

**THE EFFECT OF SOCIAL CAPITAL ON LOAN REPAYMENT
BEHAVIOR OF THE POOR:
A Study on Group Lending Model (GLM)
Application in Islamic Microfinance Institution¹**

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ABSTRACTS

Market failures in the financial system may be indicated by the absence of opportunities for the poor to get financial services. This also happens in the practice of Islamic banking. For this reason it is popping up a lot of non-market institutions - Islamic Microfinance Institutions (IMFi) is one of them - which tried to cover up the weaknesses of banking practices. However, the development IMfi is not effective in alleviating poverty and not much different from most banks. In turn, Islamic Microfinance-based groups emerged in the hope of further empowering the poor and ensure that financial services can be viable for them and they are able to repay their loans with three main approaches that implemented simultaneously; (1) spiritual approach (2) financial approach and (3) social approach. This study is expected to empirically test whether Islamic Microfinance-based groups can ensure that the poor can get financial services and are able to repay their loan on time. Using Structural Equation Model the study proved that social capital values which embedded within the Islamic Microfinance-based groups influence the behavior of the poor in repaying their debts. As a policy recommendation, Islamic Bank should consider to prefer Islamic Microfinance-based groups as partners in the realization of their linkage program for the poor so that poverty alleviation program can be optimally implemented.

Keywords: social capital, Group Lending Model (GLM), repayment behavior