

## Integration of Islamic Microfinance, Religious Values, and Children's Education Investment in Breaking Intergenerational Poverty

Nana Sepdiana 

STAI Hubbulwathan Duri (Sharia Banking, STAI Hubbulwathan Duri, Duri, Indonesia)

### ABSTRACT

This study aims to examine how Islamic microfinance contributes to household economic stability, encourages investment in children's education, and supports intergenerational economic mobility. The study addresses the persistent issue of intergenerational poverty among low-income families who are constrained by short-term consumption needs and limited access to productive financial resources. This research employs a qualitative approach with a case study design conducted in Mandau District, Bengkalis Regency. Data were collected through in-depth interviews, observations, and documentation involving 15 beneficiary families of BMT Bina Swadaya and institutional managers. Data were analyzed using grounded theory techniques, including open coding, axial coding, and selective coding. The results indicate that Islamic microfinance financing is primarily utilized for productive economic activities, leading to increased business turnover and improved household income stability. This stability allows families to shift expenditure priorities toward children's education, including school fees and learning materials. Religious values play a significant role in shaping responsible financial behavior, encouraging disciplined repayment, and ensuring productive fund utilization. This study is limited to qualitative analysis and does not quantitatively measure long-term intergenerational mobility. The findings provide implications for strengthening Islamic microfinance as a tool for sustainable poverty alleviation. This study offers a novel integrative framework linking Islamic microfinance, household economic stability, religious values, and educational investment in the context of intergenerational mobility.

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CONTACT:  [nanasepdiana1989@gmail.com](mailto:nanasepdiana1989@gmail.com)

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## Introduction

Economic development in many developing countries has shown significant progress over recent decades; however, inequality and vulnerability among low-income households remain persistent challenges. Economic growth does not automatically translate into equal access to opportunities, particularly in education, financial services, and productive assets. As a result, a segment of society remains trapped in structural poverty characterized by limited economic capacity, low human capital formation, and restricted social mobility. This condition indicates that poverty is not merely a short-term income problem but a multidimensional and intergenerational issue.

Poverty remains a structural issue in many developing countries, including Indonesia. Although various poverty alleviation programs have been implemented, poverty often does not stop within one generation but instead forms a recurring family pattern. Data from the Indonesian Family Life Survey (IFLS) 1993–2014 indicate that children from poor households tend to remain poor in adulthood.

The persistence of poverty across generations shows that economic vulnerability is closely linked to family-level structural limitations. Poor households often operate within survival-oriented economic systems, where income uncertainty forces families to prioritize immediate consumption over long-term developmental investment. This survival logic reinforces cycles of limited education, low-skilled employment, and restricted income growth, thereby reproducing poverty within family lines.

This phenomenon is known as intergenerational poverty, a condition in which parents' economic limitations restrict children's access to education, healthcare, and economic opportunities, increasing the likelihood that children will experience poverty in the future. Within the human development framework, poverty is not only understood as income deprivation but also as capability deprivation, which hinders social mobility.

Within development economics, family decisions regarding resource allocation play a central role in shaping long-term welfare outcomes. Household economic stability determines whether families are able to move beyond subsistence needs and invest in future-oriented assets such as education. When stability is weak, families face trade-offs that may sacrifice long-term mobility for short-term survival.

One of the main mechanisms explaining the transmission of intergenerational poverty is low investment in children's education. Human capital theory states that education is a long-term investment that increases productivity and income opportunities. However, family decisions to invest in education depend heavily on household economic stability. Poor households with fluctuating incomes tend to prioritize short-term consumption over long-term investment. Thus, a structural dilemma arises: education is a pathway out of poverty, yet poverty itself limits access to education.

Within financial inclusion discourse, access to financial services is viewed as an important instrument to enhance the economic capacity of poor households. Beck, Demirgüç-Kunt, and Levine (2010) emphasize that financial inclusion can reduce poverty by expanding access to productive capital. Conventional microfinance has proven capable of increasing small business income (Hulme & Mosley, 2010; Morduch, 2011), but it has also been criticized for high interest burdens that may lead to over-indebtedness (Bateman, 2010).

In predominantly Muslim communities, financial behavior is not only influenced by economic incentives but also by ethical and religious considerations. This creates a unique context in which financial institutions may function not merely as providers of capital but also as moral and social institutions that shape economic conduct.

As a response, Islamic microfinance has developed, based on principles of justice, profit-sharing, prohibition of *riba* (interest), and social orientation. Unlike purely financial conventional approaches, Islamic microfinance combines economic and social goals, including poverty empowerment and equitable welfare.

Previous studies show that microfinance improves household financial resilience (Suratini, 2024; Rahman, 2010; Subchi et al., 2024). However, other studies argue that microfinance impacts are stronger in short-term consumption stabilization than in long-term structural transformation (Banerjee et al., 2015), and some find no improvement in resilience (Khaira & Yanuarta, 2024). These mixed findings reveal a theoretical controversy regarding microfinance effectiveness in breaking intergenerational poverty.

Islamic economic literature also emphasizes that Muslim household financial behavior is influenced by religious values such as trustworthiness, responsibility, and pursuit of blessings (Suryani, 2014). However, the relationship between Islamic microfinance, family economic stability, religious values, and children's education investment is rarely studied in an integrated framework, especially in rural Indonesia.

Beyond economic factors, this study positions religious values as a key element that differentiates Islamic microfinance from conventional microfinance approaches. Much of the existing literature emphasizes the role of financial access in increasing income or reducing poverty in material terms, yet limited attention has been given to the behavioral mechanisms that enable financing to generate sustained long-term changes within poor households. In the context of Islamic microfinance, financing is not merely perceived as economic capital but as an *amanah* (a trust) that carries moral and religious responsibility. These religious values create an internal control system that shapes financial decision-making, encourages the productive use of funds, and strengthens discipline in fulfilling financial obligations.

Despite extensive studies on microfinance, most research focuses on income effects, repayment performance, or short-term welfare indicators. Limited attention has been given to the pathways through which financing influences long-term family decisions, particularly education investment and intergenerational mobility. Moreover, the behavioral role of religious values in mediating the impact of Islamic microfinance remains underexplored in empirical research.

Thus, this study argues that religious values function as a behavioral mechanism that links financing to household economic stability and to decisions regarding children's educational investment, ultimately opening a pathway toward intergenerational social mobility. This perspective introduces a religio-behavioral dimension that remains underexplored in microfinance literature and represents a key contribution or novelty of this research. This research was conducted in Mandau District, Bengkalis Regency, due to active micro-enterprise activities and the presence of BMT Bina Swadaya. The study contributes academically by:

1. Expanding Islamic microfinance studies from short-term income focus toward intergenerational mobility.
2. Integrating human capital theory, financial inclusion, and Islamic economic values.
3. Providing community-based empirical evidence

Thus, this study primarily aims to explain how Islamic microfinance contributes to family economic stability, encourages investment in children's education, and creates opportunities for intergenerational economic mobility. In summary, this introduction concludes that intergenerational poverty is a structural problem requiring a multidimensional approach, and Islamic microfinance has the potential to serve as a strategic instrument in breaking this cycle. General Definitions

## 1. Microfinance

Microfinance is defined as small-scale financial services that include credit, savings, insurance, and other financial services designed to reach low-income communities that are not served by formal financial institutions, with the aim of expanding financial inclusion and empowering the poor economically (ADB, 2021).

Microfinance is also defined as a set of financial services provided to low-income communities to improve their economic capacity through access to business capital, savings and loan facilities, and sustainable empowerment schemes. The primary focus of microfinance is not merely the provision of credit, but how these services can bring about socio-economic change at the household and community levels (Aminudin, 2019).

Hidayat & Susanto (2022) describe microfinance as an economic empowerment approach that is responsive to the needs of the poor, including microfinancial services and business assistance, to strengthen household assets, income, and productive capacity in rural Indonesia. Thus, microfinance is not merely a financial service, but also encompasses socio-economic dimensions in community empowerment.

## 2. Household Economic Resilience

Household economic resilience refers to a family's ability to absorb and adapt to economic shocks, such as income loss or market changes, while maintaining basic economic functions, including the consumption of essential needs, income stability, and the capacity for long-term investment (PMC, 2025).

In local studies, household economic resilience is understood as the ability of families to maintain their economic condition when facing economic pressures or unexpected events through adaptive strategies, including income source diversification, risk management, and the utilization of internal or external resources (Utama, 2021).

According to Lestari & Wijaya (2023), household economic resilience also includes the ability to maintain the stability of basic family consumption and preserve the value of family assets during periods of economic uncertainty, not merely the ability to survive temporarily, but also to minimize the risk of falling back into poverty.

## Literature Review

### 1. Microfinance and Household Economic Resilience

Microfinance has become an important instrument in economic empowerment and poverty alleviation strategies, with a focus on increasing financial inclusion for poor households (ADB, 2021). Microfinance services provide access to capital that is not available through conventional banking institutions, thereby expanding business capacity and household income (ADB, 2021).

International studies show that access to microcredit positively affects household economic resilience through increased income, assets, and the capacity to adapt to economic risks (Gatto, 2022; Frontiers, 2025). However, the effectiveness of microfinance is not always consistent across contexts, especially when services focus solely on credit without non-financial support such as training and financial literacy (ADB, 2021).

### 2. Human Capital Theory and the Role of Education

Human capital theory, as proposed by Becker (2010) and Hanushek & Woessmann (2015), states that investment in human resources through education increases individual productivity and income opportunities. When children's education improves, household economic resilience tends to be stronger because family members gain the

ability to secure more productive and higher-paying jobs (Becker, 2010).

Corak (2013) concludes that intergenerational economic mobility reflects the extent to which children's economic conditions differ from those of their parents. However, low-income families often face a dilemma between short-term consumption needs and long-term educational investment. Without appropriate financial support, opportunities to enhance family human capital become limited (Black & Devereux, 2011).

### 3. Religious Values and Household Financial Behavior

Religious values have been found to influence household financial behavior by shaping attitudes and guiding economic decisions. Empirical research in finance shows that households with stronger religious affiliations tend to exhibit higher savings propensity and more future-oriented financial choices, as religion can affect economic attitudes such as prudence and risk preferences in financial planning (Oh & Shin, 2024). Additionally, within Muslim populations, the centrality of religiosity has been shown to significantly affect financial management behavior, suggesting that religious commitment interacts with financial decision-making even when accounting for other factors like financial literacy (Wijaya dkk, 2024).

In the context of Islamic finance, religiosity also appears to inform financial practices and the use of financial products, implying that religious norms and ethical frameworks contribute to how individuals manage financial resources. For example, research on Islamic microfinance institutions has found that higher levels of religiosity relate to participants' financial decisions, such as saving behavior in Baitul Maal wat Tamwil (BMT) settings, indicating a link between religious values and economic engagement in Islamic financial environments (Ahmad dkk, 2019). These studies provide theoretical support for positioning religious values as a behavioral factor in understanding how access to Islamic microfinance may translate into stable household finances and investment decisions.

## Methods

### 1. Type and Research Approach

This study employs a qualitative approach with a case study design. This approach was chosen because the research focuses on an in-depth understanding of the experiences, meanings, and socio-economic processes of families receiving Islamic financing. The case study design is used to explore the phenomenon contextually in Mandau District, Bengkalis Regency, which serves as the research location, with a research duration of three months. The researcher was directly involved in all stages of the study, from designing the research, preparing interview guidelines, selecting informants, collecting field data (interviews and observations), to analyzing and interpreting the data. The researcher also established good relationships with informants, enabling them to share information honestly and in depth.

### 2. Research Subjects and Informants

Informants were selected purposively based on specific criteria, namely families receiving financing from the Islamic financial institution BMT Bina Swadaya in Mandau District, Bengkalis Regency, having school-age children, and being willing to share their family's economic experiences. Supporting informants came from managers of the

Islamic financial institution who understood financing mechanisms and customer assistance. The number of informants consisted of approximately 15 beneficiary families of BMT Bina Swadaya in Mandau District, Bengkalis Regency. This number is considered adequate in qualitative research, where the primary focus is depth of information rather than the number of respondents.

### 3. Data Collection Techniques

Data were collected through in-depth interviews, observation, and documentation. Interviews were conducted to explore family economic experiences, the use of financing, decisions regarding children's education, and religious values in financial management. Observations were carried out to directly assess the socio-economic conditions of families, while documentation was used to complement data such as financing records.

### 4. Data Analysis Techniques

Data analysis in this study used a grounded theory approach with staged coding techniques consisting of open coding, axial coding, and selective coding. This approach allows concepts and relationships among categories to emerge inductively from field data. The first stage, open coding, involves breaking down raw data from interviews, observations, and documentation into units of meaning. The researcher identified keywords, significant statements, and recurring experiences to form initial categories describing the economic phenomena of beneficiary families. The second stage, axial coding, aims to connect initial categories by identifying relationships among concepts, such as causal relationships, influencing conditions, strategies employed, and resulting impacts. At this stage, patterns linking financing, household economic stability, religious values, and decisions regarding children's educational investment began to emerge. The third stage, selective coding, involves integrating all categories into a core theme that explains the main research phenomenon. This stage produces a conceptual understanding of how Islamic microfinance strengthens family economic stability and creates opportunities for intergenerational economic mobility through investment in children's education.

### 5. Data Validity

Data validity was ensured through source triangulation and method triangulation. Source triangulation was conducted by comparing information between beneficiary families and managers of BMT Bina Swadaya in Mandau District, Bengkalis Regency. Method triangulation was conducted by combining interview, observation, and documentation results.

## Result

### Informant Characteristics

This study involved 15 informants consisting of beneficiary households receiving financing in Mandau District. Informants were selected based on their active participation in financing activities and their household economic conditions, which fall within the low-to middle-income categories. Most informants operate productive microenterprises such as small trading, food processing, and service businesses. The majority have been members

of BMT Bina Swadaya for more than two years, allowing socio-economic changes to be observed more clearly.

In terms of education, most household heads have a secondary education level, while their children are generally enrolled in junior and senior high school. This condition is relevant because the transmission of intergenerational poverty is closely linked to the continuity of children's education in poor families. The informant profile indicates that the research sample represents households vulnerable to structural poverty but possessing productive potential. This makes them appropriate subjects for analyzing the role of Islamic microfinance in breaking intergenerational poverty.

#### The Role of BMT Financing in Household Economic Stability

The findings show that BMT financing is largely used for productive activities, such as increasing business capital, purchasing inventory, and repairing business equipment. Informants reported increased business turnover after receiving financing. Moreover, household income became more stable, allowing daily needs to be met without relying on high-interest informal debt. Several informants emphasized that the financing scheme felt lighter due to community-based monitoring and religious values that encourage responsible fund utilization.

These findings indicate that BMT not only increases income but also reduces household economic vulnerability. This aligns with microfinance theory, which states that access to small-scale financing can stabilize consumption and strengthen the economic resilience of poor households. BMT financing contributes to short-term household economic stability.

#### Impact on Children's Education Investment

An important finding of this study is the shift in household expenditure priorities after receiving financing. Most informants stated they were able to allocate more funds to children's education, including school fees, uniforms, books, and additional tutoring. Some families who had previously considered withdrawing their children from school were now able to maintain educational continuity. Parents began to view education as a long-term investment once economic pressure decreased. Access to financing indirectly supports human capital formation. When income becomes more stable, households shift expenditures from subsistence consumption toward future investment. BMT financing has an indirect positive impact on human capital development through increased education spending.

#### The Influence of Religious Values on Economic Behavior

Informants emphasized that religious norms influence their financial behavior. Financing funds are regarded as a trust (*amanah*), leading them to avoid using the funds for non-productive consumption. Religious awareness encourages discipline in repayment and productive utilization of funds. Some informants associated economic activities with moral responsibility for family welfare and their children's future.

Religious values function as a behavioral control mechanism that strengthens the effectiveness of Islamic financing. This supports Islamic economic theory that moral motivation influences economic decision-making. Religious values reinforce productive and sustainable use of financing.

## Indications of Reduced Intergenerational Poverty

Although this study is qualitative and does not measure long-term mobility quantitatively, several indicators suggest potential poverty cycle disruption: Businesses have become more stable, Education expenditures have increased, Dependence on informal debt has decreased, Parents show stronger future orientation.

Parents expressed hopes that their children would attain higher education and formal employment, indicating a shift in socioeconomic aspirations. Economic stability accompanied by education investment and value based financial behavior a pathway toward improved social mobility. BMT plays a strategic role in creating conditions that have the potential to break the transmission of intergenerational poverty.

These findings support the argument that financial access can strengthen household economic resilience, which ultimately encourages investment in children's education. This is consistent with the arguments of Karlan & Morduch (2010) and Demirguc et al. (2022).

## Discussion

This study demonstrates that Islamic microfinance plays a multidimensional role in improving household welfare, not only through economic mechanisms but also through behavioral transformation. The findings indicate that financing provided by BMT contributes to stabilizing household income by supporting productive economic activities. This supports previous studies that emphasize the role of microfinance in enhancing income and resilience among low-income households.

However, this study extends the existing literature by showing that economic stability alone is not sufficient to ensure long-term welfare improvement. Instead, the presence of religious values significantly strengthens the effectiveness of Islamic microfinance. Financing is perceived as an amanah (trust), which creates a moral obligation for beneficiaries to utilize funds responsibly and productively. This religio-behavioral mechanism distinguishes Islamic microfinance from conventional approaches.

Furthermore, the study confirms the relevance of human capital theory, where improved financial conditions enable families to shift their focus from short-term consumption to long-term investment, particularly in children's education. Education expenditure becomes a strategic priority once economic pressure decreases, indicating a transition from survival-oriented behavior to future-oriented decision-making.

The integration of financial access, religious values, and educational investment forms a pathway toward intergenerational economic mobility. This finding contributes to the ongoing debate on the effectiveness of microfinance by highlighting that its impact is stronger when combined with social and moral dimensions.

Nevertheless, this study has limitations. The qualitative approach does not allow for precise measurement of long-term mobility outcomes. Future research is recommended to apply quantitative methods to examine the magnitude of these relationships and compare Islamic and conventional microfinance models.

## Conclusion

This study concludes that BMT financing contributes to improving the economic stability of micro-enterprise families through the strengthening of productive activities. This economic stability encourages families to shift expenditure priorities from short-term needs toward investment in children's education. The religious values upheld by families play a role in reinforcing responsibility in the productive and future-oriented use of financing. The combination of community-based financing access, economic stability, and education investment creates opportunities for children's economic mobility, thereby having the potential to break the cycle of intergenerational poverty within families.

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