

MEDIA SYARI'AH

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Impact of Islamic Microfinance on Improving the Income and Poverty Reduction on Microenterprises in Province Aceh : Case Study in BaitulQiradh

Asmawati

Shofian Ahmad

Abstract: *Since 1995 Baitul Qiradh has been serving low - income people who most ly work as micro enterprises by providing microfinance in Province Aceh. This study was conducted to assess and analyze the impact of baitulqiradh' micro finance services to increase the income and reduce poverty among the recipients. Primary data were collected from 208 completed questionnaires distributed to the clients of 8 BQ in six district/city in Province Aceh, in order to find out their perceptions on their impacts they observed on their socio-economic lives after receiving financing from the institutions in question. The findings show that the average mean income after financing was increased significantly IDR 838.221 (42.92%) than before financing. Socio-economic factors that influence the increase customer income*

in this study is the level of education, number of financing and investment in entrepreneurial training. The results importantly also found that the financing has helped in decreasing poverty among the clients from 39.4% before financing to 12.5% after financing. In order to improve the role of Baitulqiradh Aceh in the area study, this study suggests they have to improve their service not only on the financial side but also on social services, to promote their financing products to the community, to make tutorial meetings (monthly) to improve clients' understanding of Islamic values in a practical way, to be more innovative in designing their financial products to fulfill the needs of their clients, particular and community, and to develop link networks to other financial institutions (bank and non-bank), NGOs and government to implement their activities.

Keywords: Islamic microfinance, BQ, Microenterprises income, poverty reduction and

I. Introduction

Indonesia as a developing country has the world's fourth largest population with 241 million people in 2011 (ADB 2012). The position of the large population in the absence of welfare distribution, Indonesia still dealing with a continuous socio-economic challenge as poverty and unemployment. Poverty problem like a long chronic illness which affects Indonesian. Based on data National Team to Accelerate Poverty, a number of Indonesia's poor people are 76.4 million and increase to 96 million people in 2013 (TNP2K 2013). Poverty is caused by social issues such as a lack of education, landless, no skill, no chance, and given the opportunity, and belong to the group of those who are poor understanding (Mohd. Yusuf 2004). Research Mom Njong (2010) and Owouretal. (2007) also outlines that age and education and lack of assets (Orewa 2008) are often attributed as a cause of poverty.

Most of Indonesia's poor work in the informal sector as micro-entrepreneurs (Wielajo 2005). Micro and small enterprises sector is an economic activity of Indonesian people to support the people of the lower level everyday (Sri Edi Swasono, 2007). This situation shows the reality of the lives of most Indonesian's people, and prove that the poor actually have the will and a ability to strive. A number of micro-entrepreneurs in Indonesia reached 55,856,176 units or 98.79% than all economic actors (Ministry of Cooperatives and SMEs 2012). And SMEs have made a strong contribution to national economic growth because it is able to absorb of labors and impact to reduced levels of unemployment and rising household incomes (Hafsah, 2004).

In Province Aceh, SMEs have a strategic position in the economy of Aceh. SMEs play a role creating job and economic development for the people. The number of SMEs in Aceh reached 55,783 units, which consist of micro-enterprises 39

571 units (71%), small-enterprises 13,728 units (25%), and medium-sized enterprises 2,484 units (4%) (Department of Industry, Trade and SMEs in Aceh, 2012). It is estimated that, currently SMEs Aceh has absorbed labor about of 275 thousand people (www.waspada.co.id 23/01/2013). Although SMEs have big contribution to support the local economy, the reality SMEs are still apprehensive and not develop optimally. This is because SMEs especially micro-enterprises are still faced with a classic problem of limited capital.

The study of Ichsan (2012) found that some problems which are hindering Aceh' SMEs which are related to capital. Lack of capital and low access to capital, major obstacles to the economic strengthening of the people (Ismawan, 2002). Limited opportunities to the poor to obtain a loan (capital) be one of the factors they have low income (Whyley and Brooker, 2004). The poor generally unbankable because they do not have collateral, low repayment ability and a low savings habits, and not able to meet the requirements set by bank. Therefore, the poor need an alternative institution, which is able to address the needs of capital they are.

Globally, an attempt to overcome the problem of capital of the poor has been made since the Microcredit Summit in 1997 and 2002, which reserves the provision of micro-loans that reach 100 million poor families until 2005. And the launching of "The International Year of Microcredit" in 2005 by The United Nations (UN) support the effort to provide opportunities for the poor to run a productive economic activity that in his time they will issue than the cycle of poverty, living normally as other communities, as well as goals to be achieved in the agenda of the Millennium Development goals (MDGs) until 2015. This program also ratified by Indonesia with the launching of the National Micro Financial Year (TKMN) on 26 February 2005. The government

began to pay close attention to the Micro Financial Institutions (MFIs) its capacity as a provider of loans (credit) micro. Although in reality the majority of MFI in Indonesia, grew by itself without any touch of the government (Seibel, 2008).

According to Sumodiningrat (2003) micro financial services through MFIs is the right approach to overcome the problem of capital among the micro-enterprises. Characteristics of MFIs to grow in the community, easily accessible, the requirements and the process for obtaining an easy, inexpensive and simple. MFI suitable with the characteristics of micro-enterprises consisting of poor and low-income communities. Microfinance program enable micro-enterprises to expand existing economic activities and consequently boost up their income (Roslan, Fauziah, Mohd Saiful, & Rahimah, 2007). Microfinance has a very important role to growth income and profit of micro-enterprises (Wang, 2013)

Microfinance around the world shows that a small credit to micro-enterprises may help them grow (Khandker, 2005; Woller & Parsons, 2002; Mead & Liedholm, 1998; Hossain, 1988). Hartarska & Nadolnyak (2008) indicated that the existence of Microfinance Institutions was alleviating micro-enterprises financing constraints. So, the development and sustainable microfinance is important to achieve greater financial inclusion and ensuring that all economic sectors, regions and communities have access to a full range of financial products and services (Khandker, Khalily, & Khan, 1995; Yaron, 1992). So there are four essential elements that must be owned by MFI: first, to provide various types of financial services and business development. Second, serving the poor and low-income people. Third, using the easy procedures and mechanism and fourth, the time taken to approve and disburse funds is also short

Study Awalil Rizki (2007) on a number of BMT in Central Java, giving positive factual that existence BMT as Shariah microfinance Institution which is able to reach those who have been denied access to banking and able to meet the financial needs even in very small quantities. Similarly in Aceh, the role of Baitul Qiradh (BQ) as syariah microfinance institution in provides financial needs of micro and small enterprises has been perceived. However, quantitative evidence of impact of micro financial is still lacking and uncertain. Reflecting on four basic principles in running the MFI as recommendation of Microcredi Summit (1997), ie, reaching the poor, reach out and empower women, build sustainability (sustainable) financial, and ensure measurable impact, this study aims to ensure the existence of a measurable impact on BQ as islamic microfinance institutions are popular among Aceh'people. And the change in income is a direct outcome of microfinance's participants perceived (World Bank 2007). In addition, this study also aims to find potential BQ in reducing poverty among micro-enterprises.

This paper organised as follow : This section (one) present introduction, section two research questions, section three literature review, section four methodology, section five research result and discussed and final section, conclusion and recommendation.

2. Research Question

This paper aims to explore impact of islami microfinance in Provinsi Aceh, case study of Baitul Qiradh Aceh in order to improve the income and reduce poverty. Therefore, the research question of this paper are :

- i) Is the islamic microfinance can increase income of micromicro enterprises and what are the factorsthat influenceincrease the income among the participants?

ii) What is the role of BQ in poverty alleviation?

3. Literature Review

3.1 Islamic microfinance

Contemporary Islamic financial is no longer uncertain an experience but the factand may continue to develop rapidly. Islamic finance described as a trend revival of Islam. Islamic finance has emerged in recent decades as one of the most important trends in the world financially. The size of the Muslim population in the world is the power of the high demand among Muslims on the products and services that comply with the Shariah principles. In Indonesia, particularly in Aceh, where shariafinancial has become claims should not be circumvented, let alone it is associated with the implementation of Islamic law. So that, the availability and sustainability of Islamic financial services including shariah microfinance should be a concern of Aceh government as one of the necessary institutions of society middle to lower.

Talking about islamic microfinance definitionwill not be separatedfromthe general concept ofmicrofinance understood by manypeople around theworld, and it will allowustounderstand theadvantages ofislamic microfinance. Microfinance is defined as “financial serve for poor and low-income client’ and may include but is not limited to credit, saving, money transfers and insurance and other financial products aimed at poor and lo-income individuals (CGAP, 2010). Microfinance is formal and informal financialsector which providefinancially services : microsaving, microcreditand micro insurance to themicro-economictors (seibel, 2005), and to people whoare verypoor for self-employ ment projects to generatein comein allowing them totake care of them selvesand their families (Microcredit Summit, 2004; Obeidullah Muhammad2008).

Microfinance is a development approach that provides financial as well as social intermediation. The financial intermediation includes the provision of savings, credit and insurance services, while social intermediation involves organising citizens' groups to voice their aspirations and raise concerns for consideration by policy makers and develop their self-confidence (Robinson, 2002), promoting improvements in health, education and income, microfinance has been shown to be effective in contributing to the achievement of the first seven Millennium Development Goals (Morduch and Haley, 2002; CGAP, 2003 cited in Greeley, 2006). Microfinance has become increasingly prominent in the current literature as a key poverty alleviation tool (Navajas *et al.*, 2000; Brau and Woller, 2004; Chowdhury *et al.*, 2005; Hermes and Lensink, 2007).

Therefore, Islamic microfinance can be understood as financial services provided to the poor and low-income run by Islamic principles. Existence of Shariah financial is to meet the needs of the Muslim community and remove them rather than poverty and distress (Dusuki, 2008). Akhtar and Jafri (2009) state that Islamic microfinance is an impressive tool to fight poverty. Concept of Shariah microfinance based on shared values and religion make economic activities more socially embedded with the real needs of the poor in the low level (Muhammad Sila, 2009). Thus, Islamic microfinance has the same function with conventional microfinance that provide financial assistance to the poor and low-income and social development. But what distinguishes the financially Islamic micro provide the products financially based on the principles of Shariah and implemented with values of brotherhood, mutual help and reminder each other.

Financial institutions providing micro-called microfinance. According to Act No 1/2013 micro finance defined as

financial institution safety pical founded to provide business development service sand community development, which in cludes financing, deposit management, and the provision of consulting servicesfor micro enter prisesthat are not only for profit. In this context, the MFIdoes notbecomeproviders of capital for community beginners or who want to openorenter to business. Various studies and literature indicate that micro finance is an effective tool for developing micro- enterprises in poverty reduction and social and economic development.

3.2 Impact of Islamic Micro Financing

Development of islamic micro finance predict table provide great motivation and positive foreconomic development by reducing thelevels of poverty and unemploy mentamong young people through increasedeconomi can dsocialcapital, withthe spirit ofentrepreneurship base onvaluesandIslam. Many people believed that microfinance become worthy ins trumentin reducingpoverty problem (Ahmed, 2004, 2007;Chapra2000.2008; Kafh1999: Masyita 2005, 2007). However ,the implementation rate of success around the world have very different according tosocio economi crecipient communities. Knight and Farhad (2008) stated that micro finance directlyim prove thequality of lifeand reduce poverty. By gettingloans (financing) customers can work them selves and protect them selves from external threats. The existence ofthe work will encourage them to get outof the poverty cycle, thuspovertywill decline. Thus,Access tocapitalis criticaland important to improve micro-enterpriseses(Leaman, Cook&Stewart, 1992).

Study ofthe impactof microfinance in Indiaconducted by Panda(2009) foundan increase inhousehold income weresignifi cant(11,41%), the increase intotal assets(9.75%) anddepositsamounted to42.53% among customers directlywiththe

public instead of the customer. Pandanoted an increase in the annual work with clients. Study Rahman, Rafiq, and the Moment (2009) mention that age, education and number of workers have positive impacts that affect the increase in household income and assets. Other studies related to microfinance in Pakistan also conducted Ali & Nature (2010). They conclude that micro finance is the most important resource to provide loans and other basic financial services to improve the performance, productivity and capacity nasyarakat produk spoor. It will have an impact on a person's life to reduce poverty, improve living standards, such as health, education, food and other social impacts.

Microfinance has positive effect on the growth of small businesses in the city of Kumasi Ghana in improving access to credit, increases savings, business administration, and financial and managerial training to small businesses (Quaye, 2011). One study on the economic impact assesment of the micro-credit program Iktiar Amanah Malaysia (AIM) was also performed by Norma and Jarita (2011). They found that income of the customers increase rapidly before and after participate to AIM program. The study revealed a median income of RM447 a month (before) to RM1,987 per month (after) following AIM program. The study also find that differences in educational level factor in come difference among customers. Customers who have a higher education level got higher income compared with less educated customers. This study also support previous studies conducted Kasim (2000) and Iktiar Amanah Malaysia (internal report AIM 2005), which presents the fact that there is a significant increase of 70% on the customer's income AIM.

Financial review on Islamic micro in 21 BMT in Javaby Amalia (2009) found an increase in the average customer income before and after financing. Different test results by using the Wilcoxon test get the difference between income before and after the Rp472 328 and it is a significant increase in income. Takahashi

(2010) study on microfinance in Indonesia based on a survey of 100 participant reveals that there is no immediate impact on poverty alleviation and the effect on household outcome is not significant. Beik and Purnamasari study (2011) on Koperasi Simpan Pinjam Syariah in Central Java about the effectiveness of the procedure and its impact on the financing of micro and small enterprises in increasing the level of income. Results of the study found that the impact of the financing of the daily income after financing positive increased by 81%.

Study M.Haykal (2010) about the impact of revolving fund BRR program BRR Aceh –Nias through cooperatives and MFIs to improve the income beneficiary in Aceh province. The focus of this study, analyzing the impact revolving fund (revolving fund) BRR to improve household incomes based on education factors, age, time of work and the amount of assistance to the improvement of people's income. The results of research to get that educational factors, time worked and the amount of loan a significant effect to improve the income, while age has no direct effect on income.

The most recent study on the economic impact of micro financing in Thailand by Naipon (2013) suggest that Islamic microfinance has positively contributed to increase the customers' welfare. In particular to the economic impact Naipon argues that gender, age, annual household income, total land size, membership length and occupation contribute to impact factors. Islamic micro finance impact study was also conducted by Rijawani and Asutay (2013) on 21 BMT and BPRS in East Java with a total sample of 348 customers. This study compared the role of the two institutions in improving customer economy and its ability to eject customers from poverty. Finding from this study outlining that the average annual value of sales, net income, business spending, household spending, and the number of

workers increased after using financing from both institutions. Other results indicate role of BPRS and BMT in reducing poverty. Based on the international povertyline (\$2/ day =I DR 17.589 /day /person = IDR 527,660 /month /person), BMT' participant success fully reduce poverty after financingonly1% and BPRS 10%. While based on the poverty line of province of East Java(IDR 245,035/month /person) BMT' poor pasticipant reduce was 8% and BPRS 12,4 % reduction after financing.

4. Research Methodology

To fulfil the research aims and objektive and to answer the research, this research adopt a deskriptive, survey and case-srudy-oriented research design in relation to BQ di Provinsi Aceh, Indonesia. The method of data collection involvesquantitave data collection based on purposive sampling through questionnaires distributed to microenterprise that borrow from BQ. A number of 208 respondent taken from 8 institution BQ. The purpose of questionnaires is to find how they perceive the impact of financing to their income. Therefore, the criteria of choosing the respondents were : (i) they receiving financing from BQ and using it for productive purpose , (ii) They have businees, (iii) at least 2 years as a client of BQ. Data from questionnaires are analysed with use of statiscal test, including descriptive analysis, Wilcoxon Signed Rank Test and Multiple Regression.

5. Result and Discussion

5.1 Impak on Income

The main the goalsto be achieved from the micro Financial globally is increa singits revenue. Toknow the exact effective nesso fmicro-finance provided by BQ, Wilcoxont test was performed to compare theincome ofmicro-entrepreneurs be foreand after.

Tabel 1. Descriptive analysis

PurataPendapatan (IDR/month)	Before financing	After financing	Purataperubahan
	1 952 644	2 790 865	838 221

Tabel 2: Wilcoxon Signed Rank Test : Impact on Income

	Income after finacing – income before financing
Z	-11.995 ^a
Asymp.Sig. (p) (2-tailed)	0.000

- a. Based on negative ranks
- b. Wilcoxon Signed Rank Test

The tabel 1 show comparing average income monthly before and after financing, there is asignificant differencebetween mean incomebefore financingand afterfinancing IDR 838. 221 (42.92%) at significant level of $p=.000$ which lower than the confidence level of .05 (tabel 2). In comparison to previous findings, a research comparing the annual net income of respondents BMT and BPRS were significantly higher after financing (50%) than the annual net income berfore financing. The annual net income of BMT’s respondents were also higher after financing IDR 1.500.000 (median) than before financing IDR 1.308.333 (median). The annual net income of BPRS’ respondents were also significantly higher after financing IDR 3.000.000 (median) than before financing IDR 2.000.000 (median) (Rijawanti&Asutay, 2013). Futher, study by Beik and Purnamasari study (2011) that small enterprises’ income in Middle Java positive increased by 81% after financing, and Panda (2009)

found an increase in household income was significant (11,41%) in India after financing. Thus the finding of this research is also similar to study Amalia (2009) that average monthly income' participant 25 BMT/BPRS in Java improvement of IDR 472.328 (19.58%) after financing.

5.2 Determine Factors of increase the income

Performed multiple regression model to estimate the factors that affect customer revenues BQ in the province of Aceh. The variables used in the multiple regression analysis is the dependent variable (income after financing) and independent variables represented by variabel age, education level, amount of loan and participation in entrepreneurship training. Overall results of decision statistical analysis is satisfactory because it meets the criteria for a good decision. Value Adjusted R Square (equivalent measure is best for a budget model regression) is 0.851 that describes the model is a good equivalent. Value of regression (R) is 0.924 which explains the very strong correlation between variables independent and dependent variable. While regression equation determinant (R^2) is 0.854 which explains the high percentage of influence given by independent variable. In other words, it explains that 85.4% increasing in customer income is influenced by the independent variables used in this model, the remaining 14.6% influenced by other variables or factors out of than this model.

Positive relationship between level education and increase the income indicate where a high level of education should ensure a high income and opportunities for access to other jobs. The results of this study is line with the findings Rahman, Rafiq, and the Moment (2009) and Haykal (2010) which states the standards of education are factors that affect income. Education

level also determines the position of someone in the work, and determine the level of income received.

Financing is a loan that is owned the people and used as capital to run the business. The acquired results reinforced Leaman, Cook & Stewart (1992) that capitalis criticaland important to improve micro-enterpriseses. Important to create opportunities for lower community get them to have a source of livelihood, one of them by providing the capital. The results of the study indicate where the amount of financing has a very strong influence in increasing income at significant value $t = .003$ which is lower than confidence level $\alpha = .05$. The greater the financing provided will be greater opportunities to expand its business community and have a positive impact on the income he received.

In addition, mentoring is actually the most important in the developing micro-enterprises. Mentoring in the form of entrepreneurial training is a factor that should not be denied. Microfinance has become a mechanism for socio-economic and financially not only to reduce poverty, but also promote the development of entrepreneurial (Yunus, 2001). The result describes the entrepreneurial training has significant effect on the level of income at significant value of $t = .000$ which is lower than confidence level $\alpha = .05$. Effectiveness of micro-financing depends on whether it has the flexibility to induce the participation of the poorest and whether it enables them to acquire the basic skill (Gaika, 2002). improving skill of borrowers is needed to improve the productivity and income (Khandker, 2003). Thus, it may be concluded that training entrepreneur can improve and explore the potential of micro-enterprises which ultimately affect the income.

Age factor indicate where a person's age incrising more reduce the income. The illu strates that custom ers are not

productive and old was not able to increase the income of economic activity compared with productive customers. However, this is not a determinative variable to increase one's income because it is not statistically significant at a significant value of $t = .152$ which is higher than confidence level $\alpha = .05$. In comparison to the previous research, this finding shows similar results with the findings of Haykal (2010), but contradictory with the findings of Naipon (2013) which age has contributed to impact factors.

5.3 Poverty Reduction Impact

Respondents in income in this study may be divided into two categories, poor and non-poor based on Aceh's Poverty Line in 2013 IDR 348.172/month/person. Respondents whose income is below poverty called poor, while the non-poor are the ones who earn the top rather than the poverty line.

Table 3 shows the number of BQ respondents who were under Indonesia (Aceh) poverty line. Analysis results obtained a reduction in the number of respondents who are poor live under poverty line before financing is 39.4% and be 12.5% after financing. Data ini menunjukkan adanya pengurangan ganper senta sepelanggan miskin dalam sebesar 26.9%. This positive finding provides support study on Riwijanti and Asutay (Indah 2013) that BMT and BPRS in East Java succeeded to reduce poverty among their respondents (BMT=8% and BPRS=12.4%).

Tabel 3. Number of BQ Respondent With Income Under Poverty Line

		Frequency	Percent t	Mean	Standard Deviation
Aceh' poverty line of IDR 348.172/month/person					
Monthly Income	Below poverty line	82	39.4	1.952.64 4	1.420.563,3 4

before loan	Above poverty line	126	60.6		
	Total	208			
	Minimum	500.000			
	Maximum	8.000.000			
Monthly income after loan	Below poverty line	26	12.5		
	Above poverty line	182	87.5	2.790.865	1.877.212,24
	Total	208			
	Minimum	700.000			
	Maximum	10.000.000			

6. Conclusion and Recommendation

- i) The main finding shows that BQ in Provinsi Aceh have a positive impact in increasing income their customers. In particular, the Wilcoxon signed rank test suggests positive result in which the improvement income after financing sebesar 838 221 (42.92%). The factors are determined on increase the income, the result on multiple regression show that education, amount of loan and entrepreneur training participant influence increase in income, while the age not effect increase the income. Regression equation determinant (R^2) explains that 85.4% increasing the income is influenced by the independent variables used in this model, the remaining 14.6% influenced by other

variables or factors out of this study. The finding also suggests the positive role of BQ in poverty alleviation could reduce poverty the number of poor respondents who living under Aceh' poverty line at 26.9 %. Overall, it should be noted that BQ has positive impact to develop micro- To promote their financing products to community (not only the clients), because most of clients don't have good understanding relating products principle.

- ii) To making tutorial meeting (monthly) to improve clients understanding on islamic values in a practical way.
- iii) To be more innovative in designing their financial product to fulfill the needs of their clients particular and community.
- iv) To develop link network to other financial institution (bank and non- bank), NGO dan government in implement their activity.

Insyah Allah with a proactive strategy, BQ can be more success and more positive impact can be achieved.

enterprises and has potential role on poverty reduction in Province Aceh. However, to improve their role some proposed recommendations are as follow :

- v) To improve their service not only financial side but also social services such training and mentoring will increase the develop their clients business,

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