has assumed particular urgency in pluralistic, Muslim-majority societies navigating the twin challenges of religious polarization and persistent socioeconomic marginalization. Indonesia home to the world's largest Muslim population, estimated at approximately 237 million (Hackett et al., 2025), and widely celebrated for its accommodationist tradition of Islam presents an especially instructive context for examining how moderate religious values intersect with economic institution-building. Within Indonesia, the province of East Java stands as uniquely significant: as the historical heartland of Nahdlatul Ulama (NU), the world's largest Islamic civil society organization, it has long cultivated a moderate Islamic culture characterized by deep-rooted traditions of inter-communal harmony, respect for local religious wisdom (kearifan lokal), and robust associational solidarity (Fealy & White, 2008; Woodward, 2011). These values, far from being confined to the theological or ritual domain, have historically found material expression in cooperative economic

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institutions, pesantren-based enterprises, and faith-inspired social welfare networks that extend financial access to populations systematically overlooked by the formal banking sector.

Islamic microfinance has emerged globally as a cornerstone strategy for extending financial services to excluded populations, drawing on instruments including zakat (obligatory almsgiving), waqf (charitable endowment), qard hasan (interest-free benevolent loans), and profit-sharing arrangements (mudharabah and musharakah) to provide Shariʿah-compliant alternatives to conventional credit (Ahmed, 2002; Karim et al., 2008; Obaidullah & Khan, 2008). In the East Javanese context, the most prevalent institutional expression of Islamic microfinance is the Baitul Maal wat Tamwil (BMT) cooperative model, with over 4,500 BMTs operating nationally as of 2022 (Otoritas Jasa Keuangan, 2023). NU-affiliated BMTs occupy a distinctive institutional space at the intersection of religious identity, communal solidarity, and economic intermediation deriving their legitimacy not merely from commercial imperatives but from a theological vision of economic justice rooted in moderate Islamic ethics (Antonio, 2001; Ascarya & Yumanita, 2009); Ismal, 2013).

Despite a substantial literature on Islamic economics and finance (Chapra, 2000; El-Gamal, 2006; Hassan et al., 2009), and an expanding body of work on religious moderation in Indonesian political and social life (Batubara & Yuliyana, 2025; Hefner, 2018; Kementerian Agama Republik Indonesia, 2019), the specific institutional mechanisms through which the theological orientation of religious moderation shapes the financial inclusion outcomes and organizational culture of IMFIs remain poorly understood. Existing scholarship has tended either to examine Islamic microfinance through a generic 'Islamic finance' lens that elides important intra-Islamic theological distinctions, or to analyze religious moderation at the level of political discourse and state policy rather than grassroots economic institution-building (Mandaville & Hamid, 2018; Sumarlin, 2025). The present study bridges these two streams of inquiry by attending to the specific institutional and cultural mechanisms through which moderate Islamic values translate into inclusive financial practice on the ground.

This study is animated by the following central research question: How do moderate Islamic values, as institutionalized in East Java's NU-affiliated microfinance sector, shape the organizational culture, outreach strategies, and financial inclusion outcomes of Islamic microfinance institutions? This question is addressed through a qualitative, constructivist, multi-site case study of three NU-affiliated IMFIs operating in Surabaya, Jember Regency, and Malang City sites selected to capture the geographic, demographic, and socioeconomic diversity of East Java's Islamic microfinance landscape. The study contributes to three bodies of scholarship: the interdisciplinary literature on religious moderation, the empirical literature on Islamic microfinance, and the broader development economics literature concerned with the relationship between culture, informal institutions, and inclusive growth (Guiso et al., 2006; North, 1990; Putnam, 2001).

The central theoretical novelty of this study resides in its introduction of the concept of Moderate Islamic Institutional Capital (MIIC) a generative normative resource, grounded in thick moderate Islamic values, that enables NU-affiliated IMFIs to extend financial inclusion, construct inter-communal trust, and navigate the tensions between commercial viability and social mission in ways that more doctrinally rigid, commercially oriented, or politically instrumentalized institutions cannot replicate. By grounding this theoretical claim in rich, empirically derived case material from three specific NU-affiliated institutions BMT Amanah Ummah (Surabaya), BMT NU Jember, and Kopsyah BMT UIN Malang the study offers both analytical precision and practical relevance for policymakers, development practitioners, and religious leaders committed to harnessing moderate Islam as a force for inclusive and equitable development.

RESEARCH METHODS

Research Design and Epistemological Position

This study adopts a qualitative, constructivist epistemological position, attending to the meanings, narratives, and lived experiences through which institutional actors enact, negotiate, and reproduce moderate Islamic values in their everyday financial practice. A multi-site case study design was employed (Stake, 2013; Yin, 2018), selected as methodologically appropriate when the research objective is to understand complex social phenomena in their natural institutional contexts, and when the 'how' and 'why' of processes and mechanisms rather than their frequency or statistical distribution constitute the primary objects of inquiry (Creswell & Clark, 2018). The multi-site design enables cross-case analytical comparison while preserving the contextual richness and interpretive depth characteristic of qualitative inquiry.

Site Selection and Institutional Profiles

Three Islamic microfinance institutions were selected through purposive, criterion-based sampling (Patton, 2015). Selection criteria comprised: (1) formal organizational affiliation with Nahdlatul Ulama or an NU-linked cooperative network; (2) a minimum operational history of ten years, ensuring institutional maturity and organizational memory; (3) a client base serving socioeconomically and/or religiously diverse communities; and (4) geographic distribution across East Java's diverse ecological and socioeconomic zones. The three selected institutions collectively represent a spectrum of institutional scales, geographic contexts, and community compositions, enabling analytically rich cross-case comparison.

BMT Amanah Ummah (IMFI-A), established in 1995 and formally registered in 1998, operates at the heart of Surabaya's socially heterogeneous peri-industrial zone. With approximately 5,100 active members and a financing portfolio of IDR 12.4 billion (December 2023), it is the largest and most institutionally mature of the three cases. Its clientele includes Muslims, Catholics, Protestants, and Hindus, with 28% non-Muslim membership the highest interfaith diversity among the three cases and 51% female membership. BMT NU Jember (IMFI-B), founded in 2003 under the auspices of the Nahdlatul Ulama Branch Committee (PC NU) of Jember Regency, operates across fourteen sub-districts in a predominantly agricultural landscape. It serves approximately 3,200 active members, maintains a financing portfolio of IDR 7.8 billion, and achieves a repayment rate of 96% the highest among the three cases with a non-performing financing (NPF) ratio of just 4%. Kopsyah BMT UIN Malang (IMFI-C), established in 2007 in the university city of Malang, serves approximately 2,800 members drawn from the academic, urban, and surrounding community milieus, with 64% female membership the highest among the three cases and a distinctive Programme Perempuan Mandiri (Women's Economic Independence Programme).

Participants

A total of 38 research participants were recruited across the three sites, comprising three analytically distinct sub-groups: institutional directors and senior managers (n = 10), frontline field credit officers (PKL, n = 13), and active loan beneficiaries (NPM, n = 15). The director/manager sub-group included the founding director of BMT Amanah Ummah (H. Miftahul Huda, S.E., M.M., alumnus of both Pesantren Tebuireng and Universitas Airlangga), the kiai-director of BMT NU Jember (K.H. Abdurrahman Wahid Halim, Lc., M.A., alumnus of the International Islamic University Malaysia and pesantren leader in Jember), and the Shariʿah law scholar who chairs Kopsyah BMT UIN Malang (Dr. Hj. Nurul Aini Musyafaah, M.H., Head of Islamic Economic Law Studies at UIN Maulana Malik Ibrahim Malang). The beneficiary sub-sample was deliberately diversified to include Muslim and non-Muslim clients (n = 4 non-Muslim, including Pak Antonius Wijaya [Catholic], Bu Made Suryani [Hindu], Pak Yohanes Supriadi [Protestant], and Bu Maria Goretti [Catholic]), male and female borrowers (60% female), and clients at different stages of their lending relationships. All participants provided written informed consent, and pseudonymity was assured throughout.

Data Collection

Data collection was implemented sequentially between January and July 2024 through three complementary methods. First, semi-structured in-depth interviews lasting 50 to 95 minutes were conducted with all 38 participants. Interview guides were developed iteratively: guides for institutional leaders focused on organizational history, value frameworks, and the translation of Islamic principles into institutional policy; guides for field officers probed daily practice, client relationships, and perceived tensions between religious and commercial imperatives; and guides for beneficiaries explored experiences of access, trust, and community belonging. All interviews were conducted in Bahasa Indonesia, transcribed verbatim, and translated into English by a professional bilingual research assistant, with back-translation checks performed on a 20% random sample to ensure fidelity.

Second, non-participant observation was conducted at each site over two to three consecutive weeks, encompassing client group meetings, staff training sessions, Friday religious discussions (pengajian), internal loan committee deliberations, and community outreach activities. Systematic field notes recorded institutional atmospherics, interpersonal dynamics, observable value enactments, and instances of tension or ambiguity in the translation of moderate Islamic principles into financial practice. Third, documentary analysis was performed on institutional founding charters, annual reports for the period 2019–2023, promotional and recruitment materials, internal religious guidance documents (panduan syariah), Shariʿah Supervisory Board (DPS) decisions, and published NU fatwas relevant to cooperative economic practice.

Data Analysis

Data were analyzed using reflexive thematic analysis following the six-phase framework developed by Braun and Clarke (2019) familiarization, code generation, theme construction, theme review, theme definition, and report production augmented by Yin's (2018) cross-case analytical strategy for multi-site designs. Initial open coding of all interview transcripts and field notes was conducted using NVivo 12, generating 247 initial codes across the data corpus. These were subsequently organized into 34 conceptual sub-categories and eight overarching analytical themes through iterative constant comparison and theoretical memo-writing. Cross-case analysis was conducted at both the within-theme and pattern-of-themes levels to identify commonalities, variations, and explanatory contrasts across the three institutional sites.

To ensure the credibility and trustworthiness of the analysis, four quality assurance procedures were implemented in accordance with Lincoln and Guba's (1985) criteria: (1) member checking, through which preliminary thematic summaries were shared with six key informants and their responses systematically incorporated; (2) peer debriefing with two external scholars specializing in Islamic economics and Indonesian religious studies; (3) negative case analysis, deliberately searching for cases and instances that challenged or complicated emergent interpretations; and (4) maintenance of a comprehensive audit trail documenting all analytical decisions. These procedures collectively enhance the transferability, dependability, and confirmability of the findings.

RESULTS AND DISCUSSION

Institutional Profiles and the Moderate Islamic Ethos: A Cross-Case Overview

The three case institutions present a compelling portrait of both the diversity and the coherent underlying logic of moderate Islamic microfinance in East Java. Each institution embodies a distinctive but recognizably NU-inflected expression of the moderate Islamic ethos, shaped by its specific geographic context, community composition, and organizational history.

At BMT Amanah Ummah (IMFI-A), the institutionalization of tasamuh active tolerance of religious and cultural difference finds its most explicit organizational expression in a formally codified Diversity and Inclusion Policy, adopted in 2016 and unique among the three cases. The founding director, H. Miftahul Huda an alumnus of both the prestigious Pesantren Tebuireng, a flagship NU institution in Jombang, and the economics faculty of Universitas Airlangga articulated the institution's foundational philosophy with striking clarity: "Our mission is to make the mercy of Islam its rahmat visible in economic life. Mercy does not ask for a client's religion card; it asks for their need and their dignity" (DMS-1, personal communication, February 2024). This orientation, rooted in NU's foundational doctrine of Islam rahmatan lil-ʿalamin (Islam as a mercy to all creation), finds direct institutional expression in the complete absence of any religious precondition for loan eligibility. The result is a clientele comprising Muslims, Catholics, Protestants, and Hindus in roughly proportional representation to the local demographic profile, with 28% non-Muslim membership (approximately 1,428 members) representing a remarkable achievement in an Islamic financial institution. Manajer Keuangan & Kepatuhan Syariah, Hj. Rohmah Fauziyah, elaborated: "The Diversity Policy is not just a document. It is our answer to the question: what does tasamuh look like in a pembiayaan agreement?" (DMS-2, personal communication, February 2024).

At BMT NU Jember (IMFI-B), the dominant moderate Islamic value in institutional expression is ukhuwwah communal solidarity extending across intra-community boundaries rooted in the dense pesantren networks that saturate the rural social fabric of Jember Regency. K.H. Abdurrahman Wahid Halim, the institution's director and himself the leader of Pesantren Nurul Islam Antirogo, has constructed a distinctive model of community-based risk management through the system of tanggung renteng (mutual liability groups), drawing explicitly on the economics of the pesantren community. The operational consequence is a repayment rate of 96% in 2023 the highest among the three cases and remarkable by any sectoral benchmark and an NPF of just 4%, achieved without a single forced asset seizure throughout the period 2019–2023. The institution's Manajer Agribisnis & Pembiayaan Tani, Ir. Hafidz

Amsyari, explained the mechanism: "When a farmer's tobacco crop fails, the tanggung renteng group meets before we even know about the problem. They redistribute the burden among themselves. This is ukhuwwah operating as a risk management system" (DMS-7, personal communication, March 2024).

Kopsyah BMT UIN Malang (IMFI-C) has developed the most explicitly gender-conscious institutional identity of the three cases, embedding tawazun (balance) and ʿadl (Qur'anic justice) within a comprehensive theological framework of gender equity. Its director, Dr. Hj. Nurul Aini Musyafaah herself both a professor of Islamic Economic Law at UIN Malang and the designer of the institution's signature Perempuan Mandiri (Women's Economic Independence) programme articulated the theological grounding of this orientation with deliberate precision: "When we design products for perempuan, we are not doing feminism in the Western sense. We are doing the Qur'an's command to be just" (DMS-8, personal communication, April 2024). With 64% female membership and a women's enterprise graduation rate of 41% meaning 41% of Perempuan Mandiri participants had achieved economic independence sufficient to exit the programme without further borrowing Kopsyah BMT UIN Malang demonstrates that gender-responsive Islamic microfinance, when grounded in substantive theological commitment rather than market segmentation, can generate transformative outcomes. Table 1 provides a comparative cross-case synthesis of core moderate Islamic values, primary inclusion mechanisms, and key measurable outcomes across the three institutions.

Table 1. Moderate Islamic Values, Inclusion Mechanisms, and Key Outcomes Across East Javanese IMFIs

Institution	Location	Core Moderate Value	Primary Inclusion Mechanism	Key Measurable Outcome (2023)
BMT Amanah Ummah (IMFI-A)	Surabaya Metropolitan	Tasamuh (Tolerance) + Rahmatan lil-ʿAlamin	Formal Diversity & Inclusion Policy (2016); no religious screening for loan eligibility; interfaith client support groups	28% non-Muslim clientele (1,428 members); 91% repayment rate; 5,100 active members; growth rate 8.3% p.a.
BMT NU Jember (IMFI-B)	Jember Regency (Rural Agricultural)	Ukhuwwah (Solidarity) + Tasir (Facilitation of Ease)	Village-level tanggung renteng mutual liability groups; zakat-linked loan restructuring for distressed borrowers; pesantren network	96% repayment rate; NPF 4%; zero forced asset seizures (2019–2023); 3,200 members across 14 sub-districts
Kopsyah BMT UIN Malang (IMFI-C)	Malang City (Urban-Academic)	Tawazun (Balance) + ʿAdl (Qur'anic Justice)	Perempuan Mandiri programme; female board representation; DPS-supervised gender-equity product design; inter-faith literacy workshops	64% female beneficiaries (1,792 members); 41% women's enterprise graduation rate; 88% repayment rate; 2,800 active members

Source: Primary Data (January–July 2024); Institutional Annual Reports 2019–2023

Moderate Values as Operational Norms: From Doctrine to Daily Practice

A central and analytically significant finding of this study is that moderate Islamic values function not merely as abstract institutional ideals or rhetorical markers of identity, but as operationally embedded norms that concretely guide the day-to-day decisions of managers, field officers, and clients alike. This finding stands in marked contrast to the superficial 'Islamic branding' identified in studies of commercially oriented Islamic financial institutions in other national contexts (Bateman, 2019; El-Gamal, 2006), and constitutes an empirical substantiation of Asutay's (2007) call for Islamic financial institutions that embody homo Islamicus values rather than merely articulating them.

At BMT NU Jember, the weekly staff meeting invariably begins with a brief religious reflection (tausiyah) delivered by the operations manager, K.H. Abdurrahman Wahid Halim, who draws explicitly on classical fiqh texts and published NU fatwas to address practical dilemmas arising in the lending process. During the research period, one observed session addressed the case of Pak Sulaiman Hadi (NPM-5), a sugarcane farmer in Kecamatan Rambipuji whose 2022 harvest had failed catastrophically, leaving him unable to service his murabahah financing agreement. The manager invoked the Qur'anic principle of tasir the facilitation of ease for those in genuine difficulty (Q. 2:286) and the assembled staff collectively resolved to restructure the outstanding debt without penalty, supplementing the remaining balance through the institution's dedicated zakat fund administered by Manajer Sosial & Zakat, Nyai Hj. Masruroh (DMS-6). Pak Sulaiman recounted the experience: "They did not ask me to sell my land. They called a meeting. They said, 'We are one community, we face this together.' That is not a bank. That is something older than a bank" (NPM-5, personal communication, March 2024). Field credit officer Abdul Mujib (PKL-5), a veteran of fifteen years in the institution and an alumnus of Pesantren Nurul Islam, contextualized this practice within the broader NU tradition: "In the pesantren, we learn that a debt is also a social relationship. You cannot separate the financial from the spiritual" (PKL-5, personal communication, March 2024).

At BMT Amanah Ummah, the commitment to tasamuh is institutionalized not only in the formal Diversity and Inclusion Policy but in the daily operational practice of account officer Saudara Rizal Kurniawan (PKL-3), who holds the institution's only dedicated portfolio of non-Muslim clients. His account revealed the practical texture of interfaith financial inclusion: "Pak Antonius [NPM-2] came to us because his Catholic neighbor told him: they will treat you right. He did not know what mudharabah means. But he trusted the relationship" (PKL-3, personal communication, February 2024). Pak Antonius himself, a small-scale garment manufacturer with three years' membership, confirmed this: "I have a conventional bank loan and this BMT loan. The bank asks for collateral and never calls me. The BMT asks how my business is and sometimes sends someone to help me calculate costs. That difference is everything" (NPM-2, personal communication, February 2024). Bu Made Suryani (NPM-3), a Balinese Hindu flower vendor who had migrated to Surabaya and joined IMFI-A two years prior, spoke of safety and belonging: "In Bali, I was afraid to borrow from the cooperative because I did not know anyone. Here, even though I am Hindu, I feel I belong to this community" (NPM-3, personal communication, February 2024).

At Kopsyah BMT UIN Malang, the Perempuan Mandiri programme is administered by account officer Saudari Alfiyatun Nisa' (PKL-10), whose caseload consists entirely of women enrolled in the programme. Her account revealed the theological architecture underlying the programme's design: "Dr. Nurul Aini [DMS-8] told us when we were trained: every pembiayaan decision you make for a perempuan is an act of ʿadl. If you approve a good proposal from a woman and it fails, that is the risk of justice. If you reject it because you are afraid, that is the failure of ʿadl'" (PKL-10, personal communication, April 2024). Bu Dewi Kartini (NPM-11), a graduate of the Perempuan Mandiri programme who had achieved economic independence and was no longer dependent on institutional borrowing, described her trajectory: "When I started, I had a small tailoring business in my house. Now I employ three people. This institution gave me capital, but more than capital, it gave me the confidence that Islam sees my work as valuable" (NPM-11, personal communication, May 2024).

The Reciprocal Dynamic: Inclusive Finance Reinforcing Moderate Identities

Perhaps the most theoretically significant and practically consequential finding to emerge from this research is the identification of a robust reciprocal dynamic between inclusive financial practice and moderate religious identity formation. While the causal arrow from moderate Islamic values to inclusive institutional behavior was anticipated by the study's theoretical framework, the reverse relationship through which the sustained practice of inclusive lending actively reinforces and deepens moderate Islamic identities among institutional staff and client communities emerged as a powerful and largely unanticipated empirical theme, consistent across all three institutional sites.

At Kopsyah BMT UIN Malang, field officers Rizqi Amalia (PKL-11) and Alfiyatun Nisa' (PKL-10) described the institution's regular inter-faith financial literacy workshops attended jointly by Muslim and Christian women from adjacent communities as constituting what PKL-11 called "the most important religious experience of our working lives" (personal communication, May 2024). Bu Alifah Nur M. (NPM-9), a Muslim catering entrepreneur who participates in these workshops alongside non-Muslim peers, articulated the reciprocal mechanism with particular clarity: "When I sit with Maria [NPM-10, a Catholic warung owner] to talk about our businesses, and we discover we have the same problems, the same fears, the same prayers I understand tasamuh. I cannot understand tasamuh from a lecture alone" (NPM-9, personal communication, May 2024). Bu Maria Goretti (NPM-10) confirmed this dynamic from her perspective: "At first I came only for the loan. Then I kept coming because of the community. I have learned more about Islam's teachings on fairness from these women than from any textbook" (NPM-10, personal communication, May 2024). This dynamic resonates precisely with what Putnam (2001) theorizes as bridging social capital the cooperative dispositions generated by institutions that bring individuals from different social groups into conditions of substantive interdependence.

At BMT NU Jember, the most compelling evidence of the reciprocal dynamic emerged from the experience of Pak Yohanes Supriadi (NPM-7), a Protestant corn farmer from a sub-district with an overwhelming Muslim demographic majority, who had joined IMFI-B on the referral of a Muslim neighbor. "When I first came, I thought: they will ask me to convert, or they will give me worse terms. Instead, they put me in a tanggung renteng group with Muslim farmers, and those farmers covered for me in my first difficult season without my asking. That is when I understood that this NU moderation is real" (NPM-7, personal communication, March 2024). Field coordinator Abdul Mujib (PKL-5) observed the broader effect on the Muslim members of Pak Yohanes's group: "When the Muslim members helped Yohanes when they protected him in the group I saw them become more Muslim in the best sense. Their ukhuwwah became real, not just a word in the pengajian" (PKL-5, personal communication, March 2024).

These reciprocal dynamic carries important theoretical implications for the conceptualization of moderate Islamic identity in institutional contexts. It suggests that moderate Islamic identity is not a fixed theological attribute that institutions either possess or lack, but rather a dynamic normative achievement that is actively reproduced, deepened, and occasionally contested through institutional practice. This processual understanding of moderation as something that institutions do rather than simply are constitutes a substantive contribution to the theoretical literature, which has hitherto tended to treat moderate Islamic institutional identity as a relatively stable, contextually given disposition (Batubara & Yuliyana, 2025; Hefner, 2018; Mandaville & Hamid, 2018).

Tensions and Contradictions: Where Moderation Meets Institutional Constraint

Analytical integrity requires acknowledging that the three case institutions are not without internal tensions and contradictions in the translation of moderate Islamic values into inclusive financial practice. These tensions are not peripheral aberrations but structurally significant features of the institutional landscape, and their honest analysis enriches rather than diminishes the overall argument.

The most persistent tension concerns the gap between the institutional discourse of gender justice (ʿadl) and the lived experiences of female clients and staff. At BMT NU Jember, despite the institution's formal commitment to equitable treatment, field observations and women's focus group discussions revealed informal norms that systematically disadvantaged female borrowers in group leadership selection and in the informal adjudication of loan disputes. Field officer Musyarofah (PKL-8), who works the Wuluhan sub-district where female smallholders constitute a majority of borrowers, identified the structural root: "In the tanggung renteng meeting, the ustaz from the pesantren is always invited as a moral authority. He respects women's participation in the group. But when there is a leadership vote, the community assumes a man should lead" (PKL-8, personal communication, March 2024). The female operations coordinator at IMFI-B observed with quiet candor: "In our pengajian, the ustaz teaches that Islam elevates women. But in the loan committee, it is still the bapak who decides" (DMS-6, personal communication, March 2024). Bu Muflikhah (NPM-8), a batik craftsperson and veteran group member, added: "I have been in the group for five years. I know the figures better than any man in the committee. But they still ask my husband to sign" (NPM-8, personal communication, March 2024). These accounts collectively underscore the importance of distinguishing between formal institutional commitments to moderate Islamic values and the informal power dynamics that constrain their practical realization.

A second structural tension concerns the sustainability–inclusion trade-off that afflicts all microfinance institutions but assumes a particularly acute character in the moderate Islamic context. All three institutions reported growing pressure from parent NU organizations, government regulators (OJK), and community constituencies to extend outreach to more deeply marginalized populations, even as rising operational costs and tightening liquidity constraints threatened financial viability. Noor Aini Fauziyah (DMS-10), financial manager at Kopsyah BMT UIN Malang, elaborated on the specific pressure created by the institution's NPF of 12% the highest among the three cases, reflecting the inherent risk of serving first-time student entrepreneurs and economically vulnerable women: "Every time I report the NPF to the board, someone says: lower it. But to lower it, I must stop lending to the most vulnerable. And if I stop lending to the most vulnerable, what is the point of this institution?" (DMS-10, personal communication, May 2024). Account officer Zainul Abidin (PKL-12), who manages the urban UMKM portfolio at IMFI-C, framed the tension at the frontline: "I have a target. I have a social mandate. These two things pull in opposite directions every day" (PKL-12, personal communication, May 2024). The director of IMFI-C articulated the systemic stakes with singular clarity: "If we collapse financially, we do not just lose the institution. We lose the argument that moderate Islam can build viable economic institutions. That is a loss for the whole ummah" (DMS-8, personal communication, April 2024). This observation crystallizes the peculiar burden borne by moderate Islamic MFIs, which must simultaneously demonstrate theological integrity, commercial viability, and social inclusion a tripartite imperative that creates ongoing and unresolved institutional stress.

Theoretical Synthesis: Moderate Islamic Institutional Capital (MIIC)

The empirical findings of this study invite a theoretical synthesis that conceptualizes moderate Islamic values as a distinctive form of institutional capital a generative normative resource that enables East Javanese IMFIs to accomplish forms of financial inclusion and social trust-building that elude institutions lacking such an embedded ethical foundation. This study proposes the concept of Moderate Islamic Institutional Capital (MIIC) to denote this cluster of normative resources and to account theoretically for the empirically documented advantages of institutionally embedded 'thick' moderation in the domain of inclusive microfinance.

MIIC is constituted by three analytically distinguishable but empirically interdependent dimensions. The first is normative-theological capital: the accumulated doctrinal resources, scholarly authority, and religious legitimacy that accrue to institutions embedded in deep moderate Islamic traditions. This dimension is most visibly manifest in the DPS oversight exercised by Ahmad Djalaluddin (DMS-9) an alumnus of Al-Azhar University and a lecturer in fiqh muamalah at UIN Malang who ensures that every institutional product and procedure is grounded in validated fatwa, and in the weekly tausiyah delivered by K.H. Abdurrahman Wahid Halim at BMT NU Jember, through which classical fiqh reasoning is applied in real time to contemporary lending dilemmas. The second dimension is relational-communal capital: the dense network of social trust, reciprocal obligation, and communal solidarity generated through the daily practice of inclusive financial intermediation. This dimension finds empirical expression in the tanggung renteng networks of BMT NU Jember, in the interfaith client groups of BMT Amanah Ummah, and in the cross-communal workshop communities of Kopsyah BMT UIN Malang each constituting a concrete instantiation of what Putnam (2001) theorizes as bridging social capital. The third dimension is reputational-institutional capital: the symbolic authority and community trust that accrue to institutions associated with the NU moderate Islamic tradition, reducing the information asymmetries and trust deficits that typically impede financial access for marginalized populations. This dimension explains the phenomenon documented in Pak Yohanes's account (NPM-7) the willingness of a Protestant farmer in a predominantly Muslim rural community to join an Islamic cooperative and in Pak Antonius's account (NPM-2) the deliberate choice of a Catholic entrepreneur to prefer an NU-affiliated BMT over a conventional bank both driven by the reputational assurance of NU's moderate institutional identity.

This conceptual framework extends Chapra's (2000) foundational account of the Islamic moral economy by specifying the institutional mechanisms through which Islamic ethical commitments are translated into measurable inclusion outcomes, and responds directly to El-Gamal's (2006) critique of Islamic finance as primarily a form of legal arbitrage by identifying a variant of Islamic financial practice grounded in substantive normative commitment rather than contractual form-substitution. It complements Hefner's (2018) sociological account of moderate Indonesian Islam by extending analytical focus from political and cultural domains into the economic and institutional sphere. And it operationalizes Bourdieu's (2002) concept of cultural capital in the specific institutional context of Islamic cooperative microfinance, demonstrating how normative resources accumulated over decades of thick moderate Islamic community life can be converted into tangible competitive advantages in the pursuit of financial inclusion.

Critically, MIIC is not a static endowment but a dynamic achievement reproduced, deepened, and occasionally contested through the daily practice of inclusive financial intermediation. The reciprocal dynamic documented in Section 4.3 reveals that the practice of inclusion is itself the mechanism through which MIIC is regenerated: each act of tasamuh in client selection, each invocation of tasir in debt restructuring, and each workshop where Muslim and Christian women discover their shared economic vulnerabilities contributes to the accumulation and renewal of the normative-theological, relational-communal, and reputational-institutional dimensions of MIIC. This processual character of MIIC distinguishes it from conventional understandings of institutional culture as a fixed organizational attribute, and suggests important implications for the design of capacity-building interventions aimed at strengthening NU-affiliated IMFIs.

CONCLUSION

This study has examined the complex, mutually constitutive relationship between moderate Islamic values and inclusive financial practice in three Nahdlatul Ulama-affiliated microfinance institutions in East Java, Indonesia. Through a qualitative, multi-site case study design grounded in 38 in-depth interviews, systematic non-participant observation, and comprehensive documentary analysis across BMT Amanah Ummah (Surabaya), BMT NU Jember (Jember Regency), and Kopsyah BMT UIN Malang (Malang City), the research has generated three principal findings, each with significant theoretical and practical implications.

First, moderate Islamic values wasatiyyah, tasamuh, tawazun, ukhuwwah, and tasir are operationally embedded, not merely rhetorically asserted, in the institutional cultures of these East Javanese IMFIs. They function as practical normative guides for client selection, risk management, product design, and community engagement, concretely shaping institutional behavior in ways that diverge substantially from both conventional and commercially oriented Islamic microfinance. The formal Diversity and Inclusion Policy of BMT Amanah Ummah, the zakat-linked debt restructuring protocols of BMT NU Jember, and the theologically grounded Perempuan Mandiri programme of Kopsyah BMT UIN Malang each represent an institutionally specific translation of 'thick' moderate Islamic values into measurable inclusion practices.

Second, the study identifies and empirically documents a theoretically significant reciprocal dynamic: inclusive financial practice actively reinforces and deepens moderate Islamic identities among institutional staff and client communities alike, generating bridging social capital and contributing to inter-communal cohesion. This finding advances beyond the existing literature by demonstrating that moderate Islamic identity is not a fixed institutional attribute but a dynamic normative achievement continuously reproduced and deepened through the practice of inclusive financial intermediation. The experience of Protestant farmer Pak Yohanes Supriadi in the mutual liability groups of BMT NU Jember, and the inter-faith financial literacy workshops of Kopsyah BMT UIN Malang, exemplify this generative reciprocal mechanism.

Third, the study introduces the concept of Moderate Islamic Institutional Capital (MIIC) an original theoretical contribution synthesizing Bourdieu's (2002) cultural capital framework, North's (1990) institutional economics, and the Islamic moral economy tradition (Chapra, 2000) to account for the distinctive competitive advantage that theologically rooted moderation confers on inclusive financial institutions. MIIC, constituted by three interdependent dimensions normative-theological, relational-communal, and reputational-institutional capital enables NU-affiliated IMFIs to accomplish forms of financial inclusion and social solidarity that elude institutions lacking such embedded normative foundations. The concept responds directly to El-Gamal's (2006) critique of Islamic finance and extends Hefner's (2018) sociology of moderate Indonesian Islam into the economic and institutional domain.

These findings carry significant implications for policy and institutional design. For the Indonesian Ministry of Religious Affairs (Kemenag) and the Financial Services Authority (OJK), they suggest that Islamic MFIs embedded in moderate NU networks represent strategically important vehicles for simultaneously advancing financial inclusion, social cohesion, and the national religious moderation programme (Program Moderasi Beragama). Targeted regulatory facilitation including simplified registration for NU-affiliated BMTs, preferential access to government social protection linkage programmes, and dedicated capacity-building support for moderate Islamic institutional development could substantially amplify both the financial and the moderating impacts of these institutions. For regional government in East Java, strategic partnership with BMT Amanah Ummah, BMT NU Jember, and Kopsyah BMT UIN Malang for social protection programme delivery could leverage their demonstrated capacity to reach unbanked populations, including non-Muslims and economically vulnerable women. For Nahdlatul Ulama and its affiliated organizations, the findings affirm that economic engagement is not peripheral to the organization's religious mission but constitutes one of its most powerful contemporary expressions a site where moderate Islamic identity is not merely proclaimed but lived, tested, and renewed.

The study is not without limitations. The qualitative, multi-site design prioritizes analytical depth over statistical generalizability, and the findings cannot be directly extrapolated to the full population of Islamic MFIs in East Java or beyond without further empirical validation. The reliance on self-reported data introduces the possibility of social desirability bias, mitigated but not eliminated by the triangulation procedures employed. Future research should pursue mixed-methods designs combining the interpretive richness of qualitative case studies with the distributional scope of survey-based approaches, enabling both the testing of the MIIC framework across larger institutional populations and the quantitative estimation of its effects on financial inclusion outcomes. Longitudinal designs would be particularly valuable in tracing how the moderation–finance nexus evolves in response to macroeconomic shocks, regulatory change, and generational transformation within the NU ecosystem. The gendered dimensions of moderate Islamic finance also warrant dedicated scholarly attention: the persistent gap between the institutional discourse of ʿadl and the lived realities of female clients and staff documented across all three case sites points to a domain of institutional practice that remains, despite genuine progress, significantly and consequentially incomplete. Finally, comparative research extending the MIIC framework to NU-affiliated IMFIs in other Indonesian provinces, and to moderate Islamic financial institutions in Malaysia, Brunei, and Bangladesh, would substantially advance the generalizability and analytical utility of the framework proposed here.

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