

# Sharia Microfinance and Poverty Reduction in Indonesia

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Abstract: This study aims to analyse Sharia microfinance and poverty in Indonesia. In this study also analyzed the impact of sharia microfinance on poverty alleviation. This study uses explanatory survey method with data collection techniques through questionnaires and interviews. The population is the poor who have received capital assistance from microfinance. The sample counted 94 of the population as much as hell. The collected data is then analyzed by using descriptive analysis through Wilcoxon different test. The results of the study show that Islamic microfinance is able to eradicate poverty in Indonesia. This can be seen from the difference in income before and after receiving capital. This finding has implications for policies related to poverty alleviation through the role of Islamic financial institutions.

## 1 INTRODUCTION

Microfinance is a financial institution engaged in the special financing of small and medium entrepreneurs (Machmud, 2009, 2012). In many countries, microfinance plays a role in improving the welfare of society and even able to cope with economic shocks and fluctuations (Ledgerwood, 1998, Littlefield, Morduch, & Hashemi, 2003, Robinson, 2001). Microfinance has been shown to have a positive effect on poverty alleviation at the macro level (Imai et al 2012), microfinance plays a role in poverty reduction and socio-economic development in Sub-Saharan African countries (Rooyen et al., 2012). Microfinance in Malaysia has a positive effect on economic vulnerability among inaccessible households (Al-mamun et al., 2014). Studies by (Ghaliba, Malki, and Imai 2014), emphasize that ; Microfinance in Pakistan has a positive impact on poverty alleviation that is manifested. In changes in household income and expenditure, especially on clothing and health. According to panel data findings, microfinance in Bangladesh was found to have a positive impact on poverty reduction and household expenditures, especially food and non-food (Khandker 2005). Ugandan microfinance has a positive impact on rural clients, families, and communities; Income diversification and asset accumulation (Morris and Barnes 2005).

Based on data collected from Guatemala, India, and Ghanamic micro-finance impact on the welfare

of household and business borrowers (Mcintosh, Villaran, and Wydick 2008). Microfinance has a positive impact on Revenue borrowers especially in urban areas in India (Imai, Arun, and Annim 2010). Zimbabwe's microfinance has a positive impact on poverty reduction, as seen in the difference in average income received by microfinance customers greater than; Non-customer income; (Morduch and Graduate 2002).

Based on the results of the study, showing that; Microfinance has a significant impact on poverty reduction and household welfare at different levels such as asset acquisition, household nutrition, health, food security, children's education, women's empowerment, and social ties (Armend & Aacute; Riz de Aghion and Morduch 2000; Armend & amp; aacute; riz and Morduch 2005, 2010; Hashemi, Schuler, and Riley 1996; Littlefield et al. 2003; Roodman and Morduch 2009). Malaysian microfinance plays an important role in the socio-economic development of poor and low-income people, especially women (Al-mamun et al., 2014; Al-Shami et al. 2013). However, studies using Islamic microfinance are rare. Islam as a system that is fundamentally different from the conventional system in force, has Maqasid Al-Shariah (shari'a goal) achieved through the practice and implementation of Islamic law. This is important to realize the falah or the success of human life in this world and the hereafter. Machmud (2012) tries to offer a model of poverty alleviation through the

development of sharia micro finance with the capital source of Zakat, Infak and Shadaqah.

Significant impact of microfinance highlighted by some previous studies, most of the research was conducted in rural areas and using simple statistical tools such as T, Mann-Whitney test exposed to some weaknesses such as bias selection and lack of control. Influence of demographic characteristics (Hashemi et al 1996).

The purpose of this review is to analyse the role of sharia micro finance in poverty alleviation of urban communities in Indonesia. This study is expected to serve as an input for pre-adopting policies related to sharia micro finance with poverty.

## 2 METHODS

This study used explanatory survey method with data collection techniques through questionnaires and interviews to 94 communities receiving financing from microfinance in the city of Bandung, West Java. Questionnaires distributed to previous respondents were tested for validity and reliability. The collected questionnaires were then analyzed using descriptive analysis using differentiation test of wilcoxon before and after.

Operational definitions of survey variables Poverty line revenue is widely recommended for use in measuring the impact of microfinance at the household level on behalf of (Johnson and Rogaly 1997; Navajas et al., 2000; Panjaitan-Drioadisuryo and Cloud 1999). In this study, Dependent is Household income which is adopted from poverty line in Indonesia based on BPS criteria. The source of income of head of household is: farmer with land area 500m2, farm laborer, fisherman, construction worker, planter and or other work with income below Rp. 600.000, - per month.

Review of gender the number of male respondents is 17.02 percent; And female respondents is 82,98%. Number of female respondents in microfinance; As MFIs adopt Grameen Bank Prof.Yunus financing pattern in which financing customers are prioritized for women. The average age of respondents in this study is 43 years. This age exists in productive age. Based on education level, most of them are 97.87 middle to lower, only 2.13% Just the Above medium. Respondents in general Owns used goods business, juices, plants, water refills, plastic, photocopy, Accessories, services, pulses, Toys, barber and clothes Fruit, counter, vegetables, and cakes. Type of business sewing and selling goods, food business and food business. Financing obtained

by most of the respondents who get financing used for its principal and sideline business. Reasons for using financing 60% financing due to his desire to develop business, while The remaining 40% Due to lack of capital for his business. The amount of financing made by the respondent is ranged from Rp.1.000.000 to Rp.5.000.000, - that is as much as 79.79%. He remaining 20.21 percent more than Rp. 5.000.000. The amount of this financing Due to the ability to pay a small repayment of respondents. As mentioned earlier that the goal of Microfinance sharia is a society with low economy.

## 3 RESULTS AND DISCUSSION

### 3.1 Result Study

Table 1: Income Conditions Before and After Getting Microfinance Sharia Financing

	Income			
	Before	After		
N	94	94		
Minimum	470.00	12500.00		
Maximum	735.00	19000.00		
Mean	4131.8617	6442.4468		
Std. Deviation	2651.79063	4318.61461		
		N	Mean Rank	Sum of Ranks
Before	Negative Ranks	0 <sup>a</sup>	.00	.00
After	Positive Ranks	91 <sup>b</sup>	46.50	4186.00
	Ties	3 <sup>c</sup>		
	Total	94		

- a. After < Before
- b. After > Before
- c. After = Before

Table 2: Different Test Income Test Statistics<sup>b</sup>

	After - Before
Z	-8.284 <sup>a</sup>
Asymp. Sig. (2-tailed)	.000

### 3.2 Discussion

In Table 1 it is clear that there has been an increase in revenue, the average sales volume during the 5 months before the financing increased by 55.92 percent compared to the previous income. Most nsabah experience income increase after sharia

microfinance financing. Table 2 looks calculation results Rank Wilcoxon, the value of Z obtained at -8.284 with Sig. (2-tailed) 0,000 where less than the critical limits of the research is 0.05 which means there is a difference in income.

Before and after receiving financing from sharia microfinance prior to the business fluctuation of respondents fluctuate. In the 3rd month there tends to be a decrease in sales volume that results in their income. This is because at that time there is an increase in the price of basic commodities that cause them cannot buy staples as much as usual, resulting in decreased production volume of its business. The decrease in the volume of business resulted in a decrease in sales volume resulting in the profit received in the third month decreased. In addition to reducing the raw materials used in every manufactured goods, there are also respondents who keep selling as usual but with the price of goods sold more expensive than before. The price increase also has an impact on consumer buying desire so that there are consumers who prefer to shop elsewhere whose price is cheaper. The departure of consumers elsewhere would result in reduced volume of goods sold.

The sales volume of SMEs financing recipients after financing becomes better. This is indicated by the increase of monthly sales volume. However, there are still respondents whose business volume remains the same as before financing. This is because after the respondents get financing funds, they do not use it for the purpose of increasing the volume of production, but to improve the existing facilities on the business. As an example of one respondent's business selling finished food, the business owner said that he did not use the funds to increase his production volume, but used it to buy fans, Tv and refrigerator. The reason why he used the funds to buy these items is that customers become more comfortable to eat in place. The result of the addition of the facility makes the merchandise become faster than usual.

One of the business respondents engaged in services is a haircut. Prior to the financing of the barber owner using ordinary shaving scissors to cut the hair of his customers, this is due to lack of capital to buy a more modern haircut. The use of ordinary shaving scissors makes the hair cutting activities become longer, so customers who get every day very little. After getting the financing, he used the funds to buy new equipment that support for his business one of which is an electric haircut machine. The use of electric hair cutting tool to make hair cutting activities to be faster than before using the tool. This resulted in an increasing number of customers that he got, so

it can be said that the business becomes more developed than ever before.

Not all businesses that get the financing are progressing, there are some undeveloped business. According to sharia microfinance officers, the causes of the undeveloped business because they do not use the funds provided properly, for example there are customers who use the money for his personal interests not for the business he runs, there are also customers who use to buy a refrigerator for the shop just because not to be outdone by other stalls and not well used for his business so instead of splitting income instead of the greater the expenditure due to increased electricity costs.

Sharia microfinance officers mention that whether or not the financing depends on the customer, if the funds are used properly then the business can grow and vice versa if not used well then the business will not grow. The use of good and bad funds refers to what the customers do with the funds. The funds can be used properly if the funds are used to increase the volume of their business, such as adding raw materials, and adding production equipment. The fund is said not to be used properly if it is used for personal purposes not related to the business undertaken and cannot maximize the goods purchased with these funds.

Findings show that sharia microfinance have a positive impact on the welfare of urban communities through increased incomes. This is in line with the findings of previous researchers. Microfinance has a positive impact on poverty reduction and household income (Al-mamun et al 2014), household expenditures (Ghaliba et al., 2014), food and non-food expenditure (Khandker 2005) or diversification of revenues and assets Accumulated Morris and Barnes 2005). In line with this research, sharia micro finance in Indonesia has a positive impact on urban poverty alleviation. The results of this study also shows the dominant increase in income of women. This shows that women with knowledge of business are better able to generate profits and increase their business income. These findings have implications for the importance of expanding nonfinancial services such as business development and entrepreneurship training to female clients before lending them (Karlan and Valdivia 2011).

## 4 CONCLUSIONS

These findings provide insights on the role of sharia micro finance against poverty alleviation of urban communities in Indonesian context. These findings

indicate that sharia micro finance contribute significantly to the achievement of new economic policies and models in creating wealth. That happens, through improving the socio-economic welfare of the poor and low income people, especially women. It also plays a central role in creating jobs for women especially those with low education. Therefore, microfinance opens opportunities for economic development.

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