

Why is Growth of Islamic Microfinance Lower than its Conventional Counterparts in Indonesia?

DIAN MASYITA*

HABIB AHMED*

Abstract

The aim of this paper is to examine the demand factors for microfinance services in Indonesia consisting of the understandings, perceptions and preferences of 581 micro finance institutions (MFIs) clients of four MFIs—two Islamic (BMT and BPRS) and two conventional (BRI and BPR).

The results show that MFIs clients' preferences are driven by economic (low interest rates, low collateral and size of loan) and non-economic factors (such as quality of services variables; easiness, speed, nearness, payment method and loan officers' profile). The results also indicate that BRI, a conventional MFI, is ranked the most competitive according to these factors, followed by BPRS (Islamic rural banks), BPR (conventional rural banks) and BMT (Baitul Maal wa Tamwil).

The survey also identifies the gaps in which Islamic MFIs should fulfill in enhancing their roles to reduce unemployment and poverty.

Key words: conventional MFI, Islamic MFIs, client's understanding, perceptions, preferences

* Senior Lecturer and Researcher at the University of Padjadjaran , Bandung - Indonesia

* Professor of Sharjah Chair in Islamic Law and Finance at the Durham University, UK