

The Islamic Microfinance Orientation: An Evidence of ANP Model

Group
Lending

Ali Sakti
Bank Indonesia

Viverita

Faculty of Economics and Business Universitas Indonesia

Zaafri Ananto Husodo

Faculty of Economics and Business Universitas Indonesia

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Abstract

The study aims to find whether the Islamic microfinance institutions are consistent with their social mission by using a group-lending approach. The practice of microfinance has complexity in the relationships among the causal and mediating factors as well as random environmental noise, which causes difficulties in determining the parameters for both that which is intangible and immeasurable. Taking those conditions into consideration, this study selected the Delphi and analytic network process (ANP) approaches as its methodology. The study showed that Islamic microfinance institutions are consistent with their genuine mission, which is to be an institution that empowers and serves the poor community. The social orientation of Islamic microfinance which is dominant and high enough from conventional microfinance shows that the moral value of Islamic principles is quite instrumental in shaping Islamic microfinance preference. In the latest developments in microfinance practice, the dominance of the interests of microfinance institutions that focus on achieving financial sustainability (commercial orientation) allows the tendency for microfinance to shift its genuine mission away from social orientation. Therefore, this study is to fill the gap from the lack of research that examines the shifting mission of Islamic microfinance. Islamic microfinance practices using a group lending approach are still quite consistent in reaching poor community groups. This study is only limited to Islamic microfinance that uses a group lending strategy, for further studies it is recommended to conduct a study on Islamic microfinance that uses an individual lending strategy.

Keywords Group Lending, Mission Drift, Islamic Microfinance

1. Introduction

Group lending is a popular strategy for microfinance practice to serve the needs of poor community group of business loan. It is loan scheme provided mostly by microfinance institutions to individual borrowers, but if troubles arise, then the problem will be solved in groups (Armendáriz de Aghion and Morduch, 2000). A group formed in a group-lending scheme generally consists of three to seven clients, based on proximity of location, friendship, similarity of business cluster and other factors (Van Tassel, 1999). In addition to it being able to reduce costs, group lending has a set of dynamic incentives for financial institutions to channel credit to micro/small enterprises, namely (i) successful members bear the repayment (joint liability) of the group members who cannot afford it (Stiglitz, 1990); (ii) selecting appropriate peers to join the group (Besley and Coate, 1995); (iii) imposing sanctions on group members (peer sanctions) when they are unable to pay their obligations (Che, 2002);

(iv) creating social bonds that encourage group members (social collateral) to pay their obligations to maintain their social status (reputational effect) in the community (Besley and Coate, 1995; Woolcock, 2001); (v) mutual monitoring (peer monitoring) so that group members are not negligent in paying their obligations (Varian, 1990); and (vi) encouraging customers to pay their obligations (enforcement) aided by group mechanisms (Wenner, 1995).

Brau and Woller (2004) state that there is polarisation in the microfinance development paradigms, namely the institutionalist paradigm and the welfarist paradigm. The group supporting the institutionalist paradigm argues that the main focus of microfinance institutions is financial self-sufficiency, while the welfarist-paradigm group focuses on achieving depth of outreach. Armendáriz de Aghion and Morduch (2000), and Von Pischke (1996) reveal a trend of trading-off between financial self-sufficiency targets and depth of outreach targets, where financial self-sufficiency represents a profit or commercial orientation, while depth of outreach represents the social orientation of microfinance institutions. The trade-off trend means that if a microfinance institution focuses on a commercial orientation, it will sacrifice its social orientation, so if it focuses on social orientation, it will sacrifice its commercial orientation. However, according to Brau and Woller (2004), the evidence for this tendency is relatively sparse; there is a need for further studies that examine issues related to this. Based on individual lending practice and using average-loan-size parameters, Mersland and Storm (2010), and Abrar and Javaid (2014) find there is evidence that microfinance institutions have shifted their mission from social to commercial.

Thus, this study has been conducted to fill the gaps in the study of financial intermediation with respect to the orientation of microfinance, which is still rare, particularly based on group-lending strategies practised by Islamic microfinance institutions. Specifically, this research aims to identify which orientation has a dominant influence on Islamic microfinance institutions in employing group-lending strategy. In addition, assuming that genuine Islamic microfinance institutions exist initially to help the poor improve their welfare, this study seeks to find out whether mission drift occurs in Islamic microfinance institutions in the use of group-lending strategies; i.e. shifting from social orientation (with a focus on achieving depth of outreach) into a commercial orientation (with a focus on achieving profit or financial self-sufficiency). This research will analyse the microfinance orientation of various aspects that have been of concern to previous research, such as attractiveness and incentives for group lending (Lehner, 2009; Attanasio, 2011), and internal aspects of microfinance institutions, such as products and services, outreach, impact, regulation, and policy (Brau and Woller, 2004).

2. Literature Review

The need for financial services, particularly access to credit for the poor and micro/small businesses, has not been served by formal financial institutions such as banks. According to Diamond (1984), and Boyd and Prescott (1986) the provision of credit access, in the theory of financial intermediation, is influenced by the ability of banks to produce information about borrowers. Asymmetric information was first introduced by Akerlof (1970), who concludes that the price of an item will be high if the asymmetric information about the goods is also high. Diamond (1984) states that, when the depositors delegate monitoring of the use of funds to the bank (the intermediary), the bank will seek borrowers who have better business information in order to obtain a return in accordance with the contract with the owner of the fund.

2.1. Group Lending in Microfinance

Microfinance institutions appear to provide financial access, especially credit, to informal

business groups, as they have better information on the informal business environment than formal financial institutions. Microfinance strategies that use the group-lending approach are believed to be innovations that are considered effective in lending to micro/small businesses with high asymmetric information (Varian, 1990; Stiglitz, 1990). Group lending has several advantages, such as a low risk of default credit due to joint liability; the transaction cost is reduced due to the group mechanism, cheaper service, and efficient human resources; and is more advantageous given the relatively cheap cost (Adam and Ladman, 1979; Besley and Coate, 1995). In addition, the group-lending mechanism can encourage its members to help each other in managerial, market and collateral procurement. Therefore, it is believed that group lending is used to increase a financial institution's preference to channel financing to micro/small enterprises. The concept of delegating authority from the principal to agents when monitoring the use of funds, put forward by Diamond (1984), forms the basis of group-lending practices, in which financial institutions delegate control of the use of funds to groups (clients).

2.2. *The Orientation and Mission Drift of Microfinance*

Previous reviews mention that microfinance institutions are identified as having mission drift tendencies; i.e. the microfinance mission shifts from social orientation – depth of outreach –to commercial orientation – financial sustainability (Serrano-Cinca and Gutiérrez-Nieto, 2014). Some of the main causes of mission drift by microfinance institutions include (i) the entry of the banking sector or other financial institutions into the microfinance sector (Hoque et al., 2011); (ii) non-conducive microfinance industry regulation (Rosenberg et al., 2009; Copestake, 2007); and (iii) the preference of microfinance institutions to focus on financial self-sufficiency (Abrar and Javaid, 2014).

Serrano-Cinca and Gutiérrez-Nieto (2014) mention that drifted microfinance institutions are relatively oriented towards financial sustainability and serve fewer micro-enterprises than microfinance institutions that are still oriented towards poverty alleviation (centred microfinance institutions). Von Pischke (1996) reveals that there is a trend of trading-off between financial self-sufficiency targets and depth of outreach targets. Therefore, focusing on commercial orientation suggests that microfinance institutions pay more attention to their institutional conditions, while social orientation focuses more on serving the poor as clients of microfinance institutions.

2.3. *Expectations on the Orientation of Islamic Microfinance*

Opening access to finance, especially credit, is currently also provided by financial institutions that use sharia principles, both banks and microfinance institutions. Islamic microfinance institutions are judged to have morally and operational advantages that can be played as an alternative to conventional financial practices, especially in serving micro businesses or poor people (El Hawary and Grais, 2005). Morally, sharia principles provide a very strong value for microfinance institutions to have concerns about the poor people. While, operationally, sharia principles, using buy-sell and profit-sharing contracts in transactions with its financing customers, can be used as an alternative form of transaction to interest-based contracts. The profit-sharing contract, in particular, will make Islamic microfinance institutions more concerned with the business conditions of micro-business customers (Obaidullah, 2010).

3. Research Methodology

Based on the objective, this research intends to analyse the decision-making process undertaken by Islamic microfinance institutions when conducting group lending. The practice of microfinance has complexity in the relationship among the causal factors and mediating factors, as well as environmental disturbances (random environmental noise) or factors that are idiosyncratic, which causes difficulty in determining the parameters for both that which is intangible and immeasurable, requiring a specific methodology that is able to accommodate these conditions. The required methodology also should be able to accommodate variations

in the application and the complexity of interactions in the microfinance industry (Brau and Woller, 2004). As a result of the characteristics of the microfinance industry, which is facing a lack of data to develop statistic models, an expert-system-based approach can be considered as the method to use in order to identify and examine the preferences of microfinance institutions (Serrano-Cinca and Gutiérrez-Neito, 2010). The microfinance industry, as an informal sector, has weak regulation and supervision, incomplete infrastructure, low human-resource competency, limited industrial capacity and a weak legal system (Sarap, 2014). Taking those conditions into consideration, this study selected the Delphi and analytic network process (ANP) approaches as its methodology. Essentially, the Delphi approach is a technique for achieving concurrence of opinion concerning particular knowledge solicited from experts. However, ANP is a sophisticated decision-making method that is used in order to identify certain dominant variables (tangible and intangible) based on experts' opinions.

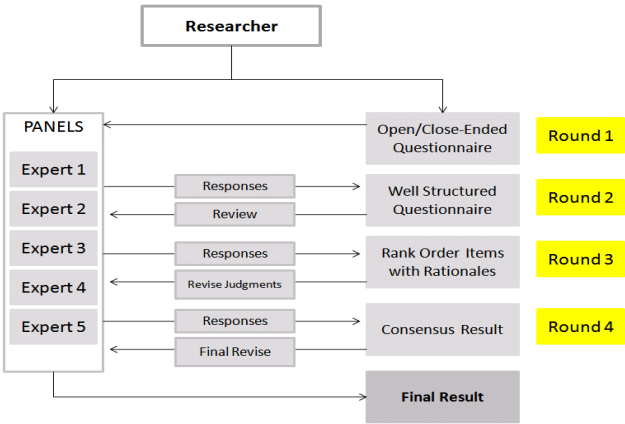


Figure 1
the Delphi-Method
Process

Sources: Hsu and Sandford (2007a and 2007b)

The Delphi technique is well suited as a method for consensus building as it uses a series of questionnaires delivered over multiple iterations to collect data from a panel of selected experts (Hsu and Sandford, 2007). In general the stages in the Delphi process include (i) determination of expert panels; (ii) preparation of the questionnaires; (iii) delivery of the questionnaires and feedback; and (iv) analysis of the results. The submission of the questionnaires, and feedback or responses may consist of several rounds, depending on the consensus process. In the process of submitting the questionnaires and receiving feedback, based on Hsu and Sandford (2007a), at least four rounds are undertaken. The techniques used in each round are as follows: (i) in the first round (Q1) a questionnaire is passed that can be open-ended (traditional Delphi) or close-ended (modified Delphi); (ii) in the second round (Q2) the researcher submits the results of Q1 and the structured questionnaire to the expert panel to rank; (iii) in the third round (Q3) the researcher submits the Q2 results in a list of issues with some consensus among the participants (in this round participants are required to make revisions, if possible); and (iv) in the fourth round (Q4) the researcher submits the Q3 results and requests final revisions, if necessary, for the third round results for a list of issues that have been enhanced by broader agreement. From this round the end result can usually be recommended.

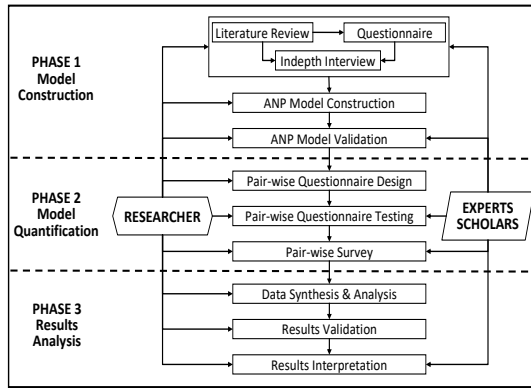


Figure 2
ANP-Method Process

Sources: [Ascarya \(2005\)](#)

According to [Saaty \(2001\)](#), the ANP is a general theory used to measure relatively the ratio of composite priorities for a given individual ratio scale. The results of these measurements reflect the relative magnitude of the effects of interacting or interrelated elements. The main advantages of this model are in terms of its ability to treat dependencies and feedback systematically by accommodating both quantitative and qualitative factors.

3.1 Geometric Mean

In order to determine the results of the individual assessments of the experts, the geometric mean is calculated ([Saaty, 2001](#)). The pairwise comparison of the respondents will be combined to form a consensus. The geometric mean is a type of average calculation that shows or identifies a particular centre of a tendency or value, and has the following formula ([Ascarya, 2013](#)):

$$(\prod_{i=1}^n a_i)^{1/n} = \sqrt[n]{a_1 a_2 \dots a_n} \quad (1)$$

3.2 Rater Agreement

The expert consensus in the traditional Delphi approach is the final agreement from the discussions conducted by the experts. However, in practice, it is difficult to collect experts in large quantities at one time and in the same place. Therefore, an adjustment is made by taking the rater agreement as a measure of the consensus of the experts ([Schmidt, 1997](#); [Habibi et al., 2014](#)). The rater agreement is a measure that shows the level of agreement of respondents (R1-Rn) to a problem in one cluster. The tool used to measure the rater agreement is Kendall's W coefficient of concordance (W: 0 < W ≤ 1). If the W test value is 1 (W = 1), it can be concluded that the assessment or opinion of the respondents has a perfect fit. However, when the value of W is equal to 0 or more close to 0, then this demonstrates the existence of discrepancies between respondents' answers or that answers are varied ([Ascarya, 2005](#)). [Schmidt \(1997\)](#) provides guidance in assessing Kendall's W. A Kendall's W of 0.7 indicates a strong agreement. If the Delphi stage has achieved a Kendall's W of 0.7, the stages do not need to be proceeded with because it is considered a consensus. In addition, the Delphi stages are not continued if Kendall's W does not change in two successive stages or all expert panels are no longer willing to change the answer. For an expert panel of fewer than 10, low Kendall's W values can be judged significant ([Siegel and Castelan, 1988](#)). To calculate Kendall's W, the first step is to rank every answer and sum it up.

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$$R_i = \sum_{j=1}^m r_{i,j}, \quad (2)$$

The average value of the total ranking is as follows:

$$\bar{R} = \frac{1}{n} \sum_{i=1}^n R_i. \quad (3)$$

The sum of squares deviation (S) is calculated using the formula:

$$S = \sum_{i=1}^n (R_i - \bar{R})^2, \quad (4)$$

Thus, the obtained Kendall's W is as follows:

$$W = \frac{12S}{m^2(n^3 - n)}. \quad (5)$$

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3.3 Eigenvector

The ratio scale showing the priority scale of each element in the ANP model is obtained based on the eigenvector of an expert judgment. Generally, the use of a pairwise comparison between clusters or between elements can be written in a matrix showing the values of the comparison. Through this matrix the priority scale can be determined based on the eigenvector because the eigenvector shows the ranking of the vectors present in the matrix system. In the ANP approach a pairwise comparison is made not only between elements on a single cluster but also can be made among different elements of the cluster; therefore, the ANP matrix becomes more complicated (a super matrix). A super matrix for the ANP approach can be seen in the following picture.

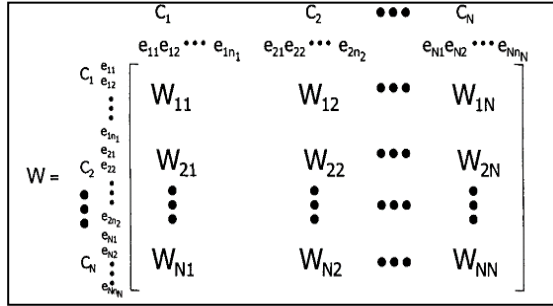


Figure 3
Super Matrix for the
ANP Approach

Sources: Saaty (2006)

Using a simple nxn matrix (Figure 9), we get the following matrix equation:

$$Aw = \lambda w \quad (6)$$

Where A is the matrix, w is the eigenvector and λ is the eigenvalue. The eigenvector and eigenvalue in an n x n matrix are used to prove the linearity of a matrix. Furthermore, equation (6) can also be written as follows:

$$(A-\lambda) w = 0 \quad (7)$$

Since λ is a scalar quantity, the identity matrix (I) is equal to 1, so it becomes this equation:

$$(A-\lambda I) w = 0 \quad (8)$$

Getting the eigenvalue and eigenvector is done through a calculation using matrix determination, which is the following:

$$\det(A-\lambda I) = 0 \quad (9)$$

This eigenvector w reflects the priority ranking of the elements in each cluster or from the cluster at a certain level.

3.4 Data

This study made adjustments in the early stages of the Delphi method, which compiled questions in the questionnaire, and classified factors reflecting the commercial and social orientations based on previous research by [Brau and Woller \(2004\)](#), [Serrano-Cinca and Gutiérrez-Neito \(2010\)](#), [Schreiner \(2002\)](#), and [Woller, Dunford and Woodworth \(1999\)](#). The Delphi approach is essentially a survey-based research approach for experts. The experts are assumed to have been well informed about the environmental conditions of the study. The expert panel are (i) practitioners of savings and loans cooperatives with at least five years' experience of practising group lending; (ii) regulators in the microfinance sector (for the Financial Services Authority [Otoritas Jasa Keuangan, OJK], Ministry of Cooperatives and Small Medium Enterprises); and (iii) scholars and consultants who have competence in microfinance in Indonesia (Table 1).

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Experts Panel	Numbers in Delphi	Numbers in ANP	Backgrounds
Regulators	3	2	Bank Indonesia (BI), OJK and Ministry of Cooperatives and SMEs
Academics	4	3	Padjadjaran University (UNPAD), State Islamic University (Universitas Islam Negeri)(UIN), Airlangga University (UNAIR) and Universitas Ibnu Khaldun (UIK)
Consultants	2	1	Tazkia Microfinance Center and Grameen Reflika
Cooperative Practitioners			
Conventional	10	12	Koperasi Simpan Pinjam (KSP)
Sharia	10	14	Koperasi Simpan Pinjam Pembiayaan Syariah (KSPPS) /Baitul Mal Wa Tamwil (BMT)
Total	29	32	

Table 1
Expert Panel for the
Delphi and ANP
Approaches

4. Results

The first phase of the Delphi approach in this study is to identify the important commercial and social factors in each imperative aspect, which are considered to be significant decision variables in group-lending practices. The identification of factors and the classification of aspects in the decision-making process in group lending for microfinance are based on previous studies performed by [Serrano-Cinca and Gutiérrez-Neito \(2010\)](#), [Brau and Woller \(2004\)](#), [Schreiner \(2002\)](#), and [Woller et al. \(1999\)](#). The classification of the microfinance

aspects are (i) factors that are in line with the *objectives* of the institution; (ii) the *impacts* of group lending; (iii) the *services* that are provided by group lending; and (iv) the *outreach* of group lending. By using the Delphi procedure, each of the listed aspects of group lending identifies both social and commercial factors that influence the decision-making process in microfinance institutions. Figure 3 shows all factors that have been identified using the Delphi approach. The results of the identification of the important factors based on the Delphi approach for group-lending practices are available in Tables 2 and 3, but not all Delphi results are shown.

COM1		Commercial Objectives		
		Mean ranking		
		The most important factors		
		2nd Round	3rd Round	
Reputational effect encouraging credit collectability		3.222	3.222	
Enhancing payment discipline among the clients		3.778	3.444	
Having the best quality clients via peer selection		4.000	3.889	
		2nd Round		3rd Round
Parameters		n=11		
		m=12	m=9	
Kendall's W		0.399	0.438	0.412
X2		47.848	39.455	49.409
p-value		6.6E-07	2.113E-05	3.4E-07
				8.99E-06
COM4		Commercial Outreach		
		Mean ranking		
		The most important factors		
		2nd Round	3rd Round	
Increasing the number of the clients or members		2.2222	3.1111	
Widening the area of services		2.4444	3.1111	
Reaching more sustainable clients by providing market information		4.1111	3.3333	
		2nd Round		3rd Round
Parameters		n=8		
		m=12	m=9	
Kendall's W		0.2328	0.3422	0.3039
X2		19.5556	21.5556	25.5278
p-value		0.0066	0.0030	0.0006
				0.0013

Table 2
The Most Important
Factors in Commercial
Orientation

n = number of factors, m = number of experts

The results of the identification of group factors for commercial orientation can be seen in Table 2, and the results of the identification of group factors for social orientation can be seen in Table 3. However, in both tables not all results for the group factor identification are shown, only the group factors for objective and outreach are given. In Tables 2 and 3, the most important factor for each group factor is shown, with only three out of six identified. The most important factor for each group factor is determined by the mean ranking. This mean ranking must meet the consensus level of the expert panel, which is illustrated by Kendall's W coefficient of concordance. The Delphi measurements for commercial orientation and social orientation are calculated in the second and third rounds in the Delphi process, while the first round explores the factors from previous research and expert panel surveys.

The Delphi approach's results from the second round to the third round show an increase

in Kendall's W or a consensus-level increase in all factor groups. In all rounds, p-values smaller than 0.05 or X2 are significant at $\alpha = 5\%$. This means that agreement on the results for the identification of factors in each group of factors is increasing and significant. Which factors are the most important factors is indicated by the mean ranking of each factor. A smaller mean rank indicates a factor that is more important. The process of reaching agreement or consensus stops at the third round because almost all experts are no longer willing to change their opinion. In the third round Kendall's W coefficient of concordance reveals a sufficient number of agreements close to the moderate agreement based on the guidelines of [Schmidt \(1997\)](#) for assessing the Delphi consensus. The significant rater agreement figures, based on Kendall's W majority, did not reach a figure greater than 0.7, at which point they would be judged to have a strong agreement level based on [Schmidt's guidelines \(1997\)](#). However, a rater agreement that does not reach the strong agreement level may reflect a considerable variation in group-lending practices in microfinance. A variety of practices in all aspects is characteristic of the microfinance sector, where microfinance and group-lending practices are influenced by the characteristics of the environment in which microfinance institutions operate, such as community profiles, business types, culture and geographic location. Based on these results, the Kendall's W rater agreement measurements, which accommodate all expert panels, have smaller numbers compared to the Kendall's W measurements that accommodate only expert panels from microfinance institutions (a lower number of m). This suggests that experts with a background in microfinance practitioners have relatively similar predilections or understanding in all groups of factors in group lending. Based on the mean ranking, this study then selects the six most important factors based on the measurements from the Delphi approach. The selection of six factors from the identified factors is achieved by considering the minimum number of factors identified in each group of factors.

The Delphi approach successfully identified the most important factors based on the group of factors that have been classified, namely objectives, impacts, services and outreach, in each orientation (see Tables 2 and 3). In the group of commercial objective factors it is identified that the reputation effect or social collateral factor (mean rank= 3.2222) is the most important factor. This result illustrates that social collateral becomes a crucial factor in group-lending practices in order to reach the institutional commercial objectives by mitigating the risk of non-performing loans. In the group of commercial impact factors it is determined that the factor of increasing member deposits (mean rank=3.1111) is the most important factor. This represents a specific factor in a cooperative microfinance institution, which is considered to be important in the commercial group-lending orientation. For the group of commercial service factors, the factor for the facilitation of services in order to maintain customer discipline (mean rank=1.5000) is identified as the most important factor. This is in line with the focus of the commercial orientation of microfinance on financial returns. Meanwhile, in the group of commercial outreach factors it is revealed that the factor of increasing the number of clients (mean rank=3.1111) is the most important factor. These results indicate the consistency of a commercial orientation that focuses on breadth of outreach, a service that reaches more people regardless of the economic status of the community (depth of outreach).

SOC1		Social Objectives	
The most important factors		Mean ranking	
		2nd Round	3rd Round
Establishing an attitude of discipline and accountability		3.8889	3.8889
Endorsing social solidarity		4.2222	4.2222
Providing a business opportunity		5.1111	5.2222
Parameters	2nd Round	3rd Round	

	n=15			
	m=12	m=9	m=12	m=9
Kendall's W	0.3008	0.3633	0.3315	0.4013
X ²	50.5417	45.7778	55.6983	50.5644
p-value	0.00000495	0.00003048	0.00000066	0.00000491
SOC4	Social Outreach			
The most important factors	Mean ranking			
			2nd Round	3rd Round
	Reaching the poorest of the poor people		3.3000	2.8000
	Reaching all segments of poor people		3.3000	3.3000
	Reaching the poor people		3.2000	3.9000
Parameters	2nd Round		3rd Round	
	n=8			
	m=13	m=10	m=13	m=10
Kendall's W	0.4274	0.3624	0.5881	0.5538
X ²	38.8974	25.3667	53.5128	38.7667
p-value	2.04452E-06	0.000653176	2.93588E-09	2.16533E-06
n = number of factors, m = number of experts				

n = number of factors, m = number of experts

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Furthermore, in social orientation, for the social objective factors, it is identified that the discipline and accountability factor (mean ranking =3.8889) is the most important factor. Building togetherness among the members for group lending (mean ranking =2.9000) is an important factor in the social-impact-factor group. In the group of social service factors, it is ascertained that the credit to new business is the most important factor (mean ranking =2.8000) and in the social coverage group it is identified that the factor of reaching the very poor (mean ranking =2.8000) is the most important factor. The most important factor in aspect services and outreach shows the microfinance institution's commitment to be consistent with its genuine mission, focusing on empowering the poor and micro/small enterprises. All identified factors are presented in Figure 1. The important factors in the identified commercial and social orientation groups will be used in the ANP measurement; i.e. in assessing which orientation is more dominant.

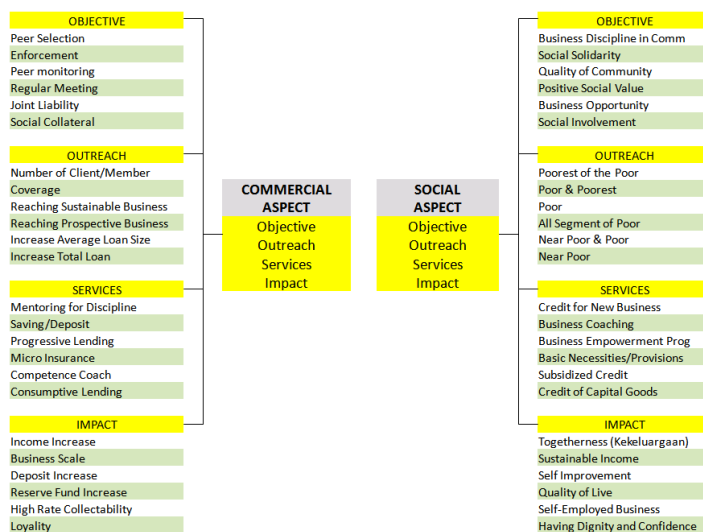


Figure 4
Delphi Identification
Factors and the ANP

In the final phase, this study aims to find which of the orientations, commercial orientation or social orientation, is more dominant. The ANP procedure is applied using the identification results for the six most important factors for each of the commercial and social orientations. The dominant orientation measurement result for group-lending practice on the four aspects is shown in Table 4. The rater agreement (Kendall's W) from the group of panel experts is relatively high, which represents a high consensus occurred. Having a chi-square value and p-value smaller than 0.05 ($\alpha = 5\%$) indicates that significant agreement occurred with the exception of the expert group of scholars.

A. ORIENTATION			
	Non-Practitioner Experts	Islamic Practitioner Experts	Conventional Practitioner Experts
COMMERCIAL	0.48272	0.36532	0.36827
SOCIAL	0.51728	0.63468	0.63173
Kendall's W	0.111111	0.734694	0.49
X2	0.67	10.29	4.9
p-value	0.414216*	0.001341*	0.026857*
B. CLUSTERS			
1. Commercial Cluster			
Commercial Objectives	0.22524	0.26273	0.24547
Commercial Outreach	0.32857	0.26594	0.27782
Commercial Services	0.22082	0.23906	0.26265
Commercial Impacts	0.22538	0.23227	0.21406
Kendall's W	0.0264	0.0457	0.052
X2	0.475	1.9179	1.56
p-value	0.9243	0.5896	0.6685
2. Social Cluster			
Social Objectives	0.25904	0.37065	0.34802
Social Outreach	0.16236	0.14833	0.16048
Social Services	0.19295	0.22032	0.27833
Social Impacts	0.38565	0.26071	0.21317
Kendall's W	0.3153	0.2102	0.236
X2	5.675	8.8286	7.08
p-value	0.1285	0.0317*	0.0694**
C. ALL CLUSTERS			
Commercial Objectives	0.018652	0.020822	0.019476
Commercial Outreach	0.027209	0.021076	0.022043
Commercial Services	0.018286	0.018946	0.020839
Commercial Impacts	0.018664	0.018408	0.016984
Social Objectives	0.021722	0.0324	0.030391
Social Outreach	0.013615	0.012966	0.014014
Social Services	0.01618	0.019259	0.024305
Social Impacts	0.032339	0.02279	0.018615

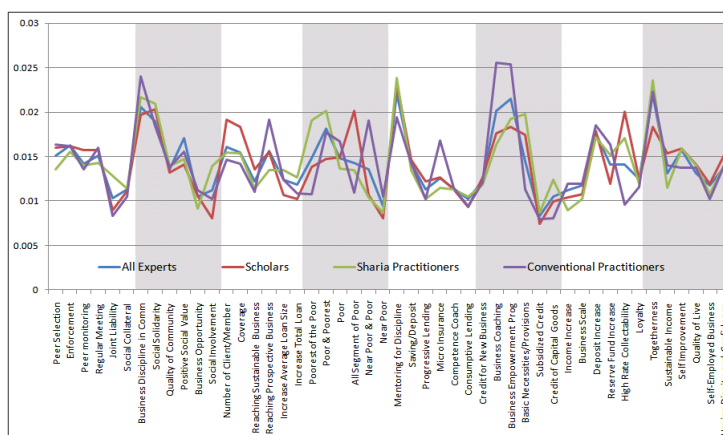
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Table 4
Commercial Orientation
and Social Orientation

Based on the eigenvector for the ANP parameter, it is found that social orientation is dominant in any group of experts. The eigenvectors for social orientation exceed the

eigenvectors for commercial orientation. The eigenvector from the expert group of sharia practitioners shows the highest number for a dominant social-orientation eigenvector and has the highest Kendall's W coefficient of concordance (0.6347 / 0.7347). Therefore, based on this result it can be concluded that Islamic microfinance is still consistent with their social mission. Based on the results given in Table 4, it is also revealed that the social-orientation eigenvector for the expert group of scholars (regulators, academics and consultants) is the lowest (0.5173) compared to the other groups of experts. It may reflect a lack of understanding by scholars of group-lending practices in microfinance. In the overall measurement, the eigenvector for ANP shows a more dominant social orientation. Even though the social orientation of Islamic microfinance is more dominant than for conventional microfinance, both types of microfinance institution are still consistent with their mission. This is reflected by the eigenvectors from all experts, in which the social orientation dominates the commercial orientation with a moderate level for the Kendall's W coefficient of concordance (0.49).

Figure 5
Eigenvectors of ANP- Comparing All Elements Model



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Based on the number of eigenvectors for the ANP when comparing all elements, this shows that the elements in each cluster for the social-orientation group relatively dominates the elements in each cluster for the commercial-orientation group (see Figure 4, the graph for the arrays).

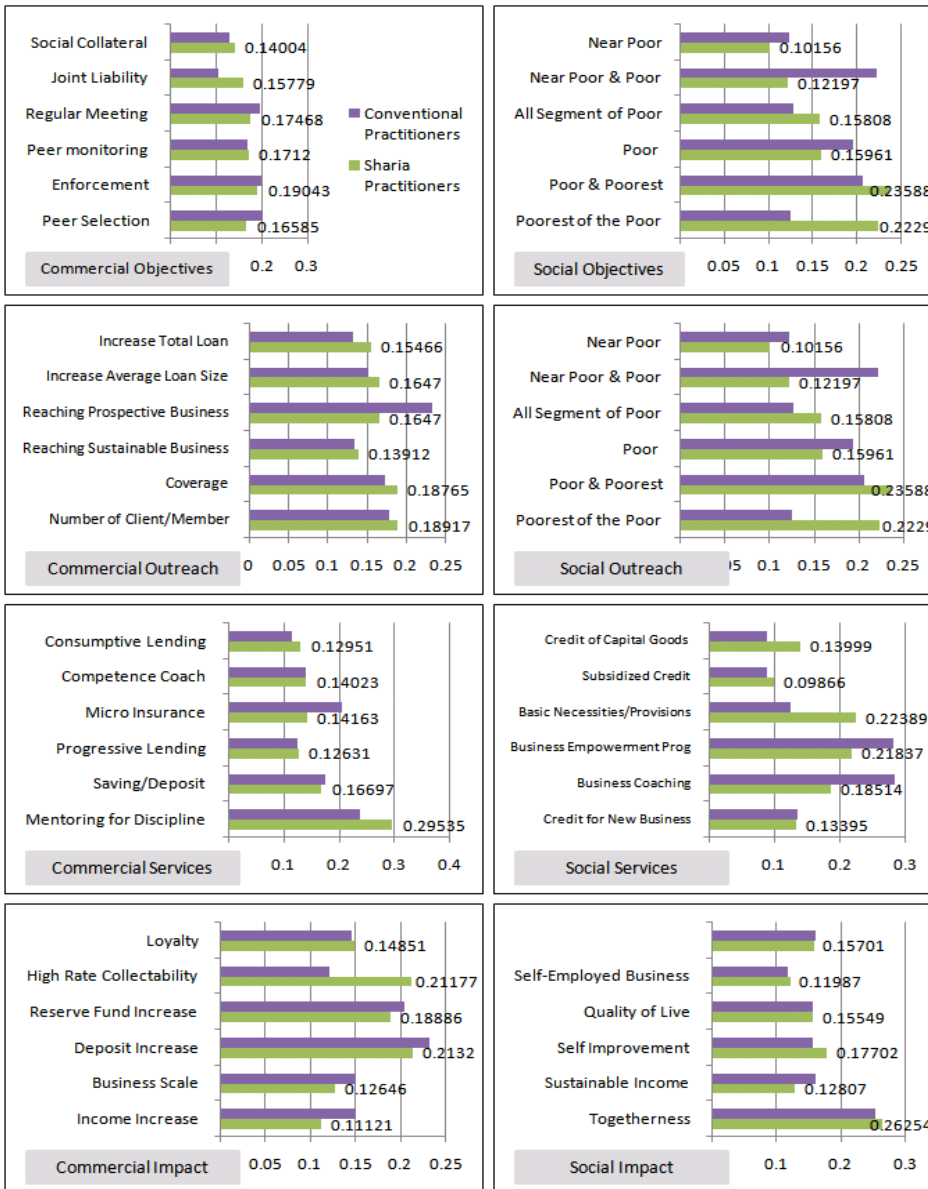


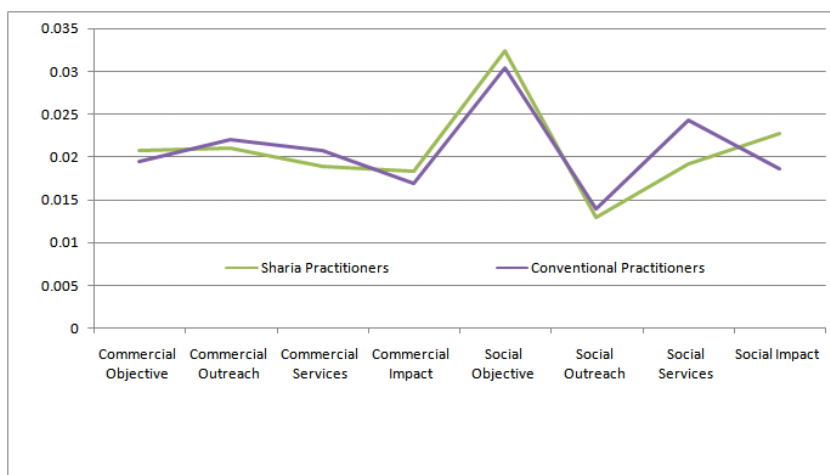
Figure 6
Eigenvectors for ANP
for the Elements in

Group
Lending

Figure 5 demonstrates the most important element in each of the orientation clusters. Based on the eigenvectors for elements within the cluster, Islamic microfinance is relatively emphasized in the different elements as the main variables for consideration compared to conventional microfinance. In the cluster for social outreach, Islamic microfinance focuses more on the segments for poor people (the poorest of the poor and poor people) than conventional microfinance does. However, in the cluster for commercial impact, conventional microfinance places more emphasis on the financial impact than Islamic microfinance. These

results also show strong evidence for the social orientation of Islamic microfinance. [Brau and Woller \(2004\)](#) state that socially oriented microfinance institutions will focus on the depth of outreach, while the commercially oriented microfinance institution will emphasize the financial impact in order to reach a state of financial self-sufficiency. Figure 6 gives more information that illustrates that Islamic microfinance dominates in the objective and impact clusters, where social objective and social impact dominate the commercial equivalents. It shows that Islamic microfinance emphasizes the objective of the institution in empowering micro businesses and poor people, and also emphasizes the benefit or the impact of the programme of group lending to the poor community.

Figure 7
Eigenvectors for ANP
for the Orientation



5. Conclusion

In general, the study showed that Islamic microfinance institutions are consistent with their genuine mission, which is to be an institution that empowers and serves the poor community. The social orientation of Islamic microfinance which is dominant and high enough from conventional microfinance shows that the moral value of Islamic principles is quite instrumental in shaping Islamic microfinance preference. Their commitment is reflected by their objectives and impact. Group lending is believed to be an instrument that mitigates risk, especially using enforcement and regular meetings. Strong evidence of the social orientation of Islamic microfinance was also observed where Islamic microfinance focused more on the depth of outreach, while the conventional microfinance institutions placed more emphasis on the financial impact. This is consistent with the recommendations of [Brau and Woller \(2004\)](#). This result is relatively different from previous studies such as those by [Mersland and Storm \(2010\)](#), and [Abrar and Javaid \(2014\)](#). This study used a decision-making approach that was different from the empirical approach employed by previous studies. The decision-making approach is believed to be sufficiently relevant to use because the orientation of the microfinance institutions is strongly influenced by the preferences of the microfinance institutions. In addition, this study was specific to group-lending practices in microfinance, while previous microfinance-orientation research used individual lending practices as their base assumption. Despite the ability to identify the idiosyncratic factors, the measurement process using the Delphi and ANP approaches needs to be tested on other types of microfinance institution besides cooperative ones. Therefore, further research is required in order to get a comprehensive understanding of the microfinance sector.

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