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Efficiency and Effectiveness of Islamic Microfinance toward Poverty Alleviation in Indonesia: Insights from Scholars and Experts

Arif Rahman Hakim[1], Rossazana Ab Rahim[2]

[1]Universitas Sebelas Maret, Faculty of Economics and Business, Surakarta, Indonesia,
[2]Universiti Malaysia Sarawak, Faculty of Economics and Business, Kota Samarahan, Sarawak, Malaysia

Corresponding Author Email: arhakim@staff.uns.ac.id

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Abstract

This study examines the perspectives of experts and Muslim scholars on the efficiency and effectiveness of Islamic microfinance in alleviating poverty in Indonesia. Utilizing a qualitative approach, in-depth interviews were conducted with various scholars and experts in Indonesia. The data were analyzed using NVivo, a computer-assisted qualitative data analysis software. The research delves into the multifaceted nature of Islamic microfinance, which integrates profit-oriented goals with a fundamental social mission based on Islamic economic principles. It emphasizes prioritizing Islamic microfinance institutions' social mission and achieving financial sustainability. The study highlights the critical role of financial efficiency in maximizing profits and fostering innovation within Islamic microfinance. Moreover, it advocates redefining conventional efficiency metrics to align with Islamic economic principles. Additionally, the study discusses incorporating cash waqf instruments in fundraising to achieve financial and social efficiency, stressing the importance of professional management. Social efficiency is realized through profit-loss-sharing financing, while the effectiveness of poverty alleviation efforts relies on the competency and integrity of human resources within Islamic microfinance institutions. Ultimately, the study illuminates the complex interplay between financial sustainability and societal impact, underscoring the crucial role of institutional ownership in shaping priorities within Islamic microfinance

Keywords: Efficiency, Effectiveness, Islamic Microfinance, Poverty Alleviation, Indonesia

Introduction

Islamic microfinance operates at the intersection of two expanding sectors: microfinance and Islamic finance (Ben & Abdelkader, 2013; El-Zoghbi, and Tarazi, 2013). Microfinance facilitates financial access for the underprivileged and marginalized, while Islamic financial practices adhere to principles of socio-economic justice. This form of microfinance enhances community well-being by providing Sharia-compliant financing, specifically targeting the impoverished, financially excluded individuals, and micro, small, and medium enterprises (MSMEs) (Al-Omar & Haq, 1996; Wajdi Dusuki, 2008). Its primary goal is to achieve *Maqasid* *al-Sharıah* (the higher objectives of Islamic law), notably by advancing the interests of humanity in this world and the hereafter, fostering a just, equitable, and harmonious society (Dusuki; & Bouheraoua;, 2005). Consequently, Islamic microfinance institutions (IMFIs) aim not only to avoid *riba* (interest) but also to promote social justice and welfare (Ayub;, 2007; Iqbal & Mirakhor, 2017; Siddiqi, 2006; Tisdell & Ahmad, 2018)

Islamic Microfinance Institutions (IMFIs) play a crucial role in addressing the limited engagement of Islamic commercial banks in microfinance and advancing socio-economic justice as advocated in Islam. To fill this gap, alternative financial entities such as Islamic microfinance banks (IMFB) or Islamic Rural Banks (IRB), known locally as *Bank Pembiayaan Rakyat Syariah* (BPRS) under Bank Central of Indonesia Regulation No. 10 of 1998, were established in Indonesia. This initiative emerged from concerns among Indonesian Muslim economists regarding the perceived failure of Islamic banks to fulfil their mandate of fostering socio-economic justice. Consequently, a necessity arose to establish financial institutions that could extend financing to underserved groups, aiming to mitigate societal inequalities (Sakai, 2014). BPRS were consequently instituted in Indonesia for this purpose, serving as formal microfinance institutions operating following Sharia principles, extending credit to impoverished, low-income demographics, and MSMEs across rural and urban sectors (Akbar & Nabiha, 2019; Handayani et al., 2018; Nugroho et al., 2018). Islamic Rural Banks, a subset of IMFIs, which play a unique and vital role in supporting small businesses in Indonesia (Trinugroho et al., 2018). Interestingly, almost 99% of businesses in Indonesia are classified as micro and small enterprises, yet they contribute 42% to the GDP (Shaban et al., 2014).

IMFIs encounter a parallel challenge to Islamic banking concerning performance evaluation. Presently, their performance is predominantly appraised using conventional methods, often overlooking the holistic objectives of Sharia (Alam et al., 2015; Hartono & Sobari, 2017). Although microfinance fosters financial inclusion and poverty alleviation, IMFIs' performance metrics have primarily been commercially oriented, raising concerns about potential mission drift (Mader & Sabrow, 2019). Hence, a more appropriate and comprehensive performance assessment framework aligned with the objectives and missions of IMFIs is imperative to foster the growth of the Islamic microfinance banking sector and safeguard it against straying from its core mission (Alam et al., 2015; Mustafa & Saat, 2013). Such metrics should be tailored to the specific circumstances of IMFIs, ensuring the realization of Sharia's objectives. Previous research on the efficiency and effectiveness of Islamic Rural Banks on poverty alleviation in Indonesia is still limited, with most studies focusing primarily on the performance of these banks (Trinugroho et al., 2017) explored the role of religiosity in the performance of Islamic rural banks. In a subsequent study, (Trinugroho et al., 2018) investigated the determinants of margins for Islamic rural banks in Indonesia, focusing on competition, revenue diversification, and provincial-level economic growth. (Wasiaturrahma et al., 2020) found that the overall efficiency related to the production and intermediation of Islamic Rural Banks is slightly higher compared to conventional Rural Banks. Additionally, (Risfandy & Pratiwi, 2022) examined the negative impact of the COVID-19 pandemic on the profitability of Islamic rural banks serving niche markets.

Indeed, a notable lack of understanding regarding suitable performance metrics for IMFI is evident in both empirical literature and practical contexts. Therefore, this study objectives:

- to investigate the efficiency and effectiveness of Islamic Rural Banks from the standpoint of expert scholars
- to examine the metrics utilized for evaluating performance, particularly concerning poverty alleviation.

To achieve this objective, interviews were conducted with experts and Muslim scholars. This research contributes to the current literature by offering insights into performance evaluation metrics and the effectiveness of Islamic Microfinance Institutions (IMFIs) in combating poverty in Indonesia.

Literature Review

Islamic finance, including Islamic microfinance, is founded upon the pursuit of well-being as defined by the *Maqasid Shariah* (Mirza Vejzagic; & Smolo, 2011). These principles encompass all standards, values, and guidance derived from divine revelation, guiding individuals toward success in both worldly and spiritual realms (Ashur & El-Mesawi, 2006; Kamali, 2017). This implies that adherence to the *Maqasid Shariah* for Islamic financial institutions should go beyond mere compliance with legalistic requirements in their financial operations. Instead, it should foster a commitment to Islamic values and drive their efforts towards enhancing the well-being of individuals and society (Akram Laldin & Furqani, 2013).

According to (Hassan et al., 2021), the primary goal of Islamic social finance is to alleviate poverty and contribute to societal well-being. In this context, Islamic Rural Banks (IRB) play a pivotal role in societal advancement by providing services that enhance societal welfare (Saoqi, 2017). At the micro or individual level, adherence to the *Maqasid Shariah* requires IMFIs to conduct their financial operations based on principles of justice, equitable treatment, mutual consent, avoidance of exploitation and unfair practices, and promotion of fair business dealings (Mirza Vejzagic; & Smolo, 2011). Furthermore, they should integrate the *Maqasid* into their internal processes, including establishing objectives and policies (Akram Laldin & Furqani, 2013)

In this study, “effectiveness” is how an intervention accomplishes its intended goal. A comprehensive evaluation of efficacy investigates the entire intervention procedure: gathering inputs, creating the required tasks, generating output, and realising the intended results. Additionally, microfinance components may interact through inverse linkages (activities, outputs, and outcomes can affect inputs). For example, loanable fund availability (one input) for the following cycle of operations can be established by examining outputs (the quantity of savings accounts and the creation of saving portfolios). Environmental considerations, which include the legal system, geography, population, and infrastructure, also affect intervention components (inputs, activities, outputs, and outcomes and their interactions) (Nghiem, 2011).

Presently, microfinance institutions encounter two competing objectives: advancing the welfare of impoverished individuals and seeking profitability (Kaur, 2016). This dilemma creates a trade-off between extending services to the poor and achieving cost efficiency. Consequently, many MFIs prioritize financial efficiency over social impact (Abate et al., 2014). Despite the distinct foundations of Islamic economics and finance, the performance metrics applied to IMFIs in empirical studies closely resemble those used for conventional institutions.

These metrics primarily focus on commercial performance, aiming to ensure institutional sustainability by maximizing profit generation. Profit serves as a crucial target for maintaining operations and facilitating the growth and development of both IMFIs and conventional microfinance institutions (Tamanni & Haji Besar, 2019). However, adopting financial metrics may have a limited impact on IMFIs if they strongly prioritize social values within the organization, as evidenced by (Siti-Nabiha & Siti-Nazariah, 2021) in their examination of an NGO-based IMFI.

Previous empirical literature on IMFIs predominantly utilizes financial performance measures such as return on assets (ROA) and operational self-sufficiency, while the depth of outreach often gauges social performance. For instance, (Fithria et al., 2021) evaluate the performance of IMFBs in Indonesia based on metrics including profitability (ROA), operational efficiency, and financing risk. Common social performance indicators in many studies include average loan size (relative to the income of the target population), number of borrowers, number of loans and savings accounts, the establishment of branches, and lending practices (which encompass not only women but also the entire family) (Amrizah Kamaluddin ; Nawal Kasim, 2013; Ben & Abdelkader, 2013; Berguiga et al., 2020; Farooq & Khan, 2014; Fersi� & Boujelbéne, 2016; A. Hassan & Saleem, 2017; Ibrahim et al., 2017; Mobin et al., 2015; Indra Widiarto & Emrouznejad, 2015). Additionally, researchers employ other social performance measures such as the impact of IMFIs on poverty alleviation, enhancement of quality of life, promotion of family harmony, development of social and physical capital, promotion of religiosity, enhancement of ethical and social well-being, and empowerment of women (Abdullah et al., 2017; Adnan & Ajija, 2015; Ahmad et al., 2017; Islam, 2020). However, research that integrates efficiency and effectiveness into assessing IMFIs' performance toward poverty alleviation remains relatively sparse compared to studies with a conventional or commercial focus.

Methods

This study employed a qualitative methodology to explore scholarly experts' perspectives on qualitatively enhancing the concept of efficiency and effectiveness of BPRS. Qualitative methods offer a deeper level of inquiry compared to quantitative approaches. A qualitative interview approach was selected because it facilitates a thorough understanding of respondents' perspectives on the issues under investigation and enables the exploration of their views and opinions in detail (Fraenkel et al., 2010).

We employed a purposive sampling method to select our research sample. This method focuses on identifying individuals who can best address the research questions (Creswell, 2009). According to table 1, the sample was chosen from relevant stakeholders based on specific criteria. The primary stakeholder was the Directors (BOD) of Islamic Rural Banks, who holds a decision-making position and has extensive experience. We conducted interviews with the Board of Directors in various areas representing both rural and urban regions, recognizing that Islamic Rural Banks provide microfinance to the poor and SMEs in these areas. Additionally, academics were included in the interviews to provide diverse perspectives, particularly on theoretical aspects and global practices. The academic participants also included Islamic scholars, who were interviewed regarding issues in Islamic economics.

The interviews took place between May and September 2022. Table 1 provides comprehensive information regarding the individuals interviewed for this study, including six scholars specializing in Islamic economics and Islamic finance, who also hold expertise as Muslim scholars, and two of whom are members of the Sharia Advisory Board of Indonesia. The interviewees' experience varied, ranging from 5 to 25 years. The interviews have many publications on Islamic economics and finance in reputable and Scopus-indexed international journals. In addition, the interviewee is a 4 board of directors Islamic Rural Banks who also has more than 15 years of experience

The researcher selected scholar-experts in Islamic finance and the board of directors of Islamic Rural Banks in Indonesia researchers as respondents for the study. The chosen scholar-expert interviewees met the following selection criteria: firstly, they Possess a robust background in Islamic knowledge, particularly in the realms of Islamic finance and Islamic banking. Secondly, they have a track record of conducting extensive research in the field of Islamic finance and Islamic banking.

All interviews were recorded and transcribed into Word documents. The interview transcripts were then analyzed using NVivo, a computer-assisted qualitative data analysis tool. NVivo was chosen due to its qualitative research efficiency and compatibility with various study designs and analytical approaches (Lin et al., 2019).

The analysis began with identifying concepts and relationships using unattended seeding and mapping features in NVivo. NVivo's interactive functions were utilized to extract quoted text containing relevant ideas. This included excerpts from the interviews where scholar-expert respondents provided insights on the concept of performance efficiency and effectiveness of Islamic Rural Banks toward poverty alleviation, as well as the key similarities and differences among the perspectives of various scholar experts.

Before preparing the research interview structure, we developed a preliminary microfinance model by reviewing existing literature on Islamic microfinance, Islamic rural banking, and other pertinent resources. This draft model was then presented to interviewees to gather their perspectives and feedback. We employed a semi-structured interview technique to allow for flexibility in questioning during the interviews. The questions were designed based on the draft model and existing literature and aligned with the research objectives. Some questions were general and applicable to all interviewees, while others were tailored to the specific expertise of each interviewee. For instance, interviewees knowledgeable in Islamic Finance were asked about the application of waqf in the proposed model, whereas those with an Islamic banking background were questioned about banking regulations. This approach clarified specific subject areas during the interviews based on the interviewees' expertise. Ultimately, we refined the model based on the feedback received from the interviewees (Ozdemir et al., 2023).

Table 1
Interviewees details

ID	ID Scopus	Experience (years)	Expert	Position	Region
SE1	56644357800	25	Islamic Financial Institution	Muslim Scholar/lecture/Sharia Advisory Board	Yogyakarta
SE2	37015568700	15	Islamic Financial Institution	Muslim Scholar/lecture/Sharia Advisory Board	Surabaya
SE3	57193524279	5	Islamic Banking and Finance	Muslim Scholar/Lecture	Surakarta
SE4	57195944492	10	Islamic Finance Islamic Banking Islamic Microfinance	Muslim Scholar/Lecture	Surabaya
SE5	57256490300	5	Islamic Finance	Muslim Scholar/Lecture	Jakarta
SE6	57215063614	10	Islamic Finance Islamic Economics	Muslim Scholar/Lecture	Purwokerto
SE7	-	20	Islamic Finance	Board of Directors Islamic Rural Banks	Yogyakarta (Urban)
SE8	-	15	Islamic Finance	Board of Directors Islamic Rural Banks	Surakarta (Urban)
SE9	-	17	Islamic Finance	Board of Directors Islamic Rural Banks	Sragen (Rural)
SE10	-	22	Islamic Finance	Board of Directors Islamic Rural Banks	Klaten (Rural)

Result

The results of data analysis from the Nvivo qualitative software show several keywords whose frequency is often conveyed by the interviewee and is emphasized during interviews, some of which are keywords in images that look bigger than others, i.e., poverty, Islamic, social, mission, microfinance, efficiency, and owner. The following interview summary describes a complete explanation of these keywords.

Figure 1**.** The Most frequently occurring words from the data

Their activities are mainly related to governance, management, and reporting mechanisms. As such, the Islamic microfinance banking industry is regulated similarly to any other commercial banking industry, with the added requirement of following *Sharıah* principles. This means the institution must operate as a sound financial institution, adhering to specific capital, assets, management, earnings, and liquidity standards.

In addition to meeting OJK requirements, Islamic Rural banks must also comply with the guidelines of the Indonesian Ulema Council, National Sharia Council, which formulates principles and laws relating to the activities of Islamic financial institutions (Siti-Nabiha & Adib, 2020; Zein;, 2018). For example, Islamic Rural Banks must obtain approval from the National Shariah Council for newly issued financial products (Siti-Nabiha & Adib, 2020). Although regulations and supervisory bodies have enacted specific standards for measuring performance, it is anticipated that the founders' and owners' goals and interests will influence the measures used. Based on the frequency of the number of words that appear (figure 1), coding is made according to the word frequency results (see Table 2).

Purpose and Effectiveness of Islamic Microfinance: profit and Sustainability and Social Mission Islamic finance has become a mechanism for obtaining economic and social welfare for society, both in this world and the hereafter (Kabir Hassan et al., 2023; Iqbal & Mirakhor, 2017) This is reflected in the comments of an expert scholar who argues that Islamic Rural Banks must focus on business performance and not forget their social mission.

Islamic microfinance (in this case, an Islamic rural bank) as a corporate entity certainly has the goal of profit and sustainability, but it needs to be remembered, as an Islamic financial institution, it must not forget its social mission (SE1) (SE9)

Islamic Rural Bank in Indonesia was founded by Muslim groups and foundations owned by business groups, individuals, or local governments, so the different interests of the founder and the owner significantly influence the institution's objectives.

To be effective against poverty, Islamic Microfinance must decide which goals are prioritized, whether maximizing profits to be sustainable or prioritizing its social mission ; this depends on the owner of the institution (SE5)

The owner's mission determines the effectiveness of Islamic Microfinance for poverty alleviation programs. The social mission is not only related to poverty alleviation but also to improve health, quality education, and good behavior for its clients (SE2) (SE9)

Table 2
Reporting interview with scholar and expert

No	Coding	Excerpt
1	Mission of Islamic Microfinance	*Islamic microfinance (in this case, an Islamic rural bank) as a corporate entity certainly has the goal of profit and sustainability, but it needs to be remembered, as an Islamic financial institution, it must not forget its social mission (SE1) (SE9)* *Islamic Microfinance should prioritize its social mission over its finances because this is following Islamic economic principles and the purpose for which it was founded (SE1)* *Islamic microfinance is essential to be financially efficient because, in financial management theory, if a business institution is efficient, it can have maximum profit and be used for innovation and technology development to compete with other financial institutions. Islamic Microfinance will be effective if it has innovation and technology that make it easy for its clients (SE3)*
2	Efficiency performance of Islamic Microfinance	*Measuring the efficiency of Islamic microfinance is not the same as measuring company efficiency, so it is necessary to redefine the measurement method. Efficiency measurements must pay attention to inputs, especially related to labor costs, because reducing labor is contrary to Islamic economic principles, meaning Islamic Microfinance no longer has an impact on inclusion (SE5)* *Islamic microfinance is essential to be financially efficient because, in financial management theory, if a business institution is efficient, it can have maximum profit and be used for innovation and technology development to compete with other financial institutions. Islamic Microfinance will be effective if it has innovation and technology that make it easy for its clients (SE3)* *To be financially and socially efficient, Islamic Microfinance uses cash waqf instruments in raising funds; therefore, a professional waqf manager is needed so that its social and financial mission can be achieved (SE2) (SE10)* *Social efficiency is achieved if the use of product profit loss-sharing financing (SE6) (SE8)*
3	Effectiveness toward poverty	*To be effective in alleviating poverty, human resources working at Islamic Microfinance must be substantial in aqidah, sharia, and muamalah and have good attitudes so that social and financial missions can be achieved (SE1)* *To be effective against poverty, Islamic Microfinance must decide which goals are prioritized, whether maximizing profits to be sustainable or prioritizing its social mission; this depends on the owner of the institution (SE5) (SE10)*

Owners of Muslim groups with high religiosity tend to prioritize social missions rather than business.

Islamic Microfinance should prioritize its social mission over its finances because this is following Islamic economic principles and the purpose for which it was founded (SE1)

The effectiveness of financing for poverty alleviation is influenced by the mission of Islamic Microfinance, which the owner determines; the owner believes that prioritizing social assignments will get blessings will increase the profits of the institution (SE6)(SE10)

Efficiency and effectiveness of Islamic microfinance institutions for poverty alleviation in Indonesia. Supervisors and regulators focus on seeing the performance of Islamic Rural Banks on profit and growth as an essential part. This site is the benchmark on bank sustainability. Worried about this problem is understandable given the poor financial performance of BPRS in Indonesia compared to their conventional counterparts, including non-financial measures, such as the number of branches and customer base (Siti-Nabiha & Adib, 2020). In response, several scholars and experts gave their opinions that the performance and effectiveness of Islamic rural banks would be better in the future, including the measurement following Islamic finance's views.

Measuring the efficiency of Islamic microfinance is not the same as measuring company efficiency, so it is necessary to redefine the measurement method. Efficiency measurements must pay attention to inputs, especially related to labor costs, because reducing labor is contrary to Islamic economic principles, meaning Islamic Microfinance no longer has an impact on inclusion (SE5)

The inefficient financial performance of the Islamic Rural Bank makes it difficult for the institution to realize its goals, as stated by one scholarly expert as follows.

Islamic microfinance is essential to be financially efficient because, in financial management theory, if a business institution is efficient, it can have maximum profit and be used for innovation and technology development to compete with other financial institutions. Islamic Microfinance will be effective if it has innovation and technology that make it easy for its clients (SE3) (SE8)

When performance for for-profit and sustainability goals is achieved, paying attention to social goals is also necessary. The strategy to accomplish this includes determining the source of funds and the type of financing.

To be financially and socially efficient, Islamic Microfinance uses cash waqf instruments in raising funds; therefore, a professional waqf manager is needed so that its social and financial mission can be achieved (SE2)(SE10)
Social efficiency is achieved if the use of product profit loss-sharing financing (SE6)

Islamic microfinance becomes socially efficient if it has Sharia financing products; besides that, the efficiency size will differ for it, which is privately owned and owned by the local government. Islamic Microfinance becomes effective in alleviating poverty if there is a grant *from the government and the owner sets goals from the start to the management. Islamic Microfinance becomes effective in alleviating poverty if there is a grant from the government and the owner sets goals from the beginning to the direction (SE4)*

Human resources also play an essential role in the performance and effectiveness of Islamic Rural banks; not only does it require someone competent in finance but also has a good understanding of Islamic finance.

To be effective in alleviating poverty, human resources working at Islamic Microfinance must be substantial in aqidah, sharia, and muamalah and have good attitudes so that social and financial missions can be achieved (SE1)

Based on the resulting coding and excerpts of scholar experts' interviews, the development of the concept of efficiency and effectiveness of Islamic microfinance toward poverty alleviation in Indonesia

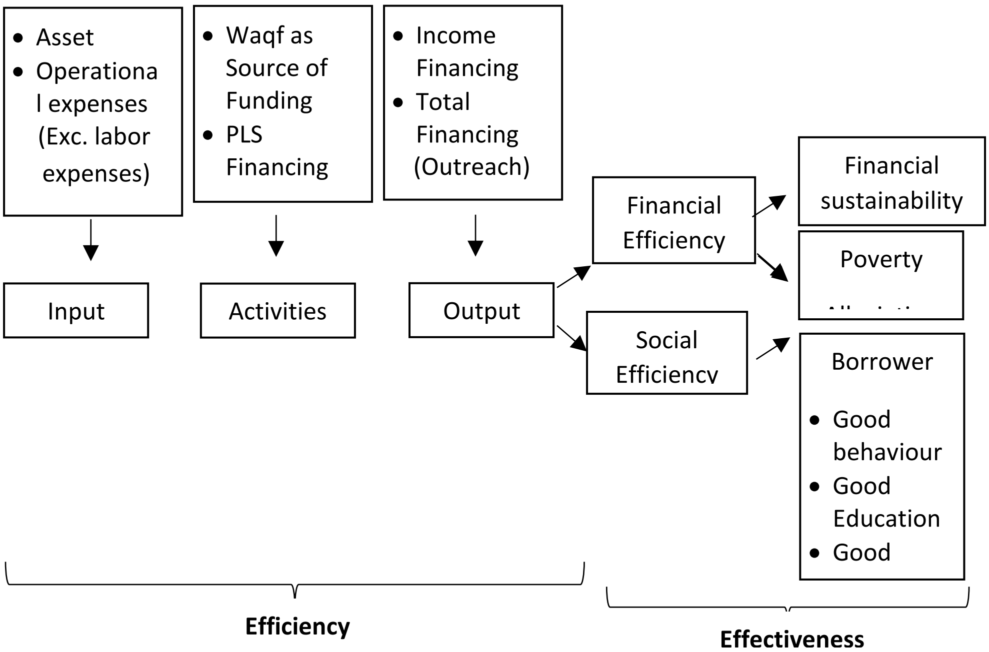

Figure 2. Conceptual development efficiency and effectiveness of Islamic microfinance toward poverty in Indonesia

Figure 2 illustrates the effectiveness and efficiency of Islamic microfinance institutions in addressing poverty in Indonesia, based on concepts adopted from (H. Nghiem & Laurenceson, 2005). In this study, "effectiveness" refers to how well an intervention achieves its intended outcomes. In this context, efficiency is measured by the production of outputs and the attainment of outcomes, particularly poverty alleviation.

The logical connections among elements of Islamic microfinance intervention (as depicted in Figure 2) are as follows: When inputs such as total assets and operational expenses are available, activities such as financing can be organized. When these activities are well managed, they lead to outputs such as financing income and a diversified financing portfolio. Ultimately, achieving these outputs contributes to the desired outcome of poverty reduction.

The discussion in this paper, supported by the findings and Figure 2, confirms that,

Islamic Microfinance : Balancing Financial Sustainability and Social Mission

Islamic microfinance institutions, including Islamic rural banks, operate within a unique framework that combines profit motives with adherence to Islamic economic principles. While their primary goal is to ensure profitability and sustainability, these institutions are also driven by a distinct social mission. As highlighted in the excerpt, Islamic microfinance entities must balance financial objectives and their underlying social purpose in line with (Kassim et al., 2019; Widiarto & Emrouznejad, 2015).

Islamic microfinance institutions (IMFIs), including Islamic rural banks, operate within a framework that combines profit motives with adherence to Islamic economic principles. These institutions aim to achieve both financial sustainability and social impact. For example, the Bank of Khartoum has successfully balanced these objectives by providing financial services to underserved populations while maintaining profitability (Alsagoff & Surono, 2015). Similarly, Al Baraka Bank in Pakistan exemplifies this balance, integrating profit motives with social missions through its microfinance services (Oucif & Ferhati, 2021).

Prioritizing the Social Mission in Line with Islamic Economic Principles

An essential aspect of Islamic rural banks is its commitment to the social mission inherent in Islamic economic principles. According to (Abdul-Baki & Uthman, 2017) and (Sholihin et al., 2018), these institutions must not lose sight of their foundational purpose while pursuing financial gains. Islamic economic principles prioritize equitable wealth distribution and societal well-being, encouraging financial practices that uplift disadvantaged individuals and communities. Thus, Islamic microfinance institutions align with these principles by prioritizing their social mission over strict financial gains.

Islamic rural banks are dedicated to their social mission, reflecting Islamic economic principles of equitable wealth distribution and societal well-being. Although not an Islamic institution, the Grameen Bank model illustrates how prioritizing social missions can drive success, having lifted millions out of poverty through equitable financial practices and social upliftment (Yunus, 2004). Similarly, Dubai Islamic Bank exemplifies how adherence to Islamic principles can guide financial practices toward greater societal benefit, promoting social welfare in alignment with Islamic economic tenets (Iqbal & Mirakhor, 2017).

Financial Efficiency: Enabler of Social Impact

Contrary to a potential misconception, prioritizing the social mission does not diminish the importance of financial efficiency. The passage suggests that financial efficiency is crucial for fulfilling the social mission. By effectively managing resources, Islamic microfinance institutions can generate profits that can be directed toward innovation and technological advancements. This efficiency-driven approach enhances the institution's capacity to compete with other financial entities, ensuring its long-term viability and its ability to contribute meaningfully to social welfare. This aligns with the concept of harnessing innovation and technology for social impact (Amran et al., 2019).

Financial efficiency is crucial for Islamic microfinance institutions to fulfill their social missions. Kiva, for example, demonstrates how financial efficiency enhances social impact. By effectively managing resources and leveraging technology, Kiva has expanded its reach to underserved populations worldwide, showcasing that financial efficiency can indeed amplify social impact (Schwittay, 2014). Additionally, the Islamic Development Bank (IDB) has illustrated how efficient financial management can lead to innovative programs that support social development (Alsagoff & Surono, 2015).

Reevaluating Efficiency Measurement in Islamic Rural Banks: Balancing Social Mission and Financial Viability

Following studies (Akram Laldin & Furqani, 2013; Rusydiana & Marlina, 2019) Islamic microfinance's unique nature introduces distinct challenges and considerations in measuring efficiency. This discussion emphasizes the need to redefine efficiency measurement methods for Islamic microfinance institutions, considering the interplay between financial sustainability, social mission, and adherence to Islamic economic principles.

Islamic microfinance institutions encounter distinct challenges in measuring efficiency because of their dual emphasis on financial sustainability and social mission. (Costa & Andreaus, 2020) underscore the need to develop new efficiency measurement methods that integrate both financial performance and social impact. Similarly, (Akbar & Siti-Nabiha, 2022) emphasize the importance of redefining efficiency metrics to reflect the unique characteristics of Islamic microfinance institutions.

Distinct Metrics for Efficiency in Islamic Rural Banks

Efficiency evaluation in Islamic Rural Banks goes beyond traditional company efficiency metrics due to its dual emphasis on financial viability and social inclusion. Unlike conventional financial institutions, Islamic microfinance institutions adhere to Islamic economic principles, which prioritize fairness, equity, and social welfare. As highlighted in previous studies (Rokhman & Abduh, 2020), (Akbar & Siti-Nabiha, 2022) a primary concern is labor costs, which must be managed carefully to avoid conflicting with Islamic principles that discourage reducing labor for profit. Therefore, redefining efficiency measurements involves developing metrics that incorporate the socio-religious dimensions of financial operations, ensuring alignment with the foundational principles of these institutions.

Evaluating efficiency in Islamic rural banks must account for both financial viability and social inclusion. Abu Dhabi Islamic Bank, for example, incorporates social welfare considerations into its efficiency metrics, aligning with Islamic economic principles (ADCB, 2018). Similarly, the Islamic Bank of Britain has developed metrics that balance financial and social objectives, emphasizing the importance of including socio-religious dimensions in efficiency evaluations (Ielasi et al., 2023)

Financial Efficiency a Catalyst for Innovation and Social Impact

Drawing from financial management theory, the passage highlights the importance of financial efficiency in fostering innovation and technological advancements within Islamic microfinance. Efficient resource utilization enables these institutions to generate profits that can be invested in innovations to enhance services, accessibility, and competitiveness. By adopting innovation and technology, Islamic microfinance institutions can streamline processes for their clients, thereby extending their social impact by reaching previously underserved populations. This discussion supports the findings of previous studies (Qudah et al., 2023) and (Wajdi Dusuki, 2008)

Financial efficiency drives innovation and amplifies social impact within Islamic microfinance institutions. Qatar Islamic Bank exemplifies this by using financial efficiency to fund technological innovations that improve service delivery and accessibility (Abdul-Wahab & Haron, 2017). Similarly, Al Baraka Bank has harnessed financial efficiency to create innovative microfinance products that address social needs (Oucif & Ferhati, 2021).

The Role of Cash Waqf Instruments and Professional Management

As noted in previous studies (Amran et al., 2019; Kassim et al., 2019), financial and social efficiency efforts often involve using instruments such as cash waqf for fundraising. These studies highlight the necessity of a skilled waqf manager to ensure these instruments are optimally employed. These professional plays a crucial role in harmonizing the financial and social dimensions of Islamic microfinance, guiding the institution to effectively balance its economic goals with its commitment to social welfare.

Cash waqf instruments are essential for balancing financial and social efficiency. The Waqf Foundation of Turkey exemplifies this by using cash waqf to fund various social programs, highlighting the significance of professional management in optimizing these instruments to achieve both financial and social objectives (Azrak, 2022). Similarly, Islamic Relief Worldwide leverages waqf funds to support its humanitarian initiatives, illustrating the critical role of skilled management in aligning financial and social goals (Dewi & Ferdian, 2021).

Social Efficiency through Profit-Loss Sharing Financing

Integral to the social mission of Islamic microfinance is the profit-loss sharing financing model. This approach encourages shared risk and reward, aligning with Islamic economic principles that prioritize equitable wealth distribution. By implementing such financing models, Islamic microfinance institutions can enhance social efficiency by distributing profits in a manner that promotes economic inclusion and addresses disparities. This concept is supported by (Abbas; et al., 2016; Wajdi Dusuki, 2008).

Profit-loss sharing financing models are central to the social mission of Islamic microfinance. The Al Baraka Banking Group utilizes profit-loss-sharing mechanisms to foster economic inclusion and reduce disparities (Kayed, 2012). Similarly, the Bank of Khartoum applies this model to ensure equitable wealth distribution and improve social efficiency (Alsagoff & Surono, 2015).

Human Resources Competence and Goal Prioritization : Keys to the Effectiveness of Islamic Microfinance in Poverty Alleviation

As noted in (Dhaoui Elwardi, 2015; Rokhman & Abduh, 2020), the effective functioning of Islamic Microfinance as a tool for poverty alleviation relies on the competence of its human resources and the strategic alignment of its goals. This discussion explores the critical role of knowledgeable and ethically sound personnel and the pivotal decision-making process regarding whether profit maximization or the social mission takes precedence within Islamic Microfinance institutions. The effectiveness of Islamic Microfinance in combating poverty is intricately linked to the competencies and qualities of its human resources. These personnel must possess substantial knowledge of *aqidah* (faith), *sharia* (Islamic law), and *muamalah* (financial transactions), ensuring a deep understanding of both the spiritual foundations and the ethical framework of Islamic finance. Furthermore, their attitudes and behavior are crucial in creating an environment conducive to achieving both social and financial missions. A workforce grounded in Islamic values and ethical conduct is more likely to ensure the equitable distribution of resources and the application of principles that uplift marginalized communities.

The effectiveness of Islamic microfinance in alleviating poverty is closely tied to the competence of its human resources. The Islamic Development Bank underscores the critical role of knowledgeable and ethically sound personnel in achieving both social and financial objectives (Alsagoff & Surono, 2015). Similarly, the Grameen Bank demonstrates how the expertise of its staff has been key to its success in reducing poverty (Yunus, 2004) .

Strategic Goal Prioritization for Poverty Alleviation

As highlighted in (Kassim et al., 2019), Islamic Microfinance institutions face a strategic dilemma: prioritizing profit maximization for sustainability or emphasizing their social mission. This decision depends on the institution's ownership and leadership. While profitability is essential for long-term viability, a commitment to the social mission aligns with Islamic principles advocating for equitable wealth distribution and societal well-being. The balance between financial and social goals, influenced by the institution's stakeholders and ownership structure, directly affects the scope and scale of poverty alleviation efforts.

Islamic microfinance institutions must navigate strategic decisions between prioritizing profit maximization and focusing on their social mission. Al Baraka Bank demonstrates how ownership and leadership shape these priorities, balancing profitability with a commitment to social welfare (Oucif & Ferhati, 2021). Similarly, the Bank of Khartoum addresses this strategic challenge by aligning its financial objectives with its social mission, thereby enhancing its poverty alleviation efforts (Alsagoff & Surono, 2015).

Conclusion

The effectiveness of Islamic Microfinance as a powerful tool for poverty alleviation relies on the synergistic interplay between well-equipped human resources and strategic goal alignment. Competent personnel, knowledgeable in aqidah, sharia, and muamalah, and exhibiting strong ethical attitudes, are essential for harmonizing financial operations with moral principles. The decision to prioritize either profit maximization or the institution's social mission, depending on ownership and leadership, significantly influences the institution's approach to poverty alleviation. To enhance the impact of Islamic Microfinance, future studies could focus on developing comprehensive training programs that cultivate both financial expertise and Islamic ethical values among human resources. Additionally, exploring innovative models that balance financial sustainability with an intensified social mission can provide valuable insights into optimizing poverty alleviation strategies within Islamic Microfinance.

In conclusion, the effectiveness of Islamic microfinance in addressing poverty is closely linked to the institution's performance, particularly its financial and social efficiencies. Achieving financial sustainability is essential, but it is equally important to ensure that financing reaches

borrowers in a way that enhances their income, education, and health. Balancing these two objectives is crucial for microfinance to effectively contribute to poverty alleviation.
This study has limitations due to the small number of interviewees. More comprehensive input and insights on the efficiency and effectiveness of Islamic rural banks could be obtained by including other stakeholders, such as borrowers and the broader community, in future interviews. Consequently, this area remains a compelling topic for further research, particularly to explore the determinants of financial and social efficiency in Islamic microfinance institutions more deeply.

This research significantly contributes to the existing body of knowledge on Islamic microfinance, specifically within the context of poverty alleviation in Indonesia. Theoretically, it extends the discourse on the balance between financial efficiency and the social mission of Islamic financial institutions, offering a nuanced understanding of how these dual objectives can be aligned with Islamic principles. By integrating insights from experts and scholars, the study proposes a redefinition of performance metrics that not only prioritize financial sustainability but also address the broader goals of socio-economic justice as prescribed by the Maqasid al-Shariah. Contextually, this research highlights the unique role of Islamic Rural Banks (BPRS) in Indonesia, which operate in an environment where micro and small enterprises dominate the economy. The study sheds light on the challenges these institutions face in fulfilling their dual mandate, particularly in a setting where traditional performance metrics may not fully capture the social impact these banks are intended to achieve. By addressing these gaps, the study not only adds to the theoretical frameworks around Islamic microfinance but also provides practical implications for policymakers and practitioners aiming to optimize the role of BPRS in poverty alleviation efforts.

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