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Sustainability of Islamic Microfinance in Indonesia: A Holistic Approach

Besse Wediawati, Padjadjaran University & Jambi University

Nury Effendi, Padjadjaran University

Aldrin Herwany, Padjadjaran University

Dian Masyita, Padjadjaran University

Keywords

Holistic Approach, Sustainability IMFI, Islamic Microfinance, Financial Intermediation, Social Intermediation, Spiritual Intermediation.

Introduction

Islamic Micro Finance (IMFI) has become one of the important financial instruments in the Islamic world to alleviate poverty by providing microfinance services for the poor to the impoverished (Rahman, 2007; Obaidullah & Khan, 2008). A number of studies revealed the positive impact of IMFI on poverty alleviation and increased household incomes (Hadisumarto & Ismail, 2010) children's education and business development (Rokhman, 2013); increased sales, business expenses and net income, as well as increased product volumes (Riwajanti, 2014) and increased employment opportunity (Mohamed & Ahmed, 2015).

IMFI's positive impact can only be sustained if the institution reaches a high level of financial performance on one hand and caters the poor as broad it can reach as possible, on the other hand. Therefore, in addition to pursuing financial sustainability-which IMFI can cover operational costs and able to grow-it also must pursue social performance by reaching the poor to provide quality services and improve their lives (poverty outreach). In other words, to achieve IMFI's sustainability, financial sustainability and poverty outreach, there are two objectives that must be simultaneously achieved.

SUSTAINABILITY OF ISLAMIC MICROFINANCE IN INDONESIA: A HOLISTIC APPROACH

Besse Wediawati, Padjadjaran University & Jambi University

Nury Effendi, Padjadjaran University

Aldrin Herwany, Padjadjaran University

Dian Masyita, Padjadjaran University

ABSTRACT

This study aims to address the sustainability issue of Islamic Micro-Finance Institutions (IMFIs) in Indonesia. Previous researches on IMFI sustainability generally viewed the financial and social or the spiritual aspect as segregated elements. There is hardly any empirical investigation that integrated these three aspects in an effort to achieve sustainability. Thus, this research is expected to fill the gap by proposing a holistic approach for achieving IMFI sustainability.

This study used survey method on 98 units of sharia cooperatives/Baitul Maal Wattamwil (BMTs) using a structured questionnaires based on Likert scale of 5 points. The previous holistic approach was developed based on the literature review and the responses of IMFI's experts. Partial least square path modeling has been adopted to examine the relationship among the constructs.

The results show that financial, social and spiritual intermediation has a positively significant effect on IMFI's sustainability in Indonesia. These results also show that IMFI's sustainability problem can be overcome by applying holistic approach.

The study is focused on Islamic Micro Finance Institution (IMFI). The future study is expected to observe the impact of this holistic approach on the lives of the poor and on the performance of micro-enterprises as beneficiaries of IMFI. This study is the first empirical one to examine the sustainability of IMFI using a holistic approach. It also provides new contribution to the IMFI's intermediary concept from the double bottom line-as known so far-has become a triple mission of IMFI.

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INTRODUCTION

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