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Improving the Effectiveness of Islamic Micro-financing: Learns from BMT Experience

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Abstract

The establishment of Islamic microfinance institution (IMFI) is not only useful for liberating the society from *riba* system and establishing justice, but also be expected becomes a bridge for MSEs development and poverty alleviation. However, *Baitul Mal Wat Tamwil* (BMT) experience shows that the effort of improving the effectiveness of Islamic micro-financing is still necessary for these purposes. The selection of entrepreneurs constitutes of paramount importance step in relation with the improvement of effectiveness in developing micro-enterprises. Furthermore, besides the provision of financing in interest

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free-based system, the provision of other services such as building up the entrepreneurs, assistance, and business advises are also necessary. Monitoring of business also constitutes an important factor which cannot be ignored, and then the grouping of entrepreneurs (to create reciprocal relationships) is recommended. In order to poverty alleviation, massive Islamic micro-financing (in many areas) need to be conducted. For this purpose, the role of government is needed.

Key words: improving the effectiveness; Islamic micro-financing; micro-enterprise development; poverty alleviation.

1. Introduction

The studies that recognize the importance of capital for strengthening the micro and small enterprises (MSEs) are many, among others are Ramzan (1997), Roberts and Roberts (2003), Khandker and Faruqee (2003) and Khan (2008). By giving credit, they believe that it will help the entrepreneurs to undertake new investment or adopt new technologies and hence enhance their productivity. Then, we are able to improve their performance. Therefore, both and hence generate income. Which finally, these enterprises could sustained their business.

However, the difficulties of micro-enterprises in obtaining credit encourage the non-governmental organization in developing countries to set up the micro finance institutions (MFIs). Since, these MFIs are basically interest-based institutions, and most of them charge higher interest rate. For example Bancosol in Bolivia charges interest: 54% per annum, Enterprise Mentor International in the U.S: 30% per annum (Woodworth, 2000), Grameen Bank: 22.45 per annum (Alam and Miyagi, (2004), Other MFIs in Bangladesh: 18-30% per annum (Alamgir (2000)) and Ismail and Ahmad (1997)). These might not help MSEs to develop their business and enhance their income.

Therefore, some suggest to move away from interest-based MFIs due to several reasons: first, they believe that interest (*riba*) is a form of exploitation and oppression (Hosein (1997)) which uproots the very foundation of humanity, mutual help and sympathy and creates selfishness in human being (Mannan (1993)); and second, the fact that *riba* assures a fixed return to the lender while the borrower is left to bear the entire business risk. It does not promote justice and equity. Hence, Khan (1988:723) reveals that the elimination of *riba* contribute to social justice.

As a result, many Muslim countries introduce the Islamic microfinance institutions (IMFIs), an interest free-based MFIs, to provide capital for MSEs. For example, Ar-Rahn (Malaysia), *Baitul mal wat tamwil or* BMT (Indonesia), Interest Free Micro-credit Programs or IMCP (Pakistan), and Islamic Relief (Bosnia, Herzegovina, Kosovo, Pakiastan, and Sudan). By providing capital via several modes of financing such as *musyarakah, mudharabah, murabahah, ijarah, and qard al-hasan* financing, this study will try to prove that BMT is able to improve the business performance of MSEs. Then, we will identify the factors that could be used to improve further the effectiveness of Islamic micro financing.

The remaining discussion of this paper will be divided into four sections. Section 2 will find the answer on why the effectiveness of BMT financing becomes an issue. Then, the relationship between BMT financing and the business performance of micro-enterprises will be discussed in Section 3. Section 4 discusses what can be learned from BMT experience. Section 5 provides the conclusions.

2. Why Do We Need to Improve the Effectiveness of Micro Financing?

In the early stage, micro-credit was structured for the benefit of lower-income group and the poor since these groups were excluded from the formal financial institutions. This privilege was given to help them get out of poverty, to provide initial capital to the micro and small entrepreneurs (MSE) to start up their

businesses and to help create employment and thus promote economic growth. To ensure these objectives can be achieved, microfinance institutions have to achieve sustainability as an operator or a middle-man to either the government or donor, to reach the lower-income group, MSEs and the poor.

The sustainability of microfinance is a must to ensure that the institutions can last long in serving loans for the lower income group, MSEs and the poor.[3] According to Bennett and Cuevas (1996), the needs for building sustainable financial systems for the poor include financial sector development, enterprise formation and growth, as well as poverty reduction. The sustainability in microfinance means the ability of the organizations to grow and adapt to change. The sustainability of microfinance can be achieved via self-sufficiency and effectiveness. The following discussion will detail only on effectiveness. The effectiveness can be divided into two; i) the effectiveness of operators and ii) the effectiveness of recipients.

The effectiveness of microfinance institutions can be defined as the ability of the service provider or operator to design and deliver financial products and services that meet the needs and requirements of the target client system. Ease of access to credit would mean that the product is characterized by small loan size, reasonable cost, short processing time and reasonable collateral requirements (Ronald and Gilberto, 1996). Furthermore, Gaiha (2003:149) states that the effectiveness of micro-financing depends on whether it has the flexibility to induce the participation of the poorest and whether it enables them to acquire basic skills. Khandker (2003:21) states that the improving skill of borrowers is needed to improve productivity and income.

The effectiveness of microfinance institutions can also be seen from the recipient or client's benefit. From the perspective of MSEs development, we can conclude that the effectiveness of micro-financing can be indicated by the success of business, income enhancement, rate of repayment and the benefit of the program to the community, and the sustainability of the credit programs is an important component to achieve the goal of the programs. Profitability is necessary to achieve self-sustainability. Therefore, analyzing the ability of MFIs profit generation is needed.

In addition, Goldmark (2001:149) reveals that the future of MSEs development, however, contemplates an ever wider range of available services, both financial and non-financial through which small business owners can build linkages to larger business and more profitable markets. Services that directly target the business owners' activities may include training, technology access, marketing assistance, business advice, monitoring and information. While Friedman (2001:140) focuses the micro-enterprise development on the assets, talents, and skill of individuals and channel them into small business ownership. The previous concepts indicate that MSEs development is not only enough by providing financial services, but also needs the wider range of other services (non-financial) which useful for improving the effectiveness of financing. In other words, in terms of MSEs development (as a means of poverty alleviation), the availability a wider range of non-financial services to improve the effectiveness of financing is necessary. Then, linking ME to other development programs and non-financial business services must be formalized and recognized as necessary component to poverty alleviation (Fairly, 1998: 346).

In Islamic, the above concept of development could be debated. As suggested by Al-Harran (2000:2), it includes moral, spiritual and material aspect. Hence, the IMFIs should have a multi-dimensional approach based on Islamic principles for the benefit of mankind and gives serious consideration to the total development requirement of the community. It means that the financing strategy should directly relate to the development of mankind according to Islamic norms. In other words, MSEs development should match to the objectives of the *Shariah*. Islam comes to show the right path for a good life. It must tackle the problem of developing man in this relation with God, in his relationship with other human beings, not only in his personal life but in business as well. Of course, it encourages more complex program designs (multi-sectoral and inter-organisational partnerships), that seek to help poor people not

[3] Sustainability is about creating institutions that can provide a positive flow of benefits for as long as they are needed.

only meet minimum material needs, but also access education (including skill, moral and spiritual) and other services.

In Islamic perspective, the previous discussion indicates that spiritual development via internalizing Islamic moral value in entrepreneur's consciousness also constitutes an important factor of MSEs development - which is useful in improvement initiatives in a manner that reinforces values (*akhlaq*) and builds social and human capital.[4] It motivates the entrepreneurs to work hard, improving the spirit of brotherhood, honesty, discipline, patience, piety, social responsibility and loyalty to God.[5] For the purpose of poverty alleviation, it is very useful. Since, poverty is not only an economic issue; but it has moral, social and political dimension as well (Naqvi, 2003:119). Therefore, the involvement of *da'wah* institutions (as a support service) is necessary.

To complete the program, the provision of social support system (mutual guarantee and solidarity) - in the form of *zakah* and *sadaqah* or other voluntary charities – is also necessary. It would help the participants of Islamic micro-financing - who face business failure and may debt trap (*gharimin*) - to pay the installment and help the needy around the IMFI.[6]

In addition, poverty alleviation (via MSEs development) will be successful if Islamic financing is conducted in many areas (massive), and the government takes part in (or support) this program. The provision of Islamic micro-financing only for a small people in a small area it is not sufficient for poverty alleviation. Furthermore, the poverty alleviation program will face difficulties if the government does not take a role in this program. Then, the political will of government is necessary – that is by making regulation which encourages the Islamic micro-financing program. Providing rural infrastructure are also essential requirements of favorable environment for micro-enterprises development. Therefore, the process of improving the effectiveness of financing (as a means of MSEs development and poverty alleviation) can be summarized as follows:

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[4] This approach has been practiced by Institute for Social and Economic Development (ISED) in relation to the community building (Friedman, 2001:141).

[5] The result of the study in Bangladesh indicates that imparting Islamic teachings makes the beneficiaries better clients (Ahmed, 2002:32).

[6] Most BMT in Central Java provide this system (Widiyanto, 2007:5.8).

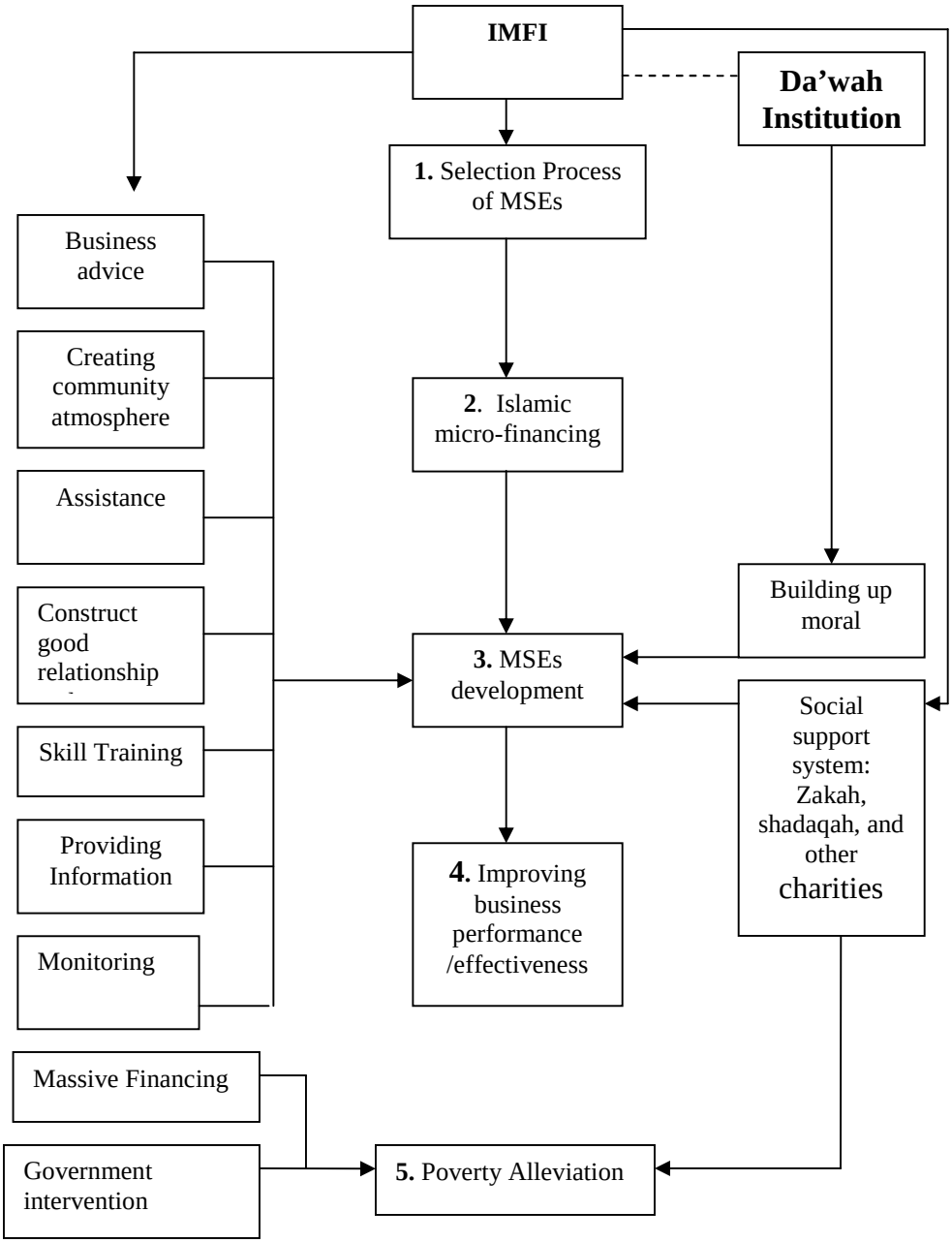

Figure 1: The process of improving the effectiveness of financing as a means of MSEs development and poverty alleviation.

3. BMT Financing and the Business Performance of MSEs

In this section, our aim is to link BMT financing with business performance of MSEs. Therefore, the discussion will be divided into two, i.e., the sample background and the effectiveness of financing.

3.1 Sample Background

The study of BMT financing utilizes 60 BMTs and 204 MSEs as samples which located in Central Java, Indonesia. It was selected based on area sampling frame in which different geographic regions. The selection was done to create a good sample of the various conditions of large Central Java province.

a. BMT Activities

The aim is to understand the operation of BMT in giving the financing facilities to MSEs. Then, how does it affect the business performance of MSEs?

BMT is an Islamic microfinance institution (operates based on interest free-based system) and is established by local prominent figures of the society. Conceptually, BMT has dual functions – as a *Baitut Tamwil* and as a *Baitul Maal*. It means that BMT has dual missions - business and social. The business mission of BMT is functioning as a financial intermediation which provides financial services such as savings[7] and micro-enterprise financing[8]. While the social missions of BMT are as *amil* (collect and distribute *Zakah*), collect and distribute *Infaq* and *Sadaqah* and provide money on *qard al-hasan* financing. In addition, in order to achieve their mission, 35 percent the sample of BMTs also function as religious proselytizing (*da'wah*) institutions which organize religious activities. This constitutes spiritual approach which expected to contribute positive impact on community development.

b. Business Sectors of the BMT participants

The participants of BMT financing run business in different sectors - trading, services, agriculture, and production (home industries). Several of them not only run business in one sector- but two or three sectors- such as combination of trading and services, trading and agriculture, trading and services and agriculture, trading and services and production, trading and agriculture and production. Nevertheless, BMTs dispose to select the participant**s** who run the business in trading sector rather than the ones in service, agricultural and home industrial sectors. It may be based on the consideration that the business turnover of trading sector is faster than the others, or less risky than the others. Table 1 shows several examples of the types of business (according to business sectors) handled by the participants of BMT financing. The second, third, fourth and fifth column of Table 1 show the examples of the types of businesses in trading, service, agricultural and production sectors respectively. The progress of the participant number of BMT financing increased significantly. The participant number of BMT financing per BMT in 2002 on average is 482 participants and increased to 847 participants in 2005. Roughly from 2002 to 2005 the participant number of BMT financing increased by 76 %. This figure points out that BMTs have a big role in serving the society to develop the people's economy as well as to liberate the society from interest system.

Table 1: The forms of types of business by sectors

No	Trading Sector	Services Sector	Agriculture Sector	Production Sector/Home industry
1	Meatballs	Beauty parlor	Rice	Soybean curd
2	Agriculture products	Food Catering	Chicken livestock	Fermented soybean cake
3	Nine basic needs	Computer rental	Cow livestock	Furniture
4	Cake	Computer repair	Fisherman	Chips
5	Medicinal herbs	Motorcycle transportation	Quail livestock	Clothes
6	Cigarette	Motorcycle workshop	Rabbit livestock	Paving
7	Flower	Tire repair	Crops planted as	Noodle

[7] For example: *mudarabah* savings, pilgrim savings, religious offering savings (at rites celebrating *idul adha*), farmer savings, educational savings, pension savings, etc.

[8] It includes *mudarabah*, *musharakah*, *murabahah*, *bai'u bithaman ajil*, *ijarah* and *qard al-hasan* financing.

			2d crop in dry season	
8	Snacks	Photography	Corn	Wafer
9	Food stall	Printing house	Potato	Clothes for baby
10	Java sugar	Rice mill		
11	Vegetables	Lathe workshop		
12	Fruits	Welder		.

Source: Primary data

3.2 Effectiveness of Financing

The effectiveness of BMT financing (as measured by paired sample *t*-test) in developing micro-enterprises has been evaluated by pointing out the change of business performance i.e., business income and profit by comparing the mean of these indicators at the first time the micro-enterprises joint BMTs (first condition) and when the research was conducted (second condition). Table 2 shows the paired sample *t*-test of Islamic micro-financing practiced by over all the BMTs is able to enhance business performance of MSEs.

Table 2: The summary of the paired samples *t* test of business income, profit and asset of micro and small enterprises (Rp)

Indicators	Mean 1	Mean 2	Differences of Mean	T value
Business Income 1& 2	3,434,120.10	7,742,279.41	4,308,159.3	7.602***
Profit 1 & 2	803,379.90	1,877,972.79	1,047,592.9	8.418***
Business Asset 1 & 2	10,002,598.04	25,854,341.67	15,581,744.0	6.629***

Note : 1,2 represent the first and last condition of the micro-enterprises joint to BMTs respectively. *** represent 0.01 significance level.

The business performance of MSEs (business income, profit, and asset) increases significantly after they join to BMT financing. Initially, when they joined BMT for the first time, the mean business income, profit, and asset of micro-enterprises are Rp. 3,434,120.10, Rp. 803,379.90, and Rp. 10,002,598.04 respectively, and in the last condition (when the research was conducted) it increased to Rp. 7,742,279.41, Rp. 1,877,972.79, and Rp. 25,854,341.67 respectively. The Figure 1, Figure 2, and Figure 3 also show that BMT financing is able to improve the business performance of MEs significantly (effective).

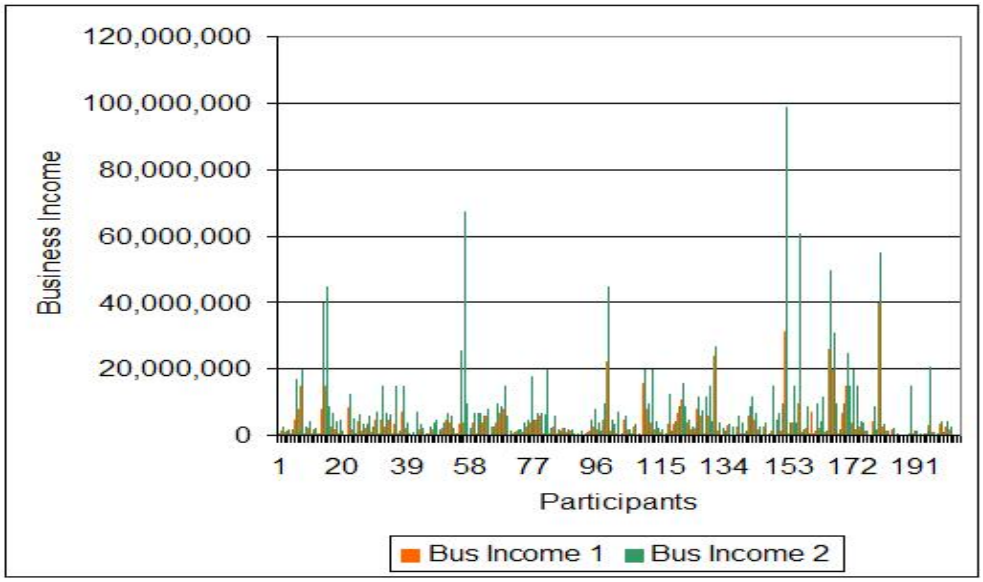

Figure 1: The improvement of business income of MSEs

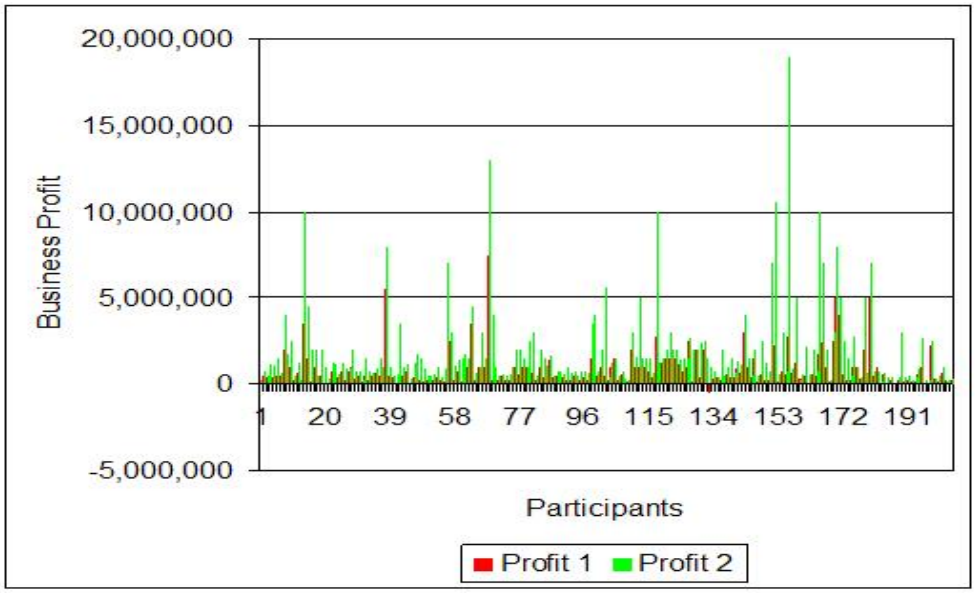

Figure 2: The improvement of business profit of MSEs

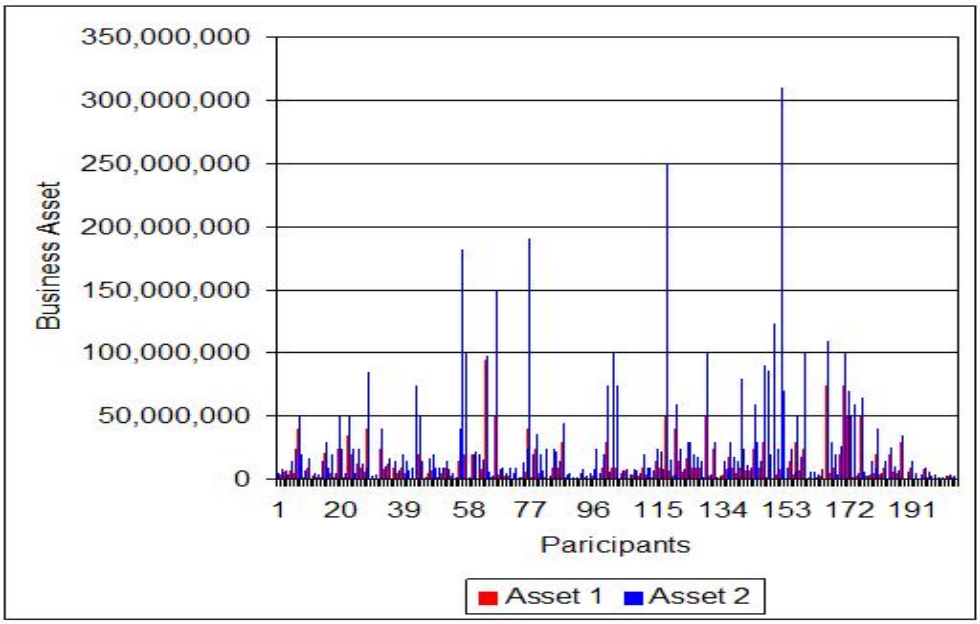

Figure 3: The improvement of business asset of MEs

The rate of non-performing financing (NPF) or the rate of repayment also constitutes an important indicator of the effectiveness of financing. The low rate of NPF or the high rate of repayment indicates that BMT financing is effective in developing micro-enterprises. Micro-enterprises that are able to develop their business will obtain profit and furthermore they are able to repay the capital as well as the share of profit or mark-up to BMTs. Overall, Table 3 shows that the rate of NPF of BMTs (2002-2005) is still less than five percent or the rate of repayment greater than 95 percent. It indicates that BMT financing is still effective.

Table 3: Descriptive statistics of NPF 2002-2005

	N	Minimum	Maximum	Mean	Std. Deviation
NPF 2002	51	0.19 %	15.10 %	3.95 %	3.19 %
NPF 2003	52	0.16 %	24.61 %	4.54 %	4.62 %
NPF 2004	56	0.15 %	17.10 %	4.03 %	3.84 %
NPF 2005	57	0.11 %	17.90 %	3.54 %	3.59 %

Source: Primary data

The above result indicates that BMT financing is able to improve business performance of MSEs effectively. It constitutes evidence that Islamic micro-financing is applicable for developing micro and small enterprises. This is in accordance with the finding of Ramzan (1997:1477) in which Islamic financing (profit-loss sharing) has been successful in catering the financing needs of MEs.

In addition, BMT financing does not only improve the business performance of MSEs, but also enhances the household income of MSEs. The household income of MEs at the first time they joined BMTs is different significantly from the last condition when survey was conducted. That is on average the household income increased from Rp. 893,041.67 to Rp. 2,150,813.7 per month. It indicates that the household income of MSEs on average increased more than 100 %. Furthermore, the increase of household income is accompanied by the increase of saving, ability to fulfill the basic requirement, ability to pay school fee for their children and to pay the cost of medical treatment of household members and,

moreover, the increase of the religious activity.[9] It means that Islamic micro-financing is potential for quality of life enhancement (physical and spiritual) and poverty alleviation.[10]

4. What can be learned from BMT experience?

The important findings from previous section show that BMT financing could improve the business performance of MSEs. What are the factors that contribute to those successes? Or specifically, what can we learn from BMT experience?

a) Selection process

The basic idea of the selection of MSEs (the participants of Islamic financing) is to obtain the minimum standards of legal capacity – they must have legal capacity to enter into a contract.[11] It is related to the liability of their loan. BMT has conducted the selection process of MSEs before they obtain fund. It embraces: (1) administrative selection; (2) interview; and (3) feasibility study (including visitation to check the business condition). The basic criteria of selection include: the credibility (honesty / *akhlaq*); capability in running business (skill); business experience; collateral; and business worthiness. Feasibility study also constitutes an important aspect in selecting micro-enterprises, since based on this activity, BMTs can determine the feasible micro-enterprises which have real business value and avoid the fictitious ones. The selection of MSEs especially for *mudarabah* financing is conducted more selectively rather than the others. The capital owners have the right to select the best business partners who are desirable (profitable and believable[12]). According to Mansuri (2006:279), in the case of *mudarabah* financing, the partners must have legal capacity to enter into contract. It includes competence to develop a principal – agent relationship. This requires that none of the parties should be insane or minor or placed under interdiction because of insolvency or weaknesses of intellect. Therefore, in *mudarabah* contracts, the personal qualities and the characteristics of entrepreneur are vital criteria in relation to the decision by the provider of funds to accept or reject the project (Khalil *et al*., 2002:63). Islam demands specific codes of behavior to be followed.

Based on sound feasibility study, the profitability of the business would be protected, so that all parties are expected to enjoy the benefit of the business. By selecting the believable business partner (*amanah*[13]), the principles of justice can be maintained. It means that the possibility of the business partner not paying his debt can be reduced. It is a part of the Islamic system. For this purpose, the selection (screening) of the business partner (agent) is needed to ensure the success of the business. Nevertheless, the basic criteria of the selection of MEs need to be differentiated according to the type of financing, since the level of competence of each type of financing is different (Table 4).

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[9] Islam considers religion as constitutive of individual well-being and happiness (Naqvi, 2003:15).

[10] Evidence shows that BMT financing was not only able to improve the income of the participants but was also able to reduce the percentage of participants bellow poverty line from 3.92 percent to 0.49 percent.

[11] Capacity is a quality which makes a person qualified for acquiring rights and undertaking duties and responsibilities (Kharofa, 2004:13).

[12] Affandi (2002:130) suggests that in the context of partnership, choosing the right partners is needed, based on their piety as well as high morality and good behavior.

[13] According to Sulaiman (1981:200) *mudarabah* is undertaken based on the trust (*amanah*) of the *rabb-ul mal* to the *mudarib* about his strength to hold the trust and his capability.

Table 4: Basic criteria of MSEs selection

Type of financing	1	2	3	4	5	6	7
	Administrative requirement	Credibility/Ahklaq	Capability / Skill	Business experience	Type of business	Business worthiness	Collateral
Mudarabah	SN	SN	SN	SN	SN	SN	NN
Musharakah	SN	SN	SN	SN	SN	SN	NN
Murabahah	SN	N	N	N	N	N	N
Bai'u bithaman ajil	SN	N	N	N	N	N	N
Ijarah	SN	N	N	N	N	NN	NN
Qard al-hasan	SN	N	N	NN	NN	NN	NN

Note: SN = Strongly Needed, N = Needed, NN = no need

b) Business control

Business control reduces the deviation of the use of fund by micro-enterprises for other purposes. It is very useful for improving the effectiveness of financing. The result shows that only 4.41% of micro-enterprises use the fund from BMTs for purposes outside the business. The advantage of Islamic financing – especially for *murabahah* or *bai'u bithaman ajil* and *ijarah* financing – is that this financing can reduce the deviation of the use of capital to other purposes since micro-enterprises receive the capital in the form of product and not in the form of fund. Loan fund will be spent on the purposes for which they are intended. In general, business control can be conducted through periodical monitoring of the business progress via direct visitation. In the case of *mudarabah* financing, the business control can be conducted via periodical control of the business record and also direct visitation. According to Chapra (1985:155) a careful evaluation of the projects is required by profit-and-loss sharing followed by continuing close relationship that may tend to minimize cases needing such treatment. Cross check among the participants of Islamic financing can also be conducted. So, the grouping of the participants in each area is strongly recommended. The objective is to create reciprocal relationships among the participants.[14] According to Anthony (2005: 510), besides strong ties, reciprocal relationships enable members of the group to gather information, assess reliability, continually monitor each others, as well as demonstrate their own willingness to cooperate. Then, it is useful to facilitate the tracking process, business control (with lower cost) and channel the participants to *da'wah* institution.[15]

c) Incentive system of good repayment

[14] The forming group is not aimed to form the social collateral and ensure the debt repayment which is suggested by Ahmed (2002:13). We argue that the social collateral and ensure the debt repayment can be formed via building consciousness of *Zakah* and *Sadaqah*.

[15] By channeling the participants to *da'wah* institution, it will help IMFI in the process of internalization of Islamic teaching for moral building.

To reduce the non-performing financing (NPF), most BMT provide incentive to the micro-enterprises if they achieve good performance in their repayment, such as giving mark-up or profit payment discount, parcel, souvenir, scholarship for their children, add their savings and enhance the ceiling of financing. Giving incentive to the micro-enterprises which achieve good performance in their repayment motivates the micro-enterprises to improve their business so that they can fully repay their loan on time without postponement. It contributes benefit to all parties (financer and micro-enterprises) especially for maintain the sustainability of Islamic financing and micro-enterprises continue and develop their business. Otherwise, punishment to the participant (who is always in arrears) also be conducted as prevention.[16]

d) Construct good relationship (cooperation)

Most BMTs also establish good relationship to the micro-enterprises to reduce the NPF through visitation (friendship) on wedding parties, visit during a wake, personal approach, advice or assistance, religious activities and building up of character (*akhlaq*). The ability of financer in constructing good relationship with their participants is very necessary so that the financer are able to easily and accurately access the business information of the participants. The ease and accuracy of the business information facilitate the financer in controlling the progress of business to reduce principal agent problems as well as in solving the business problem of the participants. In sum, constructing good relationship with the participants help financer in reducing the rate of NPF as well as improving the effectiveness of Islamic financing.

Developing a good relationship in the form of business advice or assistance, religious activities and building up of the character to the micro-enterprises is beneficial in increasing business performance. Business advice helps the micro-enterprises in solving their business problems as well as developing their business. Nevertheless, it still depends on the quality of the business advice which has been accepted. Furthermore, religious activities contribute in increasing self-reliance which encourages micro-enterprises to improve their business performance. Religious moral values make a decisive impact on human motivation to work hard when moral values become deeply internalized in man's consciousness so that both the mind and the soul take on a quiet but magical luminosity. Building up of the character (*akhlaq*) of the micro-entrepreneurs - so that they are able to change their bad to good behavior such as to change wasteful to thrift behavior and the inclination to postpone the loan repayment – will also help micro-enterprises in improving their business performance via improving efficiency as well as accelerating the loan repayment. The change of individual behavior to a better condition enables the micro-entrepreneurs to improve their quality of business as well as to reduce the rate of NPF.

5. Conclusions

The provision of capital is expected would help micro and small enterprises (MSEs) to start or to strengthen their business. Nevertheless, giving loans with very high interest rate does not assist them and precisely will be burdensome for them. It is unjust, selfish, and moreover, it involves exploitation. Therefore, MEs development (for poverty alleviation) needs a just provision of capital which balances the importance of MFI and micro-enterprises. Furthermore, the spirit of brotherhood constitutes an important foundation for MSEs development and poverty alleviation.

BMT financing is able to improve business performance and the household income of MSEs effectively. It means that Islamic micro-financing is potential for poverty alleviation. The finding indicates that the selection process of ME; business control; incentive system; and construct good relationship constitute the important factors which cannot be ignored in achieving the effectiveness of BMT financing. By selecting the believable business partner (*amanah*), the principles of justice can be maintained and the possibility of the business partner not paying his debt can be reduced as well as to

[16] For example, BMT did not enhance the ceiling of financing for next period, or continue the contract.

ensure the success of the business. Nevertheless, the basic criteria of the selection of MSEs need to be differentiated according to the type of financing.

Business control reduces the deviation of the use of fund by micro-enterprises for other purposes. It is very useful for improving the effectiveness of financing. It can be conducted through periodical monitoring of the business progress via direct visitation. For this purpose, cross check among the participants of Islamic financing can also be conducted, and the grouping of the participants in each area is strongly recommended.

Constructing good relationship with their participants is very necessary. It helps financer in reducing the rate of NPF as well as improving the effectiveness of Islamic financing. Developing a good relationship in the form of business advice or assistance, religious activities and building up of the character (*akhlaq*) to the entrepreneurs is beneficial in increasing business performance.

In terms of MSEs development (as a means of poverty alleviation), the availability a wider range of non-financial services to improve the effectiveness of financing is necessary. It is not only useful for MEs development and poverty alleviation, but also gives benefit to IMFI by reducing the risk of business and sustainability of the program. MEs development and poverty alleviation need an integrated program – the provision of financial and non- financial services (including spiritual development via internalizing Islamic moral value and the provision of support system).Furthermore, poverty alleviation will be successful if Islamic financing is conducted in many areas (massive), and the government takes part in (or supports) this program.

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