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The Depth of Outreach in Rural Banks: An Empirical Analysis in West Sumatera Indonesia

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ABSTRACT

The purpose of this study is to analyze the determinants of the depth of outreach in Rural Banks in Indonesia, which includes profitability, regulation, competition, socio economic culture and religiosity. The study also investigates the trade-off between financial performance and social performance in rural banks and compare the depth of outreach between the Rural Banks and Islamic Rural Banks. This study proved that the depth of outreach is influenced by: (1) Regulation, shown by CAR, (2) Socio-economic, especially commitment to keep increasing the percentage of low-educated clients and percentage of women as clients, (3) Organizational culture, especially for aspects such as: Attention to detail, Team Orientation, Aggressiveness and stability, and (4) Local culture, covering aspects: non-traditional guarantees, local people as marketing personnel and credit advisory. The results also showed that there is a trade-off between social and financial performance in Rural Banks and proved that there is no difference in the depth of outreach between Rural Bank and Islamic Rural Bank.

JEL Classification Codes: G21.

Keywords: Depth of outreach, rural bank.

1. BACKGROUND

Rural Bank is a financial institution recommended by the government to serve the micro and small sectors. Theoritically, Rural Bank are categorized as Formal Microfinance Institutions (MFIs), with their institutional development policies aimed at providing financial services to micro and small enterprises and also for local communities, especially in rural areas. Act No. 7/1992 about Banking which amended by Act No. 10/1998, stated that a Rural Bank is a bank conducting business in a conventional or Islamic-based in which its activities do not provide services in the payment traffic. The explanatory clause of Law No. 7/1992 about Banking in article 14, stated that the business activities of Rural Banks are primarily intended to serve small businesses and communities in rural areas.

In their operation, there are two performance targets in Rural Bank, that are financial performance and social performance. Financial performance is related to profitability and sustainability, while social performance is related to social responsibility mission. Social performance can be measured by outreach, assessing the extent to which an MFI's impact on economic development, or the extent to which an MFI has achieved its goals in providing social benefits to the poor (Schreiner, 1999; Yaron, 1994; Yaron et. al, 1997; USAID, 2006). The main debate in achieving this social performance is the difficulty of achieving good social performance with good financial performance, then causing a trade-off between these two performance achievements (Olivares-Polanco, 2005; Christen, 2010; Rama et. al., 2014). Nevertheless, several other studies show that the two targets of these microfinance institutions can be achieved simultaneously. (Zerai & Rani, 2012; Zhang, 2013; Millson, 2013; Gakhar, 2015).

In the context of microeconomics theory, the dual purpose in microfinance institutions is something contradictory. In maximizing profit, the institution will maximize the biggest difference between total profit and total cost, so it will be more advantageous for the bank not to deepen the outreach. Banks prefer to channel average loans on a certain level, which is not too small. This is because credit with a small level means an increase in operating costs. While the social function of the bank will be achieved if the credit disbursed is small. This social function will only be done by the bank if it supports institutional financial goals.

The fact showed that some Rural Banks have good social performance while others do not. Several factors are identified as the cause of the differences: *First,* commercialization, which includes profitability, competition and regulation. Profitability refers to the ability of Rural Bank to create profit. Competition refers to the ability of Rural Bank to compete and be superior to other microfinance. Furthermore, regulation refers to the ability of Rural Bank in running intermediaries function, as the recipient of deposits and then channeling the loan to the community. The relationship between the commercialization factors are identified as having an effect on the depth of outreach in the MFI. Christen (2001) and Olivares-Polanco (2005) analyzed the issue of commercialization in MFIs, characterized by profitability, competition, and regulation. Other studies related to the factor of commercialization or financial sustainability generally showed a positive relationship between the factor of commercialization or financial sustainability to outreach (Paxton, 2002; Rani, 2012; Zhang, 2013; Gashayie, 2015; Kaur, 2014).

Second, socio economic culture. Adam and Fitcheet (1992) stated that the microfinance institution is a dynamic, innovative and flexible governance, which created according to social environment and local economic conditions, so that MFIs operate in areas where socio-economic conditions affect and are affected by them. Several studies have revealed that socio economic culture has an influence on the MFI's social performance (Fitcheet, 1992; Wollni, 2001; Osotimehin, 2011; Ahlin et. al., 2011). Deubeul (2003) and Phlong (2009) revealed that cultural factors, including local culture, are important aspects that should be considered in the implementation of management in microfinance institutions, as well as in Islamic microfinance institutions. Further, Erdmann (2012) stated that culture affects the existence of microfinance institutions, through what is called "social cohesion". While Arsyad (2008) mentioned these socio-cultural factors as "informal institutions", which play an important role for the success of MFIs in reaching the micro sector. All of these opinions come to the conclusion that the economic-socio-culture affects the existence of the MFI.

Third, religiosity. This factor influences governance in MFIs by prioritizing religious values, beliefs and practices within the institution. Saleh (2012) categorized religiosity into four dimensions consisting of belief, knowledge, practice and experience. Implementation of religiosity in financial institutions can be realized in the form of a religious environment that will strengthen the transaction on the basis of religious values. Limitations of studies lead to difficulties in predicting the effect of religiosity on the outreach of MFIs. However, Seibel (2008) and Aslam (2015) described that Islamic Microfinance Institution that characterized religious values in its operations affects the existence of microfinance institutions in Indonesia. Farooq & Khan (2014) proved that Islamic MFIs are more sustainable than conventional MFIs, for some cases in Pakistan. The development of Islamic MFIs that are still not established and the number of networks that is still small, causing not many studies that try to compare it.

This study aims to analyze the determinants of outreach in Rural Banks, covering the commercialization, socio-economics, culture and religiosity. Furthermore, this study will analyze the trade-off issue between financial performance and social performance in Rural Bank, then answering the question of whether this outreach differs in Rural Bank and in Islamic Rural Bank. The reason for the selection of West Sumatra as a research area is due to the long history of MFI development in West Sumatra and the existence of Rural Bank in this province which is also in similar problems. Limitations of regulation, competition with commercial banks and limited financial capabilities, make rural banks difficult to achieve financial performance in line with social performance.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The Concepts of Microfinance, Microfinance Institution and Rural Banks

Ledgerwood (1999) stated that microfinance refers to the provision of financial services (savings and credit) to low-income customers. Microfinance Institution is a provider of financial services for small and micro entrepreneurs and serves as a development tool for rural communities (Ledgerwood, 1999). Rural Bank, theoretically in some literature is categorized as a Formal Microfinance Institution, but in the form of Bank (Mashudi, 2003; Arsyad, 2008; Rivai, 2012). The existence of Rural Banks in Indonesia is regulated by Law No.7/1992, then amended by Act No.10/1998 on banking. Article 5 of the law defined that Rural Bank as a bank conducting business in a conventional or shariah-based manner *(Islam)* which in its activities does not provide services in payment traffic. With respect to the two main streams in MFI operations, namely institutionalist approaches and welfare approaches (Woller et. al, 1999), the Rural Bank can be categorized as an institutionalist MFI. MFIs with institutional approach aim to achieve institutional independence, through achievement of financial sustainability and outreach. But MFIs with a welfare approach emphasize the goal in to direct poverty reduction through lending, which is often provided in conjunction with complementary services such as vocational and reading, writing, numeracy, health, nutrition, family planning, etc. (Ledgerwood & White nd, 1999). One of the most successful welfarist approaches in the world is the empowerment of the productive sector by Grameen Bank in Bangladesh.

Depth of Outreach

The outreach is a key dimension that shows the best proxy of a social performance measurement. The outreach is an attempt to extend microfinance services to people who are not served by formal financial institutions (Anne-Lucie et.al, 2005; Yaron, 1997; Okumu, 2007). Although the outreach is not a perfect indicator for assessing the MFI's impact on economic development, it can serve as a proxy of the extent to which an MFI has achieved its goal of providing social benefits to the poor.

Schreiner (1999) divided the aspect of outreach into six major aspects : worth, cost, depth, breadth, length, and scope. The worth of outreach is defined as the willingness of customers to pay for the financing. The cost of outreach refers to the costs have to pay by the customer such as interest costs/margins and other transaction costs. The depth of outreach refers to the depth of the social benefits obtained by the society. The breadth of outreach is related with the number of clients, which is determined by the budget constraints, wants and needs of the community. The length of outreach is the time frame of the supply of microfinance, which is not only measured than just profit. The scope of outreach is a type of financial contracts offered both products of funding and financing products. There are several other measurements of outreach (Yaron et. al, 1997; Paxton, 2001; USAID, 2006; Millson, 2013), but according to Rhyne (1998) there are two popular aspects of the outreach thai is depth and breadth. The Depth of outreach refers to the poverty level of clients is served, while the breadth refers to the scale of operations of microfinances. Both concepts are widely used in the literature of microfinance institutions as a measure of social performance of a financial institution. Assuming that the poor receive small nominal loans, then more smaller the average of loan will deepen the outreach.

Commercialization

Commercialization in financial institutions is characterized by profitability, competition, and regulation. Mamduh et. al., (2003: 159) defined profitability as "measuring the company's ability to generate profits by using the total assets owned by the company after adjusting for costs". One of the ratio that can be used is Return on Assets (ROA).

The aspect of regulation in microfinance institution can be proxied with intermediaries function, the main function of bank as the recipient of deposits and then distributed the loan to the community. The ratio used is the Capital Adequacy Ratio (CAR), with the consideration that the CAR has a major impact on lending and ensuring the sustainability of financial institutions. Christen et. al., (2001) noted the importance of CAR in expanding the MFI network. Upchurch (2005) also reinforced that capital adequacy is a crucial factor in the sustainability of any business organization that using public money such as banking. Olivares-polanco (2005) found that the depth of outreach in MFIs is influenced by several factors of commercialization such as institution type, institutional age, sustainability, breadth of outreach, competition, gender and lending methods. According to T.D. Olsen (2010), the factor of commercialization affecting MFI's outreach is competition and macro political factors (regulation). Kai Hisako (2009) pointed out that in the experienced Rural Banks, competition has less influence on Financial Self Sufficiency and outreach. Based on the elaboration, the hypothesis proposed is:

H1.1: Profitability (proxied by ROA) negatively affect the Average Outstanding Loan

H1.2: Regulation (proxied by CAR) negatively affect the Average Outstanding Loan

H1.3: Competition (proxied by Irate) affect the Average Outstanding Loan

Socio Economic Culture

Adam and Fitcheet (1992) emphasized that the MFI is a dynamic, innovative and flexible governance, created in accordance with the social and economic environment conditions. MFIs operate in areas where socio-economic conditions affect and are affected by them. The sustainability of an organization depends on its ability to adapt and follow its socio-economic environment (Oliver, 1997; Snow, 1999; Wollni, 2001). Socio-economic factors such as income, fertility (women), education and religion have an effect on the profitability and risk of MFIs. (Al-azzam & Ali 2012).

Organizational culture is related to a system with values, norms, and beliefs shared by members of the organization (Robbins et. al, 2008, Hofstede, 1984). There are 7 dimensions of measurement from organizational culture: Attention to Detail, Outcome Orientation, People Orientation, Team orientation, Aggressiveness, Stability, and Innovation and Risk-Taking. While the local culture refers to the external values of society that need to be understood in order to assist microfinance institutions in accompanying their clients (Leonard, 2010; Woller, 2002; Rana, 2008; Misbach; 2009; Loefelman and Lewis,1998). Some local cultural identified in creating a microfinance institution based on a cultural model are: the involvement of traditional leaders or religious leaders in credit management, prioritizing local marketers and credit advisory services. Based on the description, the hypothesis is formulated as follows:

H1.4: Socio-Economic's aspect negatively affect the Average Outstanding Loan

H1.5: Organizational Culture negatively affect the Average Outstanding Loan

H1.6: Local Culture negatively affect the Average Outstanding Loan

Religiosity

Religiosity is a person's ranking in using religious values, beliefs and religious practices in their daily lives (Warthington 2003). Implementation of religiosity in financial institutions can be realized in the form of religious environment and governance that will strengthen transactions on the basis of religious values. Studies relating to the influence of aspects of Religiusity on Microfinance Institutions are still very limited to be found, especially those that quantify the relationship. Seibel (2008) emphasized the importance of religious aspects in strengthening the existence of microfinance institutions in Indonesia and Aslam (2015) reflected the same expectations about the role of Islamic Microfinance in the Pakistan's economy. Balinese cultural behavior, which is closely related to religious beliefs, influenced the existence of MFIs (Arsyad, 2008). Based on the elaboration, the hypothesis proposed is:

H1.7: Religiosity affect negatively the Average Outstanding Loan

Trade-Off Between Financial Performance and Social Performance

Microfinance institutions are confronted by the dual goal of MFIs: financial performance and social performance. It means good financial performance (good profitability) and high depth of outreach (serving for the poor). The main debate is the difficulty of achieving good social performance with good financial performance. In realizing social performance, it sometimes causes disruption of financial performance, and results in a trade-off between these two performance achievements (Olivares-Polanco, 2005; Christen, 2001; Rama et. al., 2014). Nevertheless, several other studies show that the two objectives of this microfinance institution can be achieved simultaneously (Zerai & Rani, 2012; Zhang, 2013; Millson, 2013; Gakhar, 2015). Based on the description, the hypothesis proposed is:

H2.1: There is a trade-off between financial performance and social performance

Depth of Outreach of Rural Bank and Islamic Rural Bank. Is there a difference?

Regarding the question of whether the dynamics of the outreach differ in Rural Banks and Islamic Rural Banks, there are not many studies that tried to compare. Wilson (2011), Naceur et. al., (2015), Mansori (2015) and Stability Report of IFSB (2013), reflected an expectation of Islamic Rural Banks relationship to increase financial inclusion. Farooq & Khan (2014) proved that Islamic MFIs are more sustanabel than conventional MFIs, for some cases in Pakistan . The hypothesis in this proposed is:

H.2.2: There is a difference of the depth of outreach between Rural Banks and Islamic Rural Banks

Empirical Research Model

Commercialization is related to profitability, regulation and competition. The factor of non-commercialization is consist of socio-economics, culture and religiosity. All of these factors affect the outreach directly or mediated by governance. Futhermore, outreach and sustainability have a reciprocal relationship. The relationship between these variables can be seen in Figure 1. This model is extended from the approach of the outreach dimensions and related theories (Christen, 1995; Schreiner, 2001; Polanco, 2005; Deubeul, 2003; Seibel, 2005).

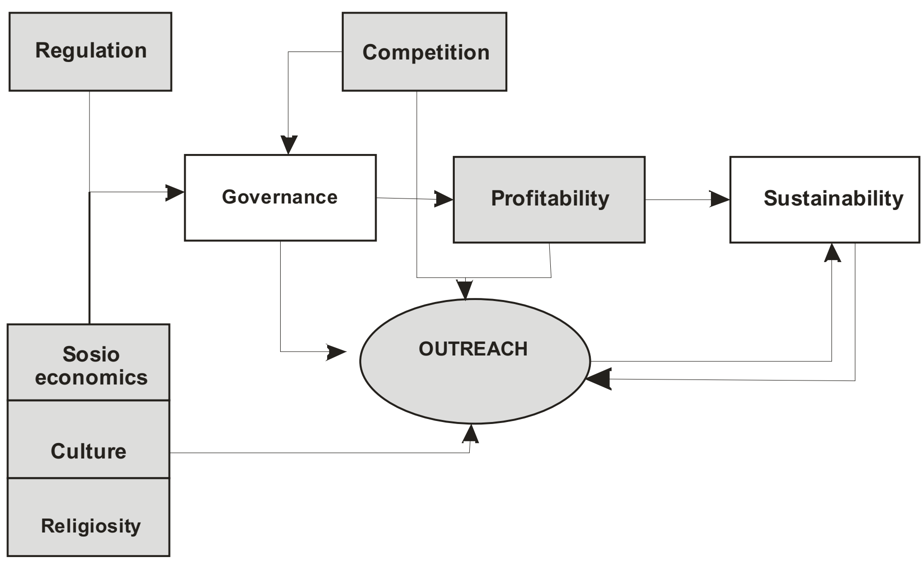

Figure 1: Empirical Research Model

3. RESEARCH METHOD

Data

The population of this study was the Rural Bank in West Sumatera Province, under conditions in 2016. There were 92 Rural Banks and 7 Islamic Rural Banks. The sample of this study were scattered in three selected districts, consisting of *Agam*, *Tanah Datar* and *Lima Puluh Kota*. The total sample is 34 Rural Bank and 4

Islamic Rural Banks. The reason for the selection of this area is due to the similarity of socio-demographic conditions and the distribution of Rural Bank in this area is better. Primary data in this research is incude the data of socio economic culture and religiosity, and obtained by indepth interview and questionnaires to account officers. Secondary data is obtained from Rural Bank's financial report.

Variables

Depth of Outreach as dependent variable in this research and the proxy used is the Average Outstanding Loan. Some of the independent variables included in the regression model are: (1) Profitability, proxied by the Return on Asset (ROA). (2) Competition, proxied by the Basic Interest Rate of Credit (Irate). (3) Regulation, proxied by the Capital Adequacy Ratio (CAR). (4) Socio economic, represented by the indicators : percentage of less-educated clients, percentage of women as clients and the percentage of customers in the main market share. (5) Organizational Culture, which includes indicators: attention to detail, orientation of results, individuals orientation, team orientation, aggressiveness, stability and innovation & risk taking. (6) Local Culture, which refers to: involvement of religious or traditional figures in credit management, percentage of local marketing personnel and credit advisory services. (7) Religiosity, which includes indicators about shariah compliance.

Analytical Method

This study will estimate the determinants of the depth of outreach by using path analysis. The equation can be specified as:

$$\mathrm{AOL}_i = \beta_{01} + \beta_{11}\ \mathrm{Profit}_i + \beta_{21}\ \mathrm{Comp}_i + \beta_{31}\mathrm{Reg}_i + \beta_{41}\ \mathrm{Sosec}_i + \beta_{51}\ \mathrm{Org}_i + \beta_{61}\ \mathrm{Loc}_i + \beta_{71}\ \mathrm{Relg}_i + \varepsilon_i$$

where, AOL is Average Outstanding Loan, profit is profitability (proxied by Return On Asset), comp is competition (proxied by basic interest rate for loan or Irate), reg is regulation (proxied by Capital Adequacy Ratio or CAR), sosec is socio economics factors, org is organizational culture, loc is local culture and relg is religiosity. To assess the causality model used path analysis with SEM-PLS program, with consideration SEM-PLS can run efficiently with small sample size and complex model (Hair et. al, 2013) and this program is suitable for processing causal relationship between variables with support from unstable theories.

To compare the depth of outreach between Rural Banks and Islamic Rural Banks used t-test for two independent samples (Salvatore & Reagle, 2002).

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}$$

where, n_1 is sample for group 1, n_2 is sample for group 2, s_1 = sample variance of group 1.

s_2 = sample variance of group 2, $\bar{X}_1$ = AOL in Rural Banks, $\bar{X}_2$ = AOL in Islamic Rural Banks.

4. RESEARCH RESULT

Path Analysis

The result of path coefficient estimation test, as an evaluation of structural model (Inner Model) showed in Table 1.

Table 1
Path Analysis

Path	*Coefficients*	*p values*
Profit → AOL	0.190**	0.028
Reg → AOL	–0.368***	<0.001
Comp → AOL	0.038	0.349
Sosec → AOL	–0.199**	0.023
Org → AOL	–0.209**	0.018
Loc → AOL	–0.268***	0.004
Relg → AOL	0.405***	<0.001

Average path coefficient (APC) = 0.240, P = 0.004
Average R-squared (ARS) = 0.499, P < 0.001
Average adjusted R-squared (AARS) = 0.383, P < 0.001
Tenenhaus GoF (GoF) = 0.622
Note: ***, **, *indicate significant at level 1%, 5% and 10%

where, AOL is Average Outstanding Loan, profit is profitability, reg is regulation, comp is competition, sosec is socio-economics, org is organizational culture, loc is local culture and relg is religiosity.

To validate the whole model, can be applied the goodness of fit (GoF) introduced by Tenenhaus et. al., (2004). The results of this study indicate that the performance between the measurement model and the structural model has a GoF value of 0.622. WarpPLS categorizes these values in three categories: >= 0.1, >= 0.25 and >= 0.36 for small, medium and large categories. This causal relationship model has Average R-squared (ARS) = 0.499. This indicates that the average of outstanding loans can be explained by the variables: Profit (Profitability), Reg (Regulation), Comp (Competition), Sosec (Socio Economic), Org (Cultural Organization), Loc (Local Culture) and Relg (Religiosity) amounted to 49.9%. The category is moderate. To explain the effect of exogenous variables on endogenous variable with better accuracy (due to predictors in the model quite a lot), it can be guided by adjusted R-squared. This model provides an adjusted R-squared = 0.383, and this category is weak. In general, it can be concluded that the model is in the moderate category and the model predictor is good enough to explain the variance of the depth of outreach.

To analyze indicators that have criteria as a reliability indicator in constructing exogenous variables in the model, the weight indicator in the estimation of the outer model yields conclusions about some latent variable forming indicators. Variable of Sosec (social economy), constructed by indicators : percentage of less-educated clients and percentage of women as clients. Variables Org (organizational culture), constructed by indicators: Attention to detail, Orientation team, Aggressiveness and Stability. Variable Loc (Local Culture), constructed by indicators: Non-traditional guarantees, Local people as marketing personnel and Credit advisory service. Variabel Relg (Religiosity) constructed by indicators: Financial transactions in accordance with Islamic rules, Product development is free of features that violate Islamic rules, Advocacy for customers and Community awareness and social responsibility. Furthermore, other exogenous variables that are not latent variables are constructed with the closest proxies are: (1) ROA (Return on asset) is a proxy for profitability, (2) CAR (Capital Adequacy Ratio) is a proxy for regulation and (3) Irate (Basic Interest Rate For Loan) is a proxy for competition.

Based on the evaluation of structural model (inner model) and measurement model (outer model), the hypothesis can be concluded as follows:

1. **H1.1:** Stated that profitability (proxied by ROA) negatively affect the average outstanding loan. Output of path analysis shows that profitability positively affects average outstanding loan, with coefficient is 0.190 at 5% significance level. An increase in profitability will increase the average outstanding loan, and then lead to reduced the depth of outreach.
2. **H1.2:** Stated that regulation (proxied by CAR) negatively affect the Average Outstanding Loan. Output of path analysis shows that the increasing of CAR will decrease the Average Outstanding Loan, with coefficient is –0.368 at significance level of 1%. This finding concluded that an increase in CAR can deepen the outreach. Rural Banks with strong capital structures have a deeper outreach, cause the ability to expand into the micro sector requires strong capital structure capabilities, this is because of the high costs and risks in this segment.
3. **H1.3:** Stated that competition (proxied by basic interest rate for loan) affects the average outstanding loan. The research findings show the causal relationship of these two variables is not significant.
4. **H1.4:** Stated that socio-economic negatively affect the average outstanding loan. The result of path analysis shows that there is negative influence between socioeconomic factor with Average Outstanding Loan, with parameter coefficient of –0.199 at 5% significance level. Based on outer model, it can be concluded that the higher percentage less-educated clients and women's clients served by Rural Bank, the deeper the outreach will be.
5. **H1.5:** Stated that organizational culture negatively affects the average outstanding loan. The result of path analysis showed that organizational culture has negative effect of –0.209 with 5% significance level. The increasing of organizational culture will further decrease Average Outstanding Loan. It means the improving aspects of organizational culture can deepen the outreach. The organizational culture indicators are : attention to detail, team orientation, aggressiveness and stability.
6. **H1.6:** Stated that the local culture negatively affects the average outstanding loan. This finding shows that there is a negative influence between the local culture on Average Outstanding Loan. The parameter coefficient is –0.268 at the 1% significance level. The increasing in the aspects of local culture, will decrease the average outstanding loan and will deepen the outreach. Indicator of local culture that can deepen the outreach are: non-traditional guarantees, local people as marketing personnel and credit advisory service.
7. **H1.7:** Stated that there is negative influence of religiosity to the average outstanding loan. Path analysis shows religiosity positively affects the average outstanding loan with the parameter coefficient is 0.405 significant at 1% significance level. More better the religiosity is applied, the higher the AOL or the less the outreach.

Based on the explanation of the hypothesis, it can be concluded that the depth of outreach in Rural Bank is influenced by several variables, namely: (1) Regulation, shown by CAR, (2) Socio-economic, especially commitment to keep increasing: Percentage of less-educated and percentage of women as clients, (3) Organizational culture, especially for aspects such as: Attention to detail, Team Orientation, Aggressiveness and stability, (4) Local culture, especially for aspects: non-traditional guarantees, local people as marketing personnel and credit advisory.

Trade-Off Analysis

This section analyzes whether there is a trade-off issue between social and financial performance at the Rural Bank. To analyze the existence of the issue, it is necessary to review the results of path analysis and formulate in the regression equation as follows:

$$\text{AOL} = 0.190\ \text{Profit} - 0.368\ \text{Reg} + 0.038\ \text{Comp} - 0.199\ \text{Sosec} - 0.209\ \text{Org} - 0.268\ \text{Loc} + 0.405\ \text{Relg}$$

Based on the regression equation, it can be seen that profitability (proxied by ROA) positively affects the average outstanding loan. The higher the ROA, the higher the average outstanding loan. In other words, the better the financial performance, the less social performance. It can be concluded that the trade-off between social function and financial function is exist in rural bank. There are several reasons why the implementation of social mission in Rural Banks can not be in line with their financial missions are: (1) Central Bank of Indonesia places Rural Bank as a formal MFI which recommended to serve micro sectors and community groups "less poor" or groups excluded commercial banks, but Central Bank of Indonesia does not make social functions as liability but only a recommendation. It makes Rural Banks will always optimize market segments that enable them to control risk management and provide financial rewards. (2) The Risk Base Bank Rating contains only Capital, Asset, Management, Earning and Liquidity factors, and does not contain elements of social performance. (3) The downward trend of the depth of outreach due to increased profitability, does not mean Rural Banks ignore the social mission. If a customer grows in his business and asks for greater credit, then this does not mean the Rural Bank ignore the social mission. However, if the rural bank starts to focus on lending with higher interest rates and reduce the less poor clients because they are financially stronger, then this can certainly be called a social mission drift. (4)Rural Banks with good financial performance generally adopt the operational management of Commercial Banks. For reasons of professionalism, Rural Banks grow like small banks in business centers and let the people reach them as the commercial banks do.

Comparative Analysis

The results of the independent sample t test for the two financial institutions namely Rural Bank (Conventional Rural Banks) and Islamic Rural Bank, concluded that there is no difference in AOL in both types of MFIs. The t-test value of 1,698 is only significant at the sig level. 0.183. Although statistically no different, but because the difference in the number of samples between the two groups is very striking, this conclusion requires further analysis. Religiosity which is the only variable differentiating between Rural Bank and Islamic Rural Banks has different philosophy in its application. Religiosity in Islamic Rural Banks is a commitment in organizations, that must follow "the sharia compliance indicators", set by the National Sharia Council. However, the application of religiosity in conventional Rural Bank is only as a local wisdom in supporting the organization's operational management.

5. CONCLUSION

Based on the result and the discussion presented in this previous chapter, the conclusions of the findings of this study are as follows:

1. The increasing of Capital Adequacy Ratio which become proxy for regulation, negatively affects to the average outstanding loan. It means an increase in CAR can deepen the outreach. These findings reinforce studies about the importance of regulation in expanding the MFI network and sustainability (Christen et. al, 2005; Olsen, 2010).
2. Socio-economics is one of the non-financial variables that negatively affect average outstanding loan. This finding is a novelty in this study, highlighting several aspects of socio-economics that can deepen the outreach such as: percentage of less-educated clients and percentage of women as clients. These findings reinforce studies about the influence of socio-economic aspects of sustainability in MFIs (Adam and Fitcheet, 1992; Osotimehin, 2001; Arsyad, 2008).
3. Organizational culture (the aspects of attention to detail, team orientation, aggressiveness and stability) negatively affect the average outstanding loan or can deepen the outreach. This finding becomes the novelty of this study by extending the study of Rana (2008) about the culture oriented management control system in the MFI.
4. Local culture negatively affects average outstanding loan. An increase of local culture (especially for indicators: non-traditional guarantees, local people as marketing personnel and credit advisory service) can deepen the outreach. The unique dimensions of local culture affecting the outreach, became novelty in this study. Despite of that, this finding support research conducted by Deubeul (2003), Seibel (2008), Arsyad (2008) and Phlong (2009) that concluded that local culture integrated into the development of MFIs.
5. Religiosity positively affects AOL. It means the improvement of religiosity aspect does not deepen the outreach. Although initially predicted the religiosity will be able to deepen the outreach but these findings show that the relationship between these two variables is not proven. This finding can be a preliminary research for the future study, cause the study quantified about this issue are still limited to be found.
6. There is a trade-off between social and financial functions in rural bank. These findings reinforce the findings of Christen (2001), Olivares-Polanco (2005), and Rama et. al., (2014), which indicated the difficulty of achieving good social performance with good financial performance.
7. There is no difference in average outstanding loan in conventional Rural Banks and Islamic Rural Banks, and it means no difference in the depth of outreach between of them. Because of the existence of an unstable theory about this, these findings require further investigation in larger cases.

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