

ISLAMIC MICROFINANCE AND ITS IMPACT ON POVERTY REDUCTION IN BOGOR

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Abstract

The purpose of this paper is to identify the effectiveness of Islamic microfinance institutions and their impact on poverty reduction in two types of rural areas in the district of Bogor, Indonesia. This research uses descriptive analysis, using a likert's scale and with a paired sample t test to determine the impact of Islamic micro finance to micro business performance. Multiple regression is also used to see the effect of the types of villages in the implementation of micro-enterprise businesses. The results show that the Islamic micro financing has affected the effectiveness of the income and expenditure aspects, but also quite effective in the aspect of profit and use in expenditure. Furthermore, funding-based Islamic microfinance also has a positive influence on business micro and poverty reduction.

Keywords: effectiveness, Islamic microfinance, poverty

Abstrak

Tujuan dari paper ini yaitu ingin mengidentifikasi efektivitas lembaga keuangan mikro syariah dan dampaknya terhadap pengurangan kemiskinan pada dua tipe pedesaan di Kabupaten Bogor, Indonesia. Penelitian ini menggunakan analisis deskriptif, menggunakan Skala Likert dan t test dengan sampel berpasangan untuk menentukan dampak pembiayaan mikro syariah terhadap kinerja usaha mikro. Teknik regresi berganda juga digunakan untuk melihat pengaruh dari tipe desa dalam penyelenggaraan bisnis usaha mikro. Hasilnya menunjukkan bahwa pembiayaan mikro syariah telah mempengaruhi keefektifan dalam aspek pemasukan dan pengeluaran, tetapi juga cukup efektif dalam aspek keuntungan dan pemanfaatan dalam pembelajaran. Selanjutnya, pembiayaan mikro berbasis Islami juga memiliki pengaruh positif terhadap bisnis usaha mikro dan pengurangan angka kemiskinan.

Kata Kunci: efektivitas; keuangan mikro syariah; kemiskinan

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INTRODUCTION

Poverty is the fundamental problem that remains to be the government's main concern in developing countries, not least in Indonesia. Poverty in Indonesia is largely concentrated in rural areas. Based on Central Bureau of Statistics (BPS) data in 2015, the number of poor people in Indonesia was 28.51 million, 62.75% of the total poor population inhabits rural areas and the rest inhabits urban areas. Some of the factors that cause poverty in rural areas are the lack of capital resources and low education.

One of the steps taken by the government to reduce poverty in rural areas is through rural economic development. According Ashari (2006), rural economic development will also stimulate the growth of the national economy. As stated in the Medium-term Development Plan (RPJM) 2015-2019, the rural development aimed to reduce poverty, reducing the number of isolated villages, as well as improving the independent villages. This is in accordance with the UU No. 6 of 2014 about the village. the village development goals are to achieve self-reliance and to create sustainable villages that have social security, economy, and ecology, as well as making connections. This is because there are still many obstacles faced by rural communities in developing economies.

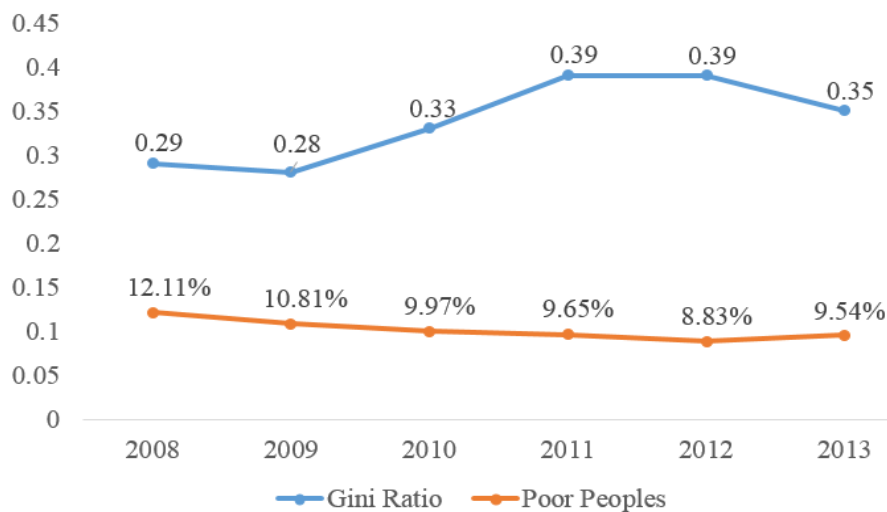
Ashari (2006) has explained that economic activity in rural areas is still dominated by micro-scale businesses, such as agriculture, trade and household industries. Most of the micro businesses in this country are difficult to get financing access from formal financial institutions such as banks, because they can't meet the requirements for financing. Terms of formal financial institutions are difficult to be met by rural micro businesses from the fact that they do not have collateral. Therefore, the presence of micro-finance institutions will be able to reach and serve the financing for micro businesses in rural areas. This is because the requirements that must be met are more flexible and does not complicate the micro business in the countryside.

Along with the development of the micro finance industry, Micro Finance Institutions (MFI) have the disadvantage that the interest rate applied is higher than the interest rate applied by banks (Rahim and Rahman, 2007). The emergence of Islamic Micro Finance Institutions (IMFI) is seen as a solution to overcome these problems. IMFI are micro finance institutions that use the principle of Islamic law and do not use the principle of interest such as MFI. Another advantage of IMFI is in addition to the mission of the business (*tijarah*) also carrying out a social mission (*tabarru*). IMFI are

expected to be a suitable means of financing for the micro business in the countryside, so it can move the village economy. In addition to the financing of this IMFI will increase environmental awareness by abstaining from excessive exploitation of natural resources that exist (Effendi, 2013). Other multiplier effects are that they can reduce poverty and unemployment in rural areas and strengthen the rural economy and contribute to national economic growth.

The cases that happen in Bogor Regency are poverty and income inequality remains high. This region has a quite rapidly growing IMFI, with the highest number of Islamic Rural Bank (BPRS) in West Java (4 BPRS) and 9 Baitul Maal wa Tamwil (BMT). Besides, 18% villages in Bogor are included in the category of swasembada village, which means the village has been able to develop all their potential optimally. While, the rest are included in the category of swakarya village and no village belonging to the swadaya village.

Figure 1. Gini ratio and percentage of poor population in Bogor Regency 2008-2014



Source : BPS West Java , 2015 (processed)

Throughout 2008-2012, the percentage of poor peoples in Bogor has decreased, but in 2013 increased to 9.54% of the total population in the Bogor Regency, while the level of income inequality tend to have increased in the last five-year period, which is indicated by the gini ratio on the above chart. It indicates that the distribution of income in the Bogor Regency is uneven and it leads to the widening of income inequality.

This study aimed to analyze the effectiveness of financing managed by IMFI and its impact on poverty reduction in rural areas by distinguishing the study area based on

the level of development of the villages of rural swasembada and swakarya in Bogor. Novelty in this study is comparing the study area based on the level of village typology, the level of swasembada and swakarya. In this study, Likert scale is used to determine the level of Islamic micro finance effectiveness in both types of rural areas. The impact before and after financing can be seen used paired sample t test. Furthermore Ordinary Least Square (OLS) method is used to determine the impact on the performance of Islamic micro finance and micro businesses poverty index used to see the impact of Islamic micro finance to poverty reduction in Bogor.

METHOD

The research was conducted within the scope of Bogor Regency. Bogor Regency was chosen as the study site based on several considerations, namely because of the number of poor people in Bogor Regency is the highest in West Java Province. In addition, IMFI developments in this area are quite well. Data used in this study are primary data and secondary data that are both qualitative and quantitative. The primary data were obtained from interviews and filling the questionnaire by the respondent amounted to 90 micro businesses in rural areas Swasembada and Swakarya. The secondary data were obtained from the Central Statistics Agency (BPS), and the Bogor Agency for Community Empowerment and Rural Development (BPMPD).

The samples in this study use four stages, namely, the first stage, purposive sampling method, which is done by selecting the Bogor regency as a research location. Second, stratified sampling of 40 districts in Bogor is sorted by the number of villages that are categorized as Swasembada and Swakarya, then has each of the two districts that have the highest number of Swasembada villages, as well as the district which has the highest number of Swakarya village. The next, these districts have district that has IMFI, the District Kemang and Ciomas represent the district that the majority of their villages classified as Swasembada and the District Leuwiliang and Cigudeg, the majority of its villages still classified in the Swakarya village. Third, customers are divided into two groups, namely micro-businesses that received venture capital financing from IMFI, with purposive sampling method. The last stage is by using quota sampling with selected 45 micro-enterprises from each village group.

In this study, Likert Scale is used to measure respondents' perceptions of the effectiveness of the financing managed by IMFI. In the view of some of the aspects that is at the stage of filing of financing, disbursement of financing, the use of financing and repayment of financing. The total score for each procedure ranged from 135 to 405. This score is obtained by multiplying the lowest and highest scores with the number of questions in each procedure and also the number of respondents.

$$\text{Total Score} = \text{Total score in each category} \quad (1)$$

Grouping criteria for the effectiveness of every aspect was calculated using the formula (Akdon and Riduwan 2009):

$$\text{Effectiveness Percentage} = \frac{\text{Total Score Each Category}}{405} \times 100 \% \quad (2)$$

Based on this formula, the criteria for the effectiveness of each aspect are:

1. Score 0% - 25% = Not effective
2. The figure is 26% - 50% = Less Effective
3. The figure is 51% - 75% = Effective enough
4. The figure is 76% - 100% = Effective

OLS (ordinary least squares) developed by Carl Friedrich Gauss, a data analysis technique in discussing the relationship between the dependent variable with the independent variable. In this study, OLS is used to see the influence of Islamic micro finance to benefit micro enterprises. According to Juanda (2009) there are several assumptions that must be met in the use of these models, among which are the data spread out normal, there is no linear relationship which is perfect between independent variables (multicollinearity), there is no correlation between residual (autocorrelation), the value range of the constant (homoscedastisity). Here are the model that used in this study:

$$Y_i = \beta_0 + \beta_1 \text{USIA} + \beta_2 \text{LPEND} + \beta_3 \text{LUSH} + \beta_4 \text{DJK} + \beta_5 \text{DWIL} + \beta_6 \text{RELG} + \beta_7 (\text{DWILPEM}) + \beta_8 (\text{DWILOM}) + \varepsilon_i$$

Where: Y is the advantages of micro enterprises after receiving financing from IMFI; USIA is age; LPEND is period of education; LUSH is Period of business; DJK is Dummy sex, which: 1 = male, 0 = female; DWIL is Dummy rural areas, which: 1 = swasembada, 0 = swakarya; DRELG is Dummy religiosity; which: 3 = religious, 2 = fairly religious, 1 = less religious, 0 = not religious; DWILPEM is dummy interacted

area with large financing; DWILOM is dummy interacted region with turnover after financing

To determine the rate of poverty reduction, poverty index is used that includes Headcount Ratio Index (H), Income Gap Index (P), the Poverty Gap Index (PI), and Sen Index of Poverty (P2). Poor category was based on the standard poverty line issued by the World Bank, US \$ 2 per capita per day or Rp 26 000 per capita per day.

RESULTS AND DISCUSSION

Based on data processing using a Likert Scale after meet validity and reliability tests, the results of measurements of the effectiveness of the filing stage financing in swasembada and swakarya rural areas are as follows.

Table 1. Perception Of Micro Businesses In Response To The Implementation Stage Of The Submission Of The Financing In The Area Of Swasembada And Swakarya Villages

No	Submission of Financing	Swakarya Villages				Swasembada Villages			
		Score A	Score B	Score C	Total	Score A	Score B	Score C	Total
		(3)	(2)	(1)		(3)	(2)	(1)	
1	Terms of financing	41	4	0	131	45	0	0	135
2	Ease of procedure	41	3	1	130	45	0	0	135
3	Security	38	6	1	127	44	1	0	134
Total		388				404			

Sources: Primary data (2016)

Information: Score 1 for severe/complicated; Score 2 for was; Score 3 for easy

The total score of the effectiveness of Islamic micro finance at the stage of filing of swasembada village is 404, with a percentage of 99.8% while, in the swakarya village, micro-finance effectiveness is 388, with a percentage of 95.8%. This indicates that the phase of the submission made by IMFI has been effective in both types of regions.

In the liquefaction stage financing, previous member must meet various requirements in advance. There are two systems in the liquefaction stage financing, namely the officer who came to the house of a member or members who came to office IMFI. Assessment of the effectiveness of the disbursement of the financing is based on three indicators, namely, the realization of financing, administration fees which must be paid at the time of disbursement of the financing, and the ability to meet the financing.

Table 2. Perception Of Micro Businesses In Response To The Implementation Of The Liquefaction Stage Financing In Swasembada And Swakarya Rural Areas

No	Financing Disbursement Aspects	Swakarya Villages				Swasembada Villages			
		Score A	Score B	Score C	Total	Score A	Score B	Score C	Total
		(3)	(2)	(1)		(3)	(2)	(1)	
1	Payments realization	36	7	2	124	37	7	1	126
2	Administrative costs	30	13	2	118	41	4	0	131
3	Ability to meet the demand for financing	33	12	0	123	45	0	0	135
Total		365				392			

Sources: Primary data (2016)

Information: Score 1 for a long time/weight/helpless; Score 2 for were/are less able; Score 3 for quick/lightweight/easy

The total score of the effectiveness of the liquefaction stage swasembada in rural areas amounted to 392, with a percentage of 96.8%. As for the swakarya village area, effectiveness score of 365, with a percentage of 90.1%. This suggests that aspects of the financing disbursements made by IMFI in the village area of swasembada and swakarya have been effective. But for IMFI the finance portfolio in the area of village swakarya should increase its effectiveness again.

In the deployment phase of financing, those which were assessed were the effectiveness of visits by three indicators, namely, supervision and guidance to

member businesses, the attitude in terms of consultation, and the liveliness of officers in providing input on member businesses as shown in Table 3.

Table 3. Perception of micro businesses in response to the implementation of the deployment phase of financing in the area of swasembada and swakarya villages

No	Financing Utilization Aspects	Swakarya Villages				Swasembada Villages			
		Score A	Score B	Score C	Total	Score A	Score B	Score C	Total
		(3)	(2)	(1)		(3)	(2)	(1)	
1	Supervision and guidance to member businesses	24	10	11	103	5	7	33	62
2	The attitude in terms of consultation	45	0	0	135	45	0	0	135
3	Officers activeness in providing input on member businesses	13	16	16	87	11	11	23	78
Total					325	275			

Sources: Primary data (2016)

Information: Score 1 for inactive/unfriendly; Score 2 for less active/casual; Score 3 for active/friendly

Total score of effectiveness in the utilization stage financing in rural areas of swasembada that is equal to 275, with a percentage of 67.9%. While in the swakarya village area total score are 325, with a percentage of 80.2%. From the results of these scores can be concluded that the use phase of Islamic micro finance in rural areas of swasembada is quite effective and effective for swakarya village area. At this stage of the return of financing, the effectiveness of the assessment of the level seen by three indicators, namely large margin, active members of the current margin payments and repayment of financing and repayment period. The magnitude of margin to be paid by members depends on the amount of funding received. The margins are subject to an average of 3%.

Table 4. Perception of Micro Businesses In Response To The Implementation Stage Financing Returns To The Area Of Swasembada And Swakarya Villages

No	Financing Returns Aspects	Swakarya Villages				Swasembada Villages			
		Score A	Score B	Score C	Total	Score A	Score B	Score C	Total
		(3)	(2)	(1)		(3)	(2)	(1)	
1	Margin large	24	20	1	113	15	24	6	99
2	Activeness member when payment of margin and return on financing	9	1	35	64	2	1	42	50
3	The returns period	2	35	8	84	2	36	7	85
Total					261	234			

Sources: Primary data (2016)

Information: Score 1 for heavy/not active/fast; Score 2 for was/is less active; Score 3 for mild/active/old

Total score of effectiveness on stage returns to the swasembada village in the amount of 234, with a percentage of 57.8%. While in the swakarya village area total score is 261, with a percentage of 64.4%. From the results of these scores can be concluded that the phase of the return of Islamic micro finance in rural areas of swasembada and swakarya are equally at a sufficiently effective level. This is evident from the amount of margin that is classified, repayment period and not being active members of the current margin payments and repayment of financing.

To see the impact on the performance IMFI financing microenterprises in-proxy at a profit, testing in pairs (Paired sample t test) was done. Paired test done to compared the gains in the last two frequencies financing. Before the paired t test, the data has passed the test of normality. It is seen from the value of the probability of the Kolmogorov-Smirnov table, if the value of each probability > alpha (5%) then the data is considered to pass the test of normality.

Table 5. Paired t test

	Mean	Std Deviation	Std error mean	t	sig
Profit before – profit after	-0.19206	0.59717	0.06295	- 3.051	0.003

From Table 5, it can be seen that the average profit micro business financing before the reduced frequency with the average profit after financing frequency value is negative, ie -0.19206, indicating that profit micro business financing at a frequency greater than the frequency after financing before, significant at the 5% significance level. This indicates that the financing obtained from IMFI positive and significant impact on the improvement of the performance of micro-enterprises. Islamic micro financing disbursed by IMFI in the village area of swasembada and swakarya villages have a positive impact for the benefit of micro-enterprises.

Table 6. Estimation Of Model Parameters Islamic Micro Finance Impact On Profits

Variables	Profits	
	Coefisien	Prob
Education	0.289952	0.0425**
Religiosity Dummy	0.096602	0.4666
Period of Bussiness	-0.094689	0.3888
Sex	0.3428	0.0712*
Areas Dummy	-0.901963	0.0001***
Areas and Great Financing Dummy	8.36E-08	0.0746*
Area and Turnover Dummy	4.44E-08	0.000***
Age	0.230961	0.6807
C	13.01015	0.000
<i>R-squared</i>	0.365404	
<i>Adjusted R-squared</i>	0.302728	
<i>Prob (F statistic)</i>	0.000007	

Sources: Primary data (processed).

Remarks: *) Significant at the 10% significance level; **) Significant at the 5% significance level; ***) Significant at 1% significance level

Dummy variable region and a significant negative effect on the real level are 1%. The coefficient of the dummy variable is in the region of - 0.901963. It can be concluded that the average difference in profit micro businesses in swasembada rural areas with micro businesses in swakarya rural areas is 0.901963%. Value coefficient on the dummy variables is negative territory, indicating that the profit in the region of the swakarya villages is 0.901963% greater than the area of the swasembada villages.

Gender dummy variable is significant at 10% significance level and has a coefficient 0.3428. It can be concluded that the average difference in profit micro businessman with a female micro business is 0.3428%. Education variable is significant at the 5% significance level and it is a positive influence for the benefit of business. This indicates that the higher the education the micro then the benefits to be gained even greater. The value of the coefficient of education variable is 0.289952, which means any increase in the level of 1%, the profit will increase by 0.289952%. These results are consistent with research Yanto (2014), which states that education has positive influence on the development of business. This is in accordance with the conditions in the field, that micro businesses are educated better able to manage and develop its business so that it will have positive impact on the profits they get. Mahmood et.al. (2015) find that the Islamic microfinance had a positive impact on the lives of the poor. Riwayatanti (2013) said that Islamic microfinance is the application of Islamic values to promote social justice for all and to achieve economic development with building human capability as center of attention.

The output using dummy interaction shows that the amount of financing of IMFI distributed in swasembada rural areas has positive effect on profit micro-enterprises. This means an increase in the amount of financing provided in the village area of swasembada will increase profits micro businesses in the area. These results are consistent with studies Ferawati (2015), which states that the increase in the amount of financing provided in advance region would have positive impact for the benefit of micro businesses in the region. Additionally dummy area with the large turnover interacted positive influence for the benefit of micro-businesses. This means an increase in the amount of turnover in the area of swasembada village will increase

profits micro businesses in the area. These results are consistent with research Ferawati (2015), which states that the greater turnover in the region advanced, the greater the benefits to be obtained.

The swasembada village area after interacted with a significant amount of financing result, the magnitude of the impact is more visible after interacted region. This indicates that the micro business in the area of village self-sufficiency also requires financing from IMFI. If seen in field conditions, the amount of financing micro entrepreneurs in rural areas swasembada somewhat less when compared to the rural areas of swakarya.

Analysis of the impact of Islamic micro finance of IMFI to poverty reduction is seen with the affect on member's income changes. Many studies have found the effects of loans to poverty reduction, which seen from the increase in revenue, of which Rahim and Rahman (2007), Rulindo and Pramanik (2013).

Table 7. Paired t test

	Mean	Std Dev	Std error of mean	t	Sig
Profit before – profit after	-0.11245	0.3286	0.03484	-3.228	0.002

Changes in income, which the condition between before and after equal to 0.11245. Moreover, it can be seen that the value sig (test both directions) of 0002 <alpha (5%), which indicates that the value of t test significantly. It can be concluded that there are differences in the average income of micro-enterprises in the frequency before and after. This indicates that the Islamic micro finance significant positive impact on increased revenue for small businesses. After analyzing the micro changes in income before and after financing, further analysis is conducted using poverty indicators. This analysis is done in order to change the level of poverty in the micro before and after obtaining financing more obvious. The analysis of poverty indicators performed separately between the swasembada and swakarya villages in order to see the difference in the two types of the region.

Table 8. Changes In Indicators Of Poverty In The Swasembada Villages

Poverty Indicators	Before financing	After financing
H	0.47	0.36
PI (rupiah)	290 216	243 820
I	0.37	0.03
P2	0.0032	0.00038
Gp	0.029	0.036

The index value headcount ratio (H) before financing amounted to 0.47, meaning that of all the micro there are 47% who are poor according to the World Bank poverty line. After the micro business financing, the headcount value ratio down to 0.36. This indicates that the presence of Islamic micro finance led to a reduced number of micro entrepreneurs who are poor.

Value poverty gap index (PI) has decreased from IDR 290,216 to IDR 243 820. That is, before getting financing, the distance between the average income micro entrepreneurs are poor and the poverty line is IDR 290,216, but after getting financing index value down to IDR 243,820. The same thing happened on the index of income inequality (I), which dropped from 0.37 becomes 0.03 after obtaining financing.

The index value sen (P2) or the severity of poverty showed decreased from 0.0032 becomes 0.00038 after micro businesses obtain financing. In addition to see if there are gaps income micro entrepreneurs both before and after getting financing, used Gini coefficient analysis of the poor (Gp). Value Gp micro businesses before financing amounted to 0.029, meaning that the income gap of micro businesses before getting financing is low. After getting financing Gp value increased to 0.036, but is still relatively low. Swasembada Gp increased is due to the difference in performance between the micro causing the income gap to be increased.

Headcount ratio index value before financing amounted to 0.33, meaning that of all the micro, there are 33% who are poor according to the World Bank poverty line. But after the micro business financing head count value ratio down to

0.27. This indicates that the presence of Islamic micro finance led to a reduced number of micro entrepreneurs who are poor. Value poverty gap index (PI) has decreased from IDR 271,865 to IDR 254 325. That is, before getting financing, the distance between the average income micro-entrepreneurs are poor and the poverty line is IDR 271,865, but after getting financing index value down to IDR 254,325. The same thing happened on the index of income inequality (I), which dropped from 12.35 became 12.33 after obtaining financing.

Table 9. Changes In Indicators Of Poverty In The Swakarya Villages

Poverty Indicators	Before financing	After financing
H	0.33	0.27
PI (rupiah)	271 865	254 325
I	0.35	0.33
P2	0.26	0.14
Gp	0.173	0.008

The index value sen (P2) or the severity of poverty showed decreased from 0.26 became 0.14 after micro businesses obtain financing. In addition to see if there are gaps income micro entrepreneurs both before and after getting financing, used Gini coefficient analysis of the poor (Gp). Value Gp micro businesses before financing amounted to 0.173, meaning that the income gap of micro businesses before getting financing is low. After getting financing Gp value decreased to 0.008.

The decline in the indices of poverty in both regions after the micro obtain financing due to an increase in revenue gained micro businesses after receiving financing from IMFI. The increase in revenue is happening because of the additional capital raised from IMFI actually used to develop business and add merchandise to be sold. In general it can be concluded that Islamic micro financing channeled by IMFI have a positive impact on poverty reduction in both types of regions.

CONCLUSION

Islamic microfinance is an instrument to achieve financial inclusion, by providing access to financial services that reach poor communities. It has several advantages for

it does not use the system of interest, provide the ease of the procedure and the mission of the business (*tijarah*) is also to carry out a social mission (*tabarru*). Their IMFI is expected to be a suitable means of financing for micro entrepreneurs in rural areas, however the case in Bogor Regency with IMFI fairly rapid growth, but poverty and inequality of income are still high. So this research is done to look at the effectiveness of Islamic Microfinancing and their impact on poverty reduction in the region.

After a theoretical and empirical exploration of relevant literatures, the paper found that, (1) The effectiveness of Islamic micro finance in the swasembada and swakarya villages relatively effective at the stage of filing and disbursement of financing. While on the financing of the deployment phase, the swakarya village is more effective. But at this stage of the return of the two is quite effective. Therefore, to improve effectiveness in the utilization aspect, IMFI should consider the characteristics of member businesses. This is because the micro business in the swasembada village area has the characteristics of potential business to be developed in the form of the housing industry, and therefore should be done coaching, consulting and motivation in the micro business so the business can be more developed. Then, to increase the effectiveness of returns, they should consider the big margin financing and payback period to the ability of members in order to avoid paying late. (2) Islamic micro financing positive impact on the performance of micro-enterprises. This is evident from the change in the frequency financing profit before and after. Besides the amount of funding in the area of swasembada village has positive effect on business profits. (3) Islamic micro financing has positive impact on poverty reduction in both regions. It can be seen from the increase in revenue in both the area of micro enterprises after obtaining financing. Therefore, IMFI is necessary to expand the distribution of funding in both types of villages.

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