Performance of Islamic Microfinance Institutions: Accounting for Well-Being

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Abstract

Islamic micro-finance, despite being a small part of the Islamic finance industry, plays a significant role in poverty alleviation and financial inclusion activities. One of the key challenges facing Islamic micro-finance institutions (IMFIs) is the lack of measures of performance, which hinders the process of evaluating IMFIs’ performance and the dynamic growth of the micro-financing sector. Unlike the conventional financial sector, there have been few attempts to measure the performance of IMFIs. The knowledge of measures and determinants of success factors for IMFIs is limited and compounded by a lack of theoretical basis underpinning research in this area. This paper focuses on examining the performance measures of micro-financing institutions in Islamic micro-financing. The determination of IMFI success factors would assist in the external evaluation and internal improvements of IMFIs, which would contribute to a more dynamic micro-finance industry. Therefore, IMFIs should be evaluated not only on output and the outcome measures of both social and financial performance, but also the process and with a view of the entire value chain of financing, along with the internal process of fostering borrower cooperation to enable the achievement of well-being.

Keywords: Islamic Microfinance Institutions, Well-being, Social Performance

Introduction

Islamic micro-finance has experienced growth due to the increased attention of governments, central banks, and other Islamic financial institutions regarding Islamic micro finance’s role in the financial inclusion and poverty alleviation agenda (Kustin, 2014). The focus on reduction in poverty, especially among the extremely poor, has intensified, as it is one of the key measures of development (Chambers, 2006). Despite this tremendous potential, the Islamic micro-finance industry faces various challenges, as it remains a scattered industry, where supply does not meet demand (Kurstin, 2014).

One of the key challenges facing Islamic micro-finance institutions (IMFIs) is the lack of measures of performance, which hinders both the process of evaluating IMFI’s performance and the dynamic growth of the micro-financing sector. Unlike in the conventional financial sector, there is a lack of measurement to evaluate IMFIs. There are questions concerning the measures that should be used to evaluate performance and successes of IMFIs.

Questions of measures need to be addressed urgently as IMFIs bear the Islamic socio-economic responsibilities of social justice, inclusion, and social and financial equity. To such extents, measures of performance will allow IMFI managers to structure their institutional activities and processes for the achievement of those objectives of Islamic micro financing. Measures of performance of IMFIs are also required so that donors and funding organizations are able to assess and ascertain the performance of IMFIs in order to evaluate their funding decisions.
Given such socio-economic responsibilities and interests, the measures of performance suitable for and applicable to IMFIs are important. The fact that IMFIs could assist in the development of a holistic and comprehensive Islamic financial eco-system. Improving on the Islamic micro-finance sector would further contribute to a shared prosperity. It is generally believed that non-bank financial sectors are more effective in ensuring and enhancing shared prosperity through the financing of the financially excluded. In this sense therefore, non-bank financial institutions (NBFIIs) are more capable of contributing to a more diverse and stable financial system (World Bank and Islamic Development Bank Report, 2016). Says the Report (p. 12):

A diverse financial sector also increases the stability of the financial system. NBFIIs can serve as backup institutions that may help stabilize the financial sector when negative shocks adversely affect the dominant financial institutions, notably banks. Moreover, a well-developed NBFI sector can provide services to those segments of the society that are not adequately served by the formal banking sector. In this way, NBFIIs have great potential to promote shared prosperity more effectively.

This paper is structured as follows. The next section presents basic principles of Islamic finance and the nature of Islamic micro-finance, followed by a section on the conventional measures of performance used in practice, and the suitability of those measures for IMFIs. The subsequent section provides an assessment of those measures to measure IMFI performance. Finally, a discussion of the way forward in providing a suitable holistic assessment of IMFIs comes before the conclusion of this paper.

The Principles of Islamic Finance

Contemporary Islamic finance is the latest evolution of Islamic engagement with economics (Kurtis, 2014). The Islamic requirement of a holistic approach to life, with a balance of material and spiritual needs, has major implications for economics and finance (Chapra, 1992; Kamla, 2009). In Islam, morality and ethics supersedes financial and economic considerations. In addition, the principles of Islamic finance involve the use of cooperation and socio-economic justice to achieve well-being (Dsouli et al, 2012: p. 1061). We may briefly sum up the following:

The Islamic perspective to business acknowledges that life is temporary. The goals of Islam are not materialistic (Rice, 1999) but based on well-being, co-operation, socio-economic justice and balance of spiritual and human needs (Chapra, 1992).

Muslims live by the tawhidic principles in life. Tawhid in Islam dictates the overarching concept of the Unity of God. Islamic economics with tawhidic principles therefore, is grounded on “the holistic approach to knowledge, society and life represent a significant departure from capitalism and liberal market economics” (Kamla, 2009: p. 924; Choudhury, 1986). In other words, Islamic finance operations are not limited simply to the provision of Syariah compliant products and services, and the avoidance of gharar or interest, but they should also be tailored to the achievement of “uplifting of global well-being” (Choudhury, 2011, p. 276). This means that in their operations, Islamic finance institutions ensure that the spirit and objectives of the Syariah to contribute to better socio-economic cooperation and social well-being are adhered to, rather than following the traditional economic approach of the maximization of individual self-interest (Choudhury, 2011; 2014). However, despite these normative theoretical arguments, contemporary Islamic finance in practice has been heavily criticized as focusing mainly on the legalistic compliance of products and services with Syariah principles, rather than on achieving the spirit and underpinning values of Islamic finance.

This divide between Islamic spirit and practice was discussed by several authors (e.g. Choudhury, 2011; 2014; Abdul Rahim, 2010; Dusuki, 2008; Hossain & Mohammad, 2019). Choudhury et al. (2019) who highlighted the lack of the profit-sharing form of financing, despite the phenomenal growth of the Islamic banking industry. Hence, the charge is presented that while there is significant difference between Islamic banking and conventional banks, the main difference is the facade (Kuran, 2004; Kamla, 2009). Kamla (2009, pg. 926) expanded on this as follows:

Like conventional banks, Islamic banks are
contributing to the rise in the debt culture without any significant focus on or prioritization of moral, social or ethical dimensions as emphasized in Islamic teachings…

Moreover, Islamic banking has not addressed the financing needs of the poor, which was argued to be due to the risk and the lack of profitability involved in this sector, along with the lack of knowledge and expertise in dealing with micro-financing activities, and the assumption that the condition of the poor is due to their lack of skills (Global Islamic Finance Report, 2012). Consequently, the Islamic micro-finance industry remains in its infancy, and has not become a significant component of Islamic finance, despite the demands for such services. Nevertheless, Islamic micro-financing has achieved growth in recent years, with an increased number of institutions providing Islamic micro financing. It is estimated that approximately 300 IMFs operate across 32 countries (Global Islamic Finance Report, 2012). In South and South East Asia, only Indonesia has a micro-finance industry with a large number of Islamic micro-finance cooperatives (IRTI Social Finance Report, 2014). Malaysia, despite being the financial centre of Islamic finance in Asia, does not have a significant Islamic micro-finance sector, as it contains a limited number of IMFs. Among the prominent providers of Islamic micro-finance in Malaysia are Bank Rakyat, a developmental financial institution, and Amanah Ikhtiar Malaysia, an NGO-based micro finance institution.

The Nature of IMFs

Islamic micro-finance institutions seek to address the needs of those who are financially excluded through the provision of products and services that conform to Islamic financing principles (Khan, 2008; Abdul Rahim, 2010). In the literature, the role and function of IMFI are seen to be similar to those of conventional MFIs in terms of poverty alleviation and improvement of the quality of life of their clients, including their socio-political empowerment (Abbas & Shirazi, 2015). The key difference between IMFs and conventional micro financing institutions is the way IMFs support the poverty alleviation and socio-economic development of their clients, which is conducted through the provision of products and services that conform to the Syariah concept and principles (Farook, 2008; Ahmed, 2002; Dusuki, 2008; Obaidullah, 2008).

Thus, IMFs eliminate interest and significant uncertainty (gharar) from their financing, and are supposed to be more likely to use a profit and risk sharing approach. Islamic micro-finance institutions can also integrate other forms of social finance, i.e. Zakat, wakf, and other charity, with micro-financing to provide financial services and social programmes (Quraissy, 2017; Obaidullah, 2007; Obaidullah & Khan, 2008). Therefore, the key aim of IMFs is not only the provision of Syariah compliance products and services – or to transform the poor from people who are entitled to receive Zakat (Mustahiq) to people who are required to pay Zakat (Muzakki) within a specific time period (IRTI Islamic Social Finance Report, 2014) – but also to ensure cohesive social action for economic and social well-being. Hence, it could be said that Islamic micro-financing principles lie in the stake-holding model, which requires “a well-being model of distribution of resources and ownership towards enhancing social empowerment, entitlement, sustainability and moral consciousness” (Choudhury et al., 2019, p. 318). This means that IMFs’ practices and operations should uphold the primacy of Syariah (the objective of Syariah) as the overriding principle that governs their operations, policies and processes.

Measures of Conventional MFI Performance

Measures Used in Practice: Institutional Ratings

Several institutional ratings of MFI sustainability have been developed by outside organizations such as Micro Credit Rating international and MicroFinanza Rating (Ledgerwood et al., 2013). These ratings provide the perception of MFIs’ long-term sustainability and creditworthiness. Thus, the focus of evaluation is areas pertaining to, among others, MFI risks, governance, market position, good financial practices, client protection, and the alignment of decisions with the organizational objective (Earne & Sherk, 2013, p. 408). However, the evaluation of MFIs is based on the factors that are seen to influence MFIs’ long-term survival; as noted by Earne and Sherk (2013, p. 408), the measures are similar to those of any other financial institutions;
The methodology applied to a micro-finance credit rating is the same as that applied to any financial institution – its purpose is primarily to make an opinion regarding the institution’s default risk at a given time.

Micro-finance institutions should not be evaluated as if they are any other financial institutions, as the mission of MFIs is not only financial sustainability, but also a social mission. It might be problematic for IMFI funders, such as governmental organizations and managers of other forms of Islamic funds, such as wakf or Zakat, to wholly use the conventional rating, as IMFIs are built on different underlying principles. While not negating the importance of institutional sustainability, the performance indices need to be adapted to the specific context of IMFIs, as IMFIs should operate according to a mission to achieve social justice and well-being.

Theoretical Measures of Conventional Microfinancing Performance

Even though there is a considerable amount of literature around micro-finance, knowledge of measures for micro-finance institutions is relatively limited (Mersland et al., 2011; Pinz & Helming, 2014). The existing academic literature does not provide a strong theoretical base for the measurement of performance, clearly illustrating the lack of theoretical underpinning of organizational success measures, as they are mainly problem-driven, rather than theory-driven (Pinz & Helming, 2014).

Most of the relevant studies examined the double bottom line measures of success, in terms of measuring financial and social performance. Increasingly diverse financial ratios are used, along with social performance (in terms of the breadth and depth of outreach, among other factors) (Siti Nazariah & Siti-Nabiha, 2011). Pinz and Helming (2014) reviewed the various dominant theories of success that are used in academic research, which are: (i) the goal attainment theory (success based on achieving goals); (ii) the systems approach using the resource dependence theory, which views the input or ability to acquire resources as being equally as important as the output; (iii) the internal congruence model (focusing on transformation processes within the organization, such as linking success with efficiency and avoiding wastage); (iv) the contingency theory, which focuses on organizational adaption to the changing environment; and (v) the strategic constituency approach, which approaches success as the degree to which an organization meets its stakeholders’ demands.

There are also those who have argued that micro-finance should be measured in three dimensions: financial sustainability, outreach and impact (see Mersland and Strom, 2009; Zeller, 2003), while the UNDP categorized performance into five key areas. These key areas can be categorized as concerning either social or financial performance as follows.

Social Performance constitutes:
(i) Outreach and costs/worth to clients
(ii) Client poverty level

Financial Performance constitutes:
(iii) Collection performance/portfolio quality
(iv) Financial sustainability (profitability)
(v) Efficiency/productivity

As shown in Table 1, the measures of financial performance consist of direct measures, such as profitability and efficiency, as well as those that contribute to financial performance, such as productivity. Ledgerwood’s (1999) dimensions of financial performance are among the widely acknowledged measures of the financial success of MFIs. As listed in Table 1, these relevant financial measures for MFIs are (i) profitability, return from assets and equity invested; (ii) portfolio quality, which measures whether MFIs have sound business strategy; (iii) productivity; (iv) financial viability; and (vi) sustainability, which measures MFIs’ ability to cover their costs with their revenues, and their dependence on subsidies.

Nevertheless, the end objective of MFIs is not financial performance, yet financial performance is the means to achieve the ultimate aim, which is achieving the social mission. However, it is difficult to measure social performance, as this form of performance is difficult to quantify (Siti-Nabiha et al., 2018).
### Table 1: Measures of Performance for Conventional MFIs

<table>
<thead>
<tr>
<th>Category</th>
<th>Measure</th>
</tr>
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<tbody>
<tr>
<td><strong>Social Performance</strong></td>
<td></td>
</tr>
<tr>
<td>Outreach and costs, and worth to</td>
<td>Breadth of Outreach • Number of active clients or accounts served • Annual rate of change of active clients (Social performance)</td>
</tr>
<tr>
<td>clients</td>
<td>Depth of Outreach • Average loan size</td>
</tr>
<tr>
<td></td>
<td>Scope of Outreach • Number of financial services offered • Number of types of financing</td>
</tr>
<tr>
<td></td>
<td>Length of Outreach • Time frame in which financial services are provided</td>
</tr>
<tr>
<td></td>
<td>Costs to Clients • Loan charges, transaction costs (documentation, transportation, etc.)</td>
</tr>
<tr>
<td></td>
<td>Worth to Clients • Willingness to pay for services</td>
</tr>
<tr>
<td></td>
<td>Average outstanding balance per client or account</td>
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<tr>
<td></td>
<td>Client poverty level (Social performance)</td>
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<tr>
<td><strong>Financial Performance</strong></td>
<td></td>
</tr>
<tr>
<td>Collection performance (Portfolios quality)</td>
<td>Current recovery rates (CRS) together with annual loan-loss rates (ALL)</td>
</tr>
<tr>
<td></td>
<td>Repayment rate</td>
</tr>
<tr>
<td></td>
<td>Portfolio risk</td>
</tr>
<tr>
<td></td>
<td>Loan-loss ratio</td>
</tr>
<tr>
<td>Financial sustainability (Profitability)</td>
<td>For Commercial Institutions • Return on Assets or Return on Equity</td>
</tr>
<tr>
<td></td>
<td>For Subordinated Institutions • Operational (financial) self-sufficiency or</td>
</tr>
<tr>
<td></td>
<td>• Adjusted Return on Assets (AROA) or</td>
</tr>
<tr>
<td></td>
<td>• Initial Dependence Index (IDD)</td>
</tr>
<tr>
<td>Efficiency/Productivity</td>
<td>Efficiency • Operating Expense Ratio (OSR) or Cost per Client</td>
</tr>
<tr>
<td></td>
<td>Productivity • Number of active borrowers/clients per credit officer</td>
</tr>
<tr>
<td></td>
<td>Portfolio and outstanding per credit service officer</td>
</tr>
</tbody>
</table>


The measures of performance of MFIs in academic literature can be categorized into measures of institutional performance, as well as measures of the impact of micro-financing on clients. Most of the measures of impact are relatively similar to those used in conventional micro-finance literature, such as the clients’ quality of life, and their social and physical capital (Ahmad, Adeyemi & Khan, 2017; Hassan, 2014; Adnan & Ajija, 2015; Abdullah, Amin & Ab Rahman, 2017).

The main focus is still economic and social impact. For example, Abdullah et al. (2017) compared conventional versus Islamic micro-finance bank impacts on household income, productivity and the spending of clients (Abdulllah et al., 2017). In a Malaysian study, Ismail (2001) examined the impact of MFIs on clients in the following elements: monthly income; women’s empowerment, including their role in family decision making and control over the use of the family income; increases in self-esteem; and higher social status (Ismail, 2001).

Along the same lines, Hassan and Saleem (2017) examined the impact of Islamic micro-financing loans on income, assets, children’s education, the perception of health, and family harmony. Hassan’s (2014) study highlighted the impact not only on economic improvement, but also on environmental awareness. Several studies have attempted to integrate Islamic principles into their assessment of the impact of MFIs (e.g. Alam, Hassan and Said, 2015).

Alam et al. (2015) measured the impact of IMF based on the five principles of Al-Durriyyat. These five basic principles and the measures used by the researchers are as follows: (i) religion (ad-din) – changes in religious practices, such as increased commitment to prayers at the mosque; (ii) respect for human life – changes in such indicators as family living standards, health conditions, social participation (good relationships with neighbors and participation in various associations), and social contribution (gotong royong – cleaning the housing area, assisting their neighbors in certain ceremonies); (iii) intellect – changes in the level of knowledge of clients and their families, their
business skills and experience; (iv) lineage/honour – changes in lineage/honour among family members, and society’s perception towards the client’s family; (v) wealth – changes in monthly household income and ownership of assets.

The assessments of achievement used in the studies are similar to the conventional measures, and are relevant to IMFI. However, other measures are too simplistic, and are mainly measuring the outcome. Most of the studies did not focus on process-based measures, nor on one of the key elements of IMFI, which is inculcating cooperation and unified social action for well-being.

The Way Forward: A Suitable Assessment of IMFI’s Performance

Outcome Measures and Institutional Process Measures

It has been suggested that IMFI should be evaluated not only based on the output/outcome, but also on the process. For the outcome measures, a holistic improvement of clients’ well-being, a key component of social developmental goals, is needed. Poverty has a multidimensional character (Chambers, 2006; Agarwala et al., 2014). The measurement of the effects of Islamic micro-finance products and services on clients should therefore be more holistic, as this encompasses both subjective and objective measures. For this reason, broader client-related measures should be used, not only focusing on income-level indicators, but on wider client well-being or quality of life, which relates to the absence of poverty. As Ludi and Bird (2007, p. 2) noted:

well-being and a good life included material well-being (having enough), bodily well-being (being and appearing well), many aspects of social well-being (e.g. being able to settle children, being able to help others), security, and freedom of choice and action (Narayan et al., 1999).

Besides assessing IMFI by the outcomes of activities, and whether the objectives are achieved, the process of achieving those objectives needs to be evaluated. Process measures relate to the resources and inputs that IMFI possess, such as access to financing, infrastructure development and human resources. Islamic micro-finance institution efficiency measures, which measure the rate at which MFIs obtain revenue to cover expenses, are also crucial. The efficiency measures include Operating Efficiency Ratio, costs per active client, clients per financing officer, and active clients per staff member. The third category of determinants of success concerns adaptation to the environment and compliance with stakeholders’ requirements. However, among the process measures that are overlooked but crucial in the success of IMFI is their role in building cooperation and alliance among borrowers, as will be discussed next.

Measuring IMFI’s Efforts in Fostering Cooperation and Achieving Well-Being Objectives

Measuring the role of IMFI in facilitating cooperation between micro-entrepreneurs is an important component that has not been given significant attention in the performance measurement of IMFI. Inculcating client social capital results in intra- and intergroup cohesiveness and trust among members, and should contribute to improved cooperation and alliance among the clients (Dsoiul et al., 2012). However, the implementation of group financing and repayment has been criticized as not being deployed to build cooperation, and acting more as a pressure mechanism for borrowers to pay for financing. Thus, if repayment is the main objective, it is not surprising that the IMFI officers would focus on the client group meeting just to ensure payment, which is used to create peer pressure, rather than building cooperation among clients.

As mentioned, assessing IMFI should be based on the monotheism approach (Tawhidi Law), which promulgates the unity of knowledge with the objective of socio-economic cooperation, and cohesive actions to achieve socio-economic justice and well-being (Choudhury, 2014; Tisdell & Ahmad, 2018). As the basic underlying principles of Islamic micro-finance should concern achieving well-being through cooperation, hence, the IMFI should promote grassroots participatory socio-economic transformation (Choudhury et al., 2008).

Besides reflecting selflessness and cooperation, this participatory transformation indicates
ethical consciousness among grassroots micro-entrepreneurs, which fosters meaningful relationships between community members, enhancing social well-being. Therefore, IMFIs should be evaluated not only on the output and outcome measures of both social and financial performance, but also by examining the process and viewing the entire value chain of financing, along with the internal process of fostering cooperation to enable the achievement of well-being.

Obaidullah and Mohamed-Saleem (2008) conducted an interesting study which sought to inculcate cooperation and a more holistic view of IMFI financing, and would link the nature of financing products for poor farmers with the issues faced by them. The farmers obtained financing at the beginning of the planting season from the middleman/financier, but at high interest rates. However, these middlemen/financial/millers artificially depressed the price in the harvesting season – at the time of repayment of loans. To resolve the issue, during the first stage of their intervention, IMFIs not only provided benevolent loans for the poor farmers, but assisted them in forming farmer cooperatives to gain more leverage and protect their interests.

In the second stage, an IMFI formed a Mudharabah partnership, equitably sharing with the paddy millers, which restored the true function of millers in the market. This also addressed the needs of IMFIs to make some profit, so as to ensure the sustainability of the model. The efforts led to the IMFIs prioritizing needs, and being cognizant of barriers faced by the poor farmers, and consequently this uplifted their socio-economic status (Obaidullah & Mohamed-Saleem, 2008), while at the same time addressing the needs of the millers/middlemen and ensuring the sustainability of the IMFI.

Obaidullah and Mohamed-Saleem’s (2008) study illustrated the need for creativity and the accepting of a holistic view by the IMFI officers, as their job is not only provision of financing for the borrower, but addressing the issues facing the entire ecosystem – the issues facing the farmers, middlemen and millers. Their study showed clearly the need for a more holistic approach that examines the entire value chain in order for the IMFIs activated to have significant impact, rather than solely focusing on the development of Islamic micro-financing products. Consequently, the measures of IMFIs should incorporate the process and activities undertaken to achieve the outcome. This means building cooperation among borrowers not only through participation in group funding, which results in peer pressure, but also, and more importantly, assisting them to work and cooperate together to address the problematic issues faced by them.

Another case study that advocates the customization of the internal process, such as the creativity of IMFI officers in establishing cooperation, is described by Obaidullah (2015). For the micro-financing of agriculture and livestock micro-entrepreneurs, creativity in formulating alternative modes and models of Islamic micro-financing is necessary, as mentioned by Obaidullah (2015, p. 143):

"... Agriculture is highly dependent on the local conditions: availability of and access to good land, soil, water, climate and market. Further, crops vary widely in terms of duration, perishability, and seasonality. Therefore, provision of micro-finance requires different products, diverse and tailor-made approaches. Recent best practices in conventional micro-finance advocate “local” interventions based on a value chain approach…”

In explaining the three successful efforts in establishing cooperation carried out in Indonesia, Pakistan and Sudan, Obaidullah highlighted that the key to success is holistic intervention, involving financing of the entire value chain. He also discussed how the IMFI overcame the initial challenges faced, such as the micro-entrepreneurs’ character deficiencies, their lack of financial acumen, and lack of enabling environment, among others; and addressed how the IMFI sought to unleash borrowers’ potential and promote the social well-being of the smallholder farmers involved. It is worth mentioning that the holistic intervention efforts not only benefited the poor farmers, but also the university graduates.

It is clear that the holistic participation of the IMFI in rendering their non-financial services improved the well-being of farmers, and built their human capabilities, allowing them to become technically high-skilled farmers, and helped the country to fight against the food
insecurity issue (Obaidullah, 2015). This indicates that the IMFI social performance conformed to the monotheism approach (Tawhidī Law), whereby sustainability and human well-being is achieved.

This means that the IMFI officers’ roles are crucial in the success of IMFIs. As illustrated by Obaidullah and Mohamed-Saleen (2008), the process of customization to account for local IMFI recipients’ needs leads to creative solutions, requiring systemic, organized field trips by IMFI officers to the IMFI recipients’ localities. Through close communication and immersion within the recipients’ communities, recurring issues can be solved, hence promoting clients’ well-being.

Such actions, maintaining close contact with customers and communities, require investment into human and financial resources. Therefore, there is a need to address the issue of balancing operating efficiency, i.e. the ratio of IMFI officers/server per client, with the additional costs incurred in building relationships with customers, so that the provision of services and products is aligned with their specific context, and needs can be met. Other crucial processes and policy that must be assessed include IMFI investment in IMFI officers’ capacity building and the organizational recruitment criteria of IMFI officers, who will serve clients based on their suitability for the position. The IMFI officers need to possess the ability to engage with IMFI clients and their community.

The aforementioned studies clearly highlight that measuring the success of IMFIs needs to be based on holistic assessment, regarding their financial and social performance, and also the activities involved and policies implemented to address the issues of poverty alleviation and financial inclusion, leading to community socio-economic development. Thus, a significant measure of IMFIs is their role in promoting cooperation, and a holistic value chain approach is needed. It should be noted that these process-based measures might be difficult to quantify and measure, similar to those of social performance, such as improvement in social capital. Consequently, qualitative measures and subjective judgement might be required in assessing Islamic micro-finance institutions.

Conclusion

As mentioned, one of the significant challenges of Islamic micro-financing is the determination of measures of performance which are applicable and relevant, and aligned to the objective of Syariah, rather than only focusing on compliance with legalistic principles of Syariah. Generally, attempts to incorporate a social well-being element in the performance measurements of IMFI have never been fully explored in the literature. Most of the measures used are similar, with no significant difference from conventional micro-finance institutions, despite the fact that IMFIs’ focus and objectives are broader.

It is therefore argued in this paper that IMFIs should be assessed not only on their financial and social performance, but also using process-based measures, i.e. their activities and processes used to achieve well-being. The entire value chain of financing and the internal process of fostering cooperation to enable the achievement of well-being are both crucial, and need to be assessed. Moreover, collaboration process establishment requires exceedingly creative IMFI officers to be serving clients.

In conclusion, the IMFI performance aspect should include the examination of its entire value chain of financing, and the process of building cooperation and trust within the community – in particular the process of establishing cooperation to promote well-being. Thus, future research should examine in detail both the quantitative and qualitative criteria of measures, incorporating the views of Muslim scholars together with the IMFIs’ practitioners and experts.

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