

# The Revitalization of Women's Entrepreneurship Spirit In Micro Enterprises With Islamic micro-finance Institution (IMI) (Study on The Contribution of BMTs Agam Madani in Agam sub-province, West Sumatra)

Hesi Eka Puteri

*Islamic Economics Department, Islamic State University Bukittinggi, hesieka.puteri@yahoo.co.id*

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## Abstract

**Objective** - The objective of this paper is to give an overview of the contribution of Islamic Micro-finance Institutions (IMI) in the process of empowerment of women micro-enterprises, and recommended a related policy.

**Method** – This study is a field research in 2012, which focused in BMTs Agam Madani at Agam district. The data is sourced from the observation, documentation and questionnaires from 60 women micro-entrepreneurs samples who receive working capital financing. This paper uses simple regression model in order to observe relationship between working capital and the increasing of revenue. This model is to measure the amount of the multiplier effect in working capital-to increasing of revenue.

**Result** – This paper found that IMI is a good model to develop society more prosperous by developing BMTs in each district. These BMT has thousands of micro enterprises member and could revitalized the spirit of entrepreneurship of minangkabau's women. A research to 60 women's micro entrepreneur samples showed the positive significant influence between lending to revenue. A multiplier effect equal to 0.068. The small number of multiplier effect implied that many factors determining their revenue, not lending only.

**Conclusion** – This finding could explain that IMI could empower micro entrepreneur woman. This finding also recommend few strategies: 1) Revitalization of BMTs as micro catalyst by revitalization of structure of organization, products variation, human resource competence, sharia monitoring, public cooperation and implementing local cultural value 2) Revitalization of government role as facilitator, coordinator, initiator and mediator in developing micro sector.

Keywords : Women's Entrepreneurship, Micro Enterprises, Islamic micro-finance Institution, BMTs Agam Madani

## Abstrak

**Tujuan** – Tulisan ini bertujuan memberikan gambaran tentang kontribusi Lembaga Keuangan Mikro Syariah dalam proses pemberdayaan perempuan-perempuan pengusaha mikro dan merekomendasi beberapa kebijakan yang relevan.

**Metode** – Tulisan ini merupakan hasil riset lapangan tahun 2012 terhadap BMT-BMT Agam Madani di Kab Agam Provinsi Sumatera Barat. Sumber data berasal dari hasil observasi, dokumentasi dan kuisioner terhadap 60 orang pengusaha mikro perempuan yang mendapat pembiayaan modal kerja dari BMT. Untuk melihat pengaruh penyaluran modal kerja terhadap peningkatan pendapatan masyarakat, digunakan analisis regresi linier sederhana. Model ini juga mengukur tingkat efek multiplier antara pembiayaan modal kerja dan peningkatan pendapatan.

**Hasil** - Temuan penelitian ini memperlihatkan bahwa Lembaga Keuangan Mikro Syariah merupakan sebuah model yang bagus dan mampu meningkatkan kesejahteraan masyarakat melalui eksistensi BMT di masing-masing kanagarian. BMT-BMT memiliki banyak anggota yang terdiri dari pengusaha-pengusaha mikro dan mampu merevitalisasi semangat berwirausaha perempuan-perempuan minangkabau. Riset terhadap 60 orang pengusaha mikro perempuan yang dijadikan sampel penelitian memperlihatkan bahwa terdapat pengaruh yang positif signifikan antara pembiayaan dan peningkatan pendapatan. Nilai Efek Multiplier setara dengan 0,068. Nilai yang kecil menyiratkan bahwa terdapat banyak factor lainnya yang mempengaruhi peningkatan pendapatan selain dari pada pembiayaan saja.

**Kesimpulan** – Temuan penelitian ini menyimpulkan bahwa Lembaga Keuangan Mikro Syariah dapat memberdayakan pengusaha mikro perempuan. Tulisan ini merekomendasi beberapa strategi yaitu: 1) Revitalisasi BMT-BMT sebagai pemberdaya sektor mikro melalui revitalisasi struktur organisasi, variasi produk, peningkatan kompetensi pengelola, pengawasan syariah, kerjasama publik dan implementasi kearifan lokal, 2) Revitalisasi peran pemerintah sebagai fasilitator, koordinator, inisiator dan mediator dalam pengembangan sektor mikro.

Kata Kunci : Pengusaha mikro perempuan, Usaha mikro, Lembaga Keuangan Mikro Syariah, BMT-BMT Agam Madani

## 1. Introduction

Islamic Micro-finance Institution (IMI) is one of the financial institutions which function as intermediary that raises funds from the public then distribute it to sectors that need it. Holding the same principle with Islamic banking, IMI has a role as informal financial institution that offers some form of simple banking services. SBIC (Small Business Incubation Center) defines IMI as a BMT (Baitul Mal Wa Tamwil), an integrated independent business hall consist of *bayt al-mal wa tamwil* and develop productive business and investment to improve the quality of economic activity of small employers, such as encourages saving and supports financing (Djazuli, 2002)

As financial institution using Islamic model, in principal IMI products are modification from Islamic bank products including mobilization of member's deposits and businesses financing. Deposit products are usually developed according to the needs of the communities where BMT located while the financial products are aimed to provide micro financing. Some developed BMT extend businesses on the real sector in the form of various business units.

As micro banking which exist in the community grassroots, BMT serve the needs of financial institutions. BMT also play important role in forming people behavior by

shifting consumption to investment trends. The ultimate aim is to empower micro-entrepreneurs in BMT. Limited access to the Islamic banking system, due to various limitations and banking operations, which tend to be selective and highlight prudential banking in the distribution of funding make BMT as the nearest pedestal in obtaining capital for the community.

BMT major role in empowering micro-entrepreneurs is to distribute working capital. Distribution of working capital is provided in the various financing schemes with Islamic contract such as *mudarabah* financing, *musyarakah* or *murabahah*. Furthermore, the role of BMT also continued to supervision and guidance for micro-entrepreneurs, although in fact BMT has not intensely foster micro-enterprises. So far BMT only monitor the collection of funding which distributed to micro-enterprises.

The extent of BMT role in empowering micro-enterprises can be observed from the magnitude effect of funding which channeled to increase people's income. Furthermore, this effect is reflected from the multiplier effect created by the BMT role in extending working capital. In conventional economic theory, initiated by Keynes, explains that the multiplier effect is a process that showed the extent to which national income will change as the effects of changes in aggregate expenditure (consumption, investment, government spending or net exports) (Sukirno, 2004). In the case of micro-financing, income multiplier effect can be reflected as an indicator: to what extent the financing provided able to increase the micro entrepreneur's income.

Agam district in West Sumatra is one area that intensely committed to create a civil society, through IMI. The hope to create prosperity among people align with values, norms, laws supported by the possession of faith, science and technology is called *Madani*. *Madani* concept is also used as a brand in IMI, which pioneered since 2007, known as "BMT Agam Madani". From a total of 16 BMT originally founded in 2007,

now it become 82 BMT units and will continue to grow until BMT is in every corner of the villages<sup>1</sup>.

BMT Agam Madani role is to empower small and micro businesses which often ignored by government and formal financial institutions. As a model of community empowerment through IMI, BMT Agam Madani is able to support cultural and psychological condition of the Minang (West Sumatra) community who are familiar with good livelihood as merchant in their own area as well as in overseas. BMT role is able to improve the economy of the villages which located in Agam District. In 2007-2011 Gross Regional Domestic Product (GRDP) increased 24.9%. This is the proof that economy is growing especially micro sector. Based on the distribution of Agam District GRDP figures, it is observed that the largest contributor to the GDP figure is from agriculture, trade and services, which are the three main sectors loaded with micro-enterprises<sup>2</sup>.

Words which often undermine the Minang entrepreneurial spirit is “landless” or "sidewalk" attached to them. Minang entrepreneur very many in number and even said that they were born with trade blood and mental (but only small number which is capable of being a great businessman, especially the women). Despite making trading as the main livelihood or as a side job these women entrepreneurs still difficult to grow bigger. The concept of revitalization, which synonymous with re-strengthening, is most appropriate in the empowerment of women micro-entrepreneurs.

Issues and future challenges in revitalizing and improving entrepreneurial spirit of women micro-entrepreneurs is a complex problem that involves all stakeholders including government and financial institutions. Opportunities for entrepreneurship are widely open at all area in West Sumatra province. Provincial economic structure is supported by three largest sectors, namely agriculture-livestock-forestry sector, trades-

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<sup>1</sup> Nagari is the area of governance in Province Sumatera Barat, which under district authority. The leader called walinagari.

<sup>2</sup> [www.agamkab.bps.go.id](http://www.agamkab.bps.go.id)

hotels-restaurants sector, and transport-communications sector. These three sectors accounted for 57.27% of the total GDRP<sup>3</sup>. The third sector is a potential area of entrepreneurship, especially for micro sector. Even so, a classic problem (such as: large numbers, various limitations of capital, skill, production and marketing attached to the micro sector) become the biggest challenge in the process of revitalization of women micro-entrepreneurs.

This paper tries to give an overview of the importance of contribution of Islamic micro-finance Institutions (IMI) in the process of empowerment of micro-enterprises, particularly in revitalizing the entrepreneurial spirit of women who relies on the micro sector. Research finding in the case of BMTs Agam Madani as part of the article aims to present a fact on the existence of IMI micro-based empowerment model. With all polemics and problems in the process of empowerment, this paper it is expected to give a scientific study on the importance of revitalizing the spirit of entrepreneurship and recommend related policy that useful for policy makers.

This study is a field research throughout 2012, which focused to BMTs Agam Madani at Agam district. Data sourced from the observation, documentation and questionnaires from a sample of 60 women micro-entrepreneurs who receive working capital financing. The analysis technique used a simple regression equation model, which showed the related between working capital and the increasing of revenue. This model is to measure the amount of the multiplier effect in working capital-to increasing of revenue.

## **2. Methodology**

### *2.1 Islamic micro-finance Institutions - Baitul Mal Wa Tamwil*

Baitul Mal Wa Tamwil (BMT) is one IMI in the form of financial institutions or non-banking Islamic financial institutions that are informal. SBIC defines BMT as an

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<sup>3</sup> Statistic Centre Department, West Sumatra, 2010

integrated Hall of Independent Business that has *Baitul al-Mal and al-Tamwil* which the activities are to develop productive business and investment for improving the quality of economic activities (such as small-scale entrepreneurs), to encourage saving and supporting economic activity financing. In addition, BMT can also accept zakat, donations, alms and distribute them in accordance with the regulations and mandate (Djazuli, 2002)

Since BMT functioned as financial institutions that play a role in developing the productive business in the community, BMT distributes various working capital financing schemes which generally adopted from Islamic banking products. BMT financing type of business are more focused on micro-finance, small-micro, and small, such as profit sharing financing (mudarabah and musharakah); margin financing (al Bai' Bithaman Ajil); lease financing (Rahn); and benevolent loans (Qardhul al-Hasan). In addition to financial activities, the developed BMT sometimes also develops businesses in the real sector (such as domestic industry enterprise, agriculture) and manages the activities of products network marketing and other services.

## *2.2 Entrepreneurship and Women Micro Entrepreneur*

The word entrepreneur is derived from the French language meaning *entreprendre* "responsible". Entrepreneur is the one who is responsible for preparing, managing and measuring the risk of a business. Entrepreneur is also an innovator who is able to utilize and convert opportunities into product or services which can be sold or marketed, provide added value by leveraging the effort, time, money or skills in order gain benefit (Mas'ud and Machfoedz, 2004). According to Zimmerer, an entrepreneur is someone who creates a new business to take the risk and uncertainty in order to achieve profit and growth by identifying significant opportunities and combining resources so that the necessary resources can be capitalized (Zimmerer and Scarborough, 1996)

Various businesses evolve over time. Some have survived while others failed. The success business does not mean a business has a large capital when it started but due to the entrepreneurial spirit of company's management. They are the ones who know what they are doing, have entrepreneurial experience and knowledge required in managing a business. The character of an entrepreneur is sometimes different from the people in general. Zimmerer put forward characteristics of entrepreneurs as follows: 1) Desire for responsibility, i.e. have a sense of responsibility on businesses they do, 2) Preference for moderate risk, 3) Confidence in their ability to succeed, 4) Desire for immediate feedback, the passion and hard work to fulfill their desire for a better future; 5) High level of energy, the passion and hard work to fulfill their desire for a better future; 6) Future orientation, having orientation and perspective also insight to the future; 7) Skill organizing, who have skills in organizing resources to create added value, and 8) Value of achievement over money, i.e. more respect to the achievement rather than money.

Application of Islamic values in measuring the potential of entrepreneurship is implementation of any rule presented in the Qur'an and Sunnah. The nature that must exist in a true Muslim entrepreneurs is some of the basic values of Islam such as the following: the nature of taqwa, resignation to Allah, like dhikr, grateful, honest, holy intend to worship, discipline wake up in the morning for the morning prayer, tolerance, formed friendships, love zakat, infaq and shadaqah.

Women as micro-entrepreneurs are women who run their dual functions in the family. First, the role in productive activities (making a living outside the home) and second, the role in reproductive activities (managing household) (Sihite, 1995). Women's choice to engage in the micro sector is a phenomenon of the existence of socio-cultural values in viewing women's function, such as the view that banning women from working or the culture of which 'even if women work, they have to keep doing their domestic duties in the household'. The option to contribute in micro sector was taken due to this

sector is considered quite flexible, so that women can still run the household management functions while working, although their presence in this sector is loaded with the lack of income, legal security and welfare.

Micro-enterprise is characterized by its traditional-informal economic activities, has no more than 100 million rupiah in capital (excluding land and buildings), has no more than 5 labors (who are mostly family members/ relatives or neighbors), acted instinctively by relying on instinct or experience. These types of business include trading business (such as: grocery trade, meatballs, rice stall), services (such as barber services, tire repairman, repair shops, tailors), craftsmen (such as in timber industry, souvenir, woven) and agriculture/ livestock (such as on crops, chickens, catfish).

Women micro-entrepreneurs synonymous with marginalized economic actors and often ignored by policy makers. In general, women's micro-finance is trade in traditional markets sector, farming sector and home industry sector. A large number of women who were involved in the micro sector due to they are only able to enter this sector as they have various limitations such as: capital, skills and networking. Data from the Ministry of Cooperation and Small and Medium Enterprises show the number of micro enterprises amount is 54.56 million units, and absorb as much as 94.96 million labors and accounted for 34, 73% of the total Gross Domestic Product (GDP) in 2011. Women represent approximately 60% of the micro small and medium enterprises in Indonesia<sup>4</sup>.

Limited access to obtain additional capital in this sector has led to difficulties in growing and remaining landless. Many financial institutions requires collateral in the extension of working capital, and the procedure (that they consider is complicated) sometimes causes a lot of women micro-entrepreneurs choose rapid access to capital from the loan sharks that always exist in the trade centers. Likewise skill limitations and public relations skills, a lot of women micro-entrepreneurs do not really learn about the

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<sup>4</sup> [www.dekop.go.id](http://www.dekop.go.id)

techniques of modern businesses so that they sometimes lost in competition with big businesses, which is superior in production and marketing techniques.

Women were involved in the micro business sector because of two main reasons: 1) family economic support, or 2) household income diversification. Most of the women involved in the micro sector comes from the lower class and experiencing economic urgency. The inability of husband to fulfill the needs of the family demands women to enter the micro sector. While the woman who involved into the micro sector for diversification reasons, primarily from middle-class people who have a desire to work for the accumulation of capital or a family income diversification.

### *2.3. The Role of IMI in Enhancement of Micro Enterprises*

SBIC formulates the main function of BMT as financial institutions and economic institutions. As a major financial institution BMT serves as channel of utilization of zakat, infaq and shadaqah. Additionally BMT also collect funds from the public (BMT members) and channel funds to the community (BMT members). As an economic institution, BMT also entitled to engage in economic activities such as trade, industry and agriculture (Pinbuk, no year). BMT role as financial institution and economic institution at the same time is used for social activities in collecting and distributing ZIS, making BMT plays a major role in empowering the micro business sector.

BMT role as empower of micro sector is seen from the multiplier effect created in the economy. It can be seen from the increase in income, with an increase in GRDP of the concerned region as an indicator. More specifically the role of BMT in empowering the micro sector is also seen from the multiplier effects on income of micro-entrepreneurs who receive financing. This multiplier effect is analogous to the domino effect, when a composed domino seed is withdrawn, it will cause the fall of other seeds. When financing is channeled to the micro sector, the financing will be realized in the form of purchases of

capital goods or services to the business. The increased in purchasing power of the capital goods will impact on their increase in production. The impact of the increase in production is the increasing of production capacity, which means that the company expansion in the labor market is much more. Further, this effect will increase revenue in other sectors including the public and state revenues in the form of taxes. When state revenues increased, economic growth will accelerate. This is a simple overview of the multiplier effect.

Keynes formulated theoretically that multiplier effect as the effect of an increase or decline in aggregate spending to the level of the balance and especially to the level of national income. The empirical context the multiplier effect can be analogous to a change in national income due to the change in investment. How much national income change due to the implementation of the investment in the micro sector? This effect is seen in the increase in Gross Domestic Product (GDP), Gross Regional Domestic Product (GRDP), or an increase in income micro-entrepreneurs, that's the scale multiplier.

### **3. Result and Discussion**

This study is the result of a field research on the role of BMT in micro enterprise development throughout 2012. The focus of the research is the BMTs Agam Madani located at Agam district of West Sumatra Province. Data sourced from the observation of the existence of BMT Agam Madani, documentation of some secondary data on micro enterprises and BMT at Agam district, as well as the results of questionnaires from a sample of 60 women micro-entrepreneurs who receive working capital financing from BMT Agam Madani. The extension of the distribution of working capital in influencing their income improvement will be known. The analysis technique used is a simple regression equation with the model:  $Y = \alpha + \beta X$  .....(1)

The dependent variable is the amount of working capital and the independent variable is the increase in revenue. The aim of the application of this model is to measure the amount of the multiplier effect in working capital-income financing.

### *3.1 Profile of Women Micro Entrepreneur*

The general condition of micro enterprises at Agam district, particularly women entrepreneurs, is characterized by general typical of micro enterprises sector in Indonesia. The data from Cooperation of Micro Small Medium Enterprises, Trade and Industry Department recorded amounting to 13,928 SME units exist at Agam district in 2012, all of which are scattered on convection, wood industry, handicraft and household industry, trade and other services. There are no official exact figures of the amount of which categorized as micro enterprises and women entrepreneurs. General idea of the condition of micro-entrepreneurs can be obtained from a variety of previous studies, that show that largest part of SMEs is micro enterprises and business actors is dominated by women. Women micro-entrepreneurs spread over 82 villages in Agam district. As a basic local supply for trading towns around, almost all micro enterprises spread to all of Agam districts and not only concentrated in a few areas.

Some characteristic of women who are active at micro sector are: housewife married status, age 30-50 years, education lower than high school, worked as a merchant, farmer, tailor, and merchant convection. The sample of women in the micro sector also suggests some of the reasons that encouraged them to take part at the micro sector are: making a living for the family, making economic / income support for the family, working as a talents, and the other. The main reason that encourages them more dominant is because of family economic support (45.5%), not the main breadwinner. This showed that micro-entrepreneurs are women who run multiple functions in the family: as a

breadwinner supporter and also as a nanny / household manager. Women micro-entrepreneurs are women with productive roles as well as reproductive roles in the family.

### *3.2 The Role of BMT Agam Madani in Micro Sector Development at Agam district (Successes and Challenges)*

The development of micro enterprises is closely related to the success of BMTs Agam Madani contribution. Agam district data show the increasing rate of micro enterprises. Although no exact figures on the number of these micro-entrepreneurs (especially women entrepreneur), the success of Agam district in driving the growth of micro sector is judged from the increasing number of SMEs at Agam district during 2008 through 2012, in which from as many as 11,616 units to 13,928 units. An increasing number of these micro sectors also impacts on the effect of an increase in GDP of Agam district. During 2008 to 2011, the GDP of Agam district showed a good performance with an increase of 24.9%. Distribution of GDP shows that this increase is supported by several key sectors such as agriculture, trade and services. These sectors are the most sectors undertaken by the micro business sector.

Agam Madani's contributions, which are considered successful in encouraging the growth of micro sector by various parties, did not escape from the challenges and constraints faced by BMT Agam Madani and Local Government, who became the initiator of the BMT establishment. The issue is a future challenge, a chore for every policy holder at Agam district.

The toughest challenge in increasing the contribution of BMT as a financial institution is raising what has been initiated, covering how the manager is able to communicate BMT as informal financial institutions which belongs to the people (which must be developed by themselves), how to defend the Islamic pattern in its management, as well as how to develop a variety of services and products in accordance with the needs

and demands of the society. Managers often overwhelmed in implementing some products in some cases rose in the community.

How to make BMT as informal financial institutions yet professional and have Islamic pattern? It is a not easy-future challenge. The outcome initiation-BMT of former Regent (Aristo Munandar) is a major step in empowering micro entrepreneurs. But the challenge of raising and making this area as a model for the success of Islamic micro-finance institutions in promoting the people's economy is a great work. Some of the challenges faced are: how to maintain BMT to keep growing and getting big so that they can be the back for any micro entrepreneurs, how to make the outcomes initiation-BMT able to been grew up by the community of where BMT is located, and how to cope and maintain a pattern of sharia in every BMT's activity.

If the BMT grow and develop independently, then it be a common property that will grow along with the development of the community. As a "Top-Down Planning", BMT Agam Madani needs ways to motivate the managers. Do not let the managers just assume BMT is a job for them, which can be abandoned if it is then no longer conducive. In summary, a sense of community ownership, (especially managers) to BMT must be fostered and maintained. Islamic patterns applied to any existing IMI, should be a major concern for all parties to be maintained its purity.

### *3.3 Multiplier effects of Working Capital-Income Financing*

The research findings showed an illustration of the extent of the distribution influence of working capital financing provided by BMT for women micro-entrepreneurs. Multiplier effect ratio of financing-revenue model is used to analyze the amount

multiplier effect of zakat.

$$K = \frac{Y}{Z} \times 100\%$$

Assumptions:

Y = increment of revenues of micro enterprises

Z = increment of working capital financing contribution

The calculation of multiplier value can also be obtained by a simple linear regression with the increase in revenue as dependent variable and the working capital of financing as independent variable.

$$Y = f(X)$$

Increased Revenue = f (capital gains)

By using simple regression equation,

$$Y = \alpha + \beta X$$

Y = dependent variable (increased revenue)

$\alpha$  = constant

$\beta$  = regression coefficient

X = independent variable (working capital of financing)

The test results produced the following regression equation:

$$Y = 206990.209 + 0.068 X$$

$$t\text{-test} = 2.963$$

$$F\text{-test} = 8.779$$

$$R \text{ Square} = 0.131$$

These results show that there is a positive effect significantly between working capital and an increase in women's micro entrepreneurs' income. Great influence amounted to 0.068%, which means that an increase of 1% of the working capital financing can lead to an increase in micro entrepreneur's revenues of 0.068%. A small amount effect is also shown with a value of R-Square of 0.131. Amounted to only 13.1% increase in revenue can be explained by the effect of the remaining financing distribution caused by other factors which is not analyzed in the model.

Small effect from the financing-income multiplier effect caused by the amount of other factors, which is also influence, the increase in micro entrepreneur's income. In addition to the strengthening of capital, of course, many important factors influence the increase in revenue. Limited access to other productive resources, technology, information and market, contributed to the difficulties in growing the business is (although the capital is available). This internal weakness also caused by the continuity of the unmanaged business. The women at the micro sector, with multiple roles, sometimes run the business not seriously. Free entry and free exit from the labor market depends on the condition of the household. Another factor which is also influences such as the lack of guidance to the skill and managerial effort, as well as the lack of conducive of micro sector development policy by government. Capital distribution policy followed by a coaching course leads to a lack of working capital multiplier effect itself.

#### **4. Conclusion and Recommendation**

##### *4.1. Conclusion*

Revitalization concept is defined as a process, ways, and actions to revive something that was previously under-developed or in other words it can also refer to the revitalization efforts to develop something that is important and essential. The spirit of entrepreneurship for women of course has grown and developed in the past, as evidenced by the contribution of women in economic activities. National Labor Force Survey data (Sakernas) in 2008 showed a trend of increasing female labor force participation rate from year to year. Between 2004 and 2008 the labor force participation rate of women increased by 49.2 to 51.1%.

Increased labor force participation rate would make women more existence in labor market. Yet the facts show that the existence of women in the labor market more are on the micro sector, because this sector was flexible enough to accommodate the work

activity of women with limited capital and skills sector and is also likely to provide a space for women to be able to apply their dual role as income seekers and household managers.

Lesson from cases that improve the development model of women micro-entrepreneurs through BMT in Agam district as well as a variety of relevant previous studies, there are some concrete steps that can be recommended, which includes revitalization of LKMS and government policy.

First, revitalization of BMT as informal financial institutions and the driving the growth of micro sector. Umar Chapra thought reveals that aims to achieve the development of micro and small industries in rural and urban areas in order to solve the major economic problems will remain a beautiful dream unless there is development and financing. People are poor not because they are not their willingness to work hard or skills shortages, their main problem is that they do not have access to financial resources sufficient to be entrepreneur (Basri, 1989). Business financing is a key in breaking the vicious circle of poverty and socio-economic reform process. However, financial institutions sometimes do not make room for the growth of the micro-finance sector.

To strengthen financing aspect, it is necessary to strengthen the role of BMT internally and externally. Internal development associated with increasing management effectiveness of BMT, which include: 1) Clear organizational structure, 2) Financial and non-financial services should be more varied, 3) Management competency and 4) Supervision of the Islamic financial services to BMT products. While strengthening the external side BMT associated with the expansion of cooperation with various institutions such as local government, Islamic banking and other business institutions as well as the application of local cultural values for development of the BMT.

Clear organizational structure allows the mechanism to be effective. Ideally each BMT has 1) Founding Board which is the people who founded the BMT and have full

rights in determining the direction and policies of BMT, 2) Board of Supervisors, which is the body in charge of setting policy and operational BMT 3) Management which deal with business operations. Ideally BMT management consists of people who not only work but work for the economic development. Managers are people who work fulltime for BMT which must meet requirements such as: 1) have a foundation of faith and sincerity in worship, 2) have a strong passion and commitment to defend the poor, 3) honest and trustful potentially work in a professional, 4) minimally educated DIII or S1 and 5) came from the BMT was about and willing to reside near BMT. It may be a pioneer or founder BMT is a community based organization or government, but if the manager is the people elected the BMT able to run in accordance with the vision, mission, and social justice minded.

Increase management competence can be done through professional recruitment process also set fund for employee training and education, research forum so that they are more productive, intensive, and educative. Strengthening ruhiyah (Spiritual Communication) for BMT managers and employees also need to be done regularly so that they can work with a vengeance to develop BMT.

BMT management also requires creativity and innovation. Implement the values of local cultures in the management of BMT is very important. Various financial products services should meet the needs of society and culture in the region. Likewise with Islamic patterns are applied to each LKMS that there should be a major concern for all parties to be maintained purity. BMT development patterns that were originally adopted bayt al-mal that flourished in the time of Prophet Muhammad SAW and the Khilafat al-Rashidah course there may exist over the times. The Prophet said, "*Antum a'lamu bi umuuri dunyakum*" you know better your world affairs. Thus, this muamalah field will always evolve according to the changes of time and place. Management

capacity building through training and understanding of contemporary jurisprudence is one solution in the development of BMT.

Learning from BMTs Agam Madani, although this institution resulted from government initiatives that fully determine the direction and management policies BMT but employee is recruited nearby BMT and they are willing to work for the economic development in their own villages, and of course able to grasp market segment and suitable BMT products and behaviour in their area. Common problem that often arises is how the manager able to socialize BMT as informal financial institutions belongs to the people who should be brought up by the people themselves, how to maintain the system in the management of Islamic patterns and how to develop a variety of services and products in accordance with the needs and demands of the public interest. Quite often management is overwhelmed to implement some products arise in the community. Answering the needs of the community, BMT Agam Madani implement a variety of fundraising products and financing that follows the pattern of community activities in their respective villages. Product such as iedul fitri saving, qurban, walimah, healthy homes, and traveling are common here. Fiqih supervision of products offered laid on some jurists coming from intellectuals who act as DPS (Sharia Supervisory Board) such as government administration, ulama and university. The implementation of local cultural values is not only in the variety of funding products but also in terms of financial risk management. The principle of consultation and intervention *ninik mamak-walinagari-BMT* in the completion of financing problems is one of the local culture applied in the management of BMT Agam Madani. Strong local cultural values in each *kanagarian* are foundation of the resistance BMT. When the government decided to no longer subsidize

the BMT since 2011, BMT then become bigger through nagari support. If BMT healthy and profitable the villages also come to enjoy profit sharing for villages.<sup>5</sup>

Second, revitalizing the role of government as the institution who is most responsible de facto and de jure to develop micro sector. Development of the SME sector is not really the responsibility of the government alone, but the government considered hold most responsibility because de facto and de jure government should first demonstrate political will and political action in the micro sector. Local governments should be able to act as an initiator, facilitator, mediator, coordinator, or regulator in order to realize economic development strategy based on SMEs. In addition to strengthening its political action the government also needs to revitalize a few things such as: the revitalization of infrastructure, revitalization of regulatory and policy innovation.

Infrastructure revitalization plays crucial role in creating a more competitive real sector. This includes the availability of the infrastructure supporting for production and marketing. To evoke the spirit of entrepreneurship there should be public facilities, roads, means of transportation, means of communication and adequate market. Particularly dynamic market for micro sector unlike the traditional market is loaded with a variety of issues.

Revitalization of regulations related to structuring and dissemination to the public on regulations, conveniences and facilities in the micro sector provided by the government. Do not let people continue to find difficulties in bureaucracy and had antipathy toward government policy due to government ignorance. This is often the case that led to mistrust the government as a public servant. Sometimes regulation is not understood by governments at lower levels so that employers do not socialized in the real sector and so that real sector actors dissatisfied of policies of the government.

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<sup>5</sup> Indept Interview with Wike BMT Lasi Manager, District Agam, 9 December 2012

Several innovations in policy implementation also had a positive impact in revitalizing the presence of micro-entrepreneurs. Application of distribution channels into modern markets or export of micro sector commodities through government facilitation, developing industrial villages to be tourist area is an innovative in stimulating entrepreneurship community in micro sector by government.

Lesson from BMT Madani Agam who at the beginning of its establishment was a big step from the Agam political action strengthen financial institutions to support real sector. To empower micro district government. Agam Regent Aristo Munandar initiated the development of BMT in all kanagarian. The Government is also committed to build a community's economy in every corner of his district to support the existing BMT. The lowest government *walinagari* (leader Nagari) is supervisor in every BMT. *Walinagari* role in the formation of BMT is also vital. *Walinagari* socialize, supervise and develop the BMT under its rule. Various cases on personal guarantees or completion of financing problems, *walinagari* take responsibility in the solution. Government role are initiator, facilitator, mediator, coordinator and regulator to run economic development in this area. Government policy is also an innovation. Geographically, the Agam is in the midst of trading cities. This area became a supply base area for trade and tourist center in Central Sumatra city of Bukittinggi. Right positioning makes this region very conducive to the development of micro-finance sector in various businesses. Local government tried to establish tourist destination area such as Sanjai cracker, embroidery, craft or convection region.

#### *4.2. Recommendation*

Since The Result of  $R^2$  in This Research is significantly small, It is urge for next paper or research to further extend the model, control variables as well as research data.

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