

Islamic Microfinance Institutions in Indonesia and the Challenges in the Supply Chain Perspectives

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Abstract— The Indonesian economy has recently been discouraging. There are more than forty millions Indonesian people living under the poverty line. With supply chains extending throughout microfinance institution, it can be expected to be one of the solution. Though microfinance institutions (MFIs) have different organizational formats, they have to deal with daily management issues. In order to understand the operational structure of different MFIs, this paper assesses their performance by using the Balanced Scorecard (BSC) from four different perspectives. The BSC provides the “balanced” and “integrative” financial and non-financial perspectives of a MFI such as internal business processes, growth and learning, financial and customer perspectives that are extremely important to create a sustainable MFI. This paper reports the results from in-depth interviews with 18 MFI managers in Bandung, Indonesia. The Key Performance Indicators (KPI) of a MFI from four perspectives is identified and the relationships between the different components of BSC are also learned. Overall scores of the BSC reveals BRI to be the best MFI, BPRS as the second, followed by BPR and BMT in the third and fourth place respectively. The advantage of BRI is partly due to robust government support that makes it difficult for other smaller MFIs to compete. In contrast, BMT showed a weak institutional structure in terms of BSC’s elements. It seems that BMT is not well managed according to BSC’s key performance indicators. The results indicate that clients, mostly Muslim, had chose the MFI based on the best performance in daily operations and also those affordable instead of choosing a religious/Shari’ah compliant one.

Keywords—*The Balanced Scorecard, Islamic MFIs, Conventional MFIs*

1. Introduction

Using supply chains networks of microfinance

institutions seemed to be an ideal solution to the problem of high unemployment and poverty ([1]; [2];[3];[4];[5];[6];[7];[8];[9];[10],[11]) in Indonesia but to make it happens, much work needs to be done. It should be noted that unemployment rate in Indonesia according to IMF Report in 2013 was 5.8% in 2013. A number of issues keep arising particularly to bring the poor and needy people to levels of non-poor.

Indonesia is the fourth largest country in the world in terms of population with 237. 5 million people whereas 88% of them are Muslims. It makes Indonesia as the largest Muslim population country but in the reality, the growth of Islamic MFIs has been sluggish and far behind the conventional MFIs. Micro-businesses themselves dominates 98.85% of total business with absorb 90.98% of the total labor force and their contribution to GDP was 57.12% in 2013 [12]. In August 2013, there were 11 Islamic commercial banks with 1920 number of offices, 24 Islamic business unit with 554 number of offices and 160 Islamic rural banks with 398 numbers of offices. Indonesia has a diversity of both conventional and Islamic MFIs and became a big laboratory of microfinance models in the world.

The aim of this research is to explore and examine the different structure of microfinance institution related to management and structure of Islamic and conventional MFIs.

The following research questions need to be addressed:

- I. What are the important factors in managing Islamic MFIs institutions?
- II. What are the differences management styles between conventional and Islamic MFIs?
- III. How do Islamic MFIs compete with their conventional counterparts?
- IV. Why do Islamic MFIs grow slowly in Indonesia compared to conventional MFIs?

Islamic MFI is not solely for profit creation but it should be in line with the Maqasid al-Shari’ah. Debt is a last resort to fulfill an individual’s need for either capital or consumption. Giving credit to a