Designing sustainable Islamic Microfinance to enhance the accessibility of poor borrowers in Indonesia: an appreciative intelligence approach

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Abstract. This paper provides a sustainable Islamic microfinance design using an appreciative intelligence approach to enhance the poor borrowers' accessibility to micro financing in Indonesia. This study aims to identify problems faced by BMT in Indonesia and find the solution to implement sustainable Islamic microfinance. It uses a qualitative analysis by adopting an appreciative intelligence approach. Data was collected by interviewing the Chairman and officer of Central BMT (Induk Koperasi Syariah), Jakarta in 382 BMT's throughout Indonesia. The steps: (i) reframing problems into possibilities, (ii) appreciating the positive meaning and promise of every being, experience, situation, and (iii) linking the generative strength of the present with the preferred vision. The results show that BMT faced four problems in implementing sustainable Islamic microfinance, namely lending limit regulation, high funding pricing to the borrowers, APEX BMT realization, and productive use funding. Several solutions have been suggested by using the appreciative intelligence approach. This paper adds to the literature on Islamic microfinance by enabling researchers and practitioners to apply the appreciative intelligence model of sustainable Islamic microfinance. It also contributes towards enriching the knowledge in the Islamic microfinance and sustainable Islamic microfinance.

1. Introduction

Islamic microfinance is a unique approach for mobilizing money to help deprived people as it combines social linkage (as intermediary process in financial dimension combined with component of capacity building) and the value of social capital [1]. Islamic microfinance also plays an essential role providing a way to release "financial slavery" [1]. It is proofed that it will support the poor people as the bottom of the economic pyramid from poverty by utilizing cash waqf, charity (infaq and shadaqah), and zakah as a source of funds. Islamic microfinance also follows the tawhidi as a principles of contract, requiring the Islamic framework followed by value of fairness and no riba and gharar elements applied [2 & 3]. In Indonesia, BMT started its operation in the 1980s and continued the 1990's with a limited customer segment [4]. BMT was established in order to be initiated to reach financial lending and borrowing institution for the poor society. In 1998, BMT [4] grew more significantly as an alternative non-banking institution hit by the financial crises. In 2010, BMT reached around 3900 branche all around Indonesia. BMT has legalized by Indonesia's government by act number 17 the year 2012 under the cooperative rule [4]. Currently, BMT has printed BMT Principle Guide in 2020 [4] as a written manuscript to identify
challenges and opportunities in external conditions. Such as macroeconomics dynamics, banking, regulation, demography, labor market, poverty, social and economies, and others [5].

In 2013, Law Number 1 of 2013 was legalized and enacted under Microfinance Institutions (UULKM), which there was a change of guidance, regulation, and supervision of BMTs [5]. Previously, BMT organizations could have been cooperative, foundation, limited liability companies, and even non-governmental organizations. Start from that year. BMT must be in the form of cooperative or limited liability companies. The role of Otoritas Jasa Keuangan (OJK) is needed to coordinate with ministries that carry out cooperation. Currently, LKM guidance is under three authorities: OJK, the Ministry of Cooperatives and SMEs, and the Ministry of Home Affairs. Moreover. OJK holds an essential role as a regulator, the supervisor, and the business license authorization [6].

Providing the poor and the poorest in informal sector of the economic is one of main objective of Islamic microfinance. They usually funded using zakah, infaq, and sadaqah. The unique characteristic of Islamic microfinance is delivering non-interest bearing fund from the borrower or it is called interest-free. It aligns with the ethical value in Islam. In addition, it will optimize social services by using zakah to fulfill basic need of the people at BOP [7].

Another term for Baitul Maal wa Tamwil (BMT), is called Baitul Qirad, works as a semi-formal Islamic MFI in Indonesia, licensed under the Ministry of Cooperative supervision Small Medium Enterprises [8]. It is also a form of social venture entrepreneurship [9] and frequently integrated with some micro-entrepreneurs. They get sources of funding from Indonesia Social Ministry. This includes BMT Kube, which composed of 87 branches in 19 provinces, and PINBUK (Small Business Incubation Centre), which plays an essential role in the BMT formation [10]. More than 4,000 BMT are registered in PINBUK. Besides, Islamic Savings and Loan Units (Koperasi Simpan Pinjam/KSP), Islamic Pawnshop, and Islamic Savings and Loans Unit (Unit Simpan Pinjam/USP) are also classified as semi-formal Islamic MFIs and circulate funding to the group of people at BOP, but the market shares are lesser than BMT.

In this regard, the total number of BMT that has a joint venture with Induk Koperasi Syariah (Inkopsyah) to finance and provide support, for instance: supporting to train about financial literacy. to build infrastructure of 375 units in Java island Jawa Tengah, Jawa Barat, Jawa Timur DKI Jakarta) and Sulawesi Selatan.

BMT proposes a special role as Baitul Maal, which is conducted as an amil which manage, collect and distribute zakah. It plays financial intermediation role by managing fund and saving as well. It applies dual function, both a commercial and social entities. BMT’s social function side is being conducted by providing qardhul hasan financing [9]. BMT plays critical functions as cooperatives based on the loss-profit sharing principle under Islamic values and collective activities to reduce risk elements. Collective activities which embrace Islamic MFI are counselling and routine meeting.

Moreover, BMT provides more quick approval in circulating fund than other financial institutions, thus microenterprises have more interest to search funding from BMT [11]. Baitul Tamwil sets priority to micro entrepreneur who experienced borrowing fund from personal money lenders [12]. BMT is under the Islamic financial system built its activity based on trust and trustworthiness principle among the involved partners [13]. BMT requires a strategic alliance as a form of cooperation. It will blur boundaries between the Islamic bank and BMT, leading to a strong relationship as expected to form between the two parties [4]. Another term of Social capital is also needed to reach a society's ability to create bonding with one member with another. It is an essential resource in terms of economic life and other social existence [14].

MFI addresses two missions: financial improvement and social connection [15]. Financial connection refers to some programs offering financial products and services for savings, financing, insurance, and financial transfers to society at the bottom of the pyramid labelled as poor and low-income groups [16]. To reach this target, an accessible path BMT needs to have a strong social connection role as an asset for developing human capital. Thus, this can escalate the poor's self-confidence level when using formal financial intermediation [17].
BMT lacks in government's specific legal supervision [11]. BMT has been ruled under act no 1/2013 as MFI and controlled by OJK (Financial Service Authority). Since 2013, however, this legal act did not support some detailed of financial activities. Since 2013, APEX BMT has been set up to facilitate this issues to reinforce the business level, feasibility, prospect and confirm profitable development. It also works as money pooling, financial transaction, membership training, wholesale financing, rating agency, information center, and IT service provider.

Sustainability is another problem faced by BMT due to financial performance quality. Several BMT applies unstandardized financial reports, hence it will create difficulty to invite donors who will support additional funding to poor people. Another problem is a poor management, especially to small size BMT. In fact, to avoid insolvency, BMT efficiency checking must be conducted [18]. BMT with 2 years operation can be classified as a sustainable BMT.

Particularly in Indonesia, minimal participation of borrowers in formal financial institutions is also considered. There was 36% of total population in 2014 has account in formal financial institutions as customers aged more than 15 years old (20% in 2011). Meanwhile, loans from customers' financial institutions with age more than 15 years old comprised of only 13% from the total population in 2014 (9% in 2011) [19]. Many borrowers more interest to borrow from other channels, like from family, friends and other relatives (around 41% in 2014). It suggest that the numerous BOP people still find credit rationing issues. Avoiding high interest rate which is forbidden in Islamic value is the basic reason why they choose family, friends and relatives as a source of funding [20].

From the above problems, there seems to be a lack of literature to examine BMT sustainability in financing for the poor aspect to increase poor borrowers' accessibility. This study focuses on BMT in Indonesia and aims to provide a design of sustainable Islamic microfinance using an appreciative intelligence approach to enhance the accessibility of the poor borrowers in Indonesia.

Thus, the study is using a qualitative approach by conducting structured interviews to Chairman and officers from the Central BMT (Induk Koperasi Syariah) in Jakarta, as the headquarter of 382 BMT's from around Indonesia. Consequently, the results from this interviews are using appreciative intelligence as the analyzing tool. The primary data is collected in a one-month ended in August 2015. This paper is structured by an introduction as the beginning section. Part 2 will evaluate the "SWOT" practice of Baitul Maal Wa Tamwil in Indonesia. Next, Part 3 will describe a methodology which is used in this study. After that, part 4 will address the finding of an appreciatively intelligent of sustainable Islamic microfinance design. The last part will conclude the study and possibilities for implication in the future.

2. Method
The “SWOT” analysis of Baitul Maal Wa Tamwil in Indonesia
Based on the Chairman and officers of the Central BMT (Induk Koperasi Syariah) in Jakarta, the headquarter of 382 BMT's around Indonesia and blueprint SME and cooperatives financing are several strengths and weakness from the inner side and opportunity and threat from the external side. The strength that faced by BMT in Indonesia are:

i. Government policy has a unique financing product to support BMT. The amount plan to increase to 25% in 2019. This plan will be distributed in the form of small loans, revolving funds, and margin subsidies.

ii. Most of the borrowers in the BMT are small-medium enterprises (SME). The characteristics of SME have stable non-performing financing, which indicates that the quality of financing is right.

iii. "One village one BMT" is an innovative program on which it increases borrowers' accessibility. It can make it easier for the borrower to find BMT.

The weaknesses that faced by BMT in Indonesia are:

i. BMT supervision is not optimal, and minimum update data. Many BMT is not registered in the Ministry of SME and cooperatives.

ii. BMT needs significant collateral to get funding. The other problem is the bank, which required BMT, who proposed funding to have a credit guarantee or microinsurance.

The opportunity that faced by BMT in Indonesia are:
i. Many borrowers who are SMEs are spread in several sectors and all regions in Indonesia.

ii. Many SMEs as borrowers are still not yet have access to BMT (67%).

iii. The BMT knowledge about financial services products needs to be improved. Based on financial service authority, BMT's knowledge about financial service authority and product is minimal.

iv. In current practice, the borrowers' confidence in BMT only a place for funding. The members prefer to get funding from BMT but choose a bank for saving. This is the opportunity for BMT to build consumer confidence to have saved. For funding, they can create a linkage with other financial services institutions with high liquidity like banks.

The threats that faced by BMT in Indonesia are:

i. BMT distributes funding to middle SME borrowers rather than small and micro SME borrowers because of more bankable loans. Small and micro only get 20.6% credit. This contrasts the data given by the Ministry of SME and cooperatives in 2012, showing the total of micro SME around 55.9 million (99% of total SME and cooperatives) while middle SME around 49 thousand (0.1% of total SME and cooperatives).

ii. Fostering BMT, which has been done by several institutions, government, and society, is not optimally coordinated. Coordination is needed in the aspect of planning, conducting, evaluating, and monitoring.

iii. "Asia economic society 2015" open market and local BMT are not ready to compete with international Islamic microfinance in the case of getting funding. Based on quality, international Islamic microfinance characterize as having more collateral, sound financial management, and high institutional quality.

3. Results and discussion

3.1. Appreciative Intelligence Approach

This research is using appreciative intelligence framework [21] and appreciative inquiry broad principles to align how Islamic microfinance can support sustainable dimension in enhancing the deprived borrowers' accessibility. Appreciative intelligence can observe the positive prospect in a given condition and act purposively to reach the potential outcome. This situation is a form of ability to reframe a certain position to identify positive possibilities [21]. Furthermore, appreciative intelligence defines as an capability to reframe experiences, appreciate the positive, and see how possible futures unfold from the current condition [21]. Appreciative Intelligence indicates to four qualities: persistence, conviction which one's actions matter, tolerance for ambiguity, and irrepressible resilience [22]. The appreciative inquiry approach comprised of the following steps:

3.1.1. Reframing problems into possibilities: Framing defined as a condition when people construct or interpret a context, problem, or scenario in a definite way [23]. It is addressing the concept of evaluating the present situation to a new perspective on how reality will create a new outcome [22]. In addition, reframing an activity can recognize the opportunity and bring the plan to the current situation [21 & 23]. Applying a reframing concept is a complex job due to skill requirement to develop creative ways of collective work, to align with creating the condition for action plan applicability, and to make them a tangible reality [24].

In this stage, Islamic MFI practitioners and sharia advisor will be given list of questions, according to the quantitative finding, such as: what problems did people at BOP have related to credit rationing and accessibility to Islamic MFI? What is the socio-demographic criteria that Islamic MFIs used to determine whether BOP borrowers feasible or not to get funding? What are the financial services consumption criteria (Accessibility, Affordability, Adequacy, and Availability) implemented in Islamic MFIs to determine credit rationing occurrence? What are the solutions that they have conducted in their daily operation related to the credit rationing problem? Is there any potential action to solve the credit rationing problem and poor borrower accessibility from the existing daily operation?
3.1.2. **Appreciating positive meaning and promise of every being, experience, and situation:** This framework refers to a procedure of selection and judgment of a positive worth [22]. Predicting which might be wrong is critical in the decision-making process. Appreciating the festive needs persistent be and resilience [21]. In this step, Islamic MFI practitioners and sharia advisors will be asked several questions, namely, "What are the best solution to credit rationing problem and poor borrower accessibility in Islamic MFI?"

3.1.3. **Linking the generative strength of the present with the preferred vision:** It refers to a capability to evaluate possibilities of the current situation which is revealed, unlocked, or untapped [22]. It is an essential step for generating positive outcomes. It will create a strategy for the upcoming challenge, which is needed to implement in current situation. A professional institution will divide its strategy into a series of workable, time-sensitive, and small actions[21]. The last question in appreciative intelligence, Islamic MFI practitioners and sharia advisor will be asked several questions, namely "What are the concrete steps to realize the potential possibilities of enhancing poor borrowers' accessibility that exist in the present but are untapped?"

In adopting the appreciative intelligent approach, this study conducts structured interviews with the Chairman and officers of the Central BMT (Induk Koperasi Syariah) in Jakarta, and the headquarter of 382 BMTs throughout Indonesia. These samples were chosen as they represent the BMTs in Indonesia. Moreover, these samples are selected as representatives of those who design the sustainable Islamic microfinance in Indonesia. Accordingly, they have knowledgeable information about sustainability to leverage the poor people's accessibility. A representative from the 382 BMTs throughout Indonesia always attends Central BMT discussion forum at least once in a year to have conversation about the problem related to the poor's issues and challenges.

The choice of the two BMTs is highly fit by considering that BMT in Jakarta is a representing institution of whole the BMTs in the central region. Subsequently, the finding of this structured interviews are analyzed using the qualitative analysis to design the peculiarities of financing model for the poor in Indonesia. There are three officers participated as a sample in this study who are selected as they meet the required criteria of the research: (i) officers of Central BMT, (ii) passed at least two years experience, (iii) attend Central BMT annual meeting discussed about BMT sustainability. The profiles of the respondents are shown in Table 1 below:

| Gender | Age | Level | Place of Work | Working Experience | Transcript Details (word counts) |
|--------|-----|-------|---------------|-------------------|----------------------------------|
| Male   | 48  | Chairman | Central BMT    | 10 years          | 5401                             |
| Male   | 32  | Vice    | Central BMT    | 2.5 years         | 7739                             |
| Female | 33  | Staff   | Central BMT    | 4 years           | 4244                             |
| Male   | 35  | Vice    | Central BMT    | 3 years           | 5255                             |
| Male   | 38  | Staff   | Central BMT    | 2.7 years         | 4789                             |

The open-ended questions are being asked to enable the respondents in expressing more freedom about the related issues. Interview session recorded for around 150 minutes. The researcher then wrote transcript from the audiotapes and coded the data. Issues and challenges were summed up and reported.
3.2. An appreciatively intelligent of sustainable Islamic microfinance design

3.2.1. Reframing problems. Based on the interview, BMT has several problems that must be solved to increase poor borrower's accessibility to create sustainable Islamic microfinance. First is the lending limit. No regulation in the lending limit from BMT supervision will create inconsistency in BMT financing. Customer loyalty will impact on this policy. For example, BMT A implements lending limit A, which is higher than BMT B. Consequently, BMT B customers will move to BMT A since BMT A gives more lending limits. The other problem related to the lending limit is the formulation of the lending limit on which it is implemented without any basis. The formulation of lending in BMT is not based on the financial statement. This inconsistency will decrease the number of poor borrowers who want to have financing in BMT.

Second is high funding pricing for the borrowers. Several BMT, especially micro BMT, feel hard to get funding from the bank. It is because the bank still images micro BMT as non-bankable borrowers. Consequently, to get funding from the bank that plans to distribute to the poor borrowers, Bank will charge a higher margin. The trust from the bank to BMT is still low. Besides a higher funding margin from the bank, BMT also provides "mobile marketing."

Therefore, BMT will charge a higher margin to the borrowers. It can impact on borrower's affordability and increase non-performing financing. The BMT has conducted several actions related to non-performing financing by implementing high collateral from the borrowers on which several BMT have collateral more than 100%.

The third is the realization of APEX BMT. APEX BMT will conduct as "central bank" function to all BMT. It can function as an institution that has funded and conduct as a funding guarantee to all BMT. If the BMT faced a problem of liquidity APEX, BMT would solve it by giving cheap funding. As a result, it can increase borrowers' trust in BMT. Many borrowers will place their savings on BMT. Nowadays, many borrowers prefer to place saving in the bank and get funding to BMT. The problem that faced by BMT is no ideal institution will conduct as APEX BMT. The government has a plan to create secondary BMT or government banks as APEX BMT.

Fourth is the use of funding. Islamic way told that every funding must be distributed to the investment sector and not for the consumption sector. The practice in BMT, many borrowers used it for a daily consumption basis.

3.2.2. Appreciative positive. There are several solutions to the problems above. First, Government, especially the Ministry of SME and cooperatives, must create a regulation on the BMT lending limit. As a result, every BMT will have formal guidance for the lending limit. The guidance is essential as a basis of the lending limit formulation. So it can increase borrower's accessibility. Borrowers can easily choose whether their funding proposal fits with the BMT lending limit by looking at government guidance.

Second, BMT must build "a good bankable" image. Bank still views BMT as an institution with high non-performing financing, so it is a risk for banks to distribute funding to BMT. An image can be built by improving internal strength (financial, operational, marketing, and human resource) and reducing non-performing financing. Another solution to high BMT pricing is mobile marketing, which is used in many BMT. It is good, but in practice, it must be selectively managed. The maximum mobile banking must also be managed by BMT (maximum 25 km²). High collateral that is required by BMT is not adequately implemented in BMT. This is because most BMT borrowers are people at the bottom of the economic pyramid who usually cannot afford the collateral requirement. Activating joint liability is a solution for people at the bottom of the economic pyramid.

Third, the Government must accelerate the APEX BMT realization. The step of APEX realization seems so slow, while the need for BMT to APEX is demanded. It can increase customer confidence to have savings and funding in BMT. Creating a new bank that specialized for BMT is the solution since many BMT faced liquidity problems.
Fourth, BMT must limit the funding that is being used for consumptive. In practice, BMT must supervise the use of funding to borrowers. So, every funding will be used only for the productive sector.

3.2.3. *Linking Strength of the present to the preferred vision of the future.* To link the strength of the present to the future's preferred vision, BMT must conduct every step. First is the step to realize regulation on the BMT lending limit. *Inkopsyah* BMT, as BMT coordinator in Indonesia, must build a good relationship with the government and describe the lending limit in BMT. *Inkopsyah* BMT also provides the current lending limit data in BMT and its current formulation to get input for innovative lending limits. After a good relationship and understanding between two parties, a new formulation of lending limits and regulation will be achieved.

Second, there are several steps to create an excellent bankable image. First, BMT must have a good knowledge of standardized financial statements since many BMT used different unstandardized financial statements, so there is no formal financial statement. *Inkopsyah* BMT must be trained every BMT member in order to have a standardized annual report. Second, BMT must be reduced operational costs by optimizing the concept of mobile banking. BMT must measure a cost per km$^2$ then embed it in the funding calculation. Third, joint liability must be implemented, although it can increase the occurrence of moral hazard when one member depends on other members in practice. The supervision role is essential to minimize non-performing financing occurrence.

Third, *Inkopsyah* BMT must suggest one bank as APEX BMT to the government or by using primary cooperatives (*Inkopsyah*) as APEX BMT. APEX BMT’s role is essential to increase consumer trust to BMT and solve many BMT solutions. Fourth, *Inkopsyah* BMT must state to its BMT members that all are funding only for products used in the written statement, so every BMT has a guide to treat its borrowers. The summary is shown below:

| Reframing Problems | Appreciative Positive | Linking Strength of the Present to the Preferred Vision of the Future |
|--------------------|-----------------------|---------------------------------------------------------------------|
| Lending limit regulation | Creating regulation on BMT lending limit | 1. Build a good relationship with the government.  
2. Describe the problem of the lending limit in BMT.  
3. *Inkopsyah* provides the data of the current practice and formulation.  
4. Good relationships and understanding are achieved.  
5. A new formulation of lending limit and regulation will be achieved 6. |

| Reframing Problems | Appreciative Positive | Linking Strength of the Present to the Preferred Vision of the Future |
|--------------------|-----------------------|---------------------------------------------------------------------|
| High funding pricing to the borrowers | Build “a good bankable” image | 1. BMT must have a good knowledge of a standardized financial statement  
2. *Inkopsyah* BMT must be trained every BMT member to have a standardized annual report.  
3. BMT must be reduced operational costs by optimizing the concept of mobile banking.  
4. Joint liability must be implemented. |
5. The supervision role is essential to minimize non-performing financing occurrence.

| Reframing Problems          | Appreciative Positive | Linking Strength of the Present to the Preferred Vision of the Future |
|-----------------------------|------------------------|---------------------------------------------------------------------|
| APEX BMT realization        | Accelerate the APEX BMT realization | *Inkopsyah* BMT must suggest one bank as APEX BMT. |
| The use of funding for productive used only | Limit consumptive funding | *Inkopsyah* BMT must state to its BMT members that all funding only for productive use in a written statement |

BMT is expected to apply those strategies to anticipate those problems, such as designing new formulation of lending limit, upgrading good knowledge of standardized financial statement, reducing operational cost by mobile banking application, minimizing non-performing financing occurrence, and setting up Joint liability.

To implement this framework, OJK plays a significant role as a coordinator together with other ministries (Ministry of Cooperatives & SME and Ministry of Home Affairs, which carry out cooperative to the society. Moreover, OJK holds an essential role as a regulator, the supervisor, and the business license authorization [6].

4. Conclusion

This paper provides a sustainable Islamic microfinance design using an appreciative intelligence approach to enhance the poor borrowers' accessibility in Indonesia. Qualitative analysis is used in methodology analysis by using an appreciative intelligence approach through an interview with the Chairman and officers of the Central BMT (*Induk Koperasi Syariah*) in Jakarta, and the headquarter of 382 BMT's throughout Indonesia. This study uses three variables to build sustainable Islamic microfinance using an appreciative intelligent approach: reframing problems into possibilities, appreciating the positive meaning and promise of every being, experience, and situation, and linking the generative strength of the present with the preferred vision.

The results show that BMT faced four problems implementing sustainable Islamic microfinance (lending limit regulation, high funding pricing to the borrowers, APEX BMT realization, and funding for productive use only). Several solutions have been explained using appreciative intelligence, namely creating regulation on the BMT lending limit, building "a good bankable" image, accelerating the APEX BMT realization, and limiting the consumptive funding.

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