

THE OPPORTUNITY OF PROFIT SHARING SCHEME IMPLEMENTATION ON MONEYLENDER IN EXPANDING ISLAMIC BANKING SERVICE, EVIDENCE FROM TRADITIONAL MARKET IN SURABAYA, INDONESIA

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ABSTRACT

This research dealt with microeconomics finance that focused on the opportunity to implement profit sharing design on moneylenders in order to develop the principles of Islamic banking service. The method of this research was using descriptive analysis and logistic regression that was applied to two kinds of respondents; namely, Moneylenders as the fund owner and Customer as the fund user in the traditional market in Surabaya, Indonesia. The result showed that moneylenders agree to use profit sharing design more than their customer. This finding could be used as a good opportunity for Islamic banking to apply its principles into traditional markets. There were some variables which influence moneylenders to agree with the design of profit sharing, they were: initial capital and the number of customer with positive direction and the number of dependents with negative direction. On the other hand, variables that influence customer to agree with profit sharing scheme were initial capital, turnover and the understanding of profit sharing scheme with positive direction and age with negative direction.

Keywords: profit sharing scheme, moneylender, customer

Jel classification : c25, g21, o17, r51

ABSTRAK

Penelitian ini mengambil ruang lingkup pembiayaan ekonomi mikro yang berfokus pada kesempatan untuk menerapkan skema bagi hasil pada rentenir dalam rangka mengembangkan layanan perbankan Islam. Pendekatan ini dilakukan dengan analisis deskriptif dan regresi logistik untuk dua jenis responden yaitu Rentenir sebagai pemilik dana dan Pelanggan sebagai pengguna dana di pasar tradisional di Surabaya, Indonesia. Hasil penelitian menunjukkan bahwa rentenir lebih setuju untuk menggunakan skema pembagian keuntungan dari pelanggannya. Temuan ini bisa menjadi kesempatan yang baik bagi perbankan syariah untuk melakukan penetrasi ke pasar tradisional. Variabel yang mempengaruhi rentenir setuju dengan skema pembagian keuntungan adalah modal awal dan jumlah pelanggan dengan arah yang positif dan jumlah tanggungan keluarga dengan arah negatif. Di sisi lain, variabel yang mempengaruhi pelanggan untuk setuju dengan skema bagi hasil adalah perputaran modal, awal dan pemahaman tentang skema bagi hasil dengan arah positif dan umur dengan arah negatif.

Keywords: skema bagi hasil, lembaga pemberi kredit, pelanggan

Jel classification : c25, g21, o17, r51

1. BACKGROUND

The development of micro-finance institution in Indonesia has increasingly developed since long time ago. Indonesia is one of the earliest countries that implement micro financing in various ways including subsidy programs either by government or by non government organization (BWTP, 2009). As an emerging market country, the growth of micro business activity in Indonesia is increasingly potential. Based on ministry of cooperation, business activity in Indonesia is dominated by the micro economy activity with the output of small business reached 55,56% and its labor utilization reached 97,1% of total GDP. The domination portion of micro business activity shows the fact that micro level sector can grow more. Therefore, the support of funding through financial institution serving as financial intermediaries is extremely important by people who engage in this market to reinforce their small business activity.

In certain circumstances, as functionality, financial institution can be manifested in various specific mechanisms (Awirya and Yumna, 2008). In micro business activity, generally financial institution embodies as physical institution with management system embedded within. The first was started about a hundred year ago through Badan Kredit Desa (BKD), and followed gradually by Bank Dagang Bali (BDB), Bank Rakyat Indonesia (BRI) and Bank Perkreditan Rakyat (BPR) or rural banks that primarily focus on this micro market. Furthermore, many commercial banks now also start expanding their market into micro business area, which makes tight competition with micro-finance institutions especially with rural banks. Financial institution can also be embodying

in more simple mechanism without physical building such as moneylender. Moneylender is a person or a group of people who offers some personal loans at high rates of interest. In fact, as an informal service provider, moneylender serves most of the funding needs into micro business activity. The easiness of process to obtain funds makes a lot of micro business use these services rather than using the more formal financial institutions such as micro-finance institution or rural banks (Susana, 2003), even the cost that must be paid by customer is often larger than it deserves. The phenomenon then underlies that moneylenders still exist in the micro economy.

Despite of the disadvantages provided by moneylenders in using their services, customers feel that they gain more advantages in borrowing money this informal service provider rather than formal institution. There have been many researches in finding out the role of moneylenders in micro economy. Susana (2003) used descriptive analysis to examine the role of moneylenders to meet the fund requirements of small traders in the district of Wirobrajan, Yogyakarta. The results showed that moneylenders provided loan payment flexibility so that respondents found it helpful even though the price of funds was so high. Bubna and Chowdry (2009) showed that moneylenders are able to monopolize the supply of funds in a particular community. Rutherford (1999) suggested that moneylenders could be an alternative fund provider for poor society because they can provide funds in advance and draw the payback in the next period. However, the very high interest rate could harm the customers when they become negligent. Therefore, the more fairly lending-borrowing scheme is required by people in micro business activity to interact with moneylender.

In the early 1990, the new player in micro business activity appeared in Indonesia known as Islamic Banking. Rural Banks become the pioneer of this business, even before the establishment of Bank Muamalat in 1992 which is known as the first Islamic commercial bank in Indonesia (Arifin, 2007). Islamic banking offers different business activity called profit sharing scheme which offers its customer with fairness without interest rate. However, its market portion compared to commercial banks was still low, but the development of Islamic Banking in Indonesia seems promising regarding to the majority of its Moslem community. As a new business scheme, some promotion efforts have also been widely conducted to introduce Islamic Banks to micro finance. Profit sharing scheme is known as a fair mechanism because it invites two parties to negotiate before they have a deal. Furthermore, the inexistence of interest rate in profit sharing scheme will avoid the customer from exploitation in terms of speculation from a lender.

This research is focused on the opportunity of profit sharing scheme implementation on moneylender as the niche for Islamic banking to expand their market. Profit sharing scheme can make moneylender transaction mechanism, which is known technically simple but burdensome to the customer, to be fairer. However, the ease in lending process of moneylenders sometimes blur the issues related with the exploitation of customer. Therefore, a comprehensive study, both from the side of moneylenders as the owner and customer as the user, is needed in order to provide more complete information and to eliminate the exploitation toward customers. This research will analyze from both sides, moneylenders and customer, in order to know the factors that affect the implementation of profit sharing scheme on moneylenders to achieve a more equitable

economy. The availability to implement profit sharing scheme in micro transaction, especially on moneylenders in informal sector is expected to be an opportunity for Islamic banking market expansion. Thus, by the end of the study, the result can be used as the first step of applying profit sharing scheme as the representation of Islamic Banking System and making it as a focus in analysis.

This study will test the hypothesis of capital, customers, lending, paying, interest, markets, gender, age, family, knowledge which have positive effects on opportunities moneylenders Islamic economic system. This research will also test the hypothesis cost capital, turnover, cost scale, borrow, period, cost interest, cost market, cost gender, cost age, cost family, cost knowledge in having positive effects on the chances of customers' willingness to use the economic system of Islam in their transactions

2. REVIEW OF RELATED STUDY

2.1. Financial institution as a financial bridge

The financial institution that serves as a financial bridge is crucially needed in economy. Financial bridge here means that it serves as a connector between those who have excess of funds and those who need to use the funds. The most common financial institution which usually acts as a financial bridge is a bank. Banks serve as a depository of public funds, which then distribute the funds as loans. However, in the micro economy, especially for people who are relatively poor, there are various kinds of adjustments due to some specific conditions. The main problem of fund distribution as loan to low economy communities is that the usage of loan is not given to productive sector, which makes difficult for borrower

to return the loan. Moreover, the borrowers are able to return the principal loan only, not including its interest (Ray 1998). In addition to those problems, loan for poor people also encounter many constraints as stated by Vetrivel and Kumarmangalam (2010). They state that it becomes a problem to access poor people by formal financial institutions due to administrative problems. Raharjo (2005) states that the problems of fund distribution are related to four aspects; they are: the availability of funds, the level of interest rates, collateral and procedures. Rutherford (1999) states that in the environment where the demand for savings services outstrip supply, it is not surprising that many loans to poor people turn out to be just another way of turning the savings into lump sums. The impact is, the role of financial institutions that is required by poor people, who are mostly engaged in micro economy, must be replaced by other informal institutions.

2.2. Marketing in micro-finance

Micro business sector in Indonesia has a huge potential to grow depending on the initiative from banks to elaborate. Therefore, marketing in micro finance is very important to implement since most of micro business actors hesitate to visit banks. Gary Woller (2002) in Wright et al (2003) states that the best way to achieve long term financial self-sufficiency and achieve deep outreach is by identifying the needs and wants of society and providing products that are valueable for them. This will drive micro finance institution to find ways to serve micro society in an increasingly cost-effective manner. Furthermore, marketing in micro finance also need to consider market culture and best practice in the distinct responsibility of senior management. Without the specific and active participation

of management, the transition to market orientation will fail. Other market oriented practices include monitoring of customer satisfaction and otherwise routinely soliciting customer feedback, hiring staff with customer centered attitude and firing those without, increasing interaction and decreasing conflict between functional departments or pushing the decision making locus closer to the customer. Churchill and Halpern (2001) state that the importance of customer loyalty and customer satisfaction has become increasingly apparent to micro-finance practitioners as the micro-finance industry has matured during recent years. This can be implemented in various ways such as making portfolio diversity, implementing word of mouth marketing and improving efficiency and productivity. On the other hand, marketing of micro credit in Indonesia is constrained with some administrative problems, especially for customer. This requires a specific approach for each customer. Toding (2007) uses one of micro finance institutions in Indonesia and concludes that marketing in micro sector requires a more aggressive approach through a closer introduction to customer to expand its micro business scale. Besides, alliance strategy with other financial institutions also ease the marketing of micro credit.

2.3. Formal and Informal Micro-finance Institution in Indonesia

There are many financial institutions, both formal and informal, that have been developed to reach poor society in Indonesia. Ismawan and Budiantoro (2005) conduct an arrangement of formal micro-finance institutions in Indonesia. Micro finance institution is divided into four classification namely saving micro-finance, credit micro-finance, micro banking and linkage models. Saving micro finance is the institution that

is oriented on funding money from micro sector business such as Cooperation or credit union; credit micro finance is the institution that focuses on distributing loan to micro sector business such as rural credit association; micro banking is the institution that focuses on activity of funding and converses it into lending to micro business sector such as Rural Banks and Bank Rakyat Indonesia; and linkage model is the cooperation that is made between commercial banks with other institutions such as community self help groups (SHG) for channeling fund to poor society.

Meanwhile, informal micro-finance institutions have also been developed in Indonesia to meet the demand that cannot be accommodated by formal financial institutions. Martowijoyo (2007) states that informal micro-finance institutions which are most frequently encountered in society is Arisan. Arisan is the activity of rotating saving in a group of people. Many people join more than one Arisan for economic and social purposes, while others manage this activity as a side job. In rural areas, traders offer loans against standing crops through the tebasan and ijon systems. Even smaller loan called mindring is provided by retail traders of clothes or household utensils. Farmers also commonly get in-kind loans of rice and farm inputs from traders or shopkeepers at price higher than cash price. Commercial moneylenders are still working in rural areas and catering to the short-term needs of the poorest, although they are not flourishing as in the past. Some moneylenders are disguising their activities under the name of cooperatives. Characteristics of moneylenders in Indonesia are similar to other informal micro-finance institutions. The easiness of lending to the borrower still remains as the main reason for this activity to still exist in society. As a

consequence, most of short term fundings to cope with cash flow problem are still provided by moneylenders.

Nowadays, there have been developed micro finance institutions based on the Islamic law. Seibel (2005) shows a wide range of Islamic micro finance institutions in Indonesia. Islamic microfinance institutions grew rapidly in 1991. Islamic micro finance institutions that are developed to serve the poor people is the Islamic Financial Cooperatives (Baitul Maal wat Tamwil, BMT). However, after a period of rapid growth during much of the 1990s, they are now in decline, with perhaps no more than one-fifth in good health. Fresh money pumped into the sector without effective regulation and supervision will contribute to their downfall, as has been the case in the state-supported cooperative sector.

2.4. Recent Studies

Some studies about problems of formal and informal financial institutions in the micro economy have been widely conducted. Ayyagari et al (2007) showed that China's economic development often leads high growth companies to seek funding sources other than proposing formal credit to the Bank. Gine (2010) estimated the model of formal and informal lending in rural Thailand. The results showed that the efficiencies could be implemented to reduce lending rates and at the same time encouraged households to get supply of funds. However, the main problems related with administrative difficulties in formal institutions still become incentive for households to use informal institutions. Atieno (2001) conducted a study of small entrepreneurs in Kenya with the results showed that most of small businesses didn't even use credit. The main reason is that it is difficult for them to obtain information

about credit availability from the bank. Furthermore, they consider informal financial institutions as an alternative financing mechanism because it's more flexible than any other formal institutions. Pethiya and Teki (2004) show that some informal financial institutions that used to be accessed by public are landlords, merchants, moneylenders, friends and family.

Research that focuses on Islamic micro finance institution has been conducted a lot. Ahmed (2003) researched theoretical paper about the development of Islamic micro finance in Bangladesh. The result showed that Islamic bank can provide micro financing more efficiently benefiting from its scale operation. There are some problems in lending the funds within Islamic micro-finance regarding asymmetric information, economic of scale and extreme poverty. Asymmetric information refers to misallocation of fund. Most of credit that is given from bank is not allocated from what it should be, but more on non productive sector. Moreover, the business that is listed in credit agreement with bank is not fully funded anymore and gradually degrading. Economic of scale refers to the cost advantages that the bank obtains together with the increase of loan. In this case, the problem appears when the cost spent by bank is higher than the profit margin they obtained. Third, empirical study showed that micro finance institution is less effective to solve society with extreme poverty. Shabrawry (2011) introduces the concept of family banking to solve "Bankable" issue for customer of micro finance institution in Bahrain. Empirical study showed that family banking can help the increasing of micro finance institution, micro business and can contribute to the development of social economy in Bahrain as well.

2.5. Profit Sharing Scheme

Profit sharing scheme was developed as an alternative to the system of interest rate. This scheme is usually known as the method of funding that is not based on the interest system. This system has been widely used by Islamic financing. Tarsidin (2010) states that the scheme of interest rate is characterized by the certainty of yield for fund owner. On the contrary, this scheme generates an uncertainty for customer as fund user to pay their loan with fluctuated market interest rate. On the other hand, profit sharing scheme offers a more fairly mechanism because it is characterized by equal uncertainty both for fund owner and fund user in terms of expenses they have to pay. Therefore, the risks on profit sharing scheme have a wider dimension. Beside default risk, fund owner also encounter the risk of low yield due to the moral hazard problems or the jam of business. However, profit sharing scheme offers the equality of certainty both for fund owner and fund user, when the profit rate rises then both party are also enjoying the rising, and vice versa. By profit sharing scheme, fund owner and fund user can maintain its relative utility level on a balance system.

Kahf (2002) states that the free system of interest in Islamic financing is derived from the axiom of sharia on the fiqh transactions (fikh muamalah), that is a balance between the obligation of the two parties in exchange contracts and the actual reflection of reality. Financing on the basis of profit or loss sharing is a kind of direct investment, in which fund owner's attention is focused on the profitability of its investment. Sugema (2010) states that profit sharing scheme can distribute the risk at the individual level between fund owner and fund user than the interest rate system. This conclusion

was obtained by quantifying the income distribution effect of both those individual. However, although profit sharing scheme is one of the systems in the Islamic financial transactions, but its use is still limited. Iqbal et al (1998) show that there are many factors barring the system to be more widely used. First, it needs a more detailed report, then it can avoid moral hazard. Second, transactions of Profit Sharing Scheme in the form of Mudharabah cannot be reinvested. Third, transaction of profit sharing scheme is disliked by fund owner due to moral hazard and adverse selection, its long-term nature, and its requirement of in-depth information about fund user. Segrado (2005) states that micro-finance is very flexible to be implemented in society but needs adjustment based on the characteristic of its society, especially for their religious value. Some steps that can be taken to apply its principles into Islamic market financing are inclusivity of market which needs Islamic micro financing, product diversification, concern to the welfare of society and improving competence, including the establishment of specialization and the increase of business efficiency.

3. RESEARCH OBJECTS OVERVIEW

3.1 Traditional Market

The existence of traditional markets in the midst of modernity of countries development is increasingly inhibited by various obstacles such as weak supporting infrastructure, the pressure of various legal and illegal levies and the weak position in the eyes of the law and authorities. On the contrary, the contribution of traditional market to the national economy is high. In 2008, traditional markets reached 78.9% of national retail turnover up to 95.9 trillion

rupiah, even this achievement is declining compared to 2002 that reached 82.9%. In 2009, the contribution of traditional market is estimated exceed 100 trillion rupiah, far above the modern market that is predicted only up to 70 trillion rupiah.

3.2. Characteristics of Traditional Markets in Surabaya

As the second largest capital city in Indonesia, the economy of Surabaya that is mainly based on trading sector has been supported by the availability of infrastructure in the form of various markets, both traditional and modern market as places of business activity among economic actors. Even though traditional market's growth today is declining compared to the 1970s, as the result of competition with modern market that offers more comfort and convenience of shopping, the survey by AC Nielsen states that traditional market still becomes a predominant option reflected by approximately 67% of people who choose it. Furthermore, people spend 25 out of their 30 working days at traditional market, 3 days at mini market and 2 days at supermarket. Thus, the predominant role of traditional markets in supporting daily activities of society must be recognized by government to support middle and lower social people which mostly rely on this business area, compared to the role of modern markets that are only enjoyed by owners of capital. Currently, there are only 9 out of 82 markets that are still in good condition in Surabaya, they are North Keputran Market, Kerembangan, Kupang, Pabean, Pacar Keling, Panjang Jiwo, Pecindilan, Rungkut Baru, Simo, Simomulyo, Tunjungan, Wonokitri, Wonokromo Lama, Sukodono dan Gubeng Masjid. From 73 markets with bad condition, 14 of those are in uncertain status as they are controlled

by non government management agency. In fact, 7 out of those 14 uncertain markets have shifted their trading area to sideways.

Managing traditional markets in Surabaya encounter various problems such as weak management, low budget of market revitalization and high degree of corruption. However, as the increasing public attention to the existence of traditional markets due to the higher price of goods in the modern market, Surabaya City Government has made some improvements in the management of traditional markets, to investigate alleged cases of corruption, by adding the budget market revitalization and overhauling its board of directors. As a result, some traditional markets, such as Krukah, Pucang Sewu, Kapasan and Tambaksari markets, are more expanding and more competitive compared to modern markets. One of the markets that become a model for other provinces is Wonokromo market that has evolved into the mix of traditional and modern markets, with the trading arrangements of traditional markets for staple goods on the ground floor and a modern market for tertiary goods (i.e clothing, jewelry and electronic) upstairs. This market consists of 4 (four) floors. In mid-2010, the development of some Islamic traditional markets in the area of West Surabaya was started. The difference lies on the market management which is based on the Islamic concept especially on the type of merchandise as well as the existence of Islamic banking credit access for traders to obtain working capital loans. The availability of adequate infrastructure at entry access, coupled with merchant transaction areas that enhance the comfort for buyers, become the benefits of this market. In addition, the entry of private investors to the areas of traditional market management in the

region of West Surabaya, makes the city of Surabaya as a pilot project of traditional markets for other provinces. Investor offers a nuanced concept of establishing modern traditional markets with excess clean water and adequate waste management, access and level of convenience shopping to match the modern retailer. This market is planned to be inaugurated in late 2011, along with the increasing needs of the community shopping area of West Surabaya that still has low number for its traditional market.

4. RESEARCH METHODS

4.1 Data

This research is largely based its analysis on primary data. The unit analysis in this study is moneylenders as fund owners and customers as fund users. The primary data is gathered through questionnaires on moneylenders and their customers. The scope of study in this research is traditional markets in the area of Surabaya. Traditional market in this research is divided into two classifications, namely unmanaged traditional markets and managed traditional markets. In unmanaged traditional markets, the markets are in the location where buyers and sellers do business and the bargaining price is not managed by any party. Meanwhile, in managed traditional market, the markets are in the location where buyer and seller do their business and the price is managed by one particular management, either by government or private company. The management has the right to maintain market location, to collect retribution, but they do not have the right at all to set the price.

Based on the information from Surabaya City Government, there are only 9 out of 82 markets that still function properly

in 2011. The survey was conducted in two unmanaged traditional markets, one managed traditional market dan one modern market. 20 respondents, consisted of 10 moneylenders and 10 customers, were taken from each market. Unmanaged traditional market that was used namely Krukah Market and Pucang Sewu markets that are located in East Surabaya, while the managed traditional market used namely Bratang market that is located in South Surabaya. The survey was also conducted in modern market namely Wonokromo DTC that is located in the district of Wonokromo, South Surabaya. Each market contains approximately 50 traders. 20 respondents were taken from each market, thus the total of 80 respondents were obtained consisting of 40 moneylenders and 40 customers that were distributed into four markets. The sampling method used in this research is cluster random sampling.

As the development based on trade sector, the Government of Surabaya spend abundant budget for traditional market revitalization that will be accomplished gradually. From nine existing markets, three of the markets represent the markets with adequate infrastructure availability, such as having improved water facilities, sewage treatment, good access to market and minimizing the amount of muddy road in the market, thus the number of visit and trade transaction are relatively stable and even increased in the middle tight competition of modern markets in Surabaya today. As an example, the success of Surabaya City Government in combining traditional and modern market concepts is represented by DTC Wonokromo market, which has facilities of traditional market for daily needs (fresh products) on the ground floor, while for tertiary needs, such as clothing, jewelry and

other lifestyle needs are upstairs. Indeed, the number of visits and the level of fresh product transactions are relatively stable compared to the time when traders were relocated from the old place that disrupt the main road traffic in Surabaya.

4.2. Data Analysis Tools

The approach applied in this research is descriptive and inferential analysis. Descriptive analysis is focused on the characteristics on the differences of each respondent and their willingness to use profit sharing scheme in their transactions. This study also describes the factors of using moneylender and the possibility to access Islamic micro-finance institutions such as BMT. Inferential analysis is conducted by using logistic regression with the possibility of using profit sharing scheme on moneylenders as dependent variable and respondent characteristic as independent variable. The use of logistic regression is compatible with the condition of its dependent variable in the form of discrete variables. The result of logistic regression estimation can guarantee its dependent variables movement only between 0 and 1, which can be interpreted as the change of independent variables variants against the possibility for dependent variable.

Logistic Regression based on probability function of cumulative logistic is specified as follows (Gujarati, 1995):

$$P_i = F(Z_i) = F(\alpha + \beta X_i) = \frac{1}{1 + e^{-Z_i}} = \frac{1}{1 + e^{-(\alpha + \beta X_i)}}$$

In this notation, e represents basic of natural logarithm. P_i is the probability if an individual creates a choice and is influenced by X_i . Logit model can be estimated by multiplying equation 3.1 and $1 + e^{-Z_i}$ to get $(1 + e^{-Z_i})P_i = 1$. By subtracting earlier

equation and P1 and modified numeral 1, so we will get:

$$e^{-Z_i} = 1/P_i - 1 = (1 - P_i)/P_i$$

$$e^{-Z_i} = 1/e^{-Z_i} \text{ thus } e^{-Z_i} = P_i/(1 - P_i)$$

Natural Logarithm in both sides will deliver $Z_i = \log\{P_i/(1-P_i)\}$ or $\log\{P_i/(1-P_i)\} = Z_i = \alpha + \beta X_i$. So that the probabilistic model can be estimated as follows:

$$\log \frac{P_i}{1-P_i} = \log \frac{r_i/n_i}{1-r_i/n_i} = \log \frac{r_i}{n_i-r_i} = \alpha^* + \beta^* X_i + \varepsilon_i$$

This study will estimate two models and each of them uses information about moneylenders and customers. Patole and Ruthven (2001) divide moneylenders into three types, they are (1) moneylenders who develop the informal economy and increase the scale of their business through networking; (2) moneylenders who run their business in small scale and less interested in expanding their business; and (3) moneylenders who run business and are interested to the expansion of their business scale. Aryeetey (2008) states that even though moneylenders can expand their business but they still have trouble in enlarging their amount of loan. However, this study is also concerned with the differentiation of the moneylenders' character the scale side as independent variable. The differences lie on the amount of the capital used, the numbers of their customers and the interest rate. In addition, this study will also use independent variables that are associated with moneylenders' demographic considering that an individual largely runs their businesses. Independent variables used are gender, age and number of family dependents. Based on some modification for the differences on moneylenders' scale along with their demographic, it can be seen that independent variables used are initial capital, number of customer, number

of loans, loan average, interest pay time accuracy, and market type. The first model to be estimated in this study is:

$$ProbMonLen = f(\text{capital, customers, lending, paying, interest, markets, gender, age, family, knowledge}).$$

Where Capital is the initial capital that is stated in rupiah, Customer is the number of customers and Lending is the loan average that expressed in dollars. Paying is the categorical variable with "1" as the customer pays on time while "0" is the opposite. Interest is the average amount of interest applied to the customer that is expressed in percent per year, Market is the market type of business places and it's a categorical variable with values "1" as the modern market and "0" as the traditional market. Age is the age of the business moneylender expressed in years. Gender is the sex with a value of 1 as male and 0 as female. Family is the number of dependents expressed in person. Knowledge is the knowledge about Profit Sharing Scheme and it's a categorical variable with "1" as knowledgeable and "0" as the opposite.

The second model that estimated in this study is related to the moneylender's customer. The characteristics of moneylender's customer will also be used in the estimation of this model. Baden (1996) stated that the gender neutrality does not occur in the development of financial institutions. This research will also use gender as one of the characteristics of the moneylender's customers. Hossain (1988) stated that in certain circumstances, an increase in family income can help poor people to manage capital so they can run the productive businesses. Therefore, this paper suspects that the level of ability to

generate business can provide a different view to the need of moneylenders. This study also uses business performance as a dependent variable. The higher profits from business, the lesser incentive of business actors use Lost Profit Sharing system. (Tarsidin 2010). Therefore, the differences of the customers' characteristics lie on the loans which are related to the amount of the loans, interest rates and the customers' demographics dealt with gender, age, the number of dependents and the knowledge of Profit Sharing Design. The result of the modification based on the research can be formulated in the second formula as described below:

$$ProbCustomers = f(\text{custcapital, turnover, custscale, borrow, period, custinterest, custmarket, custgender, custage, custfamily, custknowledge}).$$

Where custcapital is the initial customer's capital estimated in rupiah. Turnover is the turnover of customers each month expressed in dollars. Custscale is the number of customers in a large scale to illustrate the market power of customers. Borrow is the remaining amount of the loan customers stated in rupiah. Period is the rest period of loan customers. Custinterest is the average amount of customer interest on the loan expressed in percent per year. Custmarket is the type of market where customers do business and it's a categorical variable with values 1 as the modern market and 0 as the traditional market. Custgender is sex with value 1 as male and 0 as female. Custage is the age of customer that expressed in years. Custfamily is the number of customer's dependents stated in person. Knowledge is the customer knowledge about the Lost Profit Sharing and it's a categorical variable with a category 1 as to knowing

a Lost Profit Sharing scheme and 0 as the opposite.

5. DATA ANALYSIS RESULTS

5.1. Characteristics of Respondents

Most of moneylenders are women with the proportion up to 82.5% from the total respondents. By looking at the number of women who run these businesses, it shows that this business is not the main job for the head of the family only. The Age of moneylenders also have exceeded the relatively young age with an average age of 46 years old. The youngest age was 34 years old while the oldest was 62 years old. Most moneylenders have been already doing business since 11 years ago. This condition indicates that the moneylenders have already been in business very long, so it is relatively familiar with the market characteristics of their business premises. In addition, business players also have known their customers so that the relationship between the two is no longer formal. The average initial capital moneylenders amounted to Rp33,5 million. The smallest value is Rp5 million, while the greatest value is Rp60 million. The amount of initial capital needed causes the age of business player is no longer relatively young. From that initial capital, they expand their business so they could lend up to an average of Rp53,2 million, with an average loan to one customer amounted to Rp1,12 million. Each of the moneylenders has up to 30 customers. The smallest average loan amounted to Rp565.000, - with an average period for 3 months, while the biggest average loan amounted to Rp4,42 million. Most of the respondents stated that the applied interest rate is in the range of 120% per year. The amount of interest is more than 10 times to the benchmark rate set by Bank of Indonesia. High interest

rates cause the problems in loan repayment. Most of the moneylenders at 65% of the total respondents said that customers do not pay the installments on time. Atieno (2001) states that to cope with payments that are not on time, moneylenders will provide loans to many customers, so the risk can be reduced. The level of moneylender's business knowledge is relatively good which is indicated from the related knowledge to the global financial crisis expressed by 55% of respondents.

The same as moneylenders, most of the moneylender's customers are also female with a bigger proportion up to 90% of the total respondents. All customer respondents are traders who run business in the market where the moneylenders are working. The age of customers is also relatively young at around 42 years old. The youngest age is 26 years old and the oldest is 57 years old. This shows that the age of structure of the moneylenders is relatively older than their customers. In addition, business players in the modern market mostly have a younger age than the traditional market have. This condition happens because the establishment of this market is still relatively new in Surabaya. Slightly different from the traditional markets, cash flow is not too fast because the value is greater. However, the amount of moneylender's interest between the two markets is still the same. Most customers also have run the business since 11 years ago. This condition indicates that customers and the moneylenders are starting their business in the relatively same time.

The average customer initial capital is amounted to Rp12,1 million lower than the capital needs of moneylenders. Most of the respondents sell the basic necessities with the proportion of 51.22%, while the remaining 17% sell secondary needs such

as clothing and 3% sell tertiary needs such as gold. The average turnover of each month is amounted to Rp 5,1 million, so they can generate turnover of more than Rp60 million in one year. 73.17% of respondents have no buyer who monopolizes the sale, so that they serve a variety of buyers. The impact is that the customer market power against its customer's moneylenders is relatively low. The average loan in moneylenders is amounted to Rp3,53 million with a period of approximately 3 months. Thus the average loan per month is Rp1,2 million or 23% of its turnover. Related to the global financial crisis, 75.6% of respondents said that they know the crisis and 90% of respondents who know about that stated that their business performance had decreased at the time.

5.2. Descriptive Analysis

In general, the result shows that 92.5% of moneylenders comprehend the mechanism of profit sharing scheme in business financing. In addition, 67.5% of moneylenders are also willing to change their mechanism to profit sharing scheme. This fact indicates the bigger possibility to implement profit sharing scheme in informal micro finance. For micro financing in market, Islamic banking can use this opportunity to expand cooperation with moneylenders in Islamic micro financing. Islamic banking can give capital aid to a larger financing program and moneylender can play a role as the effective marketing agency. For those who state not willing to change their mechanism to profit sharing scheme, the main reason is because this mechanism only gives the smaller result, or even loose, than the interest rate scheme. However, profit sharing scheme is difficult to be implemented in their businesses. The main reason is because the customers are not trusted (given by 48.1% of respondents who agree with profit sharing

scheme), besides, the respondents also state that the interest rate scheme can simplify the process of their calculation (expressed by 33.3% of respondents), thus the customer are not willing to use profit sharing scheme (expressed by 22.2%). Tarsidin (2010) states that interest scheme can suppress the intensity of moral hazard, so the cost of monitoring and verification can be reduced.

Respondents who state that the Profit Sharing Scheme is the best system has the bigger business scale compared to customers who disagree. The average initial capital of respondents who agree with Profit Sharing Scheme is amounted to Rp34,63 million, slightly larger than other respondents with an average of Rp31,12 million. The number of customer is also greater on average by 31 customers, higher than other respondents that only by 26 customers. The average loan amount per customer is also relatively higher at Rp1.28 million (interest rate 104% per year) compared to Rp0.81 million (interest rate 117% per year). The relatively high of interest rate towards the respondents who disagree with the result is understandable because the use of Profit Sharing Scheme makes the opportunity of moneylenders to get the same or higher outcome tends to decrease. Based on the survey, 65,85% customers understand about profit sharing scheme. The portion of respondents who state profit sharing scheme as the best scheme is only 31,71%, which indicates that customers are still unfamiliar with the benefit they can gain from profit sharing scheme. On the contrary, 64% respondents who disagree with profit sharing scheme stated that interest rate of this scheme can offer bigger loan for its customer due to its high interest rate. On the contrary, 92,25% respondents who prefer profit sharing scheme are inhibited due to the lack number of moneylenders who use profit sharing

scheme. Thus, there is an opportunity for profit sharing scheme implementation on moneylenders in this financing business.

Further analysis showed that the respondents who agree with profit sharing scheme have bigger loan on Rp5,19 million (interest rate 10,67% per month) which is bigger than the respondents who disagree as much as Rp2,75 million (interest rate 9,42% per month). The height of interest rate in interest rate scheme is the advantage for profit sharing scheme to expand with low interest promotion. Furthermore, the revenue between customer profit sharing scheme and interest rate scheme is not significantly different amounted to Rp5,37 million and Rp5,02 million. Moreover, significant difference is located on the amount of capital in which the customers agree with profit sharing capital is bigger than customer who disagree, Rp17 million for customer with profit sharing scheme and Rp9,8 million for customers with interest rate scheme. This fact indicates that the problem in expanding Islamic micro finance is located on customer side. Less comprehension regarding Islamic economic system can also cause customers not interested to profit sharing scheme. The uncertainty and fairness issue regarding profit sharing scheme also make customers have problems in determining how much cost they have to pay, thus their yield would be difficult to calculate.

5.3. Inferential analysis

This study also uses inferential analysis to complement the descriptive analysis. Estimation is conducted by logistic regression approach. The first test of Hosmer and Lemeshow is conducted before going on to the next step. The results of both models showed the result that lead to further analysis. The estimation result will

Table 1. Estimation of Possibility of Money Lenders to be interested in Lost Profit Sharing System

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
Family	-0,830	0,425	3,811	1	0,051	0,436
Capital	0,000	0,000	2,937	1	0,087	1,000
Customer	0,137	0,075	3,336	1	0,068	1,147
Lending	0,000	0,000	1,682	1	0,195	1,000
Interest	-0,022	0,024	0,835	1	0,361	0,979
Knowledge	22,749	22527,887	0,000	1	0,999	7,58
Constant	-19,901	22527,887	0,000	1	0,999	0,000

be presented in two perspectives, namely the perspective of moneylender and the perspective of customer. The estimation of equation 5 with perspective of moneylender showed that only three independent variables with significance level of 10% states Profit Sharing Scheme as the best system namely initial capital, number of dependents and number of customers (see Table 1). The estimation result show that the higher number of dependents, the lower possibility for moneylenders to agree with Profit Sharing scheme. This is understandable considering that Profit Sharing scheme has a bigger risk of loss than the rate system has. Greater number of dependents makes the greater of respondents' possibility to avoid the risk of Profit Sharing Scheme. Similar reason can also be applied in explaining the estimation result that greater number of customer will increase the possibility of moneylenders to agree with the Profit Sharing Scheme. It is because the greater number of customers will share the smaller risk of loss, so the total risk will be decreased. If the risk has been decreased then the possibility to use Profit Sharing Scheme will be increased. Also, the greater initial capital will increase the possibility of respondent to agree with the system. It is because the greater initial capital leads

to bigger business scale of moneylenders, thus it will be more tolerant to the risk that can arise from the Profit Sharing Scheme.

Estimation by equation 6 with the perspective of moneylender's customers shows that there are four independent variables that are significant at the 10% alpha level. This significance shows that there is a possibility of moneylenders to agree with profit sharing scheme. These variables are related to the age of customer, customer initial capital, terms of repayment and customer knowledge about Profit Sharing scheme (see Table 2). The estimation result show that the advanced age of the customers will reduce the possibility of customers to agree with profit sharing scheme. We suspect that this phenomenon is associated with the relative difficulties to calculate loan payments in the profit sharing scheme. The higher condition of the customer's initial capital will increase the possibility of customers to agree with the Lost Profit Sharing system. The explanation of this problem has been explained in the discussion of descriptive analysis. Meanwhile, the longer of loan period will increase the risk on customer side, so that the use of profit sharing scheme will share the risks between customers and moneylenders. This is indicated by the significant variables associated with the loan

Table 2. Estimation of Possibility of customers to be interested in Lost Profit Sharing System

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
Custgender	0,147	1,857	0,006	1	0,937	1,159
Custage	-0,172	0,099	3,047	1	0,081	0,842
Custcapital	0,000	0,000	3,754	1	0,053	1,000
Omset	0,000	0,000	1,260	1	0,262	1,000
Borrow	0,000	0,000	1,963	1	0,161	1,000
Period	7,066	3,116	5,141	1	0,023	1171,872
Custinterest	-0,001	0,036	0,001	1	0,970	0,999
Custknowledge	3,920	2,196	3,187	1	0,074	50,393
Constant	-14,743	8,327	3,135	1	0,077	0,000

period with the positive direction. The higher understanding about profit sharing scheme will also increase the possibility of customer to be interested in the system. This reason becomes the basis of allegations of why the Islamic financing has not been socialized as reflected through the customers who have no idea with the existence of BMT as an Islamic financial institution.

6. CONCLUSION

This research attempts to examine further about the possibility of implementing profit sharing scheme in the informal micro-finance. The analysis was performed on the both sides; moneylenders and customers. The results of the analysis show that the statement of profit sharing scheme as the best scheme is coming from moneylenders, while customers themselves consider profit sharing scheme as more complicated scheme compared to interest rate scheme. The biggest concern from customers' side is the possibility of greater yield on profit sharing scheme than the interest rate scheme. This indicates the possibility of high use of profit sharing scheme by customers if they have understood the mechanism and its yield calculation. From the formal financial

institutions' perspective, the opportunities to enter the financing market with a more affordable rate can be met if the flexibility and ease of transactions can be provided by financial institutions. The result also indicates the lack in marketing the Islamic financial scheme to its customers; consequently, the understanding of customers to this scheme is inadequate. Islamic financial institutions can do an intensive socialization to provide insight of profit sharing scheme mechanism to moneylenders, as it can be an alternative source of funds for customers. Due to the high interest of moneylenders, Islamic financial institutions can solve this with the linkage system between formal and informal financial institutions in order to reach a mutualism symbiotic between financial institutions. In the end, efforts to find financing methods, either formal or informal, that provide benefits and fair sharing of risks should have been continuously carried out in micro economy.

7. RECOMMENDATION

1). It needs efforts to expand the understanding of Islamic economics, especially in the field of microfinance in the prospective client moneylenders (in this

case the traders) to increase the odds of the use of economic transactions in Islamic microfinance.

2). Expansion of the market for Islamic banking services can work together with the money lenders who have been willing to use economic transactions Islamic microfinance services.

3). Future studies need to strengthen aspects of the adequacy of data, different types of markets and the different characteristics of the respondents as well. The expansion of the model can also be done for a more comprehensive study.

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