

# ISLAMIC MICROFINANCE MODEL

## *(Study of Implementation microfinance model in Indonesia)*

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### **Abstrak**

*Penelusuran dari nilai-nilai Islam di bidang keuangan mikro ditinjau dari Bab II menggunakan kedua pendekatan fenomenologis dan pendekatan fiqh untuk menemukan prinsip keuangan mikro syariah berupa (1) prinsip keadilan (justice), (2) prinsip kejujuran (honesty), dan (3) prinsip kemitraan (partnership). Dalam bab yang sama dikaji praktek-praktek keuangan mikro terbaik di dunia yang dilakukan untuk menemukan prinsip-prinsip keuangan mikro konvensional, ditemukan tiga prinsip keuangan mikro, yaitu (1) Kedalaman jangkauan pelayanan (outreach), (2) keberlanjutan (sustainability), dan (3) pemberdayaan (social intermediary). Tujuan studi ini adalah untuk menemukan model keuangan mikro Indonesia serta untuk menguji hubungan antara variabel kepatuhan dengan kinerja di institusi keuangan mikro Islam. Berdasarkan prinsip-prinsip dasar yang telah ditemukan berupa prinsip-prinsip kepatuhan sebagai variabel exogenous yang terdiri dari variabel sasaran, variabel tujuan, variabel akad, dan variabel jaminan, dan variabel performance lembaga sebagai variabel endogenous. Variabel-variabel tersebut diuji secara kuantitatif. Data yang dikumpulkan melalui kuesioner lalu ditabulasi dengan skala likert dan di analisis dengan menggunakan Structural Equation Model (SEM) serta dihitung dengan alat bantu komputer (software) LISREL 8.7. Diperoleh kesimpulan bahwa variabel yang mempengaruhi secara signifikan terhadap kinerja organisasi (LKMS) adalah variabel sasaran (kepatuhan terhadap prinsip keuangan mikro) dan variabel tujuan (kepatuhan terhadap prinsip syariah).*

*Kata kunci: model keuangan mikro syariah, prinsip-prinsip kepatuhan, SEM*

### **Abstract**

The tracing of Islamic values in micro finance were reviewed on Chapter II using both phenomenological approach and *fiqh* approach to find the principle of Islamic micro finance, namely (1) the principle of justice, (2) the principle of honesty, and (3) the principle of partnership. On the same Chapter, reviews on the best practices of micro finance were also done in order to find the principle of conventional micro finance namely (1) the principle of outreach, (2) the principle of sustainability, and (3) the principle of social intermediary. The aim of this study is to find the model of Islamic microfinance in Indonesia as well as to test the significance of the relationship between the variables compliance with the performance of microfinance institutions of Islam in Indonesia. Based on the basic principles found in the previous chapter, principles of discipline as exogenous variables were established consists of variable of target, variable of Goal, variable of Aqad, variable of warranty, and institution performance variable as endogenous variable. Those variables are quantitatively analyzed. Data collected from the questionnaires were then tabulated using the Likert Scale and analyzed using Structural Equation Model (SEM) assisted by computer technology with the software of LISREL 8.7. From this, it was found that the significant affecting variables to the organization performance (IMFI) are; variable of target (discipline towards the principle of micro finance) and the variable of Goal (discipline towards the principle of Sharia).

Key words: syariah microfinance model, compliance principles, SEM

## I. INTRODUCTION

### A. BACKGROUND

There are about 3 billion people of the world population living on the less than US \$ 2 per day. They are the poor with five children and one of them died before the age of 5 days. Indonesia's population lives on less than US \$ 2 per day is almost equal to the total number of people living of all the countries in East Asia except China. Each of the 100 residents of Indonesia there are 15 poor or in total there are 35 million poor people in the calculation of the Central Bureau of Statistics in 2008.

Poverty has become an acute problem of the world community. Efforts to eradicate poverty on the agenda together. Various studies have been conducted by many scientists in the west and in the east. The study concluded that poverty eradication tool which is currently considered the most successful is the implementation of microfinance (microfinance).

Poor people in the Muslim world there are more than 1.2 billion people. In a region that stretches from Senegal to the Philippines which includes six continents, North Africa, the Sahara Africa, the Middle East, Central Asia, South Asia, and Southeast Asia. The growth rate of poverty is highest in the region, except in Southeast Asia and the Middle East. In Indonesia, which has the largest Muslim population in the world, more than half the population of around 129 million people are poor with incomes of less than \$ 2 per day. Bangladesh and Pakistan with the amount of 122 million people, followed by the State of India, amounting to approximately 100 million Muslims are below the poverty line. Country - the predominantly Muslim countries have Gross Domestic Product (GDP) in the low category (poor) that is equal to 40% from 55 countries.

A contradictive conditions between the abundance of natural resources owned these areas with the economic conditions surrounding. While a large part of the Muslim population is in poverty. Though God has said in the scriptures "you are the best people are born to humans, ..". Tackling socioeconomic issues have been carried out various endeavors and strategies, both at a local, national and global.

Some experts have agreed to change the economic conditions in poor countries and developed by using a new paradigm of empowering the poor and proved to be the most effective way is the implementation of microfinance (case study in Bangladesh to alleviate poverty from 52% of the population in Bangladesh).

Microfinance (microfinance) has become an international issue and become the center of attention of the world community today, especially since Muhammad Yunus won the Nobel Peace Prize in 2006. Mainstream has changed, the poor with all its limitations from the standpoint of Commercial Bank was considered unfit to be given loans (financing) because unbankable. However, empirical evidence from the experience of Grameen Bank turns NPF (Non Performing Finance) it is not more than 1%, meaning that the rate of return customer payments reached 99%. The bank customers 98% are female and come from poor families. This has turned the old paradigm that women are weak and the poor was no ability to "helpless" is a misnomer. Conversely, if they are given a believable way and then they have the potential to change for the better, in social as well as economic.

Characteristic of Islamic microfinance practice owned by their respective microfinance institutions around the world is essentially distinguished only on product application (contract) and methodology (how to work) microfinance.

In the practice of conventional microfinance known several models in relation to the methodology (how) the micro finance in serving financial services to its target, namely (1) the model comes from the Grameen Bank of Bangladesh, (2) a model village banks (Village Bank) emerged from the Philippines and widespread in Latin America, (3) model of Self Help Group (SHG) that developed in India, and (4) a model that develops Credit Union in Sri Lanka.

The existence of Islamic microfinance institutions as empowerment of the poor is a social and economic function as a form of carport for the people. Possessed great potential of Muslims in the country predominantly Muslim Indonesia has yet to reach the maximum amount. Irony is, zakat is a routine worship of Ramadan is not grounded so apparent in real life

So in this study, the authors wanted to examine in depth on the model of Islamic microfinance in Indonesia, which has its own characteristics and have different methodologies with previous models. Titles in this dissertation research is Islamic Microfinance Model (Analysis Model in phenomenological approach to the practice of Islamic microfinance in Indonesia)

## **B. PROBLEMS**

### **1. Identify the Problem**

In practice microfinance developed in accordance with the conditions, culture, environment and character of the nation in which it is implemented microfinance. Form of microfinance practices that differ from country to country to encourage the emergence of a certain pattern (model) which is typical in the region and become a reference for the practices of microfinance in other areas.

Grouping microfinance practices in some models made by analyzing the features possessed by each of the micro-finance institutions in serving the target market. There are eight features that distinguish between models with each other, namely (1) service, (2) the process of financing, (3) binding, (4) guarantees, (5) the method of payment, (6) financing ceiling, (7) savings system, (8) the target service. There are four systems framework that divide and differentiate between microfinance models to one another. First: microfinance into financial intermediation, or the provision of financial products and services such as savings, financing, insurance, and so on. Second: microfinance into social intermediation, or the development of human and social capital needed by sustainable financial intermediation for the poor. Third: business development services, or non-financial services that help microentrepreneurs. Include: business training, marketing services and technology, skills development, and so on. Fourth: social services, or non-financial services that focus on the welfare of micro entrepreneurs. Include: health care, education, and so on. If a microfinance institution does not practice any of the categories of the four categories, meaning not fully practice the principles of microfinance (minimalist).

### **2. Restrictions Problem**

This research study will focus on some of the following:

a. Assessment of the principles of Islamic finance;

This study comes in a variety of primary reference on the theory and concepts of contemporary Islamic finance.

b. Islamic microfinance institutions that became the object of study is Islamic MicroFinance Institutions (IMFI) operating in Indonesia.

c. Features microfinance model indicated in the form of financing products resulting from the financial institution. So the analysis of the microfinance model is restricted to variables microfinance principles consisting of:

(1) Target financing,

(2) Security financing,

While variable microfinance principles of Islam, consisting of:

(1) The purpose of financing;

(2) financing Agreement

The above four variables called exogenous variables.

Quantitative data which is an indicator of performance (struktur financial) institutions, among others:

a) Total assets of the institution

b) The amount of non-performing financing

c) Loan to Deposit Ratio (LDR)

d) The ratio of the number of customers with financing (outreach)

These four variables above quantitative data called endogenous variables

### 3. Problem Formulation

To achieve the research objectives formulated some formulations of the following problems:

(1) How does the practice of Islamic microfinance in Indonesia in terms of aspects of compliance with the principles of the shari'ah and the principles of microfinance?

(2) Does the variable compliance (compliance) significantly affect the performance of microfinance institutions of Islam in Indonesia?

### C. RESEARCH OBJECTIVES

This study aims to find answers to several issues that exist in the formulation of the problems mentioned above. The aim is:

1. To find the model of Islamic microfinance in Indonesia.

2. To test the significance of the relationship between the variables compliance with the performance of microfinance institutions of Islam in Indonesia.

## RESEARCH METHODOLOGY

### 1. Types of Research

In accordance with the purposes of this study, the research method chosen was a qualitative descriptive approach phenomenologi. Edmund Husserl in Muhadjir states that science is not limited to the empirical (sensual), but that does not include other phenomena than perceptions, thoughts, wishes, and beliefs about the subject of something outside the subject, there is something transcendent besides the aposteriorik. To assess the level of compliance of microfinance institutions against Sharia compliance and fulfillment of the features of Islamic microfinance used survey research.

### 2. Approach system

Economic reality is very wide variation in space and time influenced by many variables, so no theoretical basis and empirical analysis are robust in data processing and proven correlation technique is unable to distinguish between cause and effect. This study uses a dynamic system (system dynamics) is a methodology for studying complex problems in a system. This methodology is not like any other approach for studying the problems to sort them into parts smaller, Dynamics system see the problem as a whole. Qualitative research methodology based phenomenologi requires a holistic approach, sit objects in a natural context, not partial. So that the most appropriate instruments to solve the problem in this research is a system approach.

### 3. Methods Analysis

a. Seek and find the dimensions of Islamic microfinance model;

b. Assessing the implementation of Islamic microfinance model dimensions on Islamic microfinance institutions in Indonesia.

The second output:

The results of the survey research will categorize Islamic Microfinance Institutions in Indonesia into four groups (quadrant), namely:

First Quadrant: Microfinance Institutions

Second Quadrant: Commercial Financial Institutions

Third Quadrant: Charity

Fourth Quadrant: Islamic Microfinance Institutions

c. Assessing the implementation of Islamic microfinance model dimensions on Islamic microfinance institutions in Indonesia.

## II. MODEL of ISLAMIC MICROFINANCE INSTITUTION (IMFI) IN QUANTITATIVE APPROACH

Search for and find a model Islamic microfinance can be examined using two approaches, namely the qualitative approach is used to explore the philosophical foundation in building microfinance models and quantitative approaches are used to test the statistical significance level, the validity and reliability of the model are found.

Structure validation describe the performance of the performance of institutions (IMFI) in Indonesia, as indicated by several variables, among others, (1) the total assets of the institution can demonstrate the ability of the institution to expand its business, (2) Loan to deposit ratio (LDR), which reflects the ability of institutions to exploit funds collected from members (community) it in the form of savings to be channeled back to members in need of funds in the form of financing, it also can be a variable parameter intermediation of financial

institutions. (3) Non-performing Finance (NPF) indicating financial performance, if low NPF shows good body systems and their compliance members in carrying out its obligations. (4) Ceiling per-member indicates the range of services to the poor, the smaller the value reflects the range and depth of services to the poor is growing.

Behaviour validation describe the behavior of Islamic microfinance institutions (IMFI) in Indonesia, as indicated by its product features. The main features of financial products have several major variables among others, (1) Target microfinance products that determines who the prospective members are eligible to receive financial services, (2) The purpose of Islamic financing products that lead to the attainment of material and Ruhiyah, (3) Akad agreement designed and provide a sense of security and peace of mind that in accordance with the principles of syariah. (4) Security financing practiced in Islamic microfinance institutions in accordance with the principles of microfinance.

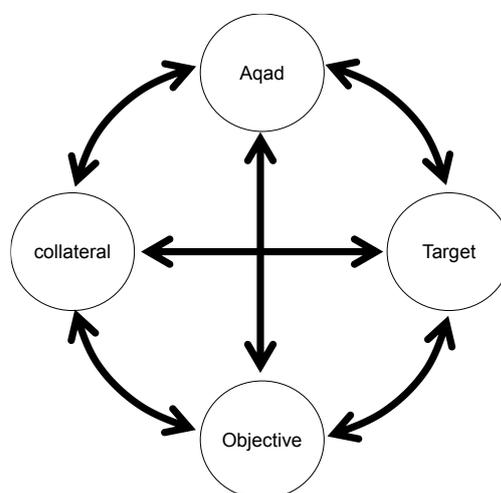


Figure 1.6 Variables - variables compliance

Empirical evidence outlines the empirical data microfinance practiced by microfinance institutions in Indonesia. Reference mode describes the results of studies on various models of reference microfinance practices.

Based on these variables above, then compiled the research hypothesis called Dynamics hypothesis in this study are:

1. Variables behavior (compliance) effect on structural variables (performance performance) on Islamic microfinance institutions in Indonesia.
2. One variable compliance significantly affect performance variables IMFI performance in Indonesia.

Changes in structural and behavioral variables will form a particular pattern called MODEL.

### **Variables and Indicators**

Variables and this indicator is based on studies toeritik derived from previous chapters. Theory will guide in finding the variables of research (surveys) that are relevant and related to the object of study. In this study found the variables adherence to the principles of micro keuangan and against sharia.

### **Operational definitions Variable**

To be able to measure the variables under study required operational definition. According Zarqa to classify the variables studied three categories, (1) a phenomenon that is not related (relevant), (2) exogenous phenomenon, (3) endogenous phenomenon. Each exogenous variables are always independent variables and exogenous variables will affect endogenous variables.

The exogenous variables in this study are:

- a) financing target variable is the recipient of financing in accordance with the principles of microfinance
- b) Variable financing goal is the achievement of the target material and Ruhiah of financing
- c) Variable financing agreement is the agreement in accordance with the principles of sharia (maqoshid al-Sharia)
- d) Variable financial guarantees in accordance with the principles of microfinance

No. Variable Indicator

#### **1. Target financing**

- a. People are very poor
- b. woman
- c. Have a job (productive)
- d. Revenues of approximately Rp. 20,000 per day or less
- e. Reach customer locations away from the office service

#### **2. The purpose of financing**

- a. Increased family income
- b. Improve the relationship between citizens
- c. Provide guidance to members
- d. Increase faith and piety
- e. get peace

#### **3. Agreement (type of financing)**

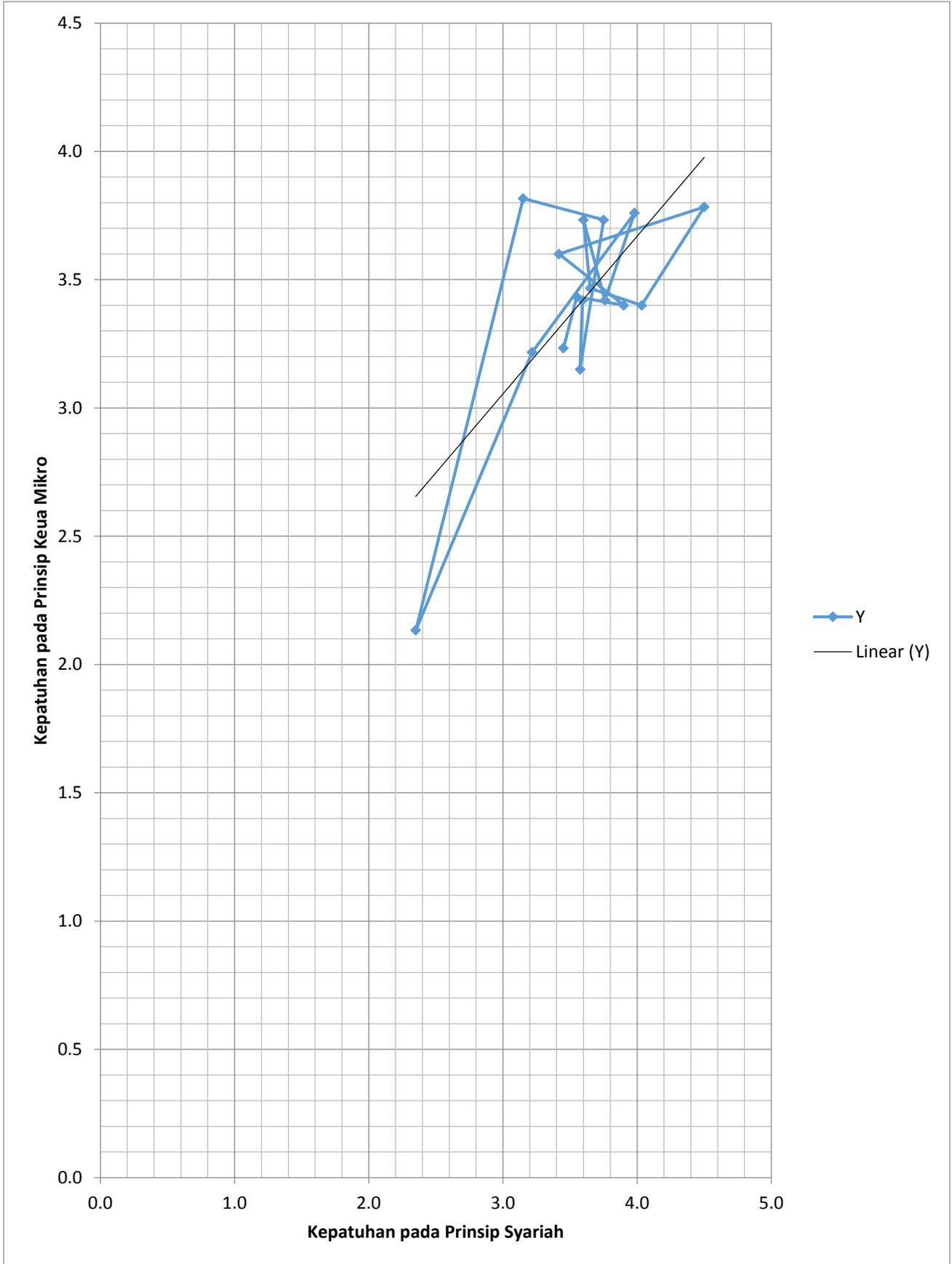
- a. Without the cost of binding, even if there is only the cost of the stamp
- b. Using the basis for the results, margins, and or ujah
- c. No transactions of money, only goods for murabaha contract
- d. Margin / profit sharing does not burden the customer that is characterized by sincerity in repaying obligations
- e. No clause of the agreement that the customer does not know the contents and meaning.

#### **4. Form a guarantee of payment. Unconventional forms of collateral**

- a. The certainty that the customer can repay its obligations
- b. Lapses get a good solution and not be fined
- c. Guarantor is the recipient of financing and partner
- d. Social pressure group if there are members who commit violations

### **III. RESULTS AND ANALYSIS**

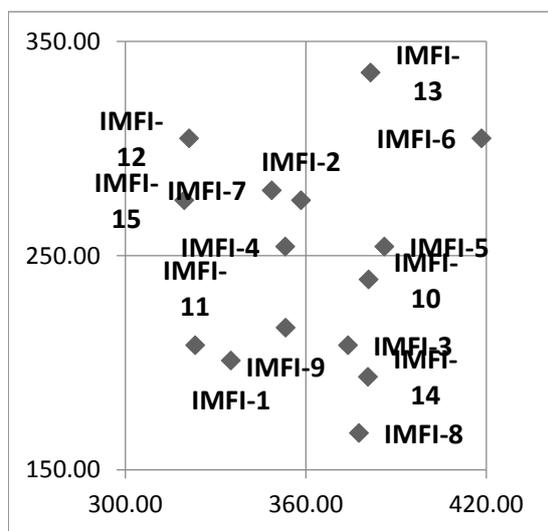
Position in Quadrant portfolio IMFI Compliance



Quadrant portfolio demonstrates compliance IMFI position based on the perception of respondents measured using a Likert scale assessment. There are two lines, namely horizontal and vertical lines, where the vertical line indicates the level of adherence to the principles of microfinance, while the horizontal line indicates the level of IMFI adherence to the principles of sharia purpose.

Before evaluating the level of compliance of each sample to the principles of sharia and microfinance, terlebih first be presented a profile of each sample in relation to the financial performance shown in the last reporting period of 2009.

Table 4.6. Profile Samples of aspects of financial performance



Source: Primary Data

Variable adherence to sharia, as indicated by X2 (financing purposes) and X3 (financing agreement), while variable adherence to the principles of microfinance, as indicated by the variable X1 (target financing) and X4 (form of guarantee). Compliance diagram showing the position of a microfinance institution (MFI) based on the perceptions of stakeholders (members, administrators and supervisors) are objectively in the first quadrant, Quadrant II portfolio, portfolio Quadrant III, or IV quadrant portfolio. Each quadrant of the portfolio has a different position. The position kudran, among others:

a. Quadrant portfolio I explained that IMFI samples are in a position as a microfinance institution, because only adhere to the principles of microfinance alone, even if there is adherence to sharia value is low (very low).

b. Quadrant II portfolio explained that IMFI samples are in a position as a formal financial institution, due to the low adherence to the principles of sharia and microfinance.

c. Quadrant III portfolio explained that IMFI samples are in the position of Islamic Microfinance Institutions (IMFI) due to high levels of adherence to Shariah principles and microfinance.

d. Quadrant IV portfolio explained that IMFI samples are in a position as a charity, because of the high level of adherence to sharia, but do not apply the principles of microfinance.

### Compliance Portfolio Analysis Techniques

Assessment using portfolio analysis, ie assessment obtained from the calculation perceptual respondents (qualitative) and the results of calculation of scoring assessment (quantitative).

Generally formula is as follows:

where Is:

X1 is the average value of the sharia compliance variable (X2 and X3)

X2 is the average value of the variable compliance microfinance (X1 and X4)

While X searched with the following techniques:

Based on the results of the analysis of respondent data, obtained IMFI distribution in coordinate points between the lines x and y lines or (X, Y) to-15 IMFI sample occupy at Quadrant following portfolios:

The above data was obtained from the calculation as follows:

LKMS	X	Y
1	3,5	3,2
2	3,6	3,4
3	3,9	3,4
4	3,4	3,6
5	4,5	3,8
6	4,0	3,4
7	3,7	3,5
8	3,6	3,7
9	3,8	3,4
10	4,0	3,8
11	3,2	3,2
12	2,4	2,1
13	3,2	3,8
14	3,8	3,7
15	3,6	3,2
rata-2	3,6	3,4
mean	3,6	3,4

Based on the results of the sample IMFI position in Quadrant III portfolio, it means IMFI samples are in position as Islamic microfinance institutions. However, based on the average IMFI sample, IMFI position can be seen in the image below:

Picture: Position IMFI Quadrant Compliance portfolio

Of the 15 IMFI sample has the highest compliance rate is the sample no. 13 ie BMT Bina Ummah Welfare. The IMFI profile is as follows:

While IMFI sample with the lowest compliance rate is the sample no. 1 ie BMT Kube Prosperous 003 with the following performance:

### Quantitative Data Analysis

To test the hypothesis of this study are:

1. Variables behavior (compliance) effect on structural variables (performance) on Islamic microfinance institutions in Indonesia.
2. One of the variables compliance significantly affect performance variables IMFI performance in Indonesia.

Researchers used two types of software programs to help test this hypothesis, namely: (1) To test the hypothesis the first study used a model of SEM (Structural Equation Model). SEM is a statistical technique that is capable of analyzing latent variables, indicator variables and measurement error directly. SEM is one of the domains in multivariate statistics dependencies which allows for an analysis of one or more dependent variables. Both the dependent variable and the independent variables involved may form a continuous or discrete variable, in which case multiple regression can not solve it. However SEM has the disadvantage of not having the best statistical test that can explain the predictive power of the model.

Counting process and assisted analysis using LISREL (Linear Structural Relationship), and (2) To test the second hypothesis, because of the weakness of using SEM models mentioned above, the researchers used the PATH-ANALYSIS with Minitab ver.13.

#### **IV. CONCLUSION**

The principles of Islamic micro finance discussed in Chapter I in this study obtained a theoretical framework to build a model of Islamic microfinance in Indonesia. Principles of Islamic microfinance as a synthesis between Islamic financial principles with the principles of microfinance produce features in the microfinance Islamic finance products that include financing target variable, the variable funding purposes, the variable financing agreement and variable financial guarantees. These variables studied and analyzed using structural equation modeling (SEM) which will show the results of the relationship of these variables on the performance of microfinance institutions who practice Islam.

Ruhayah dimensions that can be used as the basis of Islamic microfinance movement include, (1) The principle of fairness (justice), (2) the principle of openness and honesty (transparance and fairness). and (3) the principle of partnership, and was followed by a discussion of the principles of microfinance has become a cornerstone of the practice in the world of microfinance. The principles of microfinance is meant, among others: (1) The scale and depth of the range of financing, (2) Sustainability (sustainability), (3) Empowerment (social intermediary), (4) Commercial (financial intermediary).

There are two main results of the study by using this quantitative approach: first: financial institutions practicing Islamic microfinance occupy in different quadrants of compliance levels, both: the variables that affect the direct compliance and means (significant) to institute performance is financing target variables and variable financing purposes, while the variable contract and financing guarantees variable is not significant. This has implications for the level of performance (performance) institutions indicated that there is a very strong correlation of the quantitative analysis. Based on sample data in this study, amounting to fifteen IMFI throughout Indonesia, the result that IMFI which is the highest position in the level of compliance with the Shariah has a level of performance and higher performance, otherwise IMFI who are at the low level of compliance has a level poor performance.

In Chapter in advance has been discussed about the need for more financial paradigm shift tend to be oriented to the interests of stockholders (owners of capital) becomes more towards stakeholders (all interested parties) that includes the public, government and private (enterprise). Thus, the impetus variety of new formulations can be raised as the antithesis of financial formulas are only in favor of the stockholders and profit-oriented material alone.

#### **RECOMMENDATION**

Microfinance actors including intermediary institution that serves to connect the excess funds to the party that lack of funds (deficit). Through these functions microfinance actors will be able to become a media redistribution of wealth in a region or country.

Intermediation function is important, because economic growth is highly dependent on their investment, while investment will be constrained when the intermediary institutions wearing high margins on financing. Margin and profit sharing disproportionate will deter potential investors to invest.

The new approach in the banking world is Microfinance. Islamic microfinance services in microfinance in the form of savings, deposits, financing, transfer and insurance with Islamic principles. Standard banking operation can not be used as a reference microfinance for different characteristics, where banking, serving the well-established "economically" while "microfinance, serving the poor. Some things that need to be adjusted are:

- a. Funding should be targeted, because it will result in the level of productivity and high returns while helping the lower social classes (poor)
- b. The purpose of financing should be based on the desire to obtain satisfaction of all parties, both material and immaterial.
- c. -Traditional form of guarantee from the conventional to a more flexible.
- d. Bureaucratic procedures are taken into care so much faster short (1-3 days)
- e. Credit requirements, relatively fewer
- f. The ceiling is relatively smaller in order to reach the bottom

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Apendix 1.

NO	Insitution	Built Year	ASSET (Rp.000,-)	FUNDING (Rp.000,-)	LDR	NPF	Client	Avg Plafon
1	KSU-BMT KUBE SEJATERA 003	2.004	1.093.735	610.000	124%	15%	619	1.226
2	BMT AL-KHASANAH	1.999	5.398.718	3.012.137	106%	5%	1.200	2.651
3	BMT BINA SWADAYA	1.996	3.619.005	3.119.162	89%	11%	2.150	1.287
4	BMT HIDAYAH	2.005	1.283.000	459.000	51%	0,90%	143	1.650
5	BQ. DEWANTARA	1.995	2.261.043	1.668.566	90%	30,34%	454	3.297
6	BMT USA JEPARA	2.007	1.190.195	816.934	95%	4%	968	798
7	KSU-BMT "ARTHA BINA UMMAH"	1.998	3.015.509	1.124.461	67%	7%	1.185	633
8	BMT AL-AMANAH	1.995	636.056	481.949	88%	4%	386	1.100
9	BMT "BINA UMMAT SEJAHTERA"	2.009	709.694	500.000	49%	3,70%	2.150	115
10	BMT NASIONAL WANITA ISLAM	2.006	1.000.000	700.000	71%	3%	2.150	233
11	KJKS BMT MENTARI		4.976.133	4.327.846	92%	12%	2.150	1.853
12	KJKS BMT ASALAM ARTHA DAYA	1.997	4.722.978	4.433.144	86%	5%	4.632	822
13	BMT BINA UMMAT SEJAHTERA	1.996	136.610.359	101.163.946	114%	0,8%	35.716	3.217
14	BMT PAHLAWAN	1.996	18.932.142	16.497.778	63%	8%	3.527	2.931
15	BMT AL-BIRRY PINRANG	1.995	6.873.050	5.089.367	100%	6%	1.885	2.691