

**PERFORMANCE ANALYSIS OF RURAL FINANCIAL INSTITUTION  
IN SEMARANG REGENCY  
(Case Study of *Sumber Harapan Maju* Rural Financial Institution)**

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**Abstract**

Financial institutions have been widely grown in Indonesia, but those that serve the small-scale business still need to be more developed. The economic condition in developing countries like Indonesia, in which the company still has medium and small scale, relies heavily on the financial institutions especially on the capital gains. Therefore, it is necessary to do a research related to the performance of the rural financial institutions (LKD). The performance feasibility of the rural financial institutions is expected to be BUMDES (rural-owned enterprises) in which the ultimate goal is to accelerate the development in the rural areas. One LKD as the object of this research is Sumber Harapan Maju Rural Financial Institution. The data analysis used to measure the performance of LKD Sumber Harapan Maju is a financial approach. This approach is measured by using ROA, BOPO, LDR, and KPMM / CAR referring to Bank Indonesia Circular Letter No. 6/23 / DPNP dated May 31, 2004. The results show that ROA has a less good value with a percentage between 0, 5% -1.25%. This is because the operational cost is too high especially bank interest cost of Tabermas and because the ability of LKD to make profits is low. BOPO shows an efficient condition with values of 89% -93%. The LDR value indicates the high liquid value at a rate of 50% -75% in accordance with the provisions. In addition, the KPMM of LKD Sumber Harapan Maju also shows a very good value above 9%.

**Keywords:** Effectiveness, performance, Rural Financial Institutions (LKD)

**INTRODUCTION**

BUMDES is basically a continuation of the existing governmental programs such as PAM Simas, Rural/Sub-District Financial Institutions (LKD), Rural Market, UP2K, PUAP, Rural Developing, and so forth. For villages that have successfully developed in running the program and have continuity or sustainability, these programs are prioritized to be BUMDES. BUMDES is expected to become the foundation of the rural government to accelerate the development of rural areas with intensive monitoring by the Bureau of Social and Rural Empowerment (Bapermasdes) of each region.

One BUMDES that grows very rapidly is the Rural Financial Institutions (LKD). Rural /Sub-District Financial Institution is the rural/sub-district governmental business engaged in financial management. The Rural Financial Institutions has emerged and been developing in Semarang Regency on the basis of the Semarang Regent Decision No. 8 of 2003 on Rural Financial Institutions that later was refined by the issuance of Semarang Regent Decree No. 19 of 2007 on the General Guidelines for Policy Development and Program of Local Economy Improvement of Semarang Regency, Fiscal Year of 2007 through Development of Sub-District/Rural Financial Institutions (LKD) and Semarang Regency Regulation No. 7 in 2013 on Guidelines for the Establishment and Management Procedures of the Rural-owned Enterprise. Rural Financial Institutions have a very important role in supporting the economy in the village because the villagers are permitted to get the capital with easy administrative requirements and with interest rates that are not much different from the interest rate of the commercial banks. Constraints faced by the rural communities in general are related to the convoluted administration and a long time process of borrowing funds. Therefore, the development of rural financial institutions is needed especially to improve the rural economy. Thus the villagers will be able to increase the economic activity and develop their business.

### **Formulation of the Problem**

The description of background above enable the researchers to formulate the existing research as follows.

1. How is the financial health condition of LKD *Sumber Harapan Maju* from 2011 to August 2014?
2. How is the performance of LKD *Sumber Harapan Maju* from 2011 to August 2014?

## **RESEARCH METHODOLOGY**

### **Types and Sources of Data**

The data used in this case study research is the secondary data. This data is used for the analysis of the financial performance of LKD *Sumber Harapan Maju* from 2011 to August 2014. The form of data is the financial report of LKD from

2011 to August 2014. The secondary data is obtained from LKD *Sumber Harapan Maju* and Bapermasdes of Semarang Regency.

### Method of Collecting Data

The data collection in this research uses the documentation method, because using the secondary data needs documents as the materials for analyzing the research to prepare for this research. These documents are obtained by directly meeting the related parties in order to obtain the desired data research.

### Variables of Research

This research uses variables related to financial institutions including ROA, LDR, BOPO, and KPMM. The explanation of each of the financial ratios according to Bank Indonesia Circular Letter No. 6/23 / DPNP dated May 31, 2004 in annex 1d is as follows.

#### Return on Assets (ROA)

ROA is a ratio used to measure the ability of management to obtain an overall profit. ROA value can be obtained from the profit before tax divided by the average of asset total. ROA has units of percent (%). Profit before tax is the total of gross profit obtained from LKD *Sumber Harapan Maju* before the deduction of tax. This variable has units of Rupiah. Meanwhile the average of asset total is the average asset value owned by LKD *Sumber Harapan Maju*. This variable has units of Rupiah. The ROA formula is as follows.

$$\text{ROA} = \frac{\text{Profit before Tax}}{\text{Average of Asset Total}} \times 100\%$$

An assessment about the good and poor condition of this ROA refers to Bank Indonesia circular letter above. A table on ROA condition assessment will be presented in the following.

**Table. 3. Assessment on ROA Condition**

ROA Ratio	Status
ROA > 2.75%	Very High
1.25% < ROA ≤ 2%	High
0.5% ≤ ROA ≤ 1.25%	High Enough
-0.25% < ROA ≤ 0.5%	Tend to have Loss
ROA ≤ -0.25%	Big Loss

Source: Appendix 2d SE Bank Indonesia, May 2004

ROA is used to know the ability of LKD in obtaining the gross profit. According to Bank Indonesia in Table 3. above, the good value of ROA is between 0.5% to 1.25%. So the greater the value of ROA is, the greater the profit will be obtained by LKD.

### **BOPO (Ratio of Operational Costs to Operational Income)**

BOPO is an efficiency ratio used to measure the efficiency and ability of financial institutions in conducting its operations. BOPO has units of percent (%) and is obtained from the operational costs divided by the operational income. The operational costs are those regularly incurred by LKD *Sumber Harapan Maju*. This variable has units of Rupiah. Meanwhile an operational income is obtained from the business or products incurred by LKD *Sumber Harapan Maju*. This variable has units of Rupiah. The formula of BOPO is as follows.

$$\text{BOPO} = \frac{\text{Operational Costs}}{\text{Operational Income}} \times 100\%$$

The assessment about the good and poor condition of BOPO refers to Bank Indonesia circular letter above. The table on BOPO condition assessment will be presented as follows.

**Table 4. Assessment on Efficiency Based on BOPO Ratio**

<b>Ratio Value of BOPO</b>	<b>Status</b>
BOPO ≤ 90%	Very Good Efficiency
BOPO ≤ 91% ≤ 93%	Good Efficiency
BOPO ≤ 94% ≤ 96%	Good Enough Efficiency
BOPO ≤ 97% ≤ 99%	Bad Efficiency
BOPO > 99%	Very Bad Efficiency

Source: Bank Indonesia Circular Letter, May 2004

Based on Table 4 above, the criteria in BOPO at the best condition to the worst can be seen. From the table above, according to Bank Indonesia, the good BOPO is 94% to 96%. The greater the percentage of the value of BOPO is, more inefficient the operational activities will be. Vice versa, the lower the value of BOPO is, more efficient the operational implementation will be.

### 1. Loan to Deposit Ratio (LDR)

LDR is the ratio among the total number of loans with funds received by the financial institution to determine the liquidity. This ratio has units of percent (%). The total of loans receivable is the sum of all loans successfully distributed to the public and has units of Rupiah. Meanwhile the total of third party fund is the sum of all funds borrowed from all customers of LKD *Sumber Harapan Maju* either in the form of savings and other deposits. This variable has units of Rupiah. The formula of LDR is as follows.

$$\text{Rasio LDR} = \frac{\text{Total of Received Loan}}{\text{Total of third party fund}} \times 100\%$$

An assessment about the good and poor condition of the LDR refers to Bank Indonesia circular letter above. The table on LDR condition assessment will be presented as follows.

**Table 5. Assessment on Being Liquid or Not the Financial Institutions are**

LDR Value	Status
50% <LDR ≤ 75%	Very Liquid
75% <LDR ≤ 85%	Liquid
85% <LDR ≤ 100% or ≤ 50%	Less Liquid
100% <LDR ≤ 120%	Not Liquid
LDR > 120%	Strongly Not Liquid

Source: Bank Indonesia Circular Letter, May 2004

The best assessment on LDR according to Bank Indonesia in table 5 is 51% to 75%. This ratio is calculated to determine whether the financial institution is liquid or not. The smaller the LDR value is, the greater the level of liquidity will be.

### Minimum Capital Fulfillment Capabilities (CAR or KPMM)

KPMM is the ratio used to measure the capital adequacy of a financial institution to support the risky assets (ATMR). KPMM is obtained from the own capital compared with ATMR. This variable has units of percent (%). It is a capital owned by LKD *Sumber Harapan Maju* and has units of Rupiah. Meanwhile ATMR is the value of credit risk that has been distributed by LKD *Sumber Harapan Maju* to the public. This variable has units of Rupiah. The formula of KPMM is as follows.

$$\text{KPMM} = \frac{\text{Own Capital}}{\text{ATMR}}$$

Under the provisions of Bank Indonesia, the good value of KPMM is between 8% - 9%. If the value of KPMM is below 8%, the value of LK tends to be not solvable as shown in the table below.

**Table 6. Assessment on Capital Adequacy of Financial Institution to Bear Risk**

KPMM Value	Status
$12 \leq \text{KPMM}$	Very Solvable
$10 \leq \text{KPMM} \leq 11$	Solvable
$8 \leq \text{KPMM} \leq 9$	Appropriate to Conditions
$6 \leq \text{KPMM} \leq 7$	Under Conditions
$\text{KPMM} \leq 5$	Tend to be not Solvable

Source: Bank Indonesia Circular Letter, May 2004

Table 6 above shows the criteria of KPMM from the best to the worst. KPMM is used to determine the ability of LKD *Sumber Harapan Maju* in ensuring the risky assets. The larger the value of KPMM is, the greater the resistance of LKD *Sumber Harapan Maju* in restraining the risk of loss.

### Data Analysis Methods

The analysis method used in this research is descriptive analysis on the data processing on four existing variables. The above variables are those used to measure financial performance in LKD *Sumber Harapan Maju*. As for assessing the efficiency it only uses BOPO and ROA ratios. Based on the results of the descriptive analysis there will be a conclusion as a reference in determining the policy in LKD *Sumber Harapan Maju*.

### Financial Analysis Results

Year after year LKD *Sumber Harapan Maju* continues to have significant capital developments from 2011 to 2014. The capital is taken from the SHU to increase the business scale. To determine the capital growth of LKD *Sumber Harapan Maju* is as follows.

**Table 7. Capital Growth of LKD *Sumber Harapan Maju***

Year	Value Capital (USD)	Growth (%)	Difference of Capital (USD)
2011	166 339 784.22	-	-
2012	244 067 748,24	46.7284	77 727 964,02
2013	356 814 684,21	46.1949	112 746 935,97
2014*	480 269 412,88	34.5991	123 454 728,67

Notes: 2014\* starts in January-August

Source: LKD *Sumber Harapan Maju*, 2014

Table 7 shows that LKD *Sumber Harapan Maju* continues to increase its own capital to strengthen its financial ratios. In 2012 LKD *Sumber Harapan Maju* has a capital growth of 46.73% compared to 2011 with a capital value added of Rp77.727.964,02. In 2013, LKD *Sumber Harapan Maju* added its own capital of Rp112.746.935,97 or grew by 46.20% compared to 2012. Whereas in 2014 LKD *Sumber Harapan Maju* added capital of Rp123.454.728,67 or grew by 34.60% compared to 2013. Although the percentage of capital growth from 2012 to 2014 continued to decline, but the accumulation of capital value added continues to increase every year. This needs to be done to maintain the stability of the minimum capital adequacy of LKD *Sumber Harapan Maju* against the risky assets (CAR or KPMM). The higher the value of KPMM owned is, the greater the risk guarantee on troubled assets will be.

In its business, LKD *Sumber Harapan Maju* issues a various of savings products and financing. There are also other products in the form of services such as Payment of Account of Electricity, Water, and Telephone. From these products LKD *Sumber Harapan Maju* obtains its income through revenue of sharing loans and financing, and revenue of administration. To determine the amount of income earned by LKD *Sumber Harapan Maju*, the following is the data of profit and loss of LKD *Sumber Harapan Maju*.

**Table 8. Data of Profit and Loss of LKD *Sumber Harapan Maju* in 2011-2014\***

Year	Operational Income	PO Value (Rp)	Operational Costs	BO Value (Rp)
2011	Loans	244 597 900	Costs	172 478 805
	Administration	42 333 158	Zakat Meetings	
	Profit Sharing			
	<b>Total</b>	<b>286 931 058</b>		<b>172 478 805</b>
	<b>Profit &amp; Loss (Rp)</b>	<b>114 450 241</b>		
2012	Loans	349 809 750	Costs	246 435 598
	Administration	80 284 473	Zakat Meetings	22 591 465
	Profit Sharing			
	<b>Total</b>	<b>430 094 223</b>		<b>269 027 064</b>
	<b>Profit &amp; Loss (Rp)</b>	<b>161 067 158</b>		
2013	Loans	413 719 360	Costs	286 194 384
	Administration	74 911 921	Zakat Meetings	26 073 106
	Profit Sharing			
	<b>Total</b>	<b>488 631 281</b>		<b>312 267 491</b>
	<b>Profit &amp; Loss (Rp)</b>	<b>176 363 790</b>		
2014*	Loans	317 449 486	Employee	50 800 000
	Administration	51 628 200	Administration	83 120 650
	Profit Sharing	48 949 494	Profit Sharing	98 507 935
			Others	16.375.902
	<b>Total</b>	<b>418 027 180</b>		<b>248 804 487</b>
<b>Profit &amp; Loss (Rp)</b>	<b>169 222 692</b>			

Notes: 2014\* represents data since August 31.

Source : LKD *Sumber Harapan Maju*, 2014

Table 8 shows that in 2011 to August 2014 LKD *Sumber Harapan Maju* were increasing with the growth in gross profit in 2012 by 40.73% and in 2013 by 9.5%. At the end of 2014 LKD *Sumber Harapan Maju* is projected to have profits increase by 13.57%. This shows that the ability of LKD *Sumber Harapan Maju* is in a very good profit. Table 8 shows that the benefit growth may occur because there is an increase in the operational income that is higher than the increase in the operational costs. But in 2012 to 2013 the condition is in contrast to the previous one, that the growth of the operational costs is higher than the operational income. Consequently, the profit only grows by 9.5%. The condition may occur because the administrative revenue declines by 6.69%.

The assessment on performance in the financial aspects is based on the assets shown in the financial statements. In this research, to measure the financial conditions in LKD *Sumber Harapan Maju* uses several financial ratios : ROA, BOPO, LDR, and KPMM. The four existing financial ratios were analyzed from 2011 to August 2014. The good financial condition will make LKD better in gaining the public confidence. Therefore, to determine the condition of financial ratios can be seen in Table 9 below.

**Table 9. Analysis Results of Financial Ratio in 2011-2014\***

HEALTH FINANCIAL RATIOS				
Year	ROA (%)	BOPO (%)	LDR (%)	KPMM
2014	4.0890	59.5187	64.7732	7.8191
2013	5.8562	63.9066	58.9977	8.0159
2012	7.3229	62.5507	77.2656	7.7435
2011	7.1714	60.1123	77.2656	15.0956
<b>Average</b>	6.1099	61.5221	69.5755	9.6685

Description: 2014 \* is the data in January-August

Source: Output Results of Microsoft Excel 2007

Based on the analysis results in Table 9 above, it can be seen that the existing financial conditions vary widely. In 2011 to 2014\*, LKD *Sumber Harapan Maju* had ROA with relatively decreasing ratio. This can be seen in the table that in 2011 LKD *Sumber Harapan Maju* had ROA value by 7.17% but in 2014 the ROA value was 4.08%. To determine the condition of ROA at LKD *Sumber Harapan Maju*, the data of the gross profit and the total value of the assets are presented as follows.

**Table 10. ROA Value of LKD *Sumber Harapan Maju* in 2009-2014\***

Year	Gross Profit (Rp)	Growth (%)	Assets (Rp)	Growth (%)	ROA (%)	Uncollectible Account (Rp)
2014*	169 222 692		4 139 914 356		4.08	64 353 310
2013	176 363 790	-4.04	3 456 814 538	19.76	5.82	44 513 310
2012	161 067 158	9.49	2 507 996 667	37.83	7.32	31 519 060
2011	114 450 241	40.73	1 777 564 558	41.09	7.17	11 019 060

Notes: 2014\* is the data in January-August

Source: *LKD Sumber Harapan Maju, 2014*

Table 10 shows that LKD *Sumber Harapan Maju* has an excellent condition of ROA with a value between 7.17% to 4.08%, because based on Bank Indonesia Circular Letter No. 6/23 / DPNP dated May 31, 2004, Table 3 shows that the excellent ROA value is above 1.25%. The lower the value of ROA is, the worse the condition of ROA will be.

The declining value of ROA is because the gross profit value of LKD *Sumber Harapan Maju* is fluctuating and tend to decrease, while the value of assets is in contrast with the previous one, which always increases in value although the growth decreases. So to fix the value of ROA, LKD *Sumber Harapan Maju* should make efforts to increase profits by reducing the operational costs including minimizing the uncollectible account. The amount of the uncollectible account makes the profit value of LKD *Sumber Harapan Maju* get declining.

The second ratio analysis is BOPO, which is used to determine the work efficiency of LKD *Sumber Harapan Maju* on revenue and operational costs. In general, the condition of BOPO of LKD *Sumber Harapan Maju* from 2011 to August 2014 is in a very efficient position. It is marked by the average value of BOPO for 4 years by 61.52%. BOPO value is in accordance with the provisions of BI in Table 4, where BOPO is said to be very good if it has a value less than 90%. The smaller the value BOPO is, the greater the level of efficiency will be.

Table 4.3. BOPO of LKD *Sumber Harapan Maju* also shows the increasingly inefficient condition. It can be seen that the value of BOPO from 2011 to 2013 keeps increasing from 60.11% to 63.90%. The higher the value of BOPO is, more increasingly inefficient LKD *Sumber Harapan Baru* in operation will be. This condition is a multiplier effect on the very big value of the uncollectible account by LKD *Sumber Harapan Maju*. In 2014, LKD *Sumber*

*Harapan Maju* had BOPO value by 59.51%. This condition needs to be maintained in order to be more efficient.

The third financial ratio analysis is LDR, which is used to measure how much the level of liquidity of LKD *Sumber Harapan Maju* is. Based on data in Table 4.3. above, an information that LKD *Sumber Harapan Maju* has excellent LDR value between 77.26% to 58.99% in 2011-2014 can be obtained. The excellent condition of LDR is guided by Bank Indonesia Circular Letter No. 6/23 / DPNP dated May 31, 2004 in Table 3.3. that valued between 50% to 75%. This may happen because LKD *Sumber Harapan Maju* always improves its existing liquid funds in cash to offset the increasing number of third party. The liquidity of LKD *Sumber Harapan Maju* should always be maintained to avoid a financial crisis given the high value of DPK.

The last ratio is KPMM, which is a ratio to measure capital adequacy of LKD on the credit risk or ATMR. Table 4.3.above shows that LKD *Sumber Harapan Maju* has KPMM value between 7.74 to 15.09, which means that LKD *Sumber Harapan Maju* is able to bear credit risk. This conclusion is based on the assessment of KPMM in Bank Indonesia circular in 2004 in Table 3.4. where KPMM has a very good value if the ratio is 8 to 9. The higher the value of the ratio is, the better the condition of KPMM of LKD *Sumber Harapan Maju* will be.

The good condition of KPMM may occur because LKD *Sumber Harapan Maju* has a policy to set aside the 70% of profits to increase its own capital every year. This is done to increase the value of KPMM. Although LKD *Sumber Harapan Maju* has a good condition, it is still fluctuating. To find out the reason LKD *Sumber Harapan Maju* has fluctuating results can be seen in table 4.4.below.

**Table 4.4. Data of Loan, ATMR, and Capital of LKD Sumber Harapan Maju**

Year	Loan (Rp)	Growth (%)	Credit Risk (Rp)	Growth (%)	Capital (Rp)	KPMM
2014*	2 233 022 150	30.62	64 353 310	44.57	480 269 412	7.8191
2013	1 709 496 389	6.36	44 513 310	41.23	356 814 684	8.0159
2012	1 607 334 000	46.74	31 519 060	186.04	244 067 748	7.7435
2011	1 095 370 800	-	11 019 060	-	166 339 784	15.0956

Notes: 2014\* is the data in January-April

Source: LKD *Sumber Harapan Maju*, 2014

Table 4.4.above proves that the KPMM value of LKD *Sumber Harapan Maju* fluctuated in 2011 to 2014 because of the low value of capital compared with ATMR. ATMR jumped dramatically from Rp 11 019 060,00 in 2011 to be Rp 64 353 310,00 in August 2014, or reached an increase of 484.02%. The jump of ATMR value is in line with the increase in loans granted by LKD *Sumber Harapan Maju* from Rp 1 095 370 800,00 in 2011 to be Rp 2 233 022 150,00 in 2014.

The policy on SHU allocation for 70% of capital is considered to be effective to increase the value of KPMM of LKD *Sumber Harapan Maju* in 2014. However, considering the trend that occurred from 2011 to 2014, the credit risk may increase with substantial growth above 40%. Therefore, in order to make LKD *Sumber Harapan Maju* more stable in risk, then LKD *Sumber Harapan Maju* should be able to minimize the credit risk it has experienced. This can be done by being more selective in lending financing to customers. In addition, LKD *Sumber Harapan Maju* needs to have interpersonal approach and assistance to the borrowers in order to perform the installments regularly.

Based on the financial analysis contained in Table 4.3., it indicates that LKD *Sumber Harapan Maju* has a very good condition. From the aspect of financial health based on the measurements of LDR and KPMM, it is noted that LKD *Sumber Harapan Maju* has a very healthy condition because it has an average of LDR value of 69.57% and is in accordance with the provisions of Bank Indonesia. While the average value of the KPMM ratio of LKD *Sumber Harapan Maju* is 9.66. From both figures above, it can be concluded that the condition of LKD *Sumber Harapan Maju* is very healthy, which is characterized by a very good level of liquidity and capital adequacy ratio that is owned from 2011 to August 2014.

The second of financial assessment aspect is the efficiency that is measured by ROA and BOPO. Based on the results of the financial analysis in Table 4, it shows that the LKD *Sumber Harapan Maju* is in a very efficient condition. This may happen because the average value of ROA of LKD *Sumber Harapan Maju* is 6.11%, while the average value of BOPO is 61.52%. The great values of ROA and BOPO have proved that LKD *Sumber Harapan Maju* has a

very good efficiency. Nonetheless, it needs an evaluation of the operational costs for LKD *Sumber Harapan Maju* that has declining levels of efficiency from 2011 to 2014.

Viewed as a whole from the performed financial analysis, it can be concluded that LKD *Sumber Harapan Maju* has an excellent financial performance. This could happen because LKD *Sumber Harapan Maju* can run its business efficiently and has an excellent financial health condition. Therefore, it can be concluded that the financial performance of LKD *Sumber Harapan Maju* is very good and it should maintained its consistency.

## CONCLUSION

The conclusions that can be drawn from the results of research and discussion are:

1. The financial health condition of LKD *Sumber Harapan Maju* is at a very healthy condition, which is proved by the LDR value of 69.57% and the KPMM ratio of 9.66 that is very good and in accordance with the provisions of Bank Indonesia.
2. LKD *Sumber Harapan Maju* has an excellent performance because it is able to run its business with good management.

## SUGGESTION

Suggestions that can be given to the holders of interest are as follows.

1. For the sake of progress and development of the research conducted, it is suggested that the future researches are expected to use measures of financial performance that is more complete, not only from the aspect of health and financial efficiency alone.
2. LKD *Sumber Harapan Maju* is expected to evaluate the operational costs that are considered too high to pass up the value of the credit risk to be borne by LKD *Sumber Harapan Maju*.
3. It is expected that the government may continue to participate actively in developing, directing, and protecting the sustainability of LKD in Semarang

Regency in order to keep growing and be able to more accelerate the growth in the village

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