

STUDY ON FACTORS INFLUENCING PERFORMANCE OF THE BEST BAITUL MAAL WAT TAMWILS [BMTS] IN INDONESIA¹

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Abstract

The Islamic financial institutions generally, and the Islamic banks particularly have been interesting phenomena for about last two or three decades. They are believed [by many] to be an interesting, challenging and promising model of the current or conventional financial systems. In the case of Indonesia, despite of the fact that there are two official types of Islamic bank, as they are accommodated by Banking Act No. 7 1992, as well as Banking Act No. 10 1998, there is an additional type as what so-called Baitul Maal wat Tamwil, or abbreviated as BMT.

BMTs have even attracted more attention. First, because they are generally unregistered under the normal practice rule such as Central Bank. Second, they have developed very significantly in quantity and spread in very wide areas of different provinces. Currently, there are about two thousand BMTs around the country. This indicates that BMTs have been contributing to the national economy. Third, although the country is hit by the crisis, many BMTs operate smoothly. This is contrary to what might be seen in the fact faced by many formal conventional banks.

Based on the above factors, we are interested in investigating what the influencing factors are behind the good performance of BMTs in general. This is the main objective of this study. To answer the research problems, the data were collected from the best 47 BMTs in five different provinces, i.e., West Java, Jakarta Special Territory of Capital, Middle Java, Special Region of Yogyakarta, and East Java. The simple descriptive, as well as the regression analysis, was applied.

It is found that there are four main influencing factors. They are the salary rate of management, the education and the management skill of personnel's involved in daily operation and the product attributes. Other factors predicted at the beginning [such as working hours, the number of products] are found to have a negative correlation to the BMT's performance. One important implication of these finding is that there is a serious need to improve the management skill as well as the need to refine the managers' rate of salary.

Keywords: *Islamic Financial Institutions, Microfinance, Performance evaluation.*

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INTRODUCTION

Background

There are three levels of Islamic or Shariah banks in Indonesia based on their size. They are general commercial banks, rural banks and sub-rural financial institutions. Bank Muamalat Indonesia (BMI) represents the first kind. So far, there is only one bank formed in this kind although some official sources stated that currently, particularly after the New Banking Act (No. 10, 1998) was regulated, many conventional banks are interested to operate the special branches that are based on the shariah law².

What so-called PT Bank Perkreditan Rakyat Syariah (PT BPRS) represents the second form? Until 1998, there are 78 PT BPRS in Indonesia [Adnan, 1999]. As it was regulated by Banking Act No. 2, 1992, the rural banks must be located in the capital of *Kecamatan*³. PT BPRS or PT BPR (the conventional bank form of rural bank) is strictly prohibited to operate beyond the approved mentioned areas.

The third form is what is widely known as the *Baitul Maal wa at-Tamwil* (BMT). It is the most simplified form of Islamic Financial Institutions. Most of BMT enterprises are small and run in the form of cooperative type of business and some others operated in [legally] non-formal way. The existence of this kind of firm is triggered by the very limited opportunity to establish a formal Islamic bank either in the form of General Bank such as Bank Muamalat Indonesia, or Rural Bank such as PT Bank Perkreditan Rakyat Syariah (PT BPRS). Unlike the first two forms of banking indus-

try that are explicitly regulated by the Banking Act No. 10, 1998, BMT is not included.

Since the economic crisis hit the country about two years ago, many companies are collapsed. These include the real sector businesses as well as non-real or financial sector businesses. As it is widely known, there are several banks that have been liquidated and some other were taken-over by the government. Many say [e.g. Karim, 1999, and Saefuddin, 1999 are two among others] that the shariah-based banking has a strong resistance towards the economics crisis. That is why most of the Islamic or Shariah banks are relatively stable during the crisis. As Karim [1999] acknowledges, BMI has been operating smoothly without any assistance provided by the Government, while all other conventional banks might have been gone bankrupt, if the government did not treat them differently.

Currently there are about two thousands BMT in the country. As a matter of fact, these kinds of Islamic Financial Institutions have shown their sustainability. Some of them show a significant growth, although few show the opposite situation. Only few researches have been conducted to the existence of BMT, although it is widely spoken. According to Raharjo [1999], the BMTs must be recognized as the most successful kind of non-formal financial organization, which have played their role as a financial intermediary function. Accordingly, BMTs have contributed significantly to the whole economy, both before and during monetary crisis.

It is then interesting to investigate the BMT movements as one unique phenomenon, which might contribute to the national economy, particularly in attempting to recover from the crisis.

Research Problems

1. What are the influencing factors to the performance of BMT?

² Based on the news released in some newspapers, some banks have officially opened the special branches, which are operated under shariah principles. These include Bank IFI, Bank Syariah Mandiri and BNI Syariah.

³ Kecamatan is an area under the level of government below Kabupaten or regency. More or less it is equivalent to district [Wojowasito, 1976, p. 87]. One regency consists of several districts.

2. What are the specific factors affecting their growth and good performance?
3. What is the characteristic of customers?
4. What are the products and or service offered?
5. What are the attributes of those products or services?
6. How do customers perceive BMTs?

Objectives

This research is aimed at achieving the following objectives:

1. To investigate the influencing factors which enable BMTs to keep their performance well.
2. To investigate the specific dominant factors related to the performance of BMTs.
3. To see the characteristics of BMTs consumer.
4. To investigate the products and services portfolio generally offered by BMTs
5. To see the perception of the customers towards BMT.
6. To see how BMT maintain the relationship with customer.

Contributions

It is expected that the research findings contribute the followings:

1. Policy recommendations to support the existence and growth of BMTs
2. To assist BMTs to concentrate on the selective effort to reach and improve their performance.
3. To assist BMTs as how to treat their customer better.
4. To assist BMTs to enhance their product through its attributes.

LITERATURE REVIEW

This section tries to seek and review the existence literature, particularly in relation to previous research conducted about the topic studied in this research. This is important in the context of the whole re-

search in order to establish and/or to guide the researchers to develop such a research hypothesis.

Perhaps, because of its new existence and unique form and operation in nature, there is only very limited number of previous researches conducted for this topic. The search conducted so far shown that there are about three researches have done about BMT. These researches have been performed by Kurnila [1999], Solihin [1999], and Pinbuk [1999].

The first two researches are not so relevant to the topic studied in this research. Kurnila [1999] for example studied the management of finance in BMT Al-Ikhlas in order to anticipate the possible doubtful financing problem. She found that basically the BMT management applies three levels of policy. First, the management tries to control the finance by looking at the project's feasibility. Second, the BMT management does control the project being financed. Finally, if the problem cannot be avoided, the management takes a repressive action.

Solihin [1999] researched the behavior of BMT customers toward BMT. He undertakes the case of BMT "Kharisma" in Magelang. Solihin concluded that there is a positive relationship between the willingness to be a member and/or a customer of BMT with the education level as well as the age. He, basically, examined several possible variables related to the perception and willingness to be a member and/or a customer of BMT. Among those, only two are accepted.

PINBUK [1999] had also conducted a study of development evaluation of Pondok Pesantren Cooperative (Kopontren) and BMT. The study is basically concerned with the following research questions: (1) what are the external factors that impede and support the development of Kopontren and BMT? (2) What type of financial institution become a potential and serious competitor for Kopontrens and BMTs in their localities?

(3) What kind of efforts could be considered to improve the competitive advantage of Kopontren and BMT?

The study was conducted based on the survey upon 24 BMTs and 30 Kopontren in three provinces, West Java, Middle Java and East Java Provinces.

The study concludes that there three external factors which possibly support the existence of BMT and Kopontren. They are (1) the consciences and willingness of Muslims to utilize and assist the Islamic financial institutions. (2) BMT and Kopontren basically serve the customers well, both in delivering the products or services, and collecting the customers obligation; (3) BMT and Kopontren provide the easy procedures [read: un- bureaucratic] to get the finance projects [Pinbuk, 1999, p. 78].

Besides the supporting factors, the research also found some external obstacles or barriers. These include (1) the lack of knowledge of society toward BMT, as well as (2) a misunderstanding among the society's members about the social and religious role of BMT and or Kopontren; (3) It is also found that basically there is no leading competitive commodity that can be financed; (4) The BMTs and Kopontrens at most are lack of supervision and development assistance.; (5) There is no single institution which can provide guarantee in the case of liquidity problem; and (6) Most of customers are working in small retail sector, and almost none who work in manufacturing sector.

As its alluded in the Chapter I, according to Rahardjo [1999] there was a survey conducted about the role of BMT as one of a grass root informal financial organizations. The survey shows that BMTs have been one of the most successful informal financial organizations that have successfully collected and distributed the funds from and to the societies through the most accepted way. Because of that he argued that BMT should be the future model that must

be developed and supported. BMTs according to him are the most promising financial model, because they bring and apply the fairest financing transactions.

RESEARCH METHOD

Population

Population of this research is all BMTs in the country, which count to be 1800-2000 units. They are spread to every province in the country [see exhibit 2-1, p. 14a].

Sample and Sampling Method

Due to limited time and budget, it is impossible to cover all the BMTs in the country. The only way to handle this problem is to pick some of them in a sample. The number of the sample is going to be 40 to 50 BMTs.

The other problem arises is how to pick the sample. Many sampling methods are available to this research, but it will select area-sampling method. The selection of area sampling aims at getting the higher degree of generalization of the research. The area that will be used as the home of the sample is the Island of Java with the argument that Java can be considered as the representative of Indonesia. This is due to the fact that the majority of the population in the country reside in Java. Moreover, the substantial number of BMTs take place in Java.

In picking-up the sample, we expect that all regions in Java island will be covered which are The Province of West, Central and East Java plus The Province of Special Region of Yogyakarta and The Jakarta Special Territory of Capital.

Variables and Definitions

Performance

Performance is a complex concept. One will agree that a BMT is said to perform well when they have several criteria, such as growth, profitability, which could be seen from financial statements. Moreover, the

BMT must be healthy. The healthiness can be represented as having been growing well within the period in study.

According to this understanding, we define the good performance as those which have been operating two years or more and they are experiencing growth in:

- a. total asset
- b. number of depositors or customers
- c. total outstanding projects being financed

Professional management

Professional management is hard to be defined. But, it is not arguable that education of the management, salary of the management and working hours are all the content of professional management. So, the variable will be assumed to be a proxy through the content items.

Size of Market

Size of market is one of the determinant factors of the sustainability of BMTs. The sizes of market are directly related to the demographic factor. For example, the size of market is bigger than the area where a BMT exists is dominated by people with low income, or, has a substantial number of population with commitment to Muslim *shariah* (law).

Product portfolio

Product portfolio is expected to be one of explaining variable to sustainability. The higher the number of the product, the higher the possibility of BMT to catch customer with different buying motive.

Attributes of products

Besides product portfolio, product attribute has an important role in attracting potential customer. The considered attributes are as follows:

- a. Easiness to deal with the BMT (non-bureaucratic procedures)
- b. Attainability (light burden of "interest"/"charge"/"margin" or whatever the term used in Islamic banking).

Data Collection Method

The method of collecting data will be used in this research are:

- a. Questionnaire
A considerable number of questions will be sent to the management as well as members or customers of the BMTs that are picked up to be the member of samples.
- b. Documentation
Some data, such as age, asset, return on asset, total credit delivered, will be acquired from secondary sources.
- c. Interview
Some supporting data need to be acquired directly from customers by using structural-type interview. This has to be done to anticipate that considerable numbers of expected customers might be incapable to understand well the questions in the questionnaire.

Method of Analysis

In analyzing the causal effect of the determinant variables to the performance of BMT, a regression analysis will be applied. The mathematical model of this relationship is expressed as follows:

$$\text{SUSTAIN} = f(\text{EDUC}, \text{SALARY}, \text{WORKHOUR}, \text{LOWINC}, \text{COMMIT}, \text{PRODPORT}, \text{EASY}, \text{ATTAIN})$$

Where:

SUSTAIN is sustainability

EDUC is education of the management

SALARY is salary to the management

WORKHOUR is working hour of the management

LOWINC is the ratio of low-income people to the total population in the area

COMMIT is the ratio of committed-to-Muslim-law people to the total population in the area

PRODPORT is product portfolio

EASY is easiness of the product to get

ATTAIN is the attainability of the product to the customer

Having expressed the relationship of the variable in such form, we can formulate the regression model as can be seen in the following:

$$\begin{aligned} \text{SUSTAIN} = & \beta_0 + \beta_1 \text{ EDUC} + \beta_2 \\ & \text{SALARY} + \beta_3 \text{ WORKHOUR} + \beta_4 \\ & \text{LOWINC} + \beta_5 \text{ COMMIT} + \beta_6 \\ & \text{PRODPORT} + \beta_7 \text{ EASY} + \beta_8 \\ & \text{ATTAIN} + \xi \end{aligned}$$

Where all variables are defined as in the above, while β_i is coefficients and ξ is the disturbance term.

EASY is a dummy variable of 1 when, according to the customer, the product is easy to get and 0 if otherwise.

ATTAIN is a dummy variable of 1 when, according to the customer, the product is attainable and 0 if otherwise.

DATA ANALYSIS

The number of BMT researched is 47; meanwhile the number of customers interviewed is 217 persons. These BMTs are located around of all provinces in Java Island. The number of the researched BMTs is smaller than the initial plan (50 BMTs). The change of sample quantity is caused by the following factors:

- There is a difference between secondary data we used as an initial guidance and the real condition of BMTs, so the adjustments cannot be avoided. This is reasonable because this research is one of initial researches about BMT. So, there is no accurate and believable data.
- The collection of data had been done before and after some important and 'long' holidays, i.e. a new year of 2000 which was believed to be coincided with the changing of millenium, and Idul Fitri, the biggest annual festive for Muslims. Many BMTs were closed during this period.

To analyze the data, both quantitative and qualitative methods are applied. Regres-

sion model and some other statistic methods are used for examining the important factors affecting the performance of BMT, meanwhile qualitative method is used to strengthen the meaning of quantitative analysis and analyzing some other research question, i.e.: how the profile of BMTs are, what the products and services of BMTs are, what the characteristic of their customers are, how the perception of customers toward BMTs is, and how BMTs maintain their customers. To be more systematic, the rest of this section is organized as follows: (1) profile of research samples; (2) performance and problems of BMT; (3) analysis of determinant factors affecting sustainability of BMT; (4) characterisitic of customers; (5) portfolio of products of BMT and (6) perceptions of customers towards BMT.

Profile of (Research) Sample

There is no accurate data about the number of BMTs around of Indonesia, but it is estimated as about 2.000 BMTs. Most of good BMTs are located in Java Island. Java is the central place of any development program and economic resources of Indonesia's economy. The research observed 47 BMTs located in all of provinces in Java Island: 14 BMTs of West Java BMTs, 6 BMTs of Jakarta Special Capital Territory, 7 BMTs of Yogyakarta Special Province, 8 BMTs of East Java and 12 BMTs of Central Java [see Table 1].

Table 1
Location of BMTs

Location	Number	%
Yogyakarta	7	14
East Java	8	17
Central Java	12	26
West Java	14	30
Jakarta	6	13
Total	47	100

Table 2
Profile of BMTs

NO	ASPECTS	FREQ.	%
1	Location		
	Village	0	0
	City	47	100
2	Nearest Place of BMT		
	Market	33	70
	Industry	1	2
	Housing	7	15
	Mosque	4	9
	Others	2	4
3	Number of Asset		
	> Rp 2 Billion	1	2
	1 - Rp2 Billion	2	4
	Rp 100 mil. - Rp 1 Billion	33	70
	<Rp100 million	11	24
4	Type of Buss. Org		
	Cooperative	41	89
	Others	5	11
5	Operation Year		
	1993	2	4
	1994	4	9
	1995	21	45
	1996	8	17
	1997	6	13
	1998	4	9
	1999	1	2
6	Joint institution		
	Available	43	91
	Not Available	4	9

In this research we will examine the determinant factors affecting the sustainability of BMT. Because of this, the samples are focused toward the BMTs, which have good performance. A sound BMT is assumed to have high value of asset, amount of financing, and also a number of customers. It is also assumed to having been operating for at least 2 years.

Table 1 shows that all of BMT are located in a city where there are many business entities and potential private fund as well. Since the fund source of BMTs are basically individuals and private organiza-

tions, the location aspect of BMTs which are spread in a relatively big and medium sized cities is an important aspect of BMT.

More specifically, the location aspect of BMTs is as follows: a number of 33 (70%) BMTs are located near the market place, 15% near housing area, 9% near the mosque and 4% near other place. Market, where many small business entities do their economic activities, is appropriate with BMT orientation.

Surprisingly, most of BMTs (70 %) have high amount of assets, from about Rp 100 million to Rp 1 billion, 2 of BMT (4%) have Rp 1 to Rp 2 billion, and 1 BMT has more than Rp 2 billion. The highest amount of asset is Rp 2,5 billion, meanwhile the lowest value is Rp 50 million. Moreover, most of these BMTs have been operating since about 4 to 5 years ago (45%). The growth that has been achieved is relatively high compared to the life of the institutions.

A cooperative is the most common type of business organization of BMT. There are about 42 BMTs (89%) undertaking cooperative as a type of business organization, while there are only 5 BMTs applying other types, that is *Kelompok Swadaya Masyarakat (Society Self-reliant Group)*. Considerably, BMTs have some benefits and costs when taking cooperative type of organization. With the cooperative type, every customer has a responsibility to grow the BMT, because the customers are usually also members of BMT. However, if BMT extends its scale and area of business in particular, for example on real sector, the cooperative type, will cause some difficulties in supervision.

The major activity of BMT is a financial sector, but its type of organization is a cooperative. In Indonesia, in line with The Banking Act No. 7 1992, a financial institution is under supervision of Central Bank, namely Bank Indonesia. With this cooperative type, there are no legal guarantee and

supervision on responsibility, transparency and professionalism of BMT. Accordingly, the cooperative type will discourage the development of BMT as a one of good financial institution.

The existence of joint institution or cultivator institution is very important in the early of BMTs' development. Most of BMTs (91 %) have a good cooperation with a joint or cultivator institution, particularly with PINBUK (Pusat Inkubasi Bisnis dan Usaha Kecil, an NGO sponsored by ICMI) and Dompot Dhuafa (sponsored by *Republika News Paper*). This cooperation covers many aspects of management, such as management training, capital supporting and promotions. There are only 4 BMTs that have no formal cooperation with any cultivator institution.

Performances and Problems of BMTs

There are basically many varieties on the amount of assets, financing "credits" and number of customers of BMT. There are 4 BMTs that have less than Rp 100 million of assets, with the outstanding amount of financing and the number of customer are less than Rp 30 million and 500 person, respectively. The BMT Ben Taqwa in Grobogan, Central Java, has the biggest amount of assets, that is Rp 2,5 billion, followed by BT Tamyiz in Wonosobo, Central Java (Rp 1,5 billion) and then BMT Darul Tauhid in Bandung, West Java (Rp 1,1 billion). The BMT Ben Taqwa has also the biggest amount of outstanding financing, that is Rp 2,08 billion, followed by BT tamyiz (Rp 994 million) and Darul Tauhid (Rp 772 million). BMT Ikhtiraa in Jakarta has the biggest number of customer, that is 7.300 persons, followed by BT Tamyiz, An Najah in Pekalongan, BMT Ya Ummi Fatimah in Pati, and then Amanah in Tulungagung, East Java. The number of these indicators of performance may be insufficient, because some BMTs, which have several branches,

do not make consolidated financial statements. Table 3 and 4 shows a complete data of the performance mentioned above.

Some BMTs (39%) consider that good management is the main strength for operating BMT, while some others consider the skilled human resources factor (37%), capital adequacy (17%) and appropriate type of business organization as the main strength of BMT. All of BMTs, however, have optimistic attitude about the prospect of BMT in the future (very potential = 50% and potential = 50%). This optimistic attitude come from the increasing of social interest and support on shariah finance institution (63%), like BMT, increasing of business activity (13%), less competitors (13%), and also supporting of their joint institution (4 %). In the future, however, most of them (52%) still need capital assistance to develop the BMT. The second aspect is management training (28%). Although all of managers of BMT have a university degree, most of them have a little experience to manage financial sector based on Islamic values. It is also believed that BMTs will grow successfully if they are well socialized. Table 5 shows these data completely.

In view of the problems faced, 29 BMTs (63 %) feel that their capital is not yet adequate. This is believed as a depressing factor of the operation of BMT. In addition, some other problems that discouraging the operation of BMT are managerial problem (22%), limited number of infrastructure (7%), inappropriate type of business organization (4%), difficulties in allocating the fund (2%) and other problems (2%). Because of these problems, the most urgent need to up grade the BMT is the capital assistance (52%), and then followed by management training (28%), public socialization (9%), improving the type of business organization (9%) and others (2%).

Table 3:
Performance of BMTs in terms of assets,
Number of customers and outstanding financing

NO	NAME OF BMT	ASSET (Rp 000)	NUMBER OF CUSTOMER	FINANCING (Rp 000)
Yogyakarta Special Province				
1.	Mitra Usaha Mulia	290.000	410	126.000
2.	Al Ikhlas	150.000	1.051	118.000
3.	Rizky Mulia	90.000	1.050	63.000
4.	Bina Dhuafa	396.000	Not available	264.000
5.	Bina Ummah	285.000	320	228.000
6.	Mitra Usaha Insan	Not available	Not available	Not available
7.	Budi Mulia	Not available	200	Not available
East Java				
8.	Al Barokah	134.988	1.000	332.000
9.	Pahlawan	221.413	1.000	196.194
10.	Al Majiid	50.840	220	21.631
11.	Amanah	528.055	4.128	251.802
12.	Maslahah Mursalah	328.000	1.500	294.000
13.	Al Inanah	86.662	200	73.414
14.	Hidayah	249.094	1.030	160.700
15.	An Nur	81.143	800	79.000
16.	Alif	79.000	700	60.000
Jakarta Special Region				
17.	Ikhtiraa	335.315	7.300	212.437
18.	La Roiba	228.232	Not available	96.328
19.	Dana Albina	266.879	1.150	253.000
20.	Bina Artha Jaya	213.140	2.972	70.000
21.	Bina Masyarakat	525.735	3.720	396.350
22.	Karim	612.960	1.831	354.226
Central Java				
23.	Nur Hidayah	192.766	700	98.000
24.	An Najah	574.000	4.210	268.458
25.	Tamyiz	1.532.000	6.500	994.437
26.	Saudara	274.000	1.206	122.000
27.	Fajar Mulia	256.000	797	198.404
28.	Bina Insan	72.000	713	45.000
29.	Mitra Umat	209.000	3.060	91.014
30.	Binama	413.000	2.788	236.226
31.	Bima	416.000	1.200	331.000
32.	Ben Taqwa	2.591.000	3.000	2.080.000
33.	Kharisma	214.000	1.078	160.000
34.	Umi Fatimah	300.000	4.175	248.000
West Java				
35.	Nurul Ummah	88.000	603	43.000
36.	Dana Ukhuwah	112.000	300	72.000
37.	Guna Dien Nusa	235.000	2.481	157.000
38.	Msjid Agng Serang	74.000	600	33.000
39.	Daarul Tauhid	1.130.000	3.600	772.000

40.	Bina Tıjarah	230.000	1.951	130.000
41.	Mata Al Ashr	54.137	1.102	47.252
42.	Amanah	900.000	500	509.000
43.	Ittıhad	55.985	250	10.000
44.	Mardlotıllah	112.730	1.620	52.000
45.	Nahl	138.000	550	103.000
46.	Istıqomah	125.917	300	104.087
47.	Insan Sejahtera	131.520	800	83.000

Table 4
Type of Business Organization, Sector of Business, and Joint Institutions

NO	NAME OF BMT	ORGANIZATION	SECTOR OF BUSSINES	JOINT ORG.
1	Mitra Usaha Mulia	Cooperative	Finance + Real	LPM Ull
2	Al Ikhlas	Cooperative	Finance + Real	Dompel Duafa
3	Rizky Mulia	Other	Finance + Real	Primagama
4	Bina Dhuafa	Cooperative	Finance + Real	Dompel Duafa
5	Bina Ummah	Cooperative	Finance + Real	Dompel Duafa
6	Mitra Usaha Insan	Cooperative	Finance + Real	Not available
7	Budi Mulia	Cooperative	Finance + Real	Not available
8	Ittıhad	Cooperative	Finance + Real	Pinbuk
9	Mardlotıllah	Cooperative	Finance + Real	Pinbuk
10	Insan Sejahtera	Cooperative	Finance + Real	Pinbuk
11	Al Majıid	Cooperative	Finance + Real	Pinbuk
12	Nahl	Cooperative	Finance + Real	Pinbuk
13	Amanah	Cooperative	Finance + Real	Pinbuk
14	Al Inanah	Cooperative	Finance + Real	Pinbuk
15	Istıqomah	Cooperative	Finance + Real	PT Kujang
16	Hidayah	Cooperative	Finance + Real	Pinbuk
17	An Nur	Cooperative	Finance + Real	Dompel Duafa
18	Ikhtıraa	Cooperative	Finance + Real	Dompel Duafa
19	Mitra Umat	Cooperative	Finance + Real	Dompel Duafa
20	Tamyız	Cooperative	Finance + Real	Not available
21	La Roiba	Cooperative	Finance + Real	Pinbuk
22	Dana Albina	Cooperative	Finance + Real	Dompel Duafa/Pinbuk
23	Bina Artha Jaya	Cooperative	Finance + Real	Pinbuk
24	Bina Masyarakat	Cooperative	Finance + Real	Pinbuk
25	Karım	Cooperative	Finance + Real	Pinbuk
26	Amanah	Cooperative	Finance + Real	Not available
27	Pahlawan	Other	Finance + Real	Not available
28	Nur Hidayah	Cooperative	Finance + Real	Pinbuk
29	Mata Al Ashr	Other	Finance + Real	Pinbuk
30	Saudara	Cooperative	Finance + Real	Pinbuk
31	Fajar Mulia	Cooperative	Finance + Real	Pinbuk
32	Alif	Cooperative	Finance + Real	Pinbuk
33	Bina Insan	Cooperative	Finance + Real	Pinbuk
34	Maslahah Mursalah	Cooperative	Finance + Real	Pondok Pesantren
35	Al Barokah	Cooperative	Finance + Real	Pinbuk

36	Binama	Cooperative	Finance	Dompıt Duafa
37	Bıma	Cooperative	Finance + Real	Dompıt Duafa
38	Ben Taqwa	Cooperative	Finance + Real	Bank Muamalah Indonesia
39	Kharisma	Cooperative	Finance + Real	Dompıt Duafa
40	Umi Fatimah	Cooperative	Finance	Pinbuk/Dompıt Duafa
41	Nurul Ummah	Other	Finance	Pinbuk
42	Dana Ukhuwah	Cooperative	Finance + Real	Pinbuk / Dompıt Duafa
43	Guna Dien Nusa	Cooperative	Finance	Pinbuk/Dompıt Duafa
44	Masjid Agung Serang	Cooperative	Finance + Real	-
45	Daarul Tauhid	Cooperative	Finance + Real	-
46	Bina Tıjarah	Cooperative	Finance	Pinbuk /Dompıt Duafa

Table 5
The Perceived Problems, Strength, and Opportunities for Developing BMT
According to the Management of BMTs

NO	ASPECTS	FREQ.	%
1	Strength of BMT		
	<i>Capital</i>	8	17
	<i>Management</i>	18	39
	<i>Organization</i>	3	7
	<i>Human Resource</i>	17	37
	<i>Others</i>		
2	Weakness of BMT		
	<i>Low capital</i>	29	63
	<i>Allocation of fund</i>	1	2
	<i>Management</i>	10	22
	<i>Social support</i>		
	<i>Competition</i>		
	<i>Infrastructure</i>	3	7
	<i>Organization</i>	2	4
	<i>Others</i>	1	2
3	Opportunity		
	<i>Very potential</i>	23	50
	<i>Potential</i>	23	50
	<i>Less potential</i>		
	<i>Not potential</i>		
4	Source of opportunity		
	<i>Less competitors</i>	6	13
	<i>Increasing of social support</i>	28	63
	<i>Increasing of Business</i>	6	13
	<i>Supporting of Joint institution</i>	2	4
	<i>Others</i>	3	7
5	Follow up		
	<i>Capital assistance</i>	22	52
	<i>Management training</i>	12	28
	<i>Public socialization</i>	4	9
	<i>Reorganization</i>	4	9
	<i>Others</i>	1	2

Analysis of Influencing Factors Affecting Performance of BMT

We used econometric method to determine the factors affecting performance of BMT. Those factors are education, working hours, Islamic performance, management, and the number of product, salary and the attributes of product. The value of dependent variables is based on the points of the number of customer, asset and the amount of finance or 'loan' in term of conventional banks. Because of the difficulty to measure an Islamic performance of managers and people living around BMT, this variable is then dropped.

Education is meant as a formal education level achieved by managers as well as a working experience in BMT or similar environment. The Variable of management consists of the existence of vision and mission, business plan, the performance of organization such as regular meeting, either in planning, organizing or controlling functions. The number of deposit and credit available are variables of the number of product offered by BMT. The attribute of product consists of three factors, that is, easiness to deposit money and to get

finance and the importance of location of BMT. The regression equation is as follows:

$$\ln Y = b_0 + b_1 \ln X_1 + b_2 \ln X_2 + b_3 \ln X_3 + b_4 \ln X_4 + b_5 \ln X_5 + b_6 \ln X_6 + \mu$$

Where:

Y = Performance of BMT

b₀ = constant

b_{1...7} = coefficient

X₁ = education

X₂ = working hours

X₃ = management

X₄ = the number of product

X₅ = salary

X₆ = the attribute of product

μ = Stochastic error

This research uses the Ordinary Least-Squared (OLS) estimation technique to estimate the factors affecting performance and sustainability of BMT. As alluded earlier, the chosen BMTs are the best 47 of BMTs across Java as a proxy of all BMT in Indonesia. In a cross section data, such as this, heteroscedasticity is likely to be a problem. Therefore we used the Spearman's rank correlation test to check the heteroscedasticity. It is found that it has no problem in the study.

Table 6.
Econometric Results of Factor Affecting Performance of BMT

Variable.	Coefficient.	Std. Error.	T- Stat.	2-Tail Sig
C	-7.0501715	4.2119355	-1.6738555	0.1024
X ₁	1.2601473	0.6601304	1.9089370	0.0638
X ₂	-0.0958523	0.7124191	-0.13544 8	0.8937
X ₃	1.1944956	1.1655426	1.0248408	0.3119
X ₄	-0.3940007	0.4487970	-0.8779041	0.3855
X ₅	0.2320219	0.0847969	2.7362087	0.0094
X ₆	0.4866013	1.0108590	0.4813741	0.6330
R-squared	0.282671	Mean of dependent var		2.465653
Adjusted R-squared	0.169408	S.D. of dependent Var		0.753216
S.E. of regression	0.686457	Sum of square resid		17.90646
Log likelihood	-43.11846	F-Statistic		2.495714
Durbin-Watson Stat	1.946808	Prob (F-statistic)		0.039097

The coefficient estimates and some statistics summary of least squares are presented in Table 6. The R^2 of the model is 0.282671. The value of F is 2.495714 and the probability of F test is 0.039097 showing that the F statistics and standard errors of estimates indicate that model fits the data relatively well.

The coefficients of X_1 , X_3 , X_4 and X_5 have positive signs, meanwhile the others are negative. The positive sign indicates that variable influences the dependent variables and the negative sign shows the opposite. The variable of education shows positive sign. It means that the higher the education of manager, the better he or she manage the BMT. As a small financial sector, which is mainly dealing with small business, the good management factor also, affect positively to the performance of BMT.

The salary also does influence the performance of BMT, because higher salary motivates manager to work hard and seriously. And finally, the product attributes variable is proven statistically does affect BMT's performance as well. Since all customers of BMT are small business entrepreneurs or owners, the easiness to get the product offered by BMT such as the absence of collateral requirement is an important aspect of developing BMT.

It must be noted that education and salary variables are a positive and have significant coefficient at $\alpha=5\%$ and $\alpha=10\%$ respectively indicating that performance of BMT are strongly and positively influenced by education and salary. Since all managers of BMTs graduated from University and have working experience before joining BMT, they have ability and capability to manage BMT well. For the salary, the data show that the higher assets, the higher salary of manager. For instance, BMT Ben Taqwa in Grobogan that control assets of 2,5 billion Rupiah pays 1.2 million Rupiah for its manager. This is the highest salary of 47 BMTs

surveyed. The lowest is Rp126,000, meanwhile the average is Rp 366,000. This result is not surprising, because BMTa are known as small and lowest level of Islamic financial sectors. High salary can drive managers to compete with conventional financial sector.

To support econometric method above we calculated coefficient of correlation (r) indicating the linear association between sustainability and the factors affecting it. Positive sign of coefficient indicate that there is a positive association between two variables. If it has a negative one, it has an opposite meaning. The calculations show that there is only one coefficient that has a negative sign, that is, the correlation between sustainability and the number of product. BMT as the lowest level of financial sector faces a serious problem when offering many types of product, because most of customers are small business entrepreneurs, and the financed projects are basically agreed without [sufficient] collateral in the sense of conventional way. The rest of the coefficient of correlation has positive signs. Only the salary correlates much with the performance, where its value is 0.733. This supports the econometric results before, see Table 7.

Besides the coefficient of correlation, we use another regression model by using the amount of assets to measure the performance to support the first regression analysis. The econometric result is shown at Table 8. The sign of coefficients is similar with the first model. The difference is that there is only one variable significant at $\alpha=5\%$, that is, the salary. We also calculate the coefficient of correlation between the amount of assets and the factor affecting them. The results are again the same as the first correlation where the salary is the only factor does influence significantly the performance of BMT. Its coefficient of correlation increases slightly to be 0.745, meanwhile the correlation coefficient of management rises from 0.226 to 0.334, see Table 8.

Table 7.
The correlation of performance and the factor affecting it

Variable	Coefficient of Correlation
Y, X ₁	0.1597329
Y, X ₂	0.2078339
Y, X ₃	0.2257544
Y, X ₄	- 0.1482513
Y, X ₅	0.7335432
Y, X ₆	0,1667271

Table 8.
Econometric Results of Factors Affecting Sustainability of BMT

Variable	Coefficient	Std. Error	T- Stat.	2-Tail Sig
C	8.5254770	4.9996181	1.7052256	0.0963
X ₁	1.2094365	0.7835827	1.5434700	0.1310
X ₂	-0.3263000	0.8456501	-0.3858569	0.7018
X ₃	1.5036790	1.3835131	1.0868557	0.2839
X ₄	-0.8438800	0.5327274	-1.5840745	0.1215
X ₅	0.2887165	0.1006549	2.8683805	0.0067
X ₆	0.9763210	1.1999018	0.8136674	0.4209
R-squared	0.292287	Mean of dependent var		19.23637
Adjusted R-squared	0.180543	S.D. of dependent Var		0.900130
S.E. of regression	0.814832	Sum of square resid		25.23016
Log likelihood	- 50.83323	F-Statistic		2.615684
Durbin-Watson Stat	1.683200	Prob (F-statistic)		0.031985

Table 9.
The Correlation of Performance And The Factor Affecting It

Variable	Coefficient of Correlation
Y ₁ , X ₁	0.0641471
Y ₁ , X ₂	0.1682899
Y ₁ , X ₃	0.3344606
Y ₁ , X ₄	- 0.2332010
Y ₁ , X ₅	0.7455363
Y ₁ , X ₆	0,2144635

Characteristics of Customer

In initial planning, BMT is designed as a grassroots financial institution, so it was expected to cover mainly the customers from the lowest grade of society, and not the way around. The fact found in the field shows that from the education level point of view, we find that there are 19% of customers who have a university background, 34% are from high school, 17% are from junior

high school, and only 23% are from elementary school. It can be concluded that the customers of BMT are not just the lowest grade of society, but also the higher. In other words, BMTs cover a relatively well balanced of customer in the sense of education background.

As we predicted before, most of customers (78%) have religious activity. 44 out of 171 customers participate actively as a

member of Islamic organizations and the rest are the passive members. This fact is not surprising, particularly if we look at their religion education background. There are 55% of customers who have a formal religion education and 45% of them have informal religion education, such as Islamic boarding school or *pesantren*.

The occupations of customers are varied. They are as follows: small entrepreneurs (83%), private staffs/employees (6%), public staffs (4%), and no occupation (5%). In line with the type of products of BMT mentioned above, the favorite type of deposit is saving deposit with mudharabah system (96%) and time deposit (4%). From this composition of customer occupation, we can conclude that most of customer of BMT uses the credit for financing business activity rather than for consumption purpose. Meanwhile, the most favorite type of financing is the Bai' Bithaman Ajil, and then followed by Mudharabah, Musyarakah, Murabahah, and Qordhul hasan respectively. The Bai' Bithaman Ajil has become the most

favorite type of financing because of its simplicity in mechanism and calculation. In line with this type of financing, one of the most important problems is how to simplify the mechanism and calculation. In addition to the above fact, about a half of all customers are also members of other financial institutions, particularly banking.

This study found that motivation of customers to join BMT is because this type of financial institution is believed to be in accordance with Islamic values. Moreover, because Bank Muamalat Indonesia or BMI (the general type of Islamic bank) and BPR Shariah (the rural type of Islamic banks) serve only the medium and big business or customers, the small business operators respond the existence of BMT well.

The second motivation is that BMT is acknowledged to function as to help small business. As a financial sector, which is free from usury (*riba*), BMT is also one of alternative choices of small business to have a financial access.

Table 10
Characteristic of Customers of BMTs

No.	ASPECTS	FREQ.	%
1	Education		
	<i>Undergraduate or more</i>	38	19
	<i>High school</i>	67	34
	<i>Junior High school</i>	33	17
	<i>Elementary School</i>	45	23
	<i>Uneducated</i>	14	7
2	Education of Religion		
	<i>Formal</i>	66	55
	<i>Informal</i>	54	45
3	Religious activity		
	<i>Active</i>	44	26
	<i>Passive</i>	127	74
4	Occupation		
	<i>Public Staff</i>	8	4
	<i>Private Staff</i>	12	6
	<i>Entrepreneur</i>	165	83
	<i>Farmer</i>	4	2
	<i>No Occupation</i>	9	5
5	Motivation for joining BMT		
	<i>in accordance with Islamic values</i>	99	36
	<i>free from usury</i>	37	14
	<i>help to poor people</i>	63	23
	<i>trustworthy financial sector around customer</i>	16	6
	<i>good servicing</i>	25	9
	<i>follower</i>	6	2
	<i>only financial sector around customer</i>	7	3
	<i>strategic place</i>	9	3
	<i>others</i>	10	4
6	Types of deposit		
	<i>Saving Deposit</i>	197	96
	<i>Time Deposit</i>	7	4
7	Type of Financing		
	<i>Mudharabah</i>	52	30
	<i>Musyarakah</i>	22	12
	<i>Murabahah</i>	10	6
	<i>Bai' Bithaman Ajil</i>	87	50
	<i>Qardhul Hasan</i>	4	2
8	Membership of Other Financing Institution		
	<i>Yes</i>	102	50
	<i>No and Non BMT</i>	101	50

The other motivation [of customers] is a good service provided by BMT. Although most of BMTs started to operate in the past short period, they are concerned with the

service to the customers, simply because they have to compete with the existing financial sector both formal such as BRI or

informal ones like users, and individual money lenders.

The high rate of religious motivation of customer constitutes a potential non economic factor for developing BMT. It is good in the short term, but not in the long run. In this regard, however, most customers might consider an economic rationality factor higher than just other factor like religious sense.

Products Portfolio of BMT

It is commonly understood that BMT covers both business and social motive in its activity. The survey confirms that 87% of BMT have both social and business activities, however about 13% of them have only business activities. There are also varieties in terms of activity. About 83% of BMTs offer not only financial products but also real products. Only about 17% of them offer purely the financial products. These differences of types of product and motivation of BMT are interesting to be discussed further, because of they might affect the operation of BMT. For example, the double motives [business and social] of BMT will cause confusion to its management. To some extent, it may disturb the professionalism of management. It is trustworthy to consider or to focus to one, instead of two motives at once, simply because the basic characteristic of each motive is extremely different. Should the BMTs keep the two function simultaneously, there must be a clear separation of management.

The most favorite type of deposit (56%) is saving deposit, while 44% of BMTs prefer the time deposit. Both of these products are in Mudharabah system. Meanwhile, the most favorite type of financing is Bai' Bithaman Ajil (23%), Mudharabah (22%), Qordhul Hasan (18%), Murabahah (17%), Musyarakah (14%) and then Ijarah (5%). Bai' Bithaman Ajil has the simplest method in its operation, it is why it become the most favorable product. As a matter of

fact, the Mudharabah system is difficult enough to operate, however many BMTs seem to have made some modifications in operating the system.

Some BMTs also become the agent of many kinds of government credit program, as well as the agent of main food product distribution, along with the current economic crises. In real sector, the most favorite subject is trading (67%), agriculture (14%, including fishery), small and home industry (10%) and others (9%).

In order to be a customer of BMT under cooperative forms, every customer has to have one of deposit products offered by BMT. Some of BMTs charge the administration fee for new customer and some others do not. If BMT finance its customer, most of BMTs require a collateral as a guarantee, particularly if the finance value exceeds Rp 5 million. Most of them, however, finance their members based on a trust basis, if the value of finance is less than 1 million rupiahs.

There are many types of vehicles for promoting BMT products to society. Because of all products are rooted to shariah concepts, BMT can use any kind of religious activity for promoting its products. It is likely to be the most effective strategic promotion. With this strategy, society will be driven to join. It is more than economic motivation that will make optimum loyalty of customer. Moreover, all of the researched BMTs also use many kinds of media, such as leaflet, pamphlet, radio, and newspaper, for promoting their products.

To maintain the loyalty of the customer, BMT also uses the same strategy. Under cooperative type of organization, a customer is encouraged to be a member of the BMT cooperative. A member of BMT cooperative will have a number of rights and responsibilities. Naturally, it is one of the most appropriate strategies for maintaining the customer.

Table 11
Characteristics of BMT's Products

NO	ASPECTS	FREQ.	%
1	Product Orientation		
	<i>Business</i>	6	13
	<i>Business and Charity</i>	40	87
2	Subject of Products		
	<i>Financial</i>	8	17
	<i>Financial and Real Sector</i>	38	83
3	Types of Saving		
	<i>Saving Deposit</i>	43	56
	<i>Time Deposit</i>	34	44
4	Types of Financing		
	<i>Mudharabah</i>	42	22
	<i>Musyarakah</i>	27	14
	<i>Murabahah</i>	33	17
	<i>Bai' bithaman Ajil</i>	46	23
	<i>Ijarah</i>	10	5
	<i>Qardhul Hasan</i>	35	18
5	Types of Real Sectors		
	<i>Trading</i>	34	67
	<i>Manufacturing</i>	5	10
	<i>Agriculture</i>	7	14
	<i>Others</i>	5	9

Perception of Customer toward BMT

The data of this section was gathered by interviewing a number of active customers of BMT. The active customers are those involved relatively much in BMT activities, in saving, depositing or financing. We assume that this kind of customer has a more appropriate appreciation or perception towards BMT rather than a passive customer. According to the data gathered, the most favorite type of deposit is, first, saving deposit (96% of customer) and, second, time deposit (4%). Both of time deposit and saving deposit are on the Mudharabah system.

The numbers of 13% of customers are very satisfied with incentive system of deposit, that is a profit and loss sharing approach. Meanwhile, the number of customers who feel satisfied is 66%, satisfied enough is 17%, less satisfied is 3%, and unsatisfied is only 1%. Although the nominal value of profit and loss sharing received by customer is commonly lower than the interest rate of banks, the customers normally obtain a higher percentage in comparison to the portion received by BMT. The customers are generally happy with this situation.

Table 12
Perception of customers toward BMT

NO	ASPECTS	%
1	The most favorite type of deposit	
	<i>Saving deposit</i>	96
	<i>Time deposit</i>	4
2	Satisfaction for Incentive system	
	<i>Very satisfied</i>	13
	<i>Satisfied</i>	66
	<i>Satisfied enough</i>	17
	<i>Less satisfied</i>	3
	<i>Bad</i>	1
3	Adequacy of BMT's financing	
	<i>More than enough</i>	3
	<i>Enough</i>	80
	<i>Less enough</i>	7
	<i>Not enough</i>	9
	<i>Very not enough</i>	1
4	Satisfaction for payment system	
	<i>Very satisfied</i>	13
	<i>Satisfied</i>	77
	<i>Satisfied enough</i>	6
	<i>Less satisfied</i>	4
	<i>Bad</i>	0
5	Satisfaction for BMT's service	
	<i>Very satisfied</i>	24
	<i>Satisfied</i>	70
	<i>Satisfied enough</i>	4
	<i>Less satisfied</i>	2
	<i>Bad</i>	0
6	The importance of good service	
	<i>Very important</i>	55
	<i>Important</i>	45
	<i>Less Important</i>	0
	<i>Not important</i>	0
	<i>Very not important</i>	0
7	Allocation of financing	
	<i>Very appropriate</i>	22
	<i>Appropriate</i>	65
	<i>Less Appropriate</i>	9
	<i>Not Appropriate</i>	4
	<i>Very not appropriate</i>	0
8	The importance of strategic location/site of BMT	
	<i>Very important</i>	42
	<i>Important</i>	56
	<i>Less important</i>	2
	<i>Not Important</i>	0
	<i>Very not important</i>	0

According to the need of customer on financing, some of customers perceive that the number of financing variety of BMT is enough (3%) and most of them (80%) perceive as more than enough. A number of 7% of customers suppose less enough, 9% not enough and only 1% state 'very not enough'. Today, most of BMTs finance only the small-scale business and household that needs a small number of financing. Generally, payment system is one of the important determinant factors affecting the customer decision to join a financial institution. In small business financing, simplicity and easiness of payment is perceived to be very important. Most of BMTs have elastic system of payment such as time of payment, number of payment, and place of payment. A number of 24% of customers feel very satisfied with the payment system of BMT, meanwhile 70% feel satisfied. There are only 4% and 2% of customers feel satisfied enough and less satisfied respectively. This seems to be a promising factor for the future of BMT.

Good service is something quite important for customers. Many other researches on small/micro financing area confirm this perception. It is generally understood that many small/micro financial institutions, for example usurers or moneylenders in the [traditional] markets, apply the high rate of interest. The customers are happy with them simply because of a good service provided. In the service area, a number of 55% of customer presume that goodness of service of BMT is very important, meanwhile a number of 45% of other customers perceive it important.

The appropriate allocation of financing of BMT is an important thing. The objective of BMT is both to finance a productive and social activity. The product for social financing in BMT is only the Qordhul Hasan, it is a benevolent loan, or a loan which is absolutely free from any charge

and/or profit sharing. A number 22% of customer value that allocation of financing of BMT is very appropriate, 65% opine appropriate, 9% state less appropriate and only 4% said not appropriate.

Based on the data discussed above, we know that most of BMTs are located closely to the [traditional] market. It is a strategic place for operation of BMT. This strategic location of BMT is noted as very important for customer (42%), important (56%) and less important (2%).

CONCLUSIONS

Findings

The findings are directed mainly to the research questions and/or objectives raised at the beginning of the study. Based on the data gathered and analysis conducted in the previous chapter, we conclude that:

The important factors of BMTs' performance.

There are several main factors that have a positive correlation with the performance of BMT. They are the salary of managers, the education of BMTs' managers, the managerial skill and the product attributes. The most reasonable arguments of these are as follows:

1. The adequate rate of salary might have been motivating managers to work hard and seriously. The responsibility, willingness to work hard, and even professionalism are closely related to the sufficiency of income might be earned by someone. The fact in the field confirms that the big and growing BMTs are providing a relatively high rate salary to the managers. On the contrary, many small BMTs are found not to facilitate the management team, or managers especially with the adequate rate of salary.
2. The education level of manager is an obvious factor, which determine the sustainability of BMT in general. The education level, however, is an impor-

tant factor, which form someone's managerial skill. Although some managers have no related background to Islamic shariah, their ability to learn quickly is more important. It is why managers' level of education correlated positively with the BMTs' sustainability.

3. It is easy to understand if statistically found that managerial skill is also positively correlated with the performance of BMT. It is also apprehensible that managerial skill affects the relationship between management and customers. This in turn influences the performance of the organization.
4. The product attributes relate to two things: the easiness to apply the products offered, and attainability. If then statistically proven that the product attributes are positively correlated with the BMTs' performance that is because this variable is seen to be so important for small business operators who are not used to run the procedural activities.

Although the study found four important factors, which correlate with the BMTs' performance, the statistic analysis, suggest that the most dominant factors are the education, and followed by salary. Because these two factors show the positive and significant coefficient, that is 1.2601473 and 0.2320219 respectively.

The characteristics of BMT customers

The characteristics of BMTs' customers might be seen from several points of view, such as education, in both general and specific or religion senses, religious activity, occupation and so forth. The analysis found that most customers have a high school background (34%). However, there are significant numbers of customer who have a university background (19%), as well as elementary school background (23%). Only 7% of customers recognize that they are uneducated.

Nevertheless, in regard to religion education, all customers acknowledge that they are well educated, although 45% of them obtain the education through informal way.

The occupation of customers is basically varied, but most of them are the entrepreneurs (83%). The main motivation of those customers to join BMT is that the belief or religion determinant. 50% of them confirm this.

Product Portfolio

The product portfolio in BMT in particular, and Islamic banks in general are typical, if not, identical. However, in regard to orientation, the BMTs are split into two. A few number acknowledge the business orientation, and most of them apply both business and social orientation at once.

The most favorable product offered is the Bai' Bithaman 'Ajl. Then the Mudharabah follows it. It is surprising, indeed. Because, (1) Mudharabah is not easy to apply since it needs a good accounting practice, particularly if the customers become Mudharib; (2) In many big Islamic financial institutions, Mudharabah used to be contributing a small portion to total portfolio. The reason raised for this is that the difficulty in sharing the profit and loss, simply because many small businesses do not practice a good accounting system.

In addition, it is found that many BMTs run different types of business simultaneously, that is, beside they operate as financial intermediary institution, they also enter to the real business sector. Most them do a second business in trading sector (67%), and some other even run the agriculture business (14%) and manufacturing sector (10%).

The Customer's perception toward BMT

The survey shows that most customers are satisfied with BMTs. The satisfaction can be seen from four different aspects, namely the incentive system, payment system and their perception the adequacy of

financing provided and the services. It is worthy to note that the customers are seriously concerned with good service and the BMT location or site.

Implications and Recommendations

Based on the above findings, we propose the following implications: First, the existence of BMTs should be considered positively and seriously, because of the succeeding reasons:

- (1) they have contributed positively the national economy; and more importantly
- (2) they serve a very low level of society which are neglected by many other formal financial institutions;
- (3) they have been proving to be surviving, even during the economic crisis without hoping and obtaining any assistance from the government as many big banks and other financial institutions did;
- (4) most of the customers are satisfied with the current operation of BMT as a whole. This means that conceptually the BMTs operations are well accepted by the society.

Second, although the BMTs have shown their persistence and survivability, they basically still need a support and assistance. Since the research has found the determinant factors of BMTs performance, the support and assistance should be directed toward these important factors.

Third, one of fundamental issues faced by BMTs as whole is a legality problem. As presented earlier (see Table 4) that most of BMT are divided into two types in regard to 'legal' commitment: some of them are operating under the cooperative forms, while some others are not 'clear'. The Central Bank as the highest authority body in financial sector has nothing to do with them. This situation potentially bears the big problem in the future. Hence it must be considered seriously before the real problem arises.

Limitations and Suggestions for Further Research

Despite of optimal effort has been devoted to this research, it has some limitations:

1. As it is widely practiced in many other researches, the sampling approach can be always debatable, both in the sense of number and distribution. In this regard, the study has chosen the samples from five provinces in Java Island. No sample was taken beyond the five provinces. No guarantee that the samples taken can represent fully the BMTs' condition outside Java Island.
2. Although the sample has been planned well, the reality cannot always be represented by the secondary data obtained from institutions such as PINBUK and Dompot Dhuafa. It might be because these institutions are not able to record any change in the field quickly.
3. The positivistic approach used in this study, in the context of research methodology, is also bearing some problems. All conclusions generated are based on the statistical analysis. No in depth study is conducted. The different result might be obtained if the last method is applied.

Based on the above limitations, we strongly suggest that:

1. Further research should consider a wider scope of sample, which include the BMTs located scattered around the country.
2. It is also worthy to consider an in depth study for several BMTs in the form of case studies.

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