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REVISITING THE EXISTENCY OF IB'S NICHE PRODUCT: A Case of Mudharabah Contract in Selected BMT in Yogyakarta

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Abstract

Dalam sistem keuangan Islam, Mudharabah dikenal sebagai niche product-nya lembaga keuangan Islam (produk transaksi yang sangat pantas bagi lembaga keuangan Islam karena adil, menjunjung empati terhadap mudharib, dan mendukung pertumbuhan ekonomi). Namun, fakta mengatakan bahwa Mudharabah bukanlah pembiayaan favorit. Tulisan ini bertujuan untuk melihat apakah pembiayaan Mudharabah masih layak dijadikan niche-product dengan mengidentifikasi peningkatan pendapatan, konsumsi, dan investasi dari para anggota setelah menjadi mitra BMT. Metode dalam makalah ini menggunakan metode deskriptif kuantitatif. Melalui rumus Slovin dan regresi linier berganda, penelitian ini akan mengevaluasi pendapatan 95 responden (Y), konsumsi (C), dan Investasi mereka (I), serta menganalisis pengetahuan mereka tentang produk yang ditawarkan (Pr), empati lembaga keuangan mikro syariah ke anggota (G), dan nisbah bagi hasil yang mereka setujui (Ps). Temuan dalam penelitian ini menunjukkan bahwa konsumsi anggota BMT dan Investasi mereka memiliki hubungan positif dengan pendapatan mereka dalam jangka panjang; dan produk yang ditawarkan, empati dari BMT ke anggota, serta nisbah bagi hasil yang mereka setujui juga terespon positif terhadap meningkatnya pendapatan mereka. Ini berarti bahwa konsep niche-product-nya lembaga keuangan Islam masih bisa diandalkan dan diterapkan di tingkat lembaga keuangan mikro.

Keywords: Niche Product, Mudharabah, Profit Sharing, Emphaty

Research Background

The basic principle of PLS is that, instead of lending money at a fixed rate of return, the banker forms a partnership with the borrower thereby sharing in a venture's profits and losses. Mudharabah as a financing instrument is the earliest to be proposed in literature on Islamic banking and the principal alternative interest-bearing transactions (n.d.). It is important : making the elimination of y (Choudhury, n.d.).



Mudharabah also promotes distributive justice by alleviating concentration of wealth or income disparities via equitable reallocation of productive resources and mobilization of resources rather than surplus of funds (Al-Harran, n.d.). If it translated to the Islamic Bank (IB) words, bank's objective should be maximization of social benefit not profit maximization.

Baitul Mal wat Tamwil (BMT) as an institution that designed for ground level

economy and work for the maximization of cooperation or social benefit, presently, looking a resemble of an IB. More and more, the supervision will takeover by the Financial Service Authority (OJK) for next coming year 2015, therefore, the existence of this niche product needs to evaluate immediately.

Currently, the Central Bank report shows the unconsiderable anxiety rank for the Mudharabah contract which is not even twelve percent compared to the other contracts:

Table.1
Financing Composition of Islamic Commercial Bank and Islamic Business Unit

2016						Indicator
Jan	Feb	Mar	Apr	Mei	Jun	
20.195	20.683	21.259	21.564	22.384	23.898	1. Profit Sharing Financing
6.663	6.654	6.722	6.678	6.753	6.876	a. Mudharabah
13.533	14.028	14.537	14.886	15.631	17.022	b. Musyarakah
-	-	-	-	-	-	c. Other Profit Sharing Financing
30.004	30.523	30.847	31.299	31.731	32.241	2. Receivables/Acceptables
28.727	29.227	29.538	29.964	30.358	30.838	a. Murabahah
626	637	642	667	704	717	b. Qardh
652	660	667	667	669	686	c. Istishna'
8.821	8.613	8.409	8.026	8.022	7.892	3. Ijarah including Leasing receivables
-	-	-	-	-	-	a. Syndication Financing
22	22	7	7	7	7	b. Financing through Channeling
-	-	-	-	-	-	c. Financing through Executing
8.799	8.591	8.402	8.019	8.015	7.885	d. Other Ijarah
-	-	-	-	-	-	4. Salam
59.021	59.819	60.515	60.515	62.136	64.031	Total Financing

*) Provisional figures, reported in statistics of www.ojk.go.id

The Mudharabah paradox also circled among micro enterprise institutions such BMT, where, it were not even become unfavourite financing contract due to costly and risky, but also it use to accumulate the depositors saving accounts.

consumption and investment) through BMT especially in Yogyakarta city which is represented by the increasing of member knowledge to the Mudharabah, profit sharing rate determination and BMT staff's empathy to the member.

Indeed, IB and BMT receives funds from people and entrepreneur and channels it to other people and entrepreneurs who need them. However, some findings showed the fact, that several BMT offer the Mudharabah account and deposits, yet finance it in the other type of (umi, 2014).

Research Question, Location and Purposes

The research problems are stated as follows "does Mudharabah contribute to the welfare of Yogyakarta's citizen?" This research will held in five areas of Kota Yogyakarta, and it aims to achieve the following objectives:



Therefore, this research will discuss how Mudharabah contribute to the increment of their income,

- To identify the influences of Mudharabah, empathy and profit sharing ratio determination toward MSEs' funding

- b. To analyse whether the improvement of welfare, i.e. income, consumption, and investment of the members are influenced by the contribution of Mudharabah Contract.

Literature Review

Satisfaction level and welfare is two definitions which are related each other. Satisfaction level refers to individual or party condition, whether welfare refers to community or society conditions. Welfare is an aggregate condition from individual satisfaction.

Enactment of Republic of Indonesia No. 11 2009 about social welfare, says that the Social Welfare is the fulfillment of the condition of the material, spiritual, and social life of citizens in order to be viable and able to develop them, so that it can carry out its social function.

Public welfare of middle and lower class can be represented from their living standard; it can be marked with the alleviation of poverty, the acquisition of a higher education level, and the level of productivity of the community.¹

Indonesian Central Bureau of Statistics (2000) explains that in order to see the level of household wealth of an area there are several indicators that can be used as a measurement, they are:

1. The level of family income;
2. The composition of household expenditure by comparing expenditures on food and non-food;
3. The level of family education;
4. The level of family health, and;



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¹ P.2003. *Economic Development*
London: Pearson Education Limited

5. Housing conditions and facilities owned by the household.

Therefore, a person can be said to have been prosperous if he gained increased revenue, since it will influencing the increasing of consumption either for production or non-production, or an increasing in the investments. The variable among income, consumption and investment are related each other.

In micro scale, income is a sum of investment and consumption. If the income decreases while the consumption is constant, the investment or saving will decrease from before. If the income decreases while the consumption decreases too, the investment or saving will decrease proportionately. In the other hand, if the income increases while the consumption is constant, the saving will increase; or if the income increases while the investment is constant, the consumption will increase.²

Income is the monetary payment received in exchange for providing a good or service, or from other sources, as rents or investments. In micro scale, generally the circulation flow of income shows the flows of production, income, goods, services, and the expenditure factor between firm and household sectors.

Mankiew explained in his books that households' consumption decisions affect the way the economy as a whole behaves both in the long run and in the short run. The consumption decision is crucial for long run analysis because of its role in the economic growth. As well as consumption

² Mankiew, N.Gregory.2007. *Macroeconomics 6th Edition*. New York: Worth Publisher.

decision is crucial too for short run analysis because of its role in determining aggregate demand. Consumption is two-third of GDP, so fluctuations in consumption are a key element of booms and recessions.³

In 1936, Keynes made the consumption function central to his theory of economic fluctuations, and it has played a key role in macroeconomic analysis ever since. Instead of relying on statistical analysis, Keynes made conjectures about the consumption function based on introspection and casual observation.⁴ They are :

- The marginal propensity to consume (MPC) is between zero and one
- The ratio of consumption to income, called the average propensity to consume, falls as income rises.
- Income is the primary determinant of consumption and that the interest rate does not have an important role.

According to Mankiew, households with higher income consumed more, which confirms that the marginal propensity to consume is greater than zero, while household with higher income saved more, which confirms that the marginal propensity to consume is less than zero. In addition, the higher-income households saved a large fraction of their income, which confirms that the average propensity to consume falls as income rises.⁵

In the futures when income was low, such as during the depths of the depression, both consumption

and saving were low, indicating that the marginal propensity to consume is between zero and one. In addition, during those years of low income, the ratio of consumption to income was high, confirming Keynes's second conjecture.

Finally, because the correlation between income and consumption was so strong, no other variable appeared to be important for explaining consumption. Thus, the explanation above also confirmed Keynes's third conjecture that income is primary determinant of how much people choose to consume.⁶

Investment plays a key role not only in long run growth but also in the short run business cycle because it is most volatile component of GDP. When expenditure on goods and services falls during a recession, much of the decline is usually due to a drop in investment.

During U.S. recession at 1982 for example, real GDP of U.S. fell \$105 billion from its peak in the third quarter of 1981 to its trough in the fourth quarter of 1982. Investment spending over the same period fell \$152 billion, accounting for more than the entire falls in spending.⁷

Driven by a sense of deep concern to many poor people who are caught by moneylenders, Indonesian government support the *Bayt al-Maal Wa al-Tamwil* (BMT) as a micro financial institution which enhances the economic empowerment programs, especially among micro, small, medium and cooperative through the Islamic system. The term of *Baitul Maal* means house of money and



egory. *Op. Cit.* Page 456

⁶*Ibid*

⁷*Ibid* Page 487

Baitul Tamwiil means financing house.⁸ This term already existed since *Rasulullah* era even though it didn't established formally as an institution and separated each other. But, in Caliph Umar bin Khattab era, *Baitul Maal* established as a formal economic institutions suggested by jurist named Walid bin Hisyam.⁹ Since this period and triumph of Islam while Dynasty Abbasid and Umayyad) *Bayt al-Maal* has become an institution that had important role for the country life.

At that time, the *Bayt al-Maal* has handling various matters either from withdrawal *zakat*, *ghanimah*, *infaq*, *shadaqah* or to build public facilities such as roads, bridges, hiring soldiers and officials countries, and other public interests. Meaning to say that the *Bayt al-Maal* in Caliph Umar bin Khattab period until the triumph of Islam period can be said as the Ministry of Finance, Directorate General of Taxation, Ministry of Social Affairs, Ministry of Public Works and so on at once.¹⁰

The concept of BMT in Indonesia has been rolling over a decade. This concept has proved in overcoming and reducing poverty. BMT has strategic role to reduce poverty seeing the fact that the banking institutions have not been able to touch the grassroots. The strategic role of BMT in reducing poverty can be seen by its economic activities that have a social activity (*Bayt al-Maal*) and business activities (*Bayt al-Tamwil*). Socio-economic activities carried out like *zakat*, *ghanimah*, *infaq* while business activity



Maal Wa tamwiil (konsep dan indonesia). (Empirisma. Volume 2005) page 249

carried out by financing productive economy.¹¹

According to the Minister of Cooperatives and SMEs Act number 91, 2004 about Activity Guidelines KJKS Chapter I Article 1 said, that “the implementation guidance of BMT as *Shari'ah* microfinance institutions and incorporated Islamic financial cooperatives should comply with the *Shari'ah* financial services, namely business activities engaged in financing, investment, and savings based on profit and loss sharing.”¹² Asian Development Bank (ADB) noted about micro finance institution that the institutions should provide deposits, loans, payment services and insurance to poor and low income households and their microenterprises.¹³

Bayt al-Tamwil has three principles in its practices. First, loss and profit sharing system which use two types contracts, i.e. *Mudharabahh* (trustee partnership) and *Musyarakah* (joint venture) contract. The former involves a combination of entrepreneurship and capital while the latter involves a partnership in entrepreneurship and capital. These equity-based products are unique to Islamic banking and in some sense, account for its superiority over conventional banking on grounds of ethics and efficiency. Therefore, these two

¹¹ Dra. Siti Zubaidah, MM, AK. 2010. *Pengembangan Model Sistem Pengendalian Aliansi “Alkamil” di Malang*. (Malang: Universitas Muhammadiyah Malang). Page 2

¹² Hendro wibowo, “*BMT sebagai Corporate Social Entrepreneurship*”. [http://forumriset.iaicipusat.org/downlot.php?file=BMT%20sebagai%20Corporate%20Social%20Entrepreneurship%20\(revisi\).pdf](http://forumriset.iaicipusat.org/downlot.php?file=BMT%20sebagai%20Corporate%20Social%20Entrepreneurship%20(revisi).pdf)

¹³ *Ibid*

financing products are the niche product for Islamic financial institution because of its disparity with conventional one.¹⁴ Second, sell and purchase system which use two general selling price, i.e exchange goods for money (*Murabahah, Bay' Bithaman 'Ajl, Istisna'* and *Salam*) and exchange services for money (*Ijarah, Wakalah, Kafalah*); Third, non profit contract (*Qard Hasan*). This research will focus on the niche products in BMT that contracts only use in Islamic Financial institutions.

In *Mudharabah*, profit is shared according to a pre-agreed ratio. If *mudharib* losses, losses entirely absorbed by the capital provider (Islamic Financial institution). *Mudharabah* may be of two types – restricted or unrestricted. In a restricted *mudharabah* (*mudharabah al-muqayyada*) the bank or the financier may specify a particular business in which investments may be undertaken. *Mudharabah* may also be an unrestricted one (*Mudharabah al-mutlaqa*); in which case the *mudharib* may invest the capital provided in any business he deems fit.¹⁵

The *robbulmal* or shareholders own the business's net worth, while the *mudharib* or the managers control the business's assets. The moral hazard problem arises when the *mudharib* is motivated to maximize the business's value as the owners do. Hence, to determine the proper utilization of the *Mudharabah* fund by the *mudharib*, a detailed and costly monitoring system is

an important factor to consider.¹⁶ A joint venture *musharakah* shares the profit between the financier and the customer in the pre-agreed ratio. Losses are shared strictly in proportion to their respective capital contributions.¹⁷

Research Methodology and Findings Discussion

Research Subject

The determination of sample estimation in this research uses Slovin formula:

$$n = \frac{N}{1 + Ne^2}$$

Where: *n*: the amount of sample

N: the amount of population

e: percentage of error that can be tolerated based on statistic (1%, 5%, 10%)

Based on data in <http://umkm.jogjakota.go.id/>, it is said that UMKM in Yogyakarta city is about 2082 data; and according Slovin formula, the percentages of error that can be tolerated are 1%, 5%, and 10%.¹⁸ Hence, for this research, the researcher takes 10% of error that can be tolerated. Thus, the respondents that participate in this research are around 95 participants.

Sampling

This research was conducted in BMTs under PUSKOPSYAH supervisor in Yogyakarta city. The research takes 95 respondents randomly in 5 BMTs that placed in 5 areas in Jogja city, they are BMT Beringharjo (Central city), BMT



Shamim, 2005. *Islamic*
Jeddah, Saudi Arabia: Islamic
Center, King Abdul Aziz

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¹⁶ Rosly, Saiful Azhar. *Op. Cit.* page 193

¹⁷ Obaidullah, Mohammed. *Op. Cit.* Page 59

¹⁸ Sunyoto, Danang 2013. *Metode dan Instrumen Penelitian (Untuk Ekonomi dan Bisnis)*. Yogyakarta: CAPS (Center for Academic Publishing Service). Page 16

Bina Ihsanul Fikri (West Jogja city), BMT Bina Sparta Mandiri (North Jogja city), BMT Al-Ikhlash (South Jogja City), and BMT BAROKAH Padi Melati (East Jogja city).

Variables and Data Collecting Method

In this research, dependent variable that used by researcher is BMT members' welfare (Y). Meanwhile, independent variables that used are the value of Islamic financial institution product offered toward

their member (X₁), the empathy of Islamic financial institution toward its member (X₂), and profit sharing ratio in their Islamic financial institution (X₃). Data that used in this research is primary data by using sample and sampling method. Sampling method selected to this research is simple random sampling method. Whereas data collection method that used in this research is by questionnaire for several BMT members.

Validity Test:

A trial of a data can be said as valid if r greater r-table by using formula as below:

$$r_{xy} = \frac{N\sum xy \pm (\sum x)(\sum y)}{\sqrt{\{N\sum x^2 - (\sum x)^2\}\{N\sum y^2 - (\sum y)^2\}}}$$

Where:

- Γ_{xy} = correlation coefficient between variable x and variable y
- ∑x = amount from item score
- ∑y = amount of total score

- N = amount of subject
- ∑xy = sum of time of item and total score
- ∑x² = quadrate mount of item score
- ∑y² = quadrate mount of total score

From 64,2% female and 35,8% male respondents, this test found:

Table 2.
Validity Findings

Validity Test	The Findings and The Elaboration
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Before and After Financing</p>	<p>The income average of respondents before financing is 1.74 and after financing is 2.05. However, by using significant level 5%, the correlation between two variables is 0.141 with its significant is 0.17. The result shows that there is no correlation between two income averages before and after financing. It happens because the revenue of traders in Yogyakarta is depended on seasons. At peak season, they can get higher revenue than usual. In the other hand, at low season their revenue is stable. T test value gives -6.584 with significant value 0.000, which means less than 0.05. Therefore, it can be concluded that income average before and after financing is different which indicates that financing taken influences their incomes. It is because the traders increase their capital formation by using the BMT's financing. Based on croeconomic theory, the increasing of factor of production such as capital and labor can rease the output of production and the increasing of output can increase the income of lers.¹⁹</p>



gregory.2007. *Macroeconomics 6th Edition*. New York: Worth Publisher. Page 46

Selected Financing Type	Musharakah, is likely to be higher demanding contract compared to Mudharabah by having 87,4% of total. Surprisingly, Mudharabah, supposed being contract for majority business of respondents those jobs are trader, is only 12.6% of total contract used in transactions between BMT and respondents. It may because Mudharabah contract has a higher market risk and costly contract compared to musharakah in the short run. Though, it is a niche product of Islamic Financial institution and use friendly ratio portion of nisbah, yet, BMTs prefer to recommend musharakah contract to their member to cover profit and loss sharing together. But in the long run, Mudharabah could be a pledge contract which can contribute higher trust from the member and embrace more newly entrepreneur.
Level of Financing	43.2% of respondents took financing from the range of 6 million until 10 million and 38.9% took the financing on the range 1 million until 5 million and the rest (17.9%) took the financing around the range 10 million until 25 million. It shows that the low level financing is one type of BMT financing.

Reliability Test

Reliability test is a tool to measure a questionnaire which is an indicator of variables or to construct the researches. A questionnaire can be considered as reliable if the answers are consistent or stable time to time.²⁰ Researcher uses Cronbach alpha's formula and found all the variables are reliable: BMT member's welfare 0.836; Product value 0.709; BMT's empathy 0.753; Profit Sharing 0.651.

$$\alpha = \frac{k - \bar{r}}{1 - \bar{r}}$$

Where: \bar{r} = correlation mean among items
K = amount of item

Descriptive Variables Analysis

Each respondent was given 20 questions with each question was measured using a Likert scale. Questionnaires were given to respondents in the form of questions that asked respondents to give their opinions or experiences after using the products and services offered by the BMTs. The full sequence is worth five (5) for strongly agree response, score four (4) for agree, score three (3) for neutral, the score two (2) for does not agree and score one (1) for strongly disagree respectively.

The dependent variable or variable Y consists of three questions, while the variables or variable X1, consist of four questions. Respondents' **welfare** indicated

increase from the increasing in their **investments, incomes and consumptions** which are summarized from 26 respondents on average (27.37%) who are really agree and strongly agree. The total increasing in **investment** concluded based on the positive change in **capital formation** (18.26%), **saving** (9.21%) and **household furniture** (6.16) those are significantly got highest response. The positive change on **average income** after financing summarized based on the change of **revenue** (6.63%), **product sold** (4.74%) and **product ordered** (2.53%) those have highest response as well. The positive change of respondents' **consumption** that consists from the **basic needs** (11.11%), **business cost** (4.26%), and **operational**



cost (1.58%), also received highest response. **Product** offered, **emphaty** given by BMT, determination of **profit sharing ratio**, all together receive answer majority agree and strongly agree gives positive advantage to their business.

Data Analysis Method

1. Multiple Linear Regression: In this research, the researcher uses this regression equation:

$$Y = a + bX_1 + cX_2 + dX_3 + e$$

Which Y= BMT members' welfare

X₁= value of BMTs' product offered toward their member

X₂= empathy of BMT member toward its member

X₃= profit sharing ratio in their BMT

e = error term

2. Determination coefficient (R²): This R² determination is used for measuring the proportion of dependent variables which is explained by independent variables.²¹ R² value is placed between 0 ≤ R² ≤ 1. The closer to 1, the better the model obtained.

$$R^2 = 1 - \frac{SS_{err}}{SS_{tot}}$$

3. Statistic test: This statistic test is used for measuring Goodness of fit which is consists of:

a. T-test

T test is done for finding out the influences of independent variables toward dependent variable individually. The used hypotheses are: $H_0 : \beta_1 = \beta_2 = \beta_3 = 0$ (it means that there is no relationship between the value of BMTs' product, empathy of BMT member, and profit sharing

ratio in their BMT with welfare of BMT members). $H_a : \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$ (it means that there is relationship between the value of BMTs' product, empathy of BMT toward its member, and profit sharing ratio in their BMT with welfare of BMT members).

b. F-test

F test is done for finding out the influences of independent variables toward dependent variable jointly. The conclusion of F test can be found by comparing between F test statistic with F table at certain level and certain degree. This test is done by formula as below :

$$F = \frac{R^2/k}{(1 - R^2) - (n-k-1)}$$

Which is: R² : determination coefficient

k : the amount of assumption parameter

n : the amount of sample

4. Classical assumption test

a. Multicollinearity Test

Multicollinearity test is done in order to check the correlation among independent variables. If there is a correlation, it means that there is a multicollinearity problem. The good regression model is there is no correlation among independent variables.

b. Heteroskedasticity test

Heteroskedasticity test is done in order to examine whether there occurs an inequalities of regression model residual variance from one observation to another observation.²²



lohammad Farhan.2013. *Analisis · Teori, Contoh Kasus, dan SPSS* . Yogyakarta: CV. Andi

²²Ibid. Page 192

Table 3.
Discussion of Findings

Classical Assumption Test	Findings																				
Multicollinearity Test	The result from the multicollinearity test for the variable of product offered, empathy of BMT's staff, and profit sharing determination generally have VIF value less than 10 and Tolerance value greater than 0.1. It means that the multicollinearity problem does not occur in this model.																				
Heteroskedasticity Test	The heteroskedasticity in the independent variables do not occur as well.																				
Multiple Linear Regression: $Y = 2.188 + 1.111 X_1 + 0.211 X_2 + 0.207 X_3 + e$ *significance level 1%	<table border="1"> <thead> <tr> <th>Variable</th> <th>Coefficient</th> <th>T Statistic</th> <th>Sig</th> </tr> </thead> <tbody> <tr> <td>C</td> <td>2.188</td> <td>1.344</td> <td>0.182</td> </tr> <tr> <td>X₁</td> <td>1.111</td> <td>2.843</td> <td>0.006*</td> </tr> <tr> <td>X₂</td> <td>0.211</td> <td>3.689</td> <td>0.000*</td> </tr> <tr> <td>X₃</td> <td>0.207</td> <td>2.846</td> <td>0.005*</td> </tr> </tbody> </table> <p><i>The relationship implies that in the long run all independent variables are positively impact to the respondents' welfare. it means that in the long run the understanding toward product offered, the empathy of BMT and the profit ratio offered are improve the welfare of the BMT's member or the welfare is relatively elastic with respect to the all independent variables.</i></p>	Variable	Coefficient	T Statistic	Sig	C	2.188	1.344	0.182	X ₁	1.111	2.843	0.006*	X ₂	0.211	3.689	0.000*	X ₃	0.207	2.846	0.005*
Variable	Coefficient	T Statistic	Sig																		
C	2.188	1.344	0.182																		
X ₁	1.111	2.843	0.006*																		
X ₂	0.211	3.689	0.000*																		
X ₃	0.207	2.846	0.005*																		
T- Test	<ul style="list-style-type: none"> • t count is greater that t table (2.843 > 2.63094), reject H0: means that there is a positive relationship between BMTs' products offered to their members with BMT members' welfare. • t count is higher that t table (3.689 > 2.63094), reject H0: means that there a relationship between empathy of BMT toward its member with BMT members' welfare. • t count is greater that t table (2.846 < 2.63094), reject H0: means that there is a positive relationship between profit sharing in their BMT with BMT members' welfare. 																				
F-Test F stat value 17.054 df1 = k - 1, so 4 - 1 = 3; df2 = n - k, so 95 - 1 = 91 Sig.level at 1%, = 4	H0 : there is no relationship between understanding of BMT member toward the product offered, empathy of BMT toward its member, and profit sharing ratio in their BMT with MSEs welfare of BMT members jointly. Since F count is greater that F table (17.054 greater than 4.00), so H0 is rejected. It means that there is relationship between understanding of BMT member toward the product offered, empathy of BMT toward its member, and profit sharing ratio in their BMT with BMT members' welfare jointly.																				
R² Test = 0.360 or (36%)	the percentage contribution of the effect of independent variables (product, empathy, and profit sharing) on the dependent variable (BMT members' welfare) is equal to 36%; or variations of the independent variables used in the model (product, empathy, and profit sharing) were able to explain 36% of variation in the dependent variable (BMT members' welfare). Meanwhile, the remaining 64% are influenced or explained by other variables that are not included in this research model. It may because the most use contract those used by the respondents are Musharakah, since the Mudharabah were given only to the skillful entrepreneur for his prospectus enterprise. Due to the lack of human resource in BMT who are capable in guiding the new business, therefore Mudharabah still considered as costly and riskies contract. This problems need a deep research looking for the solution for the application of Mudharabah.																				

Conclusion and Recommendation

This research demonstrated that Mudharabah have positive impact on the Yogyakarta City's citizen welfare. The results can be seen from the results of their investments, and incomes. Most of the respondents stated that BMTs are helpful

in supporting their business growth. From product value aspect, BMTs have simple procedure for financing product offered toward their members. Hence, BMTs' members can increase their business growth because of BMTs can help them in fulfilling working capital needed by micro enterprises. From empathy aspect, BMTs



have no burden for installments payment or some penalties for those cannot pay the installment in time like conventional financial institutions. Besides, proactive systems done by BMTs, it can help and simply traders to pay installments as well as to save their funds. From profit sharing aspect, BMT apply the fairness in deciding profit sharing ratio without burdening their members by conducting discussion and agreement during contract.

However, Mudharabah contract found as a higher market risk and costly contract compared to musharakah in the short run which proven by the small percentage of choosing this contract rather than Musharakah. Therefore, as a niche product of Islamic Financial institution, Mudharabah suggest to be offered to the member for long run financing, since it contribute higher trust from the member and embrace more newly entrepreneur.

Given that Mudharabah have contribution to increase social welfare, in the future, it is expected that government can intensify its support toward Islamic microfinance institutions, especially BMTs rather than pouring money to the people without strong rationale and base. Government can channel a proportion of public budget by empowering the skills and micro-enterprise through BMTs, and then BMTs can manage this fund for social interests through Islamic Financial Institution niche products (i.e Mudharabah). The further researches needs to be conducted to identify the root cause of such a phenomenon of paradox and subsequently needs to revive its practice that has been neglected.



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