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Performance of Islamic Microfinance Banks: The Case of a Developing Country

Taufik Akbar[1] and A.K Siti Nabiha[2]

[1]Graduate School of Business, Universiti Sains Malaysia 11800 Penang, Malaysia 1, Universitas Mercu Buana, 11650 West Jakarta, Indonesia
[2]Graduate School of Business, Universiti Sains Malaysia 11800 Penang, Malaysia

Abstract

Similar to conventional microfinance banks institutions, Islamic microfinance banks provide intermediary financial services by receiving funds from investors and other stakeholders and disbursing funds to micro, small and medium-sized entrepreneurs and poor households. Islamic microfinance banks play a significant role in developing countries, especially in Indonesia. However, Islamic microfinance banks have not experienced significant growth and achieved good performance as expected. The paper thus investigates Indonesian Islamic microfinance banks performance in comparison to conventional microfinance banks. The data from the Indonesian Services Authority (OJK) were analyzed from 2012 to 2017. The findings showed that Islamic microfinance banks had performed poorly as compared to conventional microfinance banks. Suggestions for further empirical investigation were made to ascertain the reasons for such poor performance.

Keywords: islamic microfinance banks, performance of islamic microfinance banks, indonesia, developing country.

Corresponding Author:
Taufik Akbar
taufikakbarakt@gmail.com

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1. Introduction

Microfinance institution (MFIs) is the provision of various financial services including credits, insurance, savings, deposits, and payment services to poor, low-income households, and micro or small businesses that are financially excluded due to the lack of collateral (Ledgerwood, 1999; Littlefield, Morduch, & Hashemi, 2003; Robinson, 2001; Abdelkader & Salem, 2013; Begum, Alam, Mia, Bhuiyan, & Ghani, 2018; Berguiga et al., 2017; Hermes & Hudon, 2018; Reichert, 2018; Wediawati et al., 2018). In particular, MFIs differ from traditional financial institutions due to the existence of double bottom-line objectives for serving poor customers (outreach) and financial sustainability (Tulchin, 2003). Hence, MFIs are the financial institutions that serve as an intermediary whose purpose is not merely to seek profits but also to realize social goals such as community development (Baskara, 2013). Islamic Microfinance Institution (IMFIs) was established to cater to the needs of the Muslim community as it supposed to operate based on the *Sharia* principles. IMFIs reflects the confluence of two fast-growing industries, microfinance, and Islamic finance. Microfinance is as an essential tool in supporting and strengthening the economy at the bottom of the socio-economic pyramid by facilitating access to financial services for the poorest and the destitute, while Islamic finance is a financial system based on *Sharia* principles. The strict prohibition of paying or receiving any fixed interest (*riba*) is the most widely known characteristic of this financial system (CGPA, 2013; Abdelkader & Salem, 2013; Mobin et al., 2017). The purpose of IMFIs is similar to conventional MFIs in terms of providing services to financially excluded, hence it needs to achieve a social objective while at the same time being financially sustainable (Abdelkader & Salem, 2013;Hermes & Hudon, 2018; Mobin, Masih, & Alhabshi, 2017;Tulchin, 2003;CGPA, 2013; Murdock, 1999). IMFIs' financial and social performance is not satisfactory compared to conventional MFIs. The CGAP survey in 2007 showed that Bangladesh, a country with the largest microfinance coverage in the world with almost 8 million microfinance lenders, has an Islamic microfinance coverage of only 1 percent or around 100,000 clients. In Syria and Indonesia, the figures contribute 3 percent and 2 percent of the microcredit value respectively in 2006 (Karim, Tarazi & Reille, 2008). Therefore, it is indicated that Indonesia *Sharia* microfinance showed low financial and social performance even though Indonesia is the largest Muslim country with total followers around 207,176,162 people but it is unable to make IMFIs performance grow and develop (Risfandy, Husa, & Asrihapsari, 2016; Central Bureau of Statistics, 2018). Hence, this paper investigates the recent financial and social performance of formal IMFIs and compared their performance to the conventional MFIs and to suggest avenues for further research in this area.

2. Microfinance Institutions in Indonesia

Indonesia has both conventional and Islamic microfinance institutions. The MFIs in Indonesia are regulated by Law No. 1 of 2013 which stipulates that microfinance is a financial institution purposively established to provide business development and community empowerment services, either through loans or financing to micro-scale businesses and community members, deposit management, and to provide business development consulting services that are not profit-oriented based on conventional or Islamic principle. Hence, MFIs are the financial institutions that serve as an intermediary whose purpose is not merely to seek profits but also to realize social goals such as community development (Baskara, 2013). Microfinance programs in Indonesia are managed by formal, semi-formal, and informal institutions. Formal microfinance institutions are those that are regulated under the Indonesian banking law, and Financial Services Authority of Indonesia (OJK). The legal entities of formal microfinance institution are a private business, cooperative or regional company, specifically for formal Islamic microfinance as referred to in Law No. 21 of 2008 Article 7 which stipulates that a legal entity is a private business. Supervision and guidance for formal microfinance institution are conducted by Indonesia Financial Services Authority (OJK). Formal microfinance institutions are classified into: Commercial Banks which have microfinance business unit (Bank of BRI Bank - Unit, and Bank of Mandiri (Micro Banking Unit), microfinance banks (*Bank Perkreditan Rakyat*) either under conventional or Sharia principle (BPRS). Thus, in Indonesia, conventional based microfinance is called *Bank Perkreditan Rakyat* (BPR), and microfinance institutions based on Islamic principles are called *Bank Perkreditan Rakyat Syariah* (BPRS). Both are categorized as formal microfinance institutions (Usman et al., 2004; World Bank, 2005; Indonesia Financial Services Authority,2018). Semi-formal microfinance institutions are those that are regulated by either central or regional government. The legal entities of semi-formal microfinance institution are a private business, the company's local government or regional government. Supervision and guidance for formal microfinance institution are done by the Financial Services Authority of Indonesia (OJK), and the Minister for Cooperatives Small and Medium Enterprises. Based on its institutional classification, informal microfinance are classified as Pawnshop, Village Credit Agencies (BKD), Social enterprises /Saving and Loan (S&L) Cooperative (KSP), Social enterprises /Saving and Loan (S&L) Cooperative (KSP), Baitul Maal Wa'atamwil (BMT). While the informal microfinance institutions are those that have no legal force as there is no specific regulation governing the matter (Baskara, 2013; Haryanto, 2011; Martowijoyo, 2000; Mujiono, 2013; Nelson, 2011; Susila, 2007; Usman et al., 2004; World Bank, 2005, Financial Services Authority of Indonesia, 2018). The classification of microfinance institutions in Indonesia is shown in Table 1.

3. Indonesian Islamic Microfinance Bank

One of the formal MFIs in Indonesia is a microfinance bank. According to Indonesian government regulation No. 10 of 1998, a microfinance bank is a bank that carries out its business activities either on a conventional (BPR) or on a sharia basis (BPRS) (www.bi.go.id). These types of formal microfinance banks provide such financial services to customers as savings, loans/credit, and deposits (Hamidi, 2017; Iswandari & Anan, 2015; Yusi & Idris, 2016).

Table 1: Microfinance Institutions in Indonesia.

	Type of Institution	Business License	Legal Entities	Guidance	Supervision
Formal Microfinance Institution	Commercial Banks with microfinance business unit (Bank of BRI Bank - Unit, and Bank of Mandiri (Microbanking Unit)	FinancialServices Authority of Indonesia (OJK)	Private Business, Cooperative or Regional Company	Financial Services Authority of Indonesia (OJK)	Financial Services Authority of Indonesia (OJK)
	Microfinance banks (BPR) either Conventional or Shariah-based namely *Bank Perkreditan Rakyta Syariah* (BPRS).	Financial Services Authority of Indonesia (OJK)	Private Business, Cooperative or Regional Company. *"Particulary for Islamic Microfi-nanceBanks (BPRS), The legal Entity is a Private Business Refer to (Law No. 21 of 2008, Article 7)"*	Financial Services Authority of Indonesia (OJK)	Financial Services Authority of Indonesia (OJK)
Semi–Formal Microfinance Institution	Perum Pegadaian (Pawnshop)	Financial Services Authority of Indonesia (OJK)	Private Business, Government Regional Company.	Financial Services Authority of Indonesia (OJK)	Financial Services Authority of Indonesia (OJK)
	Village Credit Agencies (BKD)	Financial Services Authority of Indonesia (OJK)	Government either central and Regional	Financial Services Authority of Indonesia (OJK)	Financial Services Authority of Indonesia (OJK)
	Social enterprises /Saving and Loan (S&L) Cooperative (KSP)	State Minister for Cooperatives Small and Medium Enterprises	Private Business/Social enterprises	State Minister for Cooperatives Small and Medium Enterprises	State Minister for Cooperatives Small and Medium Enterprises
	Baitul Maal Wa'atamwil (BMT)	State Minister for Cooperatives Small and Medium Enterprises	Private Business/Social enterprises	State Minister for Cooperatives Small and Medium Enterprises	State Minister for Cooperatives Small and Medium Enterprises
Informal-Microfinance Institution	NGO (LSM), Shark Loan, Rotating Savings Club	Does not have legal force	Does not have legal force	-	-
Source: (Baskara, 2013; Haryanto, 2011; Martowijoyo, 2000; Mujiono, 2013; Nelson, 2011; Susila, 2007; Usman et al., 2004; World Bank, 2005; Indonesia Financial Services Authority,2018, Bank Indonesia, 2018)					

Both BPR and BPRS provide such financial services to customers as savings, loans/credit, and deposits (Hamidi, 2017; Iswandari & Anan, 2015; Yusi & Idris, 2016). Formal microfinance banks have not only profit orientation objectives but also to increase the income and the welfare of the people and to help increase economic empowerment and productivity of the community by facilitating credits to the poor and low-income people, especially micro, small and medium businesses (Indonesian government regulation No. 10 of 1998; Masyita, 2017; Mulyati & Harieti, 2018). This means that BPR and BPRS have a system that operates almost the same which is based on profit in the context of financial sustainability, but in the social performance context, they have different characteristics from both BPR and BPRS. The social performance of BPRS not only includes the number of borrowing clients, the number of loans and savings accounts and the number of branches established, but also the integration of zakat, wakaf and qardlu hasan for rural and urban, which the performance of conventional microfinance institutions does not have (Fersi & Boujelbéne, 2016; Mobin et al., 2017; Ahmed, 2002, Riwajanti, 2013).

According to Indonesian government regulation No. 10 of 1998, BPRS is a bank that conducts its business activities based on sharia principles. BPRS is fostered and supervised by the Financial Services Authority of Indonesia (OJK), and the legal entity of Islamic microfinance banks according to Law No. 21 of 2008, Article 7, which stipulates that the form of Islamic microfinance banks business is private where the capitals are obtained from internal and external investors.

Basically, BPRS has a system which is almost similar to the conventional rural bank operated on a profit basis. These institutions can earn profits in three areas, including trading, leasing, and direct financing from profit-loss sharing (PLS) contracts (Al-Omar & Abdel-Haq, 1996). The products, services, and akad (contracts) used are different, however, all activities must be based on Islamic sharia law where *riba*, *maysir*, and *gharar* practices are prohibited. According to Chapra (1985), the term *riba* is commonly defined as taking extra profits from basic assets or capital. It is insubstantial because the owner of the fund requires the borrower to pay more than the borrowed funds irrespective that the borrower earns profits or experiences losses. Whereas "*Maysir*" literally means getting something very easily without hard work or getting profits without work. In Islam, maysir is anything that contains the elements of gambling, betting, or a risky game. Gambling in any form whatsoever is prohibited in Islamic laws (Hameed, 2009). As noted earlier in the Quran, Allah (s.w.t) clearly prohibits gambling (Al- Baqarah, 2:219 and Al-Maidah, 5:93). In Islam, *gharar* are all economic transactions involving the elements of obscurity, fraud or crime. It is condemned by Islam in the Qur'an (QS 6 152;

83 1-5; and 4 29) and Hadiths. In the business world, *gharar* means blindly running a business with limited understanding (Rahmanti, 2012; Uddin, 2015).

4. The Differences Between Conventional Microfinance Banks (BPR) and Islamic Microfinance Banks (BPRS)

BPRS is not only a financial institution which serves a dual mission (financial and social) but also serves as a religious institution that runs its da'wah function (Wediawati, Effendi, Herwany, & Masyita, 2018). The financial benefit provided by BPRS is to strengthen the Islamic economy, particularly weak economic community groups generally in rural and urban areas, and to increase the employment rate by developing Micro, Small and Medium-sized Enterprises (SMEs) with capital assistance from IMFIs (Amalia, 2009; Sumitro, 2002).

Both BPR and BPRS financial performance is associated with the return on equity (ROE), profit margin, return on asset (ROA), operational self-sufficiency (OSS), and financial self-sufficiency (FSS) (Schreiner, 2002; Rama, 2015; Hermes & Hudon, 2018; Mobin, Masih, & Alhabshi, 2017; Purwanto, Primiana, Masyita, & Febrian, 2018; Wediawati et al., 2018). Social performance both BPR and BPRS are based on the average loan amount (relative to the income of the target population), the number of borrowing clients, the number of loans and saving accounts, the number of branches established and the share of loans to female borrowers are most often used (Hermes & Hudon, 2018; Purwanto et al., 2018).

However, the differences between BPRS and BPR lie in their targeted organizational objectives. In BPRS, the organizational objective is based on shari'a principles (*maqasid Sharia*) which may lead to the balance of life (*Falah*) between worldly goals (financial and social goals) and hereafter goals (spiritual goal) in an expect to obtain blessings from the Almighty Allah SWT to run all organizational activities (Wediawati et al. 2018). Therefore, the financial BPRS performance puts more emphasis on profit and loss sharing based on *mudharabah* and *musyarakah* contract (Mobin et al., 2017; Purwanto et al., 2018; Wediawati et al., 2018). *Musyarakah* contract is a contract between two or more partners sharing both recent profits and losses. Instead of imposing interests as a creditor, the financier will receive a return based on a predetermined ratio in the form of a proportion of the actual profits earned. Unlike a traditional creditor, however, the financier will also share any losses. While *mudharabah* contract is a partnership in which one party provides the capital and another party provides labor force or skills. The capital provider is known as *Rab Al-Mal*, while the counterpart is known as the

Mudarib. It is a trust contract, the mudarib is not liable for any losses except breach of trust (Fersi & Boujelbéne, 2016).

The crucial part of the social performance is a provision of charity to the poor in which funds are obtained from zakat, wakaf and qardlu hasan, which the performance of conventional microfinance institutions does not have. These three funds serve as a charity instrument which occupies a central position in Islamic financial institution in terms of poverty eradication (Fersi & Boujelbéne, 2016; Mobin et al., 2017). As a Sharia-based financial institution, the objectives of BPRS must be consistent with the objectives of sharia principles (maqasid Sharia). These objectives will lead to the balance of life (*Falah*) between the worldly purposes (material / financial and social) and hereafter purpose (spiritual) in favor of Allah SWT (Wediawati et al., 2018). In other words, both financial performance and social performance are the objectives that must be achieved concurrently by BPRS (Abdelkader & Salem, 2013; Fersi & Boujelbéne, 2016; Mobin et al., 2017; Wediawati et al., 2018). The BPRS through Islamic financial instruments provides intermediary financial services by receiving funds from investors and other stakeholders on one hand and disbursing funds with or without profits to micro, small and medium entrepreneurs and poor households on the other hand. The basic model is needed to complete a full cycle of the Islamic microfinance process, namely: funding, an Islamic micro-finance institution, an Islamic financial instrument for disbursement of funds, the borrower, and the repayment. All these reasons make BPRS different from its conventional counterpart (Mobin et al., 2017).

In BPRS, Islamic charities such as *zakat* and *waqf* are special sources of funding. But if it is related to external funds, and the savings used as a source of funds, both from sharia and BPR are the same. Another specialty of BPRS is the financing mode that must eliminate interests in its operations while BPR adapts interest-based financing. Funding carried out by BPR is channeled to poor people in rural and urban areas with interests. While BPRS provide financing for poor people in rural and urban areas by integrating *zakat*. Another characteristic concern the transfer of funds by formal microfinance institutions. On BPR, institutions can directly provide cash to their clients as a form of financing. While service providers BPRS use goods transferred (*murabahah*). On the other hand, BPRS use Islamic financial instruments based on profit-sharing schemes instead of loans. While BPR target women as clients, whilst BPRS argue that the coverage should be targeted at all families members instead of just women. The characteristics and the difference between BPRS and BPR are summarized in Table 2.

Table 2: The Differences Between Conventional Microfinance Banks (BPR) and Islamic Microfinance Banks (BPRS).

	Conventional Microfinance Banks (BPR)	**Islamic Microfinance Banks (BPRS)**
Liabilities (Source Of Funds)	External Funds, Saving of Client	External Funds, Saving of client, Islamic Charity Funds
Asset (Mode of Financing)	Interest-Based	Islamic Financial Instrument (Profit and Low Sharing approach)
Financing the Poorest	Poorest In Rural and Urban Area	Poorest are Included by integrating *zakah* with microfinancing in a rural and urban area
Fund Transfer	Cash given	Goods transferred (*Murabahah*)
Deduction at Inception of Contract	Part of the funds deducted at Inception	No deductions at inception
Target Group	Family, Micro, and Small Medium Enterprises (SMEs)	Family, Micro, and Small Medium Enterprises (SMEs)
The objective of Targeting Women	Ease of Availability	Ease of Availability
Liability Of the Loan (When Given to women)	Recipient and spouse	Recipient and spouse
Work Incentive of Employees	Monetary	Monetary and Religious
Dealing With Default	Group/Central Pressure and Threats	Group/Centre/Spouse Guarantee, and Islamic Ethics
Social Development Programme	Secular – behavioral, ethical and social development	Religious (Includes behavior, ethics and social)
Legal Entity	Private Business, Cooperative or Regional Company	Private Business *Refer to (Law No. 21 of 2008, Article 7)"*
Guidance and Supervision	Financial Services Authority of Indonesia (OJK)	Financial Services Authority of Indonesia (OJK)
Board of Supervision	No Board of Syariah Supervision	Board of Syariah Supervision
Source: (Ahmed, 2002, Riwajanti, 2013, Indonesia Service Authority, 2018)		

5. Methodology

This study uses documentary data to compare the performance of BPR and BPRS. The data was sourced from the Indonesian Services Authority (OJK) from 2012 until 2017. The financial performance is measured based on (i) Financing/credit, (ii) Profit, i.e, net income. These measures, i.e., profit and financing are used in other studies (see for example Masyita, 2017; Siti-Nazariah, Siti-Nabiha, & Azhar, 2016; Ayayi & Sene, 2008; Charitonenko & Afwan, 2003; Asutay 2010; Kaplan &Norton). Financial perspectives measure whether an organization's strategy, implementation, and execution are contributing to the organization improvement in general.

Social performance is based on the measure of (i) Bank growth – Number of branches established and (ii) Number of customers. The measures used are similar to several other studies (see Fersi & Boujelbéne, 2016; Hermes & Hudon, 2018; Purwanto et al., 2018; Asutay 2010; Mersland & Strom, 2009; Luzzi & Weber, 2006). Social performance reflects the measure of the BPRS intention to have a social and feasible impact integration in the environment (Boye et al., 2006). This confirms that the role of social performance is to eradicate poverty in rural and urban areas (Fersi & Boujelbéne, 2016).

6. Result and Discussion

The main activities of both BPR and BPRS are to serve SMEs and local communities in rural and urban areas (Trinugroho, Risfandy, & Ariefianto, 2018; Yusi & Idris, 2016). About 99 % of the companies in Indonesia can be classified as SMEs (Shaban, Duygun, Anwar, & Akbar, 2014). Therefore, formal microfinance banks either BPR or BPRS have a vital role in the current Indonesian economy (Trinugroho et al., 2018). The graphs show the difference between the credit/financing to customers by BPRS and BPR. The total credit/financing to customers from BPRS in 2012 is 2.080 Billion compared to the 23.749 Billion of BPR (see Figure 1). The BPR is currently the largest contributor in the credit/financing category for SMEs in Indonesia between 2012 and 2017. The percentage credit/financing of BPRS is from 8.52% to 9.35% of the total credit/financing of BPR in Indonesia between 2012 and 2017 (see Figure 2). It indicates that the total financing/credit accruing to the Islamic microfinance banks (BPRS) in Indonesia is lower than the Conventional microfinance banks (BPR).

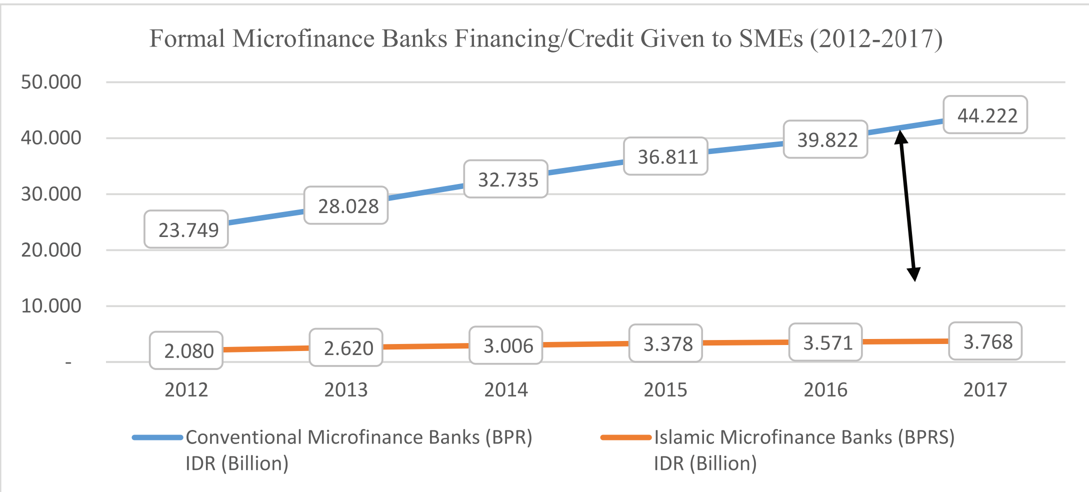

Figure 1: Formal Microfinance Banks Financing/Credit Given to SMEs (2012-2017) (Source: (Indonesia Financial Services Authority, 2018)).

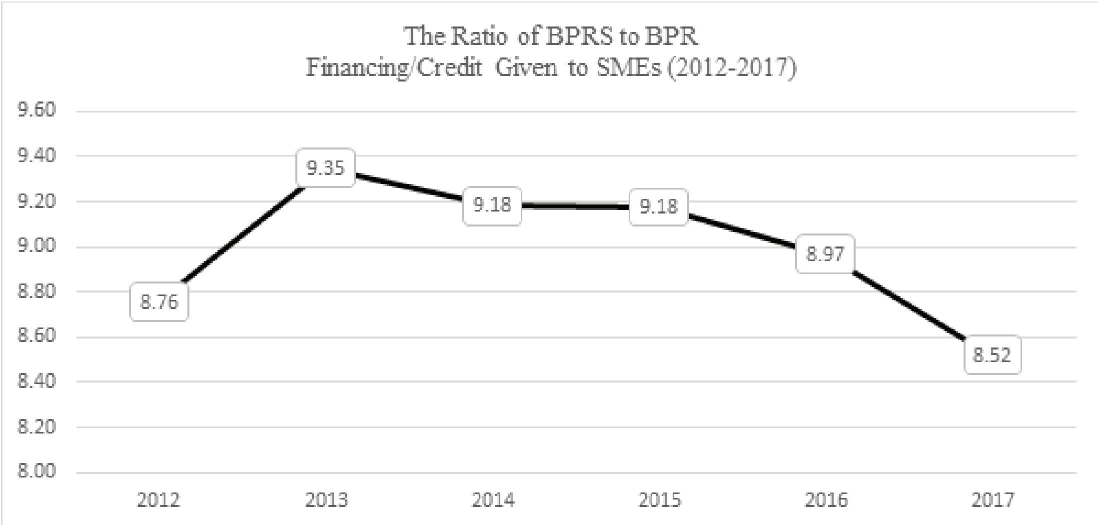

Figure 2: The Ratio of Islamic to Conventional Microfinance Banks (2012-2017) (Source: (Indonesia Financial Services Authority, 2018)).

Figure 3 shows the profitability for BPR and BPRS in Indonesia between 2012 and 2017. The profit of BPRS is 106 Million in 2012, rose to 129 Million in 2013, declined in 2014 and increased further in 2015 till 2017. However, the profit of BPRS from 4.55 % to 6.64 % of the total profit of BPR in Indonesia between 2012 and 2017 (see Figure 4.2). It indicates that the financial performance of BPRS from 2012 to 2017 is still far behind from BPR. This is supported by studies (Hamidi, 2017; Hanif et al., 2012; Wasiuzzaman & Gunasegavan, 2013) which revealed that the financial performance of conventional microfinance banks is greater than that of Islamic microfinance banks.

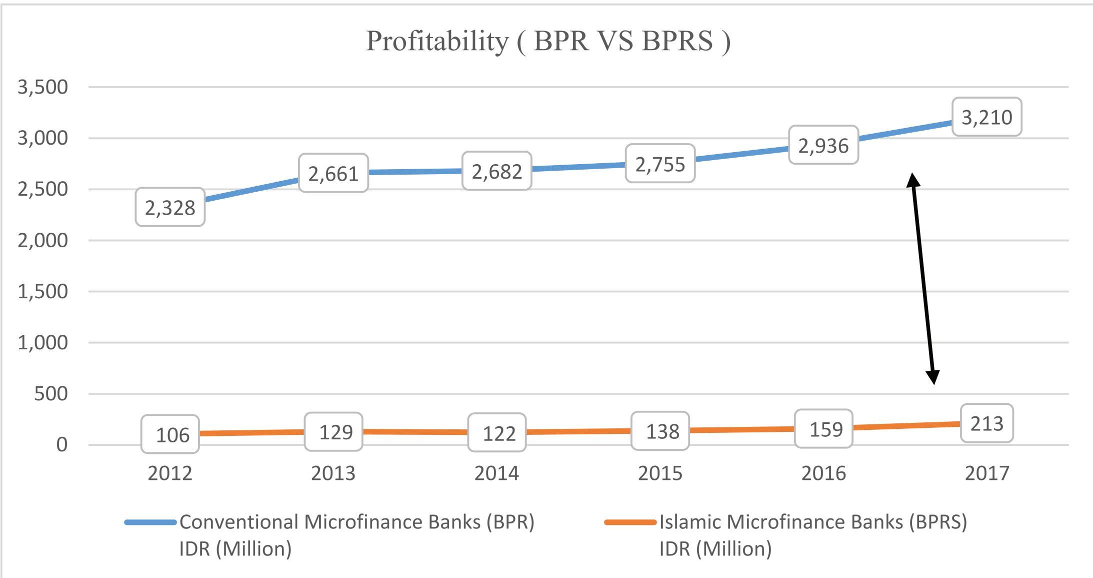

Figure 3: The Profit of Indonesian Formal Microfinance Banks (2012-2017) (Source: (Indonesia Financial Services Authority, 2018)).

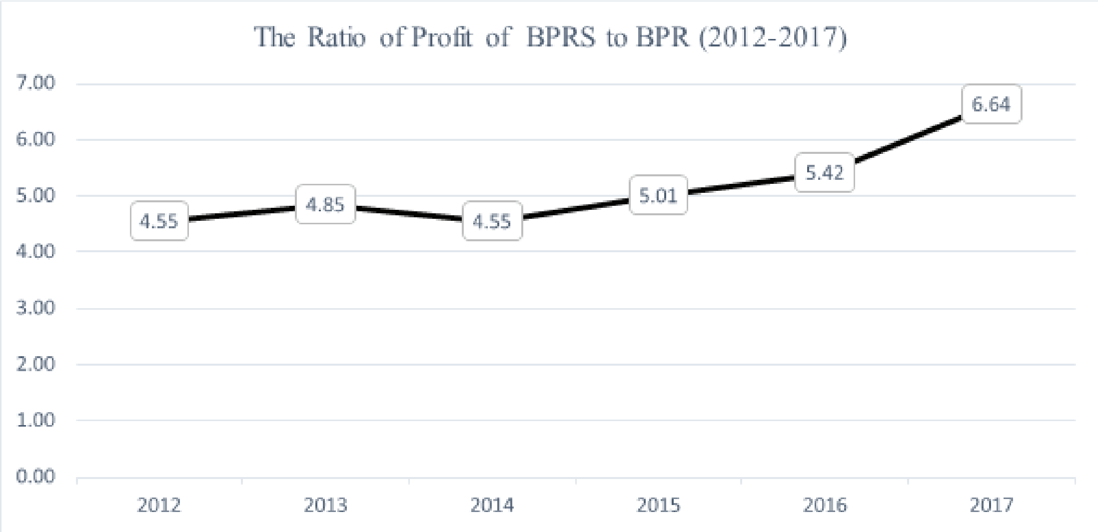

Figure 4: The Ratio of Profit of Islamic to Conventional Microfinance Banks (2012-2017) (Source: (Indonesia Financial Services Authority, 2018)).

Social performance, measured by the increase in the number of Islamic microfinance banks established is 158 in 2012, rose to 163 in 2013, stagnated in 2014, 2015, and increased further in 2016-2017 (Financial Services Authority, 2018). The number of BPRS represents approximately 10% of BPR annually (Indonesian Financial Services Authority, 2018) (see Figure 5). This result indicates that Islamic microfinance banks (BPRS) have fewer numbers when compared to the number of conventional microfinance banks (BPR) established.

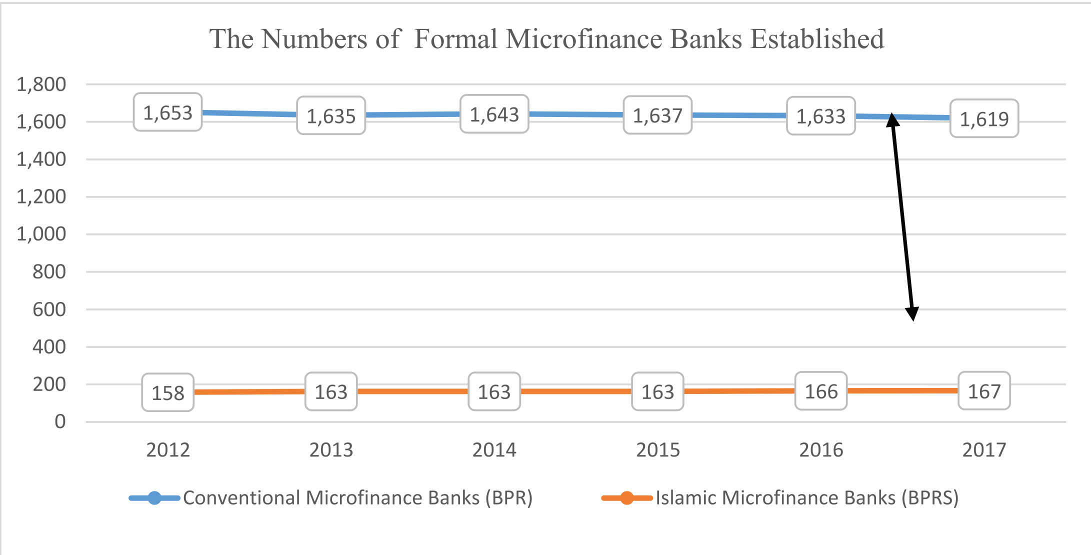

Figure 5: The Numbers of Indonesian Formal Microfinance Banks Established (2012-2017) (Source: (Indonesia Financial Services Authority, 2018)).

The other social performance is the number of formal microfinance banks customers. Figure 6 shows the difference between the number of customers by BPRS and BPR. The total customers from BPRS in 2012 are 789,923 compared to the 12,581,965 customers of BPR, in 2013 customers from BPRS is 907,755 compared to the 12,932,844 customers of BPR. It indicates that the number of BPR customers compared to BPRS customers is the largest in Indonesia between 2012 and 2017. Figure 7 shows the ratio of customers in conventional and Islamic microfinance banks. The figure shows that there is an increasing trend in the number of customers for both BPR and BPRS. Results show that in 2012, the number of customers for BPRS is 6.26% of customers of BPR. It increased to 7.02% in 2013, and increased further in 2014-2017. This shows that the number of Islamic microfinance banks (BPRS) customers is far behind conventional microfinance banks (BPR).

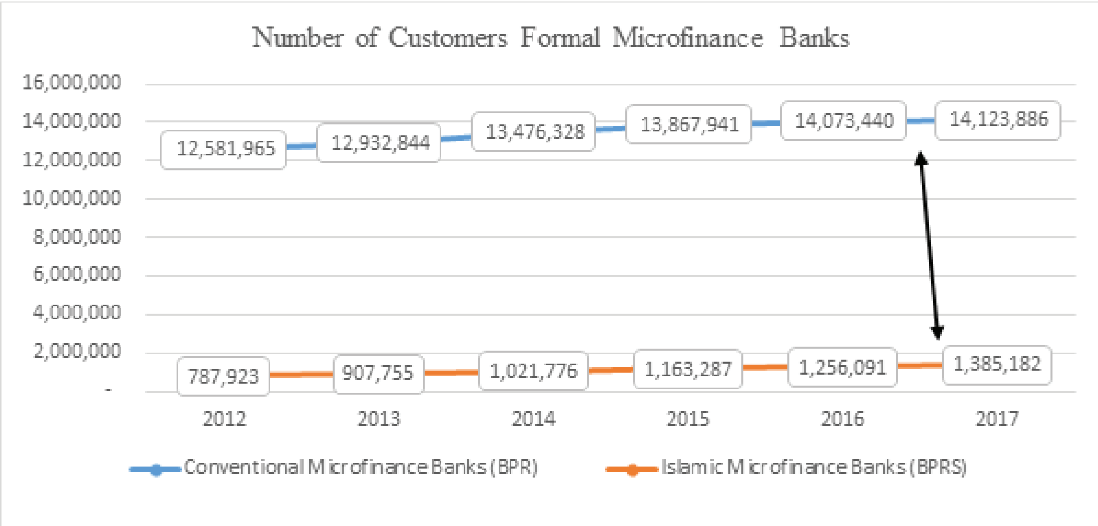

Figure 6: The Number of Customers of Indonesian Formal Microfinance Banks (2012-2017) (Source: (Indonesia Financial Services Authority, 2018; Indonesia Banking, 2018)).

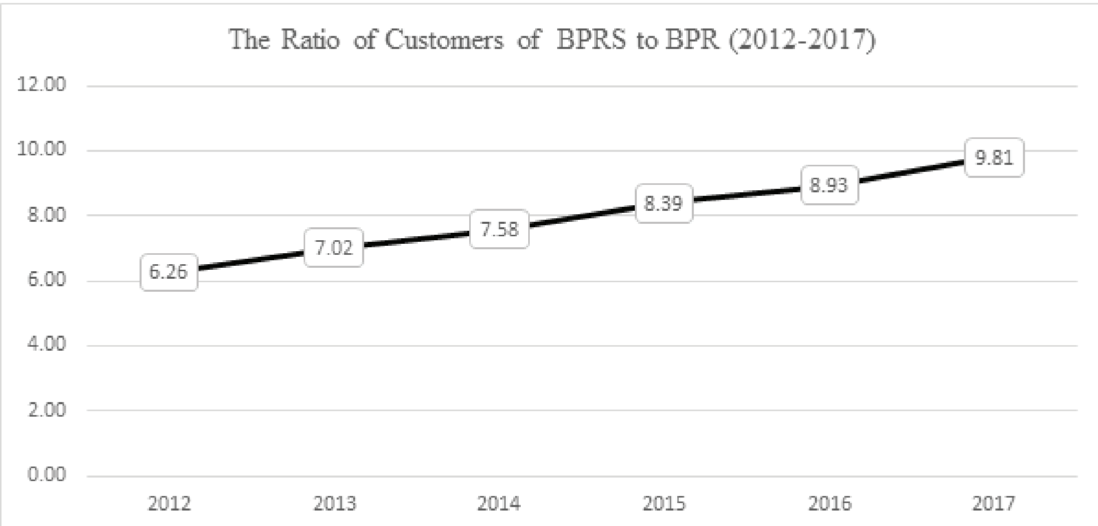

Figure 7: The Ratio of Islamic to Conventional Microfinance Banks (2012-2017) (Source: (Indonesia Financial Services Authority, 2018; Indonesia Banking, 2018)).

Based on the data described above, Islamic microfinance banks have shown poor financial and social performance. Many researchers report similar findings that showed that the profitability of BPR is higher than that of BPRS (see for example Hamidi, 2017; Hanif, Tariq, Clean, & Momeneen, 2012; Wasiuzzaman & Gunasegavan, 2013). Moreover, several findings revealed that either the financial performance or social coverage of Islamic microfinance banks remains behind that of conventional banks.

Hence, there is a need to investigate the reason for such poor performance over the years. One avenue is to focus on corporate governance and internal mechanisms of BPRS as the insights of several studies have shown that poor performance is caused by problematic corporate governance (Hermes & Hudon, 2018; Dian Masyita & Ahmed, 2013; Seibel, 2008). Moreover, the lack of corporate governance is a critical problem in Islamic banks' performance as noted by Muliaman D. Hadad, the Indonesian Service Authority Board of Commissioners, as he stated in a speech in on 10^{th} of July 2017:

> "*70% of business closures of microfinance banks are caused by poor corporate governance and service*."

Therefore, in order to improve organizational performance, especially that of the BPRS, good corporate governance is thus required. Microfinance practitioners stated good governance is of great importance because it is one of the keys to the success of both financial and social performance (Campion 1998; Rock et al. 1998; Labie 2001; CGAP 2006; Helms 2006; UN 2006; Arena, 2012; Varottil, 2012).

According to Hermes and Hudon (2018), governance refers to how rights and obligations are shared among stakeholders in an organization. This applies to who owns and manages the organism daily, and what mechanisms (internal and external) exist to ensure that stakeholder interests are safeguarded by the organization's administration. Therefore BPRS need a board of directors who are competence and experts in the Islamic financial field who can manage the organization, provide strategic direction and monitor the progress of the company with respect to the objectives set by the shareholders. Therefore, it is imperative to build the right processes, and policies within the organization, and to choose the right people to run the business. Therefore, with all these tasks and roles, determining the composition of the right board of directors in an organization should be done carefully (Niinikoski, 2018). This mean board composition in corporate governance is very important in improving performance in BPRS. As stated by Seibel (2008) who believes that if you want to improve performance in MFI you must increase competency and expertise (board composition) on the board of directors.

In addition, the BPRS needs an effective Sharia Supervisory Board (SBB). SSB as an internal governance mechanism will encourage management to be transparent and have an impact on the institution's performance (Srairi, 2015). Thus, BPRS requires not only the Board of Directors' competence and expertise, but also SSB competence and expertise. Therefore, further research investigating BPRS governance should focus on both SSB and BOD. Based on Lan's findings (2012), it was found that protecting the interests of the investing public, maintaining confidence in the company and enhancing a country's global reputation as a trusted financial center would promote transparency and accountability. The two elements (transparency and accountability) in corporate governance can ensure activities of BPRS to be objective, professional, and can protect the interests of stakeholders so that it has an impact on improving the performance of these institutions (Augustine, 2012; Goddard 2005). It is, therefore, necessary to investigate BPRS elements and corporate mechanisms.

7. Conclusion

The data showed that BPRS's financial and social performance was poor compared to BPR for the five years from 2012 to 2017. This problem must be addressed by the management and stakeholders. Increasing the effectiveness of BPRS governance can help them manage some of the challenges they faced today to improve their outreach and sustainability (Kassim, Hassan, & Nadhirah, 2018). In addition, this will help BPRS achieve the dual baseline of balancing social goals with financial goals. However, this research has several limitations. The data explain only part of the financial and social performance, as it measures performance based solely on profit, financing, a number of borrowing clients and bank growth. Further research could include more holistic performance measures as financial and social performance in Islamic microfinance banks should also include profit and loss sharing (PLS) contracts, as well as the number of loans and savings accounts, and other more relevant measures of social performance. It is also suggested that further research could investigate corporate governance mechanisms which include board composition on BOD and SSB, and elements of corporate governance, such as transparency and accountability. The findings of this research could then provide a more practical recommendation and policy input to improve the governance and performance of BPRS in Indonesia.

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