

Development Strategy For Islamic Microfinance Institution In Indonesia: Ifas-Efas Matrix Approach

Tika Widiastuti¹, Aam S. Rusydiana² and Irman Firmansyah³

¹Faculty of Economic and Business, Airlangga University, Jl Airlangga, Surabaya, Indonesia

²SMART Consulting Indonesia, Perumahan Haji Cimahpar, Bogor, Indonesia

³Siliwangi University, Jl Siliwangi 24, Tasikmalaya, Indonesia

tika.widiastuti@feb.unair.ac.id, aamsmart@gmail.com, irmanfirmansyah@unsil.ac.id

Keywords: Strategy, IFAS-EFAS matrix, Islamic Microfinance Institutions, SWOT analysis.

Abstract: The emergence of IMFIs (Islamic Microfinance Institution) in Indonesia is an answer to Islamic Banks development that shows middle-top class orientation. In fact, IMFIs have evolved as alternative solution for Indonesian economic relief, especially as partners for small businesses in capital provision. Despite rapid growth, IMFIs still face many obstacles in their development. Those obstacles come from both internal and external factors. This study aims to identify causes and dominant inhibitors for the development of IMFIs in Indonesia by using SWOT (*Strengths-Weaknesses-Opportunities-Threats*) analysis as well as IFAS-EFAS (*Internal Factor Analysis Summary-External Factor Analysis Summary*) matrix approaches. Data analysis will be followed by proposed recommendations. According to IFE (*Internal Factor Evaluation*) result, the primary strength of IMFIs is their segmentation on Micro, Small and Medium Enterprises (MSMEs) and followed by local society high initiative. Meanwhile, highest rank for weakness of IMFIs is human resources' and entrepreneurship training cost and followed by legal registration cost. On the other side, EFE (*External Factor Evaluation*) analysis result indicate that highest opportunity for IMFIs is flexibility on economic sector with society's high willingness to conduct sharia-based transaction as the second place. Meanwhile, the highest rank of threat is high competition among IMFIs, while weak regulations and legality for the IMFIs become their second-ranked threat. Mutual commitment between the stakeholders such as the regulators, academicians, and practitioners is needed to encourage development of IMFIs as part of Islamic financial industry.

1 INTRODUCTION

The background of IMFIs establishment was to be the answer to the demands and needs of Muslims. In Indonesia, BMT's growth in 2010 positioned on average range in terms of assets between 35% - 40%, with financing to deposit ratio (funds disbursed) still around 100% (Suharto, 2010). It proves community's acceptance of IMFIs' existence as an institution that can empower the marginalized segment of community. However, the existence of IMFIs with significant numbers, is not supported by the much-needed supporting factors that would enable IMFIs to continue growing and working properly. moreover, many IMFIs face declination and even went out of business.

Then, majority of businesses in Indonesia are run as MSMEs - sectors that do not have large capital -, so this factor becomes a very potential segment for

IMFIs to develop. Therefore, if the IMFIs is widely known by the public, then the financing will be easily distributed. IMFIs is an institution whose existence is very helpful for the community, especially among micro segments.

In addition, Muslim societies fare far worse than the rest of the world in the matter of addressing the problem of poverty. In Indonesia alone with world's largest Muslim population, over half of the national population are poor or vulnerable to poverty with incomes less than merely US\$2 a day. Those poverty levels have also been associated with high inequality alongside low productivity (Karim et al., 2008). Therefore, in this case microfinance institution has an important role in solving the problem. This is in line with the results of research conducted by (Rahim, 2010; Wajdi, 2008; Adnan and Ajija, 2015).

Therefore the study on development strategy for Islamic microfinance institution in Indonesia

becomes interesting. This study used an IFAS-EFAS matrix that never been used in such cases, and because it generally can be used in strategic management research.

2 LITERATUR REVIEW

IMFI is a non-governmental organization in the form of people's economic institution that has several advantages in microfinance sector when compared to the conventional financial institutions, such as implementation of Islamic scheme of transaction, family targeting rather than focusing on women clients, importance of religion as social capital, availability of various sources of financing (Yumna and Clarke, 2009)

There are several studies that try to find ways to develop IMFI. Research of Rusydiana and Devi (2013) try to identify the dominant factors that has become obstacles in the development of BMT in Indonesia using Analytic Network Process (ANP). The results show that main problems can be divided into four aspects, namely Human Resources, Technical, Legal and Structural, and Market/Communal.

On other study, Muhar (2009) analyzes the role of MFIs for small communities as well as strategies undertaken in developing an MFI. The results show that MFIs are able to provide financing to micro-enterprises to leverage capital of these micro-enterprises. In this journal, the researchers provide solutions to strengthen the institutional of MFIs in legal bills and regulations.

Research of Abdul and Dean (2013) suggested solutions for lack of fund mobilization and high administrative costs, and the effectiveness of Islamic MFIs in alleviating poverty include a collective resolution in increasing bank participation in microfinance and diversifying their portfolios, provision of education and training, better coordination and networking, technical assistance through waqf and zakah funds, and the development of an enabling regulatory and policy environment.

Based on research of Manan and Shafiai (2015), there are issues and challenges being faced by the institutions of Islamic microfinance that could give impact towards their sustainability. Findings of the study indicated that the institutions had taken the necessary steps in managing the risks.

3 RESEARCH METHODOLOGY

The research starts from preliminary survey and literature study, then continued to identification and problem formulation, method determination, questionnaire compilation, data collection, data analysis and result processing, SWOT analysis, drafting conclusions and suggestions. Respondents in the research are experts that understand overall condition of IMFIs in Indonesia, both internally and externally.

Data analysis consists of several stages, first stage is scoring matrix Internal Factor Evaluation (IFE) and External Factor Evaluation (EFE) – which overall weight of internal factors and external is 1 – to determine current position and condition of IMFIs and what strategies that can be applied, second stage is preparing the SWOT matrix after IE matrix obtained to develop alternative strategies that can be used for the development of IMFIs in Indonesia.

4 ANALYSIS AND DISCUSSION

4.1 Problems Identification

Based on literature review and in-depth interviews with the expert respondents, internal factors that become the strengths are: 1) high initiative of local community – society is demanding the existence of microfinance institutions that are based on sharia; 2) IMFI does not require large capital – capital requirement to build an IMFI is not large; 3) IMFIs are free from usury and economic wrongdoings – the concept of sharia-based IMFI will prevent the community from the pressure of return that is very burdensome to them; and 4) IMFIs focus on small and medium micro enterprises segment – MSMEs is majority of businesses in Indonesia. Meanwhile, the weaknesses are: 1) cost of human resource training and entrepreneurship training for community – in order to build professionalism of the human resources; 2) cost of obtaining legal permits from government – in high level; 3) cost of monitoring and mentoring financing customers for reducing risk – in high level; and 4) cost of socialization and marketing to be more active in conducting socialization.

Table 1: IFE – EFE Assessment.

Internal Factors Evaluation (IFE)	Weight	Rating	Weight*Rating
Strengths			1.519
1) high local people initiative	0.105	2.8	0.294
2) non-big capital requirement	0.098	1.8	0.176
3) Free of usury and economic wrongdoings	0.164	2.0	0.328
4) MSMEs segmentation	0.164	4.4	0.722
Weaknesses			1.492
1) HR and entrepreneurship training costs	0.149	4.0	0.595
2) legal license cost	0.119	3.2	0.382
3) cost for mentoring and monitoring of customers' financing	0.089	2.0	0.179
4) socialization and marketing cost	0.112	3.0	0.336
TOTAL	1.000		3.011
External Factors Evaluation (EFE)	Weight	Rating	Weight*Rating
Opportunities			1.367
1) High public interest on sharia economy	0.104	2.6	0.270
2) Arising regional autonomy	0.104	2.6	0.270
3) Flexibility on financed sectors	0.156	4.2	0.654
4) Higher numbers of small businessmen compared to big businessmen	0.096	1.8	0.173
Threats			2.015
1) Gap between ability to save with financing funds utilization	0.104	2.6	0.270
2) Weak regulation and legality of IMFII	0.141	3.8	0.535
3) Moral Hazard risk	0.126	3.4	0.427
4) Competition	0.170	4.6	0.784
TOTAL	1.000		3.382

On the other hand, external factors that regarded as opportunities are: 1) public interest toward sharia transaction is getting bigger; 2) development of regional autonomy era – Some cities and regencies issued the Sharia Regulations; 3) financed sector is very flexible – there is no limit of minimum financing; and 4) number of small entrepreneurs are bigger than big businessman. While the threats are: 1) Gap between the ability to save and utilize credit – a lot of citizens in Indonesia has consumptive culture; 2) weak regulation and legality of IMFII – The absence of sufficient law; 3) Moral Hazard Risk – risk that inherent in the company's operations; and 4) Competition - conventional and Islamic basis competitor.

4.2 Discussion

After problem identification, the next step is strategic factor evaluation. The evaluations are done by giving weight and rating values to each internal factor (strengths and weaknesses) and external factor (opportunities and threats). The “weight” description interpret level of importance, the higher weight means higher level of importance. Then, the “rating” description interpret level of influence to development of IMFII, the higher rating means higher level of influence. Afterwards, the way to

know the evaluation factor is by multiplying the weight and rating. Those evaluation of the mention factors can be seen in the table 1.

Moving on the next step, this study use IFE-EFE quadrant to determine IMFII assessment in Indonesia. Assessment value of internal factor evaluation (IFE) is 3.011 and external factor is 3.382. This value in quadrant I that is "grow and develop". The existence of internal and external factors basically becomes a huge support for IMFII. Each SWOT component in IFE-EFE quadrant is assigned with weight and rating. The weight is derived from factor rotation value multiplied by variance value (*eigenvalue*). While rating obtained from assessment of variables tested. The weighting and subsequent valuations are summed for each SWOT component and then the difference between internal components (S and W), and difference between external components (O and T) will be calculated. Difference of internal component then becomes the x-axis value (value = 0.44), and the result of the external component difference then becomes the y-axis value (value = 0.35), so in the IFE-EFE quadrant there is a concentric position in the IVA quadrant. In that quadrant, the existence of IMFII shows a very good strength in the external environment, but the threats:

Table 2: SWOT Analysis Matrix.

	STRENGTHS (S)	WEAKNESSES (W)
	1) high local people initiative	1) HR and entrepreneurship training costs
	2) non-big capital requirement	2) legal license cost
	3) Free usury and economic wrongdoings	3) cost for mentoring and monitoring customers' financing
	4) MSMEs segmentation	4) socialization and marketing cost
OPPORTUNITIES (O)		
1) High public interest on sharia economy	1. Optimizing approach to potential investors despite little capitalization concerning high public interest to sharia economy (S2-O1) 2. Enactment of regional regulation concerning sharia economy to support IMFI (S3-O2)	1. Increasing government's role to facilitate ease on IMFI's legal license process (W2-O2)
2) Arising regional autonomy		
3) Flexibility on financed sectors		
4) number of small businessmen is higher than big businessmen		
THREATS (T)		
1) Gap between ability to save with financing funds utilization	1. Socialization to MSMEs on managing funds from IMFI's financing to enhance their ability to save and manage funds (S4-T1) 2. Development of innovative products in accordance with sharia principles to enhance IMFI's ability to compete other financial institutions (S3-T4)	1. Coordination with PINBUK on training events, either to IMFIs management and to society as a way to reduce moral hazard risk (W1-T3)
2) Weak regulation and legality of IMFI		
3) Moral Hazard risk		
4) Competition		

Are greater than the strengths they have. Therefore IMFIs should be more vigilant about the existence of the surrounding environment because if they do not utilize and manage their strengths well, development of IMFI will be hampered.

Alternative strategy for current IMFI operation is S-T strategy because the S-T strategy is a strategy to optimize strengths it has to avoid or minimize impact of enormous threats. The alternative S-T strategy can be seen in the SWOT strategy analysis results.

4.2.1 Strategy Alternative for Developing IMFI from SWOT Analysis

Formulation of alternative strategies of IMFI development in Indonesia with SWOT analysis is a combination of internal factors (strengths and weaknesses) with external factors (challenges and threats) consisting of:

- Combined strength and opportunity factors;
- Combined factors of weakness and opportunity;
- Combined factor of forces and threats;
- Combined factors of weakness and threat.

Detail of the alternative strategies for IMFIs' development in Indonesia as follows on table 2.

As described previously IMFI is a powerful poverty alleviation tool. According to Obaidullah and Khan (2008), in a typical developing economy the formal financial system serves no more than

twenty to thirty percent of the population. Financial exclusion thus, binds them into a vicious circle of poverty. Building inclusive financial systems therefore, is a central goal of policy makers and planners across the globe.

5 CLOSING REMARKS

5.1 Conclusions

Internal factor evaluation results show that IMFI's highest strength is its nature as usury and economic wrongdoings-free as well as small and medium business segmentation. While the highest weakness is cost of human resource training and entrepreneurship training in the community. The IFE analysis results that the highest rating of the strength is small and medium enterprises (MSMEs) segmentation followed by high local initiatives. While highest rating on the weakness is the cost of human resource training and entrepreneurship training followed by cost of legal licensing.

On external factor evaluation, it shows highest opportunity is flexibility on financed sectors followed by high public interest toward the sharia transaction and growing of regional autonomy era. Meanwhile, highest threat factor consists of competition and weakness on regulation and legality of IMFI. The results of EFE analysis also

shows that highest rating of the opportunity is flexibility on financed sector followed by high public interest to sharia transaction. On the other side, highest rating of threat is competition followed by weak regulation on IMFI. From aforementioned results, there are 6 IMFI development strategies in Indonesia from SWOT analysis that combine internal-external factor evaluation.

5.2 Recommendations

Based on the explanation, this paper's recommendations are two. First, it is expected that there will be joint commitment from various parties. Second, through this research, it is expected to expand the study of academic research related to IMFIs as micro segment of sharia economy, especially findings on best strategies to improve development of IMFI.

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