

**THE IMPLEMENTATION OF GOVERNANCE
PRINCIPLES IN ISLAMIC MICROFINANCE: A
COMPARATIVE ANALYSIS BETWEEN TÜRKİYE
AND INDONESIA**

NUR AMALIA AZIZA

Institute of Social Sciences, Research Center for Islamic Economics
and Finance, Sakarya University, Sakarya, Türkiye

Email: nur.aziza@ogr.sakarya.edu.tr

DR. SALIH ÜLEV

Islamic Economic and Finance Department, Faculty of Political
Sciences, Sakarya University, Sakarya, Türkiye

Email: salihulev@sakarya.edu.tr

Received on: 23-01-23

Accepted on: 12-07-23

<https://doi.org/10.57144/hi.v46i4.719>

Abstract

This study compares implementing the governance principles in Islamic microfinance with a social objective in Türkiye and Indonesia. The relevance of this study is to investigate the best practices to apply governance concepts to Islamic microfinance to achieve IKSAR and BMT MUDA's social goals. Governance principles in two organizations were studied in this qualitative comparative case study. As for the selection research site, IKSAR and BMT MUDA both have an adequate report until 2021 on their website. The study found that both IKSAR and BMT MUDA tried to realize the governing principles, which meet ethical duty in some areas, namely their top management trying to fulfill *Sharī'ah* compliance by *Sharī'ah* experts, responsibility in their human resources, fairness decision-making, understanding the importance of transparency and accountability to report and disclose to stakeholder, including the public, through their website. BMT MUDA appears to disclose more information than IKSAR, which is relatively new, has less funding, and is staffed by volunteers. However, they can use human resources with their current technology and report more regularly. It would increase their transparency, attract contributors, and build public trust, hence boosting their long-term social impact.

Keywords: *Islamic Microfinance, Governance Principles, Türkiye, Indonesia*

1. Introduction

Governance is essential for every institution. According to Lewis, it provides a mechanism to determine an organization's direction, assess its progress, and facilitate decision-making.¹ Governance also involves managing and controlling strategies through best management practices.² Kassim et al. additionally assert that governance plays a vital role in ensuring the smooth operation of institutions. Consequently, governance is widely recognized as a factor influencing the performance of various entities.³

As Kyereboah-Coleman & Osei argue, inadequate governance negatively impacts the performance of microfinance institutions, diminishing goodwill and investor confidence. Thus, governance becomes a crucial factor affecting the microfinance objective, especially in serving low-income clients and ensuring financial sustainability.⁴

In conclusion, Western perspectives primarily prioritize shareholders, while the Islamic viewpoint emphasizes the significance of justice, equity, and social responsibility in governance principles.⁵

In the context of Islamic microfinance, part of Islamic social finance institutions has an essential social role in poverty alleviation. As stated in Ülev, microfinance's objective is to provide financial assistance to low-middle-income people so that they can prevent poverty at the forefront.⁶ Generally, there are several types of microfinance, such as rural banks, NGOs, non-bank financial institutions, cooperatives, Islamic commercial banks, etc. Most forms of microfinance are fall under the category of banks because it is easier to have a large number in reach for people to be financed.⁷ However, when discussing the essential function of microfinance, according to Gupta & Mirchandani, socially oriented microfinance institutions, such as NGOs and cooperatives, have demonstrated more robust focus goals than profit-focused institutions like banks.⁸

Unfortunately, microfinance faces some challenges in achieving its objective is primarily socially oriented. Microfinance faces double the challenges to fulfill the social objective of poverty alleviation and sustainability^{9;10;11}. Fan et al.'s cross-country research revealed that Islamic microfinance in Afghanistan, Bangladesh, Indonesia, Iraq, Jordan, Kosovo, Kyrgyzstan, Lebanon, Pakistan, Palestine, Syria, and Yemen is less financially sustainable than conventional microfinance, but its reach and social benefit are more remarkable than conventional microfinance.¹² In addition, Abbas conducted a study on Islamic microfinance in Pakistan and identified challenges in managing default cases, which can be attributed to

inadequate risk management practices.¹³ It can be concluded that these problems related to the practice of governance problems, as demonstrated by Iqbal et al.'s study, effective governance practices of microfinance in Asia led to greater profitability and sustainability, but many microfinance failures were linked to weak governance systems; for example, microfinance in India 2010 induced suicide as a result of poor governance.¹⁴

Furthermore, in accordance with Lansink et al., NGOs and cooperatives categorized as socially oriented microfinance institutions are inefficient rather than profit-oriented.¹⁵ For instance, in Malaysia, the focus of Islamic microfinance has shifted, due to governance issues from social purpose to commercialization.¹⁶ In Indonesia, Aziz stated that microfinance as management funding in some cooperatives is relatively weak.¹⁷ Then conforming to Ülev, Islamic microfinance in Türkiye faces an asymmetry of information problem.¹⁸ It can be implied that there is a problem with governance. However, this critical role cannot run optimally without good governance. Because governance is closely related to the sustainability of institutions and ensuring the institution's direction is still in line with its objectives.^{19;20}

To avert microfinance failures, particularly those associated with issues like mission drift, it is imperative to focus on strengthening governance practices, as emphasized by Labie.²¹ Governance can help microfinance manage the challenge and attract external funding²² as Hudon stated, institutional stability relates to the level of subsidies received in microfinance²³, which can vary based on management style. Indirectly, this condition is one of the constraints, especially related to stability in various microfinance institutions. Since the success rate of achieving goals depends on the governance system, if governance practices are not implemented, microfinance may fail or deviate from its stated purpose. This study focuses on social purpose-based Islamic microfinance and seeks to determine whether microfinance has implemented practical governance principles so that it remains consistent with its mission and demonstrates sustainability that can gain donor confidence and goodwill. Islamic microfinance is relatively new and limited in Türkiye.²⁴ However, it's noteworthy that there's a good level of transparency in its reports. This study aims to compare governance principles with Islamic microfinance cooperatives in Indonesia. Indonesia has been a pioneer in implementing financial reforms since 1983, maintaining stability even in challenging situations.²⁵

In terms of stability, while obtaining social objectives and tackling the challenge simultaneously, it is crucial to consider how these two types of Islamic microfinance organizations applied the governance principle. Hence, this study aims to explore and compare

the implementation of governance principles in managing Islamic microfinance at IKSAR, the first Islamic microfinance in Türkiye, and BMT MUDA, a modern Islamic cooperative with the latest financial report 2021, both of which are social objectives oriented organizations. This paper contributes to the literature about the implementation of governance principles in the different structures of Islamic microfinance, especially in social-oriented structures, and it might encourage other Islamic microfinance organizations about the importance of governance principles to be applied.

Section 2 of this research presents the study's conceptual framework regarding ownership structure and governance principle. Section 3 offers research methods and data analysis while Section 4 describes the findings about the comparison between IKSAR and BMT MUDA in their management regarding governance principles. Section 5 also discusses their implementation. Section 6 presents the conclusion, limitations and advice for further study.

2. Literature Review

Indonesia started the operation of Islamic microfinance as a cooperative, commonly called *bait al-māl wa tamwīl* (BMT), in 1984²⁶, until 2019 ranked first in the world for Islamic finance due to the number of BMTs of more than five thousand institutions.²⁷ Diverse funding sources have been utilized to demonstrate this point. Among the many BMTs in Indonesia, as far as our awareness, only BMT MUDA was found to disclose information on a website that can be accessed until the latest report in 2021. Recorded in the 2021 Financial Position Report, BMT Mandiri Ukhuwah Persada (MUDA), on its website,²⁸ has distributed several financing, as shown in the table below.

| Financing Instruments | Total in IDR | Total in USD |
|---|---------------------|---------------------|
| <i>Muḍārabah</i> | 955,401,425 | 66,678 |
| <i>Murābahah</i> | 855,045,098 | 59,674 |
| <i>Qarḍ al-ḥasan</i> | 108,654,820 | 7,583 |
| <i>Ijārah Muntahiya Bit Tamlīk (IMBT)</i> | 256,520,000 | 17,902 |
| Other Finances | 443,047,490 | 30,920 |

Table 1. Financing Instruments of BMT MUDA in 2021

Türkiye, which began Islamic microfinance in 2018, has one Islamic microfinance institution and two initiatives activity of organizations that run *Qarḍ al Ḥasan*, according to the Islamic social finance 2021 report.²⁹ The development of Islamic microfinance in Türkiye can also be seen in the distribution of financing in IKSAR as

the first and only Islamic microfinance disclosing reporting organization, and it was recorded from their report in 2021 that the financing that had been distributed with the *Qard al Hasan* contract amounted to TRY 336,400 equivalent to USD 24,992.³⁰

Even though, both are microfinance with small funds, the availability of adequate reports on each website shows the desire and ability³¹ to be transparent in their reporting. Thus, both entities are attempting not to violate the principle governing their operations, policies, and procedures, which many microfinance institutions have difficulty in upholding governance principles.³²

2.1 Ownership Structure

The form of microfinance is divided into several organizational parts, be it traditional institutions or local and international NGO institutions funded from donations, cooperatives and local credit, local government institutions and formal commercial financial institutions³³. Cooperatives and non-governmental organizations are non-regulated and more socially oriented.³⁴ Djan and Mersland stated that various forms of ownership influence the challenge and advantage as well; Cooperatives have member-owned entities to participate in governance; on the other hand, NGOs are ownerless and only run by directors, so cooperatives tend larger and organize in meetings, but NGOs prioritize the expansion of loan accessibility to a larger people in comparison to Cooperatives that have a limit to the members.³⁵ Hence, according to previous research, a distinct form of governance will affect achieving social goals and more related to public values, issues, and strategies.^{36,37}

In Indonesia, there are also several forms of Islamic microfinance institutions, *Shari'ah* rural banks as commercial institutions and *Shari'ah* cooperatives as socially oriented, which have *bait al-māl* division as collecting and distributing to improve the welfare of people with low incomes.³⁸ The *Shari'ah* cooperative empowers the community through their *bait al-māl* and *bait at-tamwīl* divisions for small trading businesses supported by funds from members and other donations such as *zakāt*, *infāq*, and *ṣadaqah*.³⁹ Based on the laws and regulations on *Shari'ah* savings and loan business activities by Cooperatives No. 11 of 2017, business management consists of collecting and distributing funds.⁴⁰ On the other hand, NGOs, whether conventional or Islamic, play a crucial role in Türkiye. Microfinance, initially introduced through NGOs, has primarily focused on providing financial assistance to individuals facing poverty, rather than supporting small businesses.⁴¹ The first and only Islamic microfinance institution in Türkiye is IKSAR, which formed an association as an NGO by regulation and characterized by collecting funds that come from *zakāt*, *infāq*, or *ṣadaqah* for financing the people experiencing poverty.⁴² In addition, as part of Islamic

social finance actor, Karz-1 Hasen Vakfi (*Qard-al-Hasan* Waqf) and MUSIAD,⁴³ have *Qard-al-hasan* financing activities to meet the financing needs of young people in the marriage process, as Abunnaja stated that *qard-al-hasan* could be used for microfinance programs such as marriage.⁴⁴ It can be concluded that despite the difference of ownership between NGOs and Cooperative, the management aims the same for socially oriented.

Generally, Microfinance management, as discussed by Hudon⁴⁵, encompasses of a) decision-making related to competence, In Islamic perspectives, decision-making is regarded as a sacred duty, requiring those in authority to promote values such as truthfulness, fairness, consultation, and consensus-building among participants.⁴⁶; (b) accounting and control, related to planning, budgeting, and reporting besides that in Islamic views require choosing methods that report the current situation in order to show responsibility and accountability to Allah Almighty, society, and individuals⁴⁷; (c) top management, related to the ability of team management and to make proper management⁴⁸; (d) human resources, because quantity and quality are related to commitment, enthusiasm, intelligence, and drive to achieve the goals.⁴⁹

2.2 Governance Principles

The principles of governance services make the management mechanism itself smooth. Governance entails discipline, checks and balances, decision-making of all process mechanisms, mechanisms for exercising power, enforcing rules and procedures, responsibility, control, incentives, and standards.⁵⁰ Prior research has also pointed out the importance of governance principles regarding the performance of microfinance institutions that have strong relations to sustainability in achieving the goals theoretically⁵¹ and empirically through cross countries using quantitative methods^{52;53;54;55}. However, most previous research is based on conventional and profit-oriented microfinance institutions. By refocusing on research related to Islamic microfinance, Kassim et al. examine the importance of governance as theoretically described in best practices in Malaysia and also state effective governance helps microfinance institutions deal with the risks that come with doing business, and governance systems can impact the long-term viability of Islamic microfinance institutions, as well as attract the interest of funders.⁵⁶

However, following are the key pillars of governance principles in Islamic institutions based on AAOIFI⁵⁷: (a) *Shari'ah* compliance, the process of religious supervision to ensure that all business dealings, contracts, and procedures adhere to Islamic moral precepts and are usury-, gharar-, and ribā-free⁵⁸; (b) Responsibility, each element understands its responsibility and a firm moral

foundation⁵⁹; (c) Fairness, college interests are addressed equally and disputes are avoided, as well as a blend of moral and social norms indicating justice, objectivity, temperance, and straightforwardness prevails⁶⁰; (d) Transparency, disclosing information about the organization and enhancement of the flow of timely and trustworthy economic, social, and political information to all critical stakeholders⁶¹ and became the attraction of trust⁶²; (e) accountability, including components of clarity of function and, from an Islamic perspective, it is the duty of information providers to disclose as much as feasible to cleanse their conscience as trustees and for users to shift through the material and develop their own judgement.⁶³

In general, governance, particularly in microfinance institutions, is crucial for addressing the challenges and maintaining stability while achieving the goals. It is essential to conduct extensive empirical research on the various types of microfinance, mainly socially oriented Islamic microfinance, in order to gain public trust and ensure long-term viability. As stated previously, to the best of our knowledge, there are few governance-related studies on Islamic microfinance, and no current studies conducted on country-level governance practices in Islamic microfinance have been identified in the relevant literature. Hence, to contribute to this gap in the literature, our research differs from others in some ways. First, delve further into Islamic microfinance countries between Türkiye and Indonesia. Then, an in-depth examination of the distinctions between socially oriented (NGOs and cooperatives) in Islamic microfinance governance principles concerns.

3. Methodology

As a result of the importance of the governance concept to the strength and stability of Islamic microfinance institutions, particularly those with a social mission and different management that receive varying subsidies that impact the sustain, this study uses qualitative approach. This study also employed a comparative case study since it was the most suitable design to obtain a full picture between Türkiye and Indonesia and an in-depth analysis of the study objectives. The use of comparative analysis helps one comprehend their civilization by comparing its structures and routines to those of other systems.⁶⁴ In addition, the use of case studies is justified by Cresswell's statement that case study is an appropriate research design for in-depth analysis of one or more cases.⁶⁵

Since this study uses a comparative case study, purposive sampling was utilized to gather in-depth knowledge regarding the implementation of governance principles between Türkiye and Indonesia. As for the selection, the research site is purposefully concerned with Islamic microfinance that discloses the report on the

website, which is essential as Haniffa & Hudaib stated that an Islamic perspective, disclosing broadly as trustees is required so the stakeholder can make a decision.⁶⁶ Upon conducting an online investigation, it was found that only IKSAR, an Islamic microfinance institution in Türkiye, and BMT MUDA in Indonesia have published adequate reports on their official websites for the newest year, 2021. Data collection was done using interview techniques and secondary data by literature. Interviews were conducted with the following criteria of informants, (a) understanding funding mechanisms, implementation and distribution of financing and (b) understanding institutional regulations and policies.

Since both Islamic microfinance are still small, this paper only interviewed two key informants, and each institution interviewed one main director approximately one hour long. The interviewees are kept anonymous to protect the privacy of the respondents, who will be referred to as P1 by BMT MUDA and P2 by IKSAR.

Following the collection of data from the interviews, the data were analyzed according to the themes. Considering the relevant research questions, the data were read multiple times. The researcher identified the themes and their relationships through the patterns and processes, commonalities and differences through the coding system, and arranged them through thematic analysis. Finally, a comparison between IKSAR and BMT MUDA was conducted. This method compared and contrasted a number of topics to determine their similarities and differences.⁶⁷

4. Findings

Based on the research results from interview and documents in the field of Islamic microfinance in Türkiye and Indonesia, the comparison between IKSAR and BMT MUDA will be provided into several themes: general overview, *Shari'ah* compliance in top management, responsible human resource, fairness decision at the implementation stage, and transparency and accountability in reporting.

4.1 General overview of IKSAR and BMT MUDA

IKSAR is an Islamic microfinance founded by academics in the form of an NGO located at Sakarya, Türkiye. IKSAR was established at the end of 2018 and officially started its operations in 2019. The establishment of IKSAR is not only to develop the project of applying Islamic economics but also to raise awareness in the community about the microfinance model and, at the same time, to help improve the welfare of the residents in Sakarya. The funds come

from donations and zakat, and the distribution contract uses *qard al hasan*, who has distributed funds to 62 people as of 2021, totaling 489,000 TL. The distribution of *qard al hasan* funds is aimed at the poorest of poor people who will open small businesses such as small sewing, recycling, pastries, cafes and others so that they can improve their living and independent standards. On the other hand, IKSAR also has a Hayr'ola project in that they accept donations from second-hand things, and they will sell them in return for a donation to provide for those in need, like providing scholarships for students.

BMT MUDA stands for Mandiri, Ukhuwah, and Persada, where this Islamic microfinance is cooperative and was founded by Indonesian academics, IUM alums, and Airlangga University lecturers. The establishment of BMT in 2012 was located at Surabaya, East Java, Indonesia. BMT MUDA's main source of funds comes from members who save in BMT MUDA. In the current situation, BMT MUDA's members have reached 865 people. BMT MUDA members vary in the profession, from farmers to academics, so that the amount of savings deposited varies. BMT MUDA, like BMT in general, has two divisions: a) *bait al māl*, which focuses on solving social problems by providing funds for zakat, infāq, ṣadaqah, and waqf, and b) *bait at-tamwīl*, which focuses on gaining profit, links it as well into the *bait al-māl* program, which is usually utilized for religious and skill-improvement programs. With the various programs they made in *bait al-māl* division, especially in the education program, it is hoped that BMT MUDA can empower people to have a better future in finding work. The programs owned by BMT MUDA are very diverse, ranging from providing capital for small and medium micro-entrepreneurs to managing businesses such as renting shops or other real businesses, with the proceeds used to expand the waqf fund program in *bait al-māl* and distribute profits to members who save in BMT MUDA. Financing channeled to members uses a variety of contracts in keeping with their needs, such as *murābahah*, *muḍarabah*, *qard*, and *rahn*.

4.2 *Shari'ah* Compliance in Top Management

IKSAR divides tasks with its partners to facilitate operations. Some of their commissions are for finding people as recipients, and some are for creating activities or the distribution section. In IKSAR, there is also an advisory board used for consultation with professional mentors who are very experts in their fields related to microfinance. Moreover, the most important in the management of IKSAR, to be precise in the advisory board, is that there is a fiqh expert to consult about the implementation in operational according to *Shari'ah* principles, especially in funding, as P2 mention:

“If we want to initiate a new program, we consult with them about this program. Also, if we face a problem with borrowers' repayment, for example, if the borrower cannot pay his loan and his income level is pretty low, we ask the advisory board if we can use the zakat fund to delete this borrower's loan” (P2).

On the other hand, BMT MUDA also has an advisory and supervisory board consisting of experts in microfinance, primarily Islamic microfinance. The management consists of a presiding officer, secretary and treasurer, and a section to manage BMT MUDA's operations consisting of the principal director in *bait at-tamwīl*, marketing, and *bait al-māl*. There is also an existing *Shari'ah* supervisory board that was formed two years ago because BMT MUDA also acts as a *nāzir* to collect *waqf*, which is mandatory from the government, as reported by P1.

The different institutional structures between IKSAR as an NGO and BMT MUDA as a *Shari'ah* cooperative still encourage them to maintain conformity with *Shari'ah* principles through the presence of *Shari'ah* specialists; both organizations recognize the importance of complying with *Shari'ah*. As a *Shari'ah*-compliant institution, it naturally requires consultation with *Shari'ah* advisors, especially when developing new programs. In order to achieve the goal of providing social good, this will indirectly impact Islamic values.

4.3 Responsible Human Resource

IKSAR operates as an NGO, with academics engaging in their endeavors on a voluntary basis. Even though IKSAR has limited human resources, since they come from academics who are in one place, at the same time, it made it easier to communicate issues and problems regarding IKSAR by directly talking about the issue. That is why conducting regular meetings is not determined, especially when talking about plans. However, the effectiveness can be further enhanced by involving professionals, which can lead to an increase in providing *qard al ḥasan*, as indicated by P2.: “Maybe if we work at IKSAR professionally, the amount of *qard* that we give would increase.” Because the promotion of IKSAR was primarily conducted using social media platforms and traditional word-of-mouth strategies, whereby existing IKSAR users shared information about the product to others in order to raise awareness. It can be implied that despite their busy schedule, they are still committed to running IKSAR as a role model and spreading the benefits of Islamic microfinance. Even though IKSAR is still relatively new and voluntarily works, they still proved their

responsibility to commit to reaching out to 62 people until now who have already got financing from *qard al hasan*.

In BMT MUDA side always conducts annual routine meetings such as for the budget and changes in management. Therefore, it will facilitate the direction of BMT MUDA's goals for one year with the existing targets, such as collecting funds targets carried out by four account officer employees. Even though employees are working in operation to help with promotion methods, counseling, and the target funds to be achieved, few human resources cannot reach out maximally in promotion, which influences the distribution fund in *bait al-māl* projects, which wanted empower broadly through various projects as P1 said. Because BMT MUDA not only utilizes social media platforms for promotional purposes but also employs conventional tactics such as direct marketing during recitations at various mosques throughout districts. These efforts aim to generate donor interest by providing comprehensive explanations of each programme offered by BMT MUDA, with a particular focus on the *bait al-māl* initiative. It can be implied the lack of human resource management to carry out promotions, they remain devoted to managing funds as efficiently as possible, as evidenced by the numerous programs they run, such as *The Holy Qur'ān* recitation, education scholarships, capital for small microenterprises, etc., that remain running until now.

Although both organizations have limited human resources, especially IKSAR, which operates on a voluntary basis, their commitment and passion for achieving the goal of empowering the lower middle class through the distribution of financing in accordance with *Shari'ah* principles cannot be denied and show that both are responsible in achieving social goals. Because both IKSAR and BMT MUDA maximize the potential of their human resources by equipping themselves with technology in the financing and promoting businesses through social media channels has become more accessible. Therefore, although the limited number of human resources may seem like a weakness, it might be an advantage because it decreases the interest conflict; at the same time, utilized technology can help them be more stable in administrative management and are responsible to donors and other stakeholders to trust these two institutions.

4.4 Fairness Decision in the Implementation Stage

Building trust among stakeholders can be done through several operational procedures. Before IKSAR distributes the *qard al hasan*, IKSAR conducts a risk study first with the requirements when filling out online. For instance, in the online form, the borrower must provide a guarantor, explain the type of business that will be formed

with the money provided, the amount of revenue, the insurance holdings can classify the status clearly, the number of family members, and other considerations. Then, they visit the house or workplace to see the feasibility. It is also used to see whether the borrower comes from a middle-income, lower-income, or low-income family. If the recipient of the loans comes from the lowest class, they will be given zakat first after some time and have stabilized, then switch to regular financing in *qard al-ḥasan* that must be returned through monthly installments. The maximum amount of interest-free financing is 20,000 TRY. These conditions make a good cycle for sustainable funding so that there is no problem with funding; as P2 mentions:

“As long as the loans are paid back, the money in *qard al-ḥasan* fund remains constant. As more people donate, the fund amount increases and we reach more people to give *qard al-ḥasan*. So far, we haven't had a situation where we couldn't afford it. We met all suitable *qard* demands” (P2).

Moreover, if there were a financial issue, it would not significantly impact the cycle. KSAR would assess the situation initially, and if the borrower shows no intention of paying the installments, legal action may be taken, leading to court proceedings.. However, if it were because the business condition became difficult, they would be given a deferment of time so that the borrower could pay its installments.

On the other side, BMT MUDA, as a *Shari'ah* cooperative, is limited to giving loans only to members; hence, for loan distribution, BMT MUDA focuses more on those who have become members only. By joining a membership that bears the responsibility of saving, the ranking of members of the track record regarding the activeness of saving and others in the BMT MUDA system would be seen. Therefore, this will facilitate the risk assessment endeavors of BMT MUDA more easily. For instance, the operational procedure of members who wanted to be financed 25 million IDR only requires approval by the manager, but financing 25-50 million IDR must go through two levels of approval of the manager and management, and above 50 million IDR requires three levels of approval of the manager, management, and supervisor. It would be more controlled to prevent financing problems. Even if there were a problem, it would not affect BMT MUDA as the P1 said: “The important thing is to meet and contact. And we find an Islamic solution until he can pay off” (P1). Along with IKSAR, BMT MUDA will see the conditions of borrowers first. If the borrower cannot pay, the time will be extended until the borrower can pay the loans. Even if the borrowers

indeed don't have the ability to pay the profit that the contract already made in the beginning, they are allowed to pay the main loans without profit. Furthermore, as an Islamic cooperative, BMT MUDA does not have significant financial disruptions despite terrible financing. It is because BMT MUDA will look at the borrower's condition first and by the value held to be honest and fair to all parties to maintain the relationship, as P1 said. Therefore, they are still financially stable because they maintain a good relationship with the Islamic values that are held and practiced.

It indicates that both IKSAR and BMT MUDA will seek a fair way, according to *Sharī'ah*, to solve the situation. This is primarily in accordance with Islam's morals, which state that neither party should be harmed, so as an Islamic microfinance institution, it will consider all aspects beforehand so that it does not affect its financial risk or burden the borrower. Therefore, both Islamic microfinance providers and borrowers establish mutual trust. As a result of their pursuit of justice, they are able to maintain good relationships with the community.

4.5 Transparency and Accountability in Reporting

IKSAR demonstrates its commitment to transparency by engaging in several practices such as disclosing activity reports, providing updates on the distribution of finance, and sharing information regarding the number and nature of donations received. This also gets support from the existence of an audit division to control the activities carried out transparently and as a communication bridge to the government to report annually on a regular basis. All of the content disclosed was conducted through their website and social media. Therefore, the public could know about what activity they have done; as P2 mentioned,

“We try to be as transparent as possible. Every *qard al-ḥasan* we give here, we record it. Even if the amount we give is small, we put it our website. We want the people who donate to us to have no doubt in their minds about where this money is used” (P2).

However, IKSAR disclosed that information is not much broader than BMT MUDA. BMT MUDA discloses not only its activity but also its financial report. As P1 indicates, the organization's ownership is internal and external. Therefore, the public was able to comprehend their work, and members would not condemn the profit they got.

Even though IKSAR did not share their financial report, they maintain an Excel spreadsheet of its income and expenses. After each year, the accounting records will be submitted to the internal audit and the government for review as their accountability. As Turkish regulations require the reporting of even the smallest transactions, this condition elevates IKSAR above the supervision system. Because IKSAR is the first Islamic microfinance organization to adopt the structure of an NGO, and the applicable regulations are absent. However, NGO financial reporting standards continue to be the norm in Türkiye. Therefore, there is a need to ensure that the format of the financial statements provided to the public is in line with a typical NGO or microcredit.

Similarly, as numerous Islamic cooperatives in Indonesia mostly have two divisions, both *bait al-māl* obtain social goals and *bait at-tamwīl* for profit-oriented or simply one of them, there needs to be a regular reporting structure. Due to the current regulation shows that the reports resemble those of a conventional cooperative, which appears to focus merely on *bait at-tamwīl*. However, BMT MUDA was able to distinguish the Islamic cooperative by including contracts in the financial statements, whereas accountability for *bait al-māl* is presented in a separate report. After demonstrating their accountability through automatically generated financial reports with the BMT MUDA system, as mandated by the government in 2020, they have sent the reports for health assessments to the local government. Unfortunately, despite having supervisory boards, members, and a treasurer, as well as annual meetings to supervise the report as accountability, BMT MUDA lacks financial supervisors to monitor the credibility of internal operations through the existence of an internal auditor.

IKSAR and BMT MUDA, as institutions bearing the Islamic label, have demonstrated adherence to the principles of openness and accountability by disclosing sufficient information to the public. As a result of differences in institutional structure and regulations, their information disclosure has a distinct appearance. IKSAR is limited to activities reports and BMT MUDA, whether activities or financial statements are willing to be disclosed to the public. Although neither Türkiye nor Indonesia has a specific law governing information disclosure to the public, both IKSAR and BMT MUDA are willing to disclose their report. Consequently, the transparency and accountability through the reports they have done is one of the factors that can sustainably strengthen Islamic microfinance, as they will be able to gain the public's trust by disclosing relevant information.

5. Discussion of Implementation of Governance Principles in Management

Both IKSAR and BMT MUDA have implemented governance principles that enhance management's efficiency, ensuring their continued operations as going concerns and obtaining the social goals. However, when discussing the ownership structure of IKSAR, an NGO with volunteer human resources and still relative new, their transparency and accountability are not broader than BMT MUDA. In addition, BMT MUDA operates as an Islamic cooperative wherein members actively engage in governance, aligning with the arguments by Djan and Mersland;⁶⁸ hence BMT MUDA feels the obligation to enhance transparency in its reporting practices to cater to the needs and interests of its stakeholders. As demonstrated in Table 2, a comparison of these two microfinances reveals either similarities or differences.

| Governance Principles | IKSAR (NGO) | BMT MUDA (Cooperative) |
|------------------------------|---|---|
| <i>Sharī'ah</i> Compliance | <ul style="list-style-type: none"> The existence of a jurist in <i>Sharī'ah</i> jurisprudence in top management | <ul style="list-style-type: none"> The existence of a separate <i>Sharī'ah</i> Supervisory Board in the top management |
| Responsibility | <ul style="list-style-type: none"> Although voluntarily, it remains committed to providing the best service for social interests in financing There are no regular meetings to discuss the future, only direct discussions with co-workers. | <ul style="list-style-type: none"> Remains committed to providing social interests with various programs in the <i>bait al-māl</i> division. Conduct annual meetings for future agendas |

| | | |
|--------------|---|---|
| Fairness | <ul style="list-style-type: none"> • Decision-making, especially when providing financing, conducts a risk study from the data filled in and a review for consideration. • As for financing issues, consider the borrower's condition with a time deferment or legal. | <ul style="list-style-type: none"> • Decision-making, especially when providing financing that can only be given to members, is based on the member's liveliness rating. • When there are financing problems, consider the borrower's condition by deferring time and waiving the return on profit. |
| Transparency | <ul style="list-style-type: none"> • Transparency content in the form of activity reports, the number of incoming and distributed donations • Transparency is carried out through website reporting that is easily accessible to all. | <ul style="list-style-type: none"> • Transparency information in the form of financial reports, news of the most recent events, and the number of donations obtained for each <i>bait al-māl</i> program. • The media is mainly through a website accessible to everyone, social media, and regular meetings. |

| | | |
|----------------|---|--|
| Accountability | <ul style="list-style-type: none"> • Periodically conduct accounting records • Accounting report only for internal and government • Annually conduct a record conformity check and report to the government website. | <ul style="list-style-type: none"> • Conduct periodic record keeping • An accounting report can be accessed on the website for public • Regular reporting to routine meetings and local government. |
|----------------|---|--|

Source: Authors

Table 2: Summary of the Comparison between IKSAR and BMT MUDA

Top management can be associated with *Shari'ah* compliance since both IKSAR and BMT MUDA have separated management responsibilities, including the presence of *Shari'ah* specialists. Even though IKSAR is brand-new and the first Islamic microfinance institution formed as an NGO in Türkiye⁶⁹, one member of IKSAR's advisory board is a *Shari'ah* expert, and BMT MUDA also has a *Shari'ah* advisory board. This function is to consult on *Shari'ah* compliance specifically, especially when carrying out activities that must be free of *gharar*, *maysir*, and *usury*.⁷⁰ As indicated by Ülev, the source of Islamic funds in both organizations is *zakāt*, *infāq*, *ṣadaqah*, or even *waqf*, as evidenced by the findings.⁷¹ This is the defining characteristic between conventional and Islamic microfinance governed by Islamic law. At the same time, it can be implied that both IKSAR and BMT MUDA have the ability to make proper management as Islamic principles by consult to the *Shari'ah* experts.⁷² Consequently, both IKSAR as NGO and BMT MUDA as Islamic cooperatives imply an awareness of and duty to uphold *Shari'ah* compliance.

Responsibility can relate to human resources in internal management. Although IKSAR, as an NGO, works voluntarily, it does not reduce their enthusiasm to achieve their social goals in the financing, as BMT MUDA, an Islamic cooperative, particularly synergizes with *bait al-māl* division to achieve it. IKSAR and BMT MUDA demonstrate microfinance through their activities that finance the low-income class, as microfinance seeks to provide financing to help people from the low-income class advance.⁷³ Even though their human resources are limited, they are still committed to financing. In

accordance with Mutamimah et al., the quality of human resources is related to commitment, enthusiasm, intelligence, and drive to achieve goals.⁷⁴ It has been proved by many people who get financing, utilized technology by IKSAR even though it is still relatively new, and many variance programs from BMT MUDA. Indirectly, IKSAR and BMT MUDA have the ability to manage Islamic microfinance in their management, which confirms Kassim et al. statement that microfinance needs the ability. In addition, if they face a problem, they will communicate to solve it with a different approach. Due to the fact that IKSAR is an NGO, they are not determined on a meeting because they will talk about it directly, but it would be better if IKSAR has a plan like BMT MUDA regularly has a meeting to discuss the plan. Generally indicates that they have an excellent moral foundation to carry out their responsibilities as microfinance institutions.⁷⁵

Fairness is one of the *akhlāq* that IKSAR and BMT MUDA exemplify in terms of morality, particularly while making decisions in the event, in order to make decisions with integrity and fairness, each party must be honest and fair. As Lewis stated, making decisions is required to be responsible, truthful, and fair, then must be built among participants so that all parties trust and will not harm each other.⁷⁶ Clearly, IKSAR and BMT MUDA with borrowers are fair for all parties involved. It can be implied in making decisions regarding one of the credit issues, they adhere to the principle of fairness objectively.⁷⁷ Due to the fact that these organizations form Islamic microfinance primarily for social benefit, this condition necessitates that its interests are not always prioritized.⁷⁸ The principle of fairness has indirectly led to public trust in these two Islamic microfinances, which led to stability. According to Kassim et al., implementing effective governance will help Islamic microfinance overcome risks because the public has trusted the organization, especially to attract donors.⁷⁹

Obtaining social improvement needs trust from the donator, and it can be proved through transparent information⁸⁰ because the public will know about the activity from the information disclosed by the organization.⁸¹ Both IKSAR and BMT MUDA share an essential objective, notably the importance of information disclosure. They both understand the importance of transparency because Islamic microfinance is not only owned by organizations but also by social communities. As Haniffa and Hudaib stated, the Islamic paradigm requires broad information as responsibility and accountability to Allah Almighty, the public, and individuals.⁸² The utilization of websites and social media platforms serves as a means for communicating relevant knowledge regarding IKSAR and BMT MUDA, thereby ensuring public awareness at all times. For instance, IKSAR provides details about the number of incoming donations and activity reports for the year 2021, while BMT MUDA discloses

financial reports, the number of incoming donations in each programme, and the most recent activities. Therefore, this spurs available information to attract donors' attention.⁸³

Given the Islamic perspective, it might be argued that the community was in need of additional information.⁸⁴ Both BMT MUDA and IKSAR demonstrate a commitment to responsible conduct and strive to provide the highest quality service offered. In addition, the regular practice of IKSAR and BMT MUDA in documenting transactions, reporting them to the appropriate authorities, and making the information publicly accessible on a website demonstrates their undeniable commitment to accountability. Unfortunately, lack of regulation in Türkiye or Indonesia regarding reporting form that made IKSAR and BMT MUDA confused confirms Gupta & Mirchandani argument that socially oriented microfinance, such as NGOs and cooperatives, is not adequately regulated.⁸⁵ However, IKSAR and BMT MUDA have the awareness to uphold the value of *Shari'ah* compliance, commitment, moral attitude, and trustworthiness in transparency as their accountability to the stakeholders, which is consistent with Hudon and Jepson's argument that socially oriented microfinance is more concerned with public values, issues, and strategies in achieving social objectives.^{86:87}

6. Conclusion

IKSAR and BMT MUDA have tried to realize governance principles in their management; hence, they effectively fulfill their moral obligation by pursuing their social objectives. However, BMT MUDA has greater transparency than IKSAR due to its regulation and ownership structure, whereas IKSAR is merely an association that operates on a voluntary basis. In addition, IKSAR is newer and smaller than BMT MUDA. Both have the same understanding of the importance of *Shari'ah* compliance, proved by the existence of *Shari'ah* experts, the responsibility to give the best service through their programs, fairness in decision-making when there is a problem to look for the best solution in the Islamic way. As for accountability, primarily in financial reports, IKSAR is limited only to internal and government. On the contrary, BMT MUDA gives accessibility not only to internal such as supervisory and members but also public through their websites and annual meetings.

This analysis demonstrates that despite the shared characteristic of both entities being modern, their reliance on technology as a means to gain a competitive edge is evident. If they were able to plan for an increase in human resources, they might increase promotion, and collected donations would be able to reach more people to enhance the socioeconomic situation in Türkiye and Indonesia. IKSAR should meet on a regular basis to discuss their

plans for their ongoing business and to expand the scope of their information disclosure. Likewise, if BMT MUDA has an internal audit board, its finances and governance will be more organized and financially trustworthy. Both IKSAR and BMT MUDA are supposed to be more transparent and accountable to attract the public trust in them; hence, their long-term success in achieving their social goals would be enhanced despite in an unpredictable context, Islamic microfinance will become more secure and resilient in the long run. Finally, each country's government should also encourage practitioners to continue to develop Islamic microfinance, emphasizing socially-oriented microfinance by making more concrete regulations, particularly regarding information disclosure to the public, so that the public will get more reliable information. Given that in Islam, it is necessary to disclose information thoroughly to the public because this will also have an impact on public awareness to trust Islamic microfinance institutions more so that it will simultaneously have an impact on relations among the public, Islamic microfinance, and the government in creating a sustainable.

This study relies on only two informants due to the small size of both entities. Hence, the author cannot shed light on the factors that influence the structure and administration of both organizations. Due to the fact that this study only investigates two Islamic microfinance countries that specifically had disclosed the reports on the website, further research is required to delve deeply into each facet of governance principles, to incorporate the government's perspective, and to include more countries.

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