УДК 821.161.1
JEL: Q13
DOI: 10.17238/issn1998-5320.2021.15.3.20

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Evaluation of Islamic rural banks

Abstract. The effective establishment of the institution of Rural Banks merely does not mark its activity to fund vulnerable people and small enterprises. Because of insecurity and the scarcity of funding and services needed to tackle insecurity, most Rural Banks initiatives have not fulfilled their targets. The key challenge confronting micro-financing organizations is the shortage of funding and the lack of knowledge, understanding, knowledge and surveillance. The study would investigate whether Rural Banks are finding benefit or serving their poverty alleviation task as well as the explanations for their high rates of interest and how they can be decreased. The work explores the attributes of Rural Banks organizations in foreign countries because of their large levels of interest. There is no control in the Rural Banks market. Micro-finance firms are profit-generating yet viable as well as unprofitable. The methodology used is a qualitative and quantitative exploratory study, which is done by interviews with three micro-finance organizations. The data obtained helps any Rural Banks organization, but the way it generates profit varies: providing the poor with more money and reaching or sharing returns, to fulfill the social task. At least, in view of the limitations recognized in the study, many recommendations and suggestions are being placed forward for a better Rural Banks scheme.

Keywords: interest rate, profitability, success, liquidity, leverage and loan durability

Paper submitted: September 20, 2021.

For citation: Shatila Kh., Ushakov D. S. (2021) Evaluation of Islamic rural banks. The Science of Person: Humanitarian Researches, vol. 15, no. 3, pp. 169–181. DOI: 10.17238/issn1998-5320.2021.15.3.20.

Background Overview. Rural Banks are entities that often aim to fund the vulnerable in limited sums to fulfill their needs. Based upon the variety of goods and services available, the financial expectations of people, communities and companies are modified. Based on the variety of needs and since the Rural Banks organization focuses on helping disadvantaged individuals to create or grow its own enterprises and raise its sales, Rural Banks also provide non-traditional methodologies.

Rural Banks 'primary customers are disadvantaged citizens who do not have access to financial resources like credit, deposits, insurance and remittances, and have low wages. The bid is provided in conjunction with the actual investments, deposits, and leverage rate of Micro loans to workers and small companies. Banks should not represent disadvantaged citizens and their laws must be met with. Poor citizens cannot buy collateral or hypothecs and save little.

Furthermore, since the operating and lending expenses are so high, banks should not provide small loans. This ensures benefit would be smaller than most loans.

The effective establishment of the institution of Rural Banks merely does not mark its activity to fund vulnerable people and small enterprises. Because of insecurity and the scarcity of funding and services needed to tackle insecurity, most Rural Banks initiatives have not fulfilled their targets. The key challenge confronting micro-financing organizations is the shortage of funding and the lack of knowledge, understanding, knowledge and surveillance [1].

The micro-finance agencies, since the Lebanese economy suffers from insecurity and low incomes, play a significant role in supporting certain citizens with little resources. When the amount of spending and wages are very poor, the investment assets are negligible. In order to make savings, disadvantaged people have no money on their side. Only the funds generated by the organizations may be used to support and run corporations. Small companies will build revenue opportunities and produce jobs and self-employment if outsourcing funds are open [2, 3].

Sadly, a Rural Banks organization is at high risk because it funds disadvantaged families with low assets and low wages because these poor citizens can't gain good benefit from growing their salaries and being driven out from poverty. Several projects are already being established to support disadvantaged families.

However, prices will escalate significantly and the efficiency of services has retroactively improved when disadvantaged families are not willing to invest or provide credits. Many projects have been unsustainable and the planned recipients have refused to fund them. Instead, micro-credit seeks to provide disadvantaged households with the means to launch or grow an established enterprise by participating in income-enhancing micro-finance institutions [4, 5].

Importance of the topic. Micro finance institutions have a significant position in poverty-stricken communities amid an effective and concentrated banking system. Rural Banks organizations target people with little income and are not covered by banks because they neglect their needs and are at high risk of attempting to supply them with financial services. They offer financial resources in order to improve their consumer loyalty and well-being. However, excessive interest rates are levied.

The study wants to know whether or not Rural Banks organizations earn interest, pay their expenses and allow income and justify their social purpose. We will address the processes, interventions and expenses that the organizations may pay to give the vulnerable a loan. Regulations that may improve or weaken the role of organizations will be addressed.

The study often discusses the exploitation of clients by a few Rural Banks organizations, but other organizations are dedicated to their clients and are centered on achieving their social challenge. If the preference between benefits and profits is increased, these organizations would prefer programs that improve and not raise profits, in order to preserve their social purpose to support the vulnerable without benefit.

In order to figure out whether or not the financial companies earn a profit, many micro-finance organizations are consulted and market analysis is carried out in order to gather concrete facts from those entities and to be able to obtain informative figures to assess whether or not these companies are searching for profit.

Purpose of the Study. Rural Banks are known as a crucial financial commodity and an accessible and reliable instrument for providing vulnerable people with poverty-stricken and low interest rates income capital and appropriate conditions for lending. Rural Banks is viewed as an essential instrument for expanding industries and for enhanced economy status, as acknowledged by the Asian Development Bank. In order to offset the expenditures and guarantee the required supply of funding for disadvantaged citizens, the government's task is to work out losses and liabilities borne by the financial companies so that established enterprises can be launched or extended so that they can get out of poverty.

It is surprising that it is not effective simply to introduce the Rural Banks to use their services for supporting the needy. It must now be more carefully controlled. The program's financial stability is calculated by the sales and financial situations of businesses and Rural Banks organizations.

There must at least be a financially self-supporting initiative if you wish to enter the competitive ranks.

Rural Banks had several goals, according to Fernando, including the elimination of hunger and market empowerment. It leads to work growth and market advancement.

Rural Banks. Rural Banks are organisations globally that strive to provide financial services to escape homelessness, raising wages for the poor, not provided by mainstream banks, such as credit, insurance, incentives and mice and micro-borrowing.

Characteristics of “Rural Banks. The Rural Banks are meant to lend to individuals who are ready to expand or establish an established business and have low deposits. Financial products and services allow the poor to take loans and provide microcredits for them. "Rural Banks" offer services in a variety of ways; they are defined as follows:

Continuous loan. Standard transmitting features (or periodic deposits by customer or donors).

The interest rate of loans has risen, helping 'Rural Banks' to become a long-term broker.

Quick connectivity to Rural Banks to save time and resources to the customer.

Rapid operating processes. The period from which the loan can be granted is reduced towards the settlement of a loan.

Besides the lower interest rates, Rural Bank's strategy is, if they pay back their previous loan on time, to loan its borrowers higher sums of money. Major individual loans at low interest rates are also affordable. The Rural Bank does not require commitments to take a loan similar to other banking activities. The cash flow of the poor people of their

ISSN 1998-5320 (Print)
ISSN 12587-943X (Online)

small business financed by Rural Bank, as defined in Asutay [6]

Costs and Interest rates. The large expenditures incurred in the Rural Bank are liable for certain strong interests. The costs of the interest would benefit profits of the Rural Bank. Furthermore, any factor which might increase the cost of the "Rural Banks" will cause Rural Banks to lift their interest rate to the level of the "Rural Banks"

When low-income people or the vulnerable obtain a microloan, three categories of costs and costs should be included. Regulatory costs are the first element. They may also be defined as the main component of regulatory efficiency and quality. They imply economies of scale, and therefore, under Murphy's laws, smaller banks face higher average costs than big banks [4].

Budiantoro [7] said that "Rural Banks" could be greater in scale as well as Rural Banks, which cost at least 5% of their assets according to the regulations of the government. Several of the microfinance firms are gradually engaged by taking deposits of public or needy individuals. Accordingly, regulation is important for supervising and retaining "Rural Banks".

The second type of cost is labor for "Rural Banks" which needs a large cost for skilled employees for the execution of specific tasks and the taking of required loan steps and requirements. Shroeder, Elliehausen and Kurtz estimates say that 70% of costs of "Microfinance" for the monitoring of employee performance and for assessing are administrative and operating expenses [6].

'Rural Banks' face many challenges in recruiting skilled workers that really require heavy salaries and therefore increase prices.

The expense of the $500 loan does not differ considerably from what it pays of the $100 loan arrangement. The same staff and the procedure are required in order to carry out both types of loans, such as monitoring, reimbursement etc. The cost of the $500 credits does not differ dramatically from the value of the $100 loan.

Suppose the expense of the deal is $25 per loan and the loans would last a year. To order to clear the $500 bond, the RURAL BANK would collect an interest of $50 + 5 + $25 = $80, which is a cost of 16 per cent per annum. Just on a $100 loan, a $10 + 1 + $25 interest cost = 36 dollars will have to be paid by the RURAL BANK.

But the irony remains that interest rates are higher regardless of the limited amount of collateral, since certain payments are not decreased at certain minimal levels.

Profitability and "Sustainability" of Rural Banks. Sustainability suggests that 'Rural Banks' pay for the interest and dividends paid by disadvantaged people for all of their expenditures, as Cervantes [8] notes. If "Rural Banks" are sustainable, they become part of the financial system where, even if they no longer market small- to medium-sized loans, they will thrive. "Rural Banks "are sustainable because they no longer depend on funding from loans and sponsors. Based on the experience Rural Banks faced, they might become viable, even though they met the poor. "Rural Banks," is therefore quite critical for "sustainability"

Rural Banks are said to be beneficial because all the expenses are secured by Sharma and Nepal for the operational profits of the loan. The running cost ratio and business interest levels are the parameters comparable to financial calculations for the 'Rural Banks,' the repayment cycle. As Christiaensen [9] said, financial and systemic stability is important for the Rural Banks' organisation.

"Sustainability" is a move towards competition in Rural Banks. In other words "sustainability" is the first step towards competition for Rural Banks. To do so, Rural Banks have to be willing to minimize their cost of transaction, deliver quality goods and services that suit their consumers' expectations, produce adequate income and develop alternative ways to finance their weak customers in a 2004 Gap survey. As "sustainability" the organization will pay the bill.

In order to achieve "sustainability." in certain "Rural Banks' organisations, corporate "sustainability" is required to pay for all costs for credit. This comes with budgetary stability where fixed expenditures are offset [9].

However, in this ultimate point, the security of sources of funding and rising prices for 'sustained' micro-financing organisations, using Fajar [10], are often part of the research carried out on subsidized funding supported by Rural Banks. The "Rural Banks institutes" gather surplus funds and help the institution expand, recycle and provide the poor with additional financial services.

The availability of funds to support the operating costs of the organization would ensure the growth and survival of financial institutions. They generally focus on donors and sponsors to cover service costs. As Fajar [10] have pointed out, these receptions of funds are at times incomplete or insufficient in comparison with demands raised by Rural Banks. These institutions offer steady development and financial success for the citizens in need. In 2000, interventions of Rural Banks including Indonesia's Committee for Rural Development suggested that very poor customers could be successfully reached [9].

Rural Banks in foreign countries. In several countries around the world, the concept of Rural Banks is used to provide the poor with financial services. The value of Rural Banks, however, was noted to better the lives of the needy. Household incomes are up 28 percent and savings are up 112 percent in the Indonesian Rural Development Council. Grameen had a 43% higher income than non-programs. The "Rural Banks Agencies" promise that 145% of the weekly income of the poor is improved in El Salvador.

In Ghana there have been secondary revenue outlets for 80% of the independence from Hungary's customers relative to 50% of non-customers. Bank lenders also raised their average income by 112% in Lombok, Indonesia and 90% of households were rescued from poverty. Vietnam's food shortage is minimized by Save the Children's customers from 3 months to one month. In two separate nations, Indonesia and Ethiopia, the idea of Rural Banks will be discussed [9].

Rural Banks. About 13 million poor households have received loans from Rural Banks . Hundreds of Indonesia and micro-credit organisations are providing insecure financial services and thus transforming the life of elderly citizens. Domestic contributions rose by 28 percent and expenditure by 112 percent in the Indonesia Committee for Rural Development.

The number of well-established Rural Bank organizations such as the ASA and the Grameen Bank is now overwhelming. However, several independent 'Rural Banks' have begun operations. Approximately 402 "Rural Banks organizations" some 4,236 of whom have been applying for a license for Rural Banks, were given by Microcredit Regulatory Authority. A recent study that included a structural approach is the allocation of financial services to the disadvantaged. Some charities have relied on micro-lenders to repay and enhance their income for the needy. To make micro-credits productive and effective, customers must be ready to repay the credit and enable the Rural Banks' organization to finance its costs, loan and extend the operations of the poor again and again. Therefore, micro finance organisations will not be willing to help customers and the vulnerable with their loans [9].

Financial opportunities have since allowed women to spend and grow businesses, improving their economic and social role. The amount of faith in women has improved. Women are more prominent and have greater potential to bargain within the society and also own land and property. Therefore, policy makers and the degree of violence has decreased in the last two years.

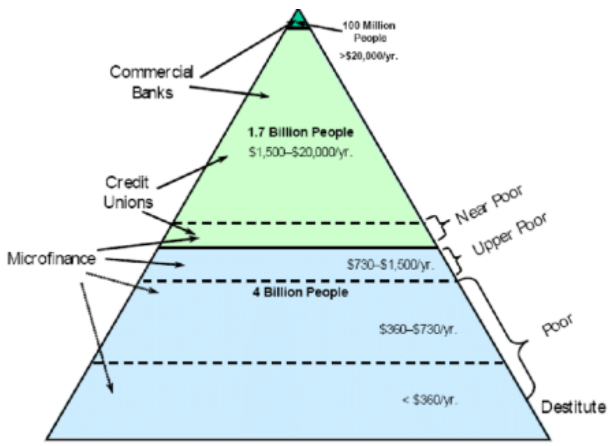

Figure 1 – Rural Banks and lower-income levels

Source: Visa International, World Bank

As can be shown in the figure above, various individuals are categorized as rich, medium-sized and corrupt. The wealthy are not Rural Banks; they are commercial banks that lend massive loans and follow a policy separate from that of the microfinance organization. In the opposite, since the microfinance organization has low employment and incomes, it will gain from microfinancing institutions' loans [7].

Microcredit also has tough demands and severe problems due to the microcredit strategy. There are no physically spread individuals of Rural Banks candidates. But the "Rural Banks agencies," are not aimed at those suffering from disease, especially people with HIV or AIDS.

Regulation and technological changes would allow both customers and suppliers the ability to sustain an environment. Many factors would enhance the environment for Rural Banks, such as the recognition of mini-companies, interest rate caps, prosperity and strengthening of justice [9].

Rural Banks Regulations. The central bank is regulated by microfinance institutions, while the central bank authorities need a variety of financial regulation . Several legislations are introduced to manage "Rural Banks" and to control their activities. These are some of the relevant regulations [2].

Minimum conditions for capital: "Rural Banks" are demanding resources in order to avoid shocks. However, the more resources the "Rural Banks," have, the more failure the company has saved. Capital is also used as a Rural Bank tool to track the number of industrial rivals. In addition, it allows Rural Bank organizations to keep liquidity for further expansion of their activities, where the minimum capital is high. Indonesia has a minimum donation of $25,000, which helps people who want to take big loans to reach the door. It is an independent financial entity.

Lending limits: The Central Bank of Indonesia confined the Rural Banks' non-secured loans to a small portion of the RURAL BANK portfolio. Lending restrictions were enforced. While some micro-enterprises provide certain guarantees and collateral, the RURAL BANK is not adequate and sometimes not seen. RURAL BANK is rising as a proportion of assets considered unsecured.

Reporting: The RURAL BANK may report to the central Bank according to the Central Bank of Indonesia in order to control their reserves and holdings and to minimize elevated operating costs. The central bank cannot check and validate the performance of any particular loan, since Rural Banks have thousands of small loans [2].

Loan documentation: The processes and techniques of disclosing loans for 'Rural Banks' organisations are different than those that a commercial bank requires. The Office of RURAL BANK shall evaluate the customer's payment record to approve an application and shall use the qualitative data in its type rather than the quantitative information. Security assessments, market plans and assurances would not be issued in the micro-payment loan papers.

Office: If the Rural Bank wishes to set up a new branch, it requires approval from the Central Bank of Indonesia. The policy is under way to keep the Rural Bank from being over-connected . In weak regions and society, the Central Bank also has to set up branches to support them. Via this approach, they can achieve a good microloan portfolio. In other words, the Central Bank allowed Rural Bank to operate more efficiently closely with the target sector.

Usury Law: the Rural Bank accounts for roughly 36% of the funds committed to financial expenses control and research. In order to fund the workers' preparation expenses and compensate their costs in compliance with usury regulation, the Rural Bank would owe its consumers the interest rate and not profit. Through following this strategy, the Rural Bank will cover its expenditures and maintain "sustainability" Two companies were later known as Finansol and Corposol and founded. Finansol is involved in loans and Corposol aims to train its workforce.

Reserve Funds: The RBO will hold a minimum fund for Indonesia, which is 10 percent of the benefit or surplus income earned at year-end by a central bank micro-credit regulator.

Usage of surplus income: towards the end of each year excess revenue is earned by "Micro-finance agencies" This revenue is used differently by applying 10 percent as a buffer. According to a report by the regulatory body on microcredit, over money can be used to provide microcredit facilities or in projects or events that enhance client's circumstances or alleviate poverty.

Services Provided by RURAL BANKs. The "micro-finance institutions" have the opportunity to invest in a limit of 10 percent of cooperation, according the National Bank of Ethiopia. Activity relating to this includes cooperative activities coordinated by numerous 'Rural Banks' with the objective of establishing indirect network connections between them with the purpose of 'Rural Banks.'

The Indonesian government began in 2000 with Micro-Insurance, sometimes referred to as Micro-Takai: Islamic Insurance (takaistic activities). There are three "Rural Banks " namely Prime Islamic Life Insurance Ltd, Fareast Islamic Life Insurance Ltd, and Padma Islamic Life Insurance Ltd. These institutions sell the vulnerable micro-insurance policies that constitute 30% of their total companies. These "Rural Banks " also provide loans linked to healthcare and disabilities and often have monetary incentives for the poor (Saifullah, 2012)].

Often Rural Banks use a stop lending policy. Micro credit: Rural Banks supply the poor with short-term loans. Loans differ across continents, although often Rural Banks provide loans of less than $1,000 and loans of less than $100. Borrowers can access higher credits and long-term benefits because they pay on time. the "Rural Banks" are finding credit to raise incomes of the vulnerable. The period to travel with original loan applicants is typically limited, but there are various rules in different organisations. Often Rural Banks extend on-site or repeated loans within a few days. Rural Bank will screen and direct further extraordinary credits with the recurrent loan feature for existing borrowers. The Rural Bank thus retains a long-term partnership with its customer, who is required to fulfill its obligation to guarantee consistent and improved cash flow.

Community dependent loans: "Rural Banks organizations' basic purpose , without social security or leverage, is to offer lending to disadvantaged individuals. , thus, the 'Rural Banks' community lending strategy was used. They all want to take credit and pay back on time through corporate loan strategies. For starters, the first level consists of a five-lender group. The economic and social backgrounds would remain the same. The apprenticeship of a manager and an assistant is accompanied by strategies for organizing a conference. After that, two out of five persons have to be chosen for a loan. Thereafter a declaration shall be created to see whether the requirements are approved. If the two selected members are unable to repay this loan on time, the remaining three members would be liable for the loan. This is seen as a tactic to press individuals who are unwilling to refund the loan on time, thereby decreasing default risk.

"Rural Banks" are now considered a big fund supplier of Rural Banks are permitted to take customer deposits, enabling the needy to receive loans to raise savings and to re-establish their loans; their liquidity is increased and they can provide the more disadvantaged with additional capital (Saifullah, 2012)].

Non-financial services: The activities of Rural Banks are not confined solely to financial issues. Micro-credits refer to work, housing, consulting, education and other non-financial opportunities.

Review of Prior Empirical Studies. "Sustainability" was a development pursuing the long-term microfinance component that can only be extended by developing countries where financing is affordable, increased visibility is shown to the disadvantaged [11]. Grewal [12] defined the competitiveness and 'sustainability' engines from a community of 179 Rural Banks worldwide, but rather the debate between the costs and the sustainability of Rural Bank.

The relationship between the capital sector and the "sustainable" structure of the RuralBanks was examined by Putri [13] and there was an operational reduction in the use of grants by major Rural Banks. However, country-level macroeconomic indicators, such as GDP and inflation, are not the primary drivers of sustainable organisational development.

Saleem [14] examined the sustainability and growth drivers of Rural Banks with panel data obtained over the span of six years from 53 Rural Banks in Uganda. The study reveals that "sustainability" has a detrimental correlation with the share between the overall debt portfolio and the total asset. However, because the credit market is volatile and higher than other assets, particularly household and company credit, a positive correlation between credit intensity and efficiency (cash/total assets) is expected [14].

Further subsequent "sustainability" analyzes demonstrate that management efficiency (cost reduction) improves the rentability of financial institutions, showing a negative correlation between operating expense and profitability [15]. Saleem [14] reported that weak expenses control is a key player in low bank earnings. Nonetheless, Sumarto [15] have a good relationship that reveals that large bank revenues are expended on low labor costs for the active human capital.

With regard to the scale of the project, Suryahadi [16] has found that the main 'sustainability consideration' for the more lenders is the fact that, on the other side, it was noted by Asep (Asep, 2012) that the project is related negative and crucial to the financial 'sustainability' of the 'microfinance' reports on Tanzania However, Suryahadi [16] states that the financial stability of the amount of lenders has no major effect.

The objective confirmation of engagement in the size and durability of Rural Banks is secure.

A volatile portfolio is another aspect which can impact Rural Banks' financial sustainability (PAR). The risk portfolio checks the efficacy of aRural Bank during the selection process. The higher the interest rates are due to the valuation, the less financial 'sustainability.' A survey by Asep (Asep, 2012)] confirms the detrimental association between PAR and financial stability.

ISSN 1998-5320 (Print)
ISSN 12587-943X (Online)

The study of the profit-making relationship is neutral. Several studies provide objective data suggesting positive connections between the amount of debt and the success of the business or its profitability. However, Bogor [17] notes that the financial "sustainability" of Rural Bank is influenced by its structure of capital.

Additional research has explored the link between short- and long-term debt and market efficiency [18, 19]. The Nigerian Stock Market used by Saifullah (Saifullah, 2012)] for five years by three1 listed entities (e.g. 2005–2009) shows that short-term debt is closely related to business performance and that short-term debt seems cheaper. The study indicated that although the shareholder fund, which involves lenders, has an important beneficial influence on company efficiency, long-term debt, which is typically more costly due both to direct and indirect costs, also has a huge impact on consumer performance. Wickramasinghe [18] has formed a clear and important connection with short-term debt and overall assets and inventory returns. In Saifullah (Saifullah, 2012)], however, the relationship between short-term debt and maximum return on capital remained statistically insignificant in developing market economies.

In short, observational research on the determinants of success or 'sustainability.' No research, on the other hand, examines the economic "sustainability" determinants of Rural Banks in East Africa, where inequality is a serious concern.

Population of Study. The population of study comprised of all the managers of the Rural Banks and all the field officers in three different Rural Banks.

Sampling procedure and sample size. The research consisted of fifty respondents, comprising one representative at each of the three Rural Banks and two field officials from each organization. In order to gather the necessary details on the issue, this research was restricted to institutions functioning with. The field officers were chosen using basic random sampling.

The time and funds accessible to the test project will render successful sample design sustainable. Moreover, an appraisal sampling provides the researcher with a careful choice of products for the survey, based on the selection criteria. Therefore, this analysis utilized a purposeful technique of sampling.

As the requirements for classification is decided for the research, the Rural Bank will run for at least the last 10 years, second only Rural Banks with the required financial results over the last ten years, deemed for the analysis, in accordance with the time and money necessary for this test. The research is therefore feasible.

Data Collection tools and instruments. The use of primary data rendered this analysis simpler. Primary data gathered using the form of questionnaires from the administrators and field / operational personnel of the organizations were received. The surveys served the purposes of the report. Primary knowledge was collected from a number of magazines, bookstores, prospectuses, directories, brochures and some other study source.

However, the qualitative methodology will be implemented as well by conducting in-depth interviews with managers in Rural Banks. Data must be evaluated following data collection in accordance with the intent of the study program. For analyzing the results, results from numerous sources will be labeled, checked and entered in SPSS. The examination of autocorrelation, normality and regression will be carried out to assess if the methodology used in this analysis is appropriate and whether the traditional linear regression methodology should be presumed.

In order to explain the characteristics of the variables under analysis, measurements such as average, standard deviation, and median values have been provided. Therefore, a correlation matrix was used to analyze the potential degree of multi-collinearity between variables.

In order to determine the influence of increasing explanatory variable on Rural Bank's productivity, the researcher used a model study of the fixed effect regression. Regression tests with the correct test statistics have then been provided in tabular form and an interpretation was then made of each parameter according to the evidence in the literature.

Determinant Selection and Hypotheses. In this report, the formulation of three hypotheses for the purpose of investigating the relationship of dependent and independent variables was focused on the proposed objective of this specific analysis, which is identifying the factors that could influence profitability for Rural Banks .

Dependent Variable: Sustainability. Independent Variables: Loan Durability, Interest Rate, Source of Funds

However, based on the above, the following hypotheses will be developed:

H10: There is no statistical significant relationship between loan durability and sustainability of Rural Bank.

H11: There is a statistical significant relationship between loan durability and sustainability of Rural Bank.

H20: There is no statistical significant relationship between interest rate and sustainability of Rural Bank.

H21: There is statistical significant relationship between interest rate and sustainability of Rural Bank.

H30: There is no statistical significant relationship between source of funds and sustainability of Rural Bank.

H31: There is statistical significant relationship between source of funds and sustainability of Rural Bank.

Based on the above, the following regression model will be constructed:

Y = A + BX1 + BX2 + BX3

Where Y = dependent variable, A= Constant, B= Coefficient, and X= independent variables

Sustainability = A + B interest rate + B loan durability + B source of funds + E

The regression analysis had been implemented to study the relationship between the research variables based on a margin error of 5%. If the margin error indicated a level below than 5%, this means that the null hypotheses will be rejected and the alternative hypotheses will be accepted, and by that the results are as following:

Significant relationship between loan durability and Rural Bank Sustainability (0.043)

Significant relationship between interest rate and Sustainability (0.049)

Significant relationship between source of funds and sustainability (0.019)

Thus, the following regression can be validated as follows:

Y = A+BX1 + BX2 + BX3

Where Y= dependent variable, B= Coefficient, X= independent variable and A = constant

Thus, Audit performance = 0.010 + 0.043 loan durability+ 0.049 interest rates + 0.019 source of funds.

This means the following: For every one unit increase in loan durability, Rural Bank sustainability is affected by 0.043

For every one unit increase in interest rates, Rural Bank sustainability is affected by 0.049

For every one unit increase in source of funds, sustainability is affected by 0.019

Discussion of the findings. As the interview indicates, rich or overly earning individuals are still funding the Rural Bank by instituting capital as collateral for loans to the vulnerable on their accounts. Few auditing or monitoring standards are placed, which may operating costs. Regulations levied by the central bank on financial firms are tough; their job is challenging and very expensive.

Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.367[a]	.135	.096	.538

a. Predictors: (Constant)

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.824	.312		2.645	.010
	Loan Durability	5.921	2.851	2.095	2.076	.043
	Interest Rate	5.751	2.863	.269	2.008	.049
	Source of Funds	6.316	2.284	076	2.765	.019

a. Dependent Variable: Sustainability

In contrast with traditional banks , Rural Banks offer bad loans conveniently and effectively. Rural Banks charge high interest rates on their loans, so that sometimes poor people cannot afford it, and sometimes officers' marketing of Rural Banks is done in a wrong way, because interest rate information is not transparent and poor people do not know the truth about the interest.

The actual cases selected as a sample show that the impact of microcredits vary among people with low incomes. In the first case, the microloan borrowed from the retail owner was not profited, but allows him to keep the business. In the second true example, while the loan was very small, its effect was very important for the young woman. She was able to work from her homes to generate income, which covers the payment of the loan, and the surplus she received from working in an institution was higher. She always had a spare time to pursue her schooling and better her life. The effect of Rural Banks on women's empowerment and income growth is significant. By issuing start-up loans, RURAL BANKs fund the vulnerable. Macro credit programs may increase poor people's wages and their livelihoods, but not sufficiently to graduate poor people.

Discussion of research questions. Indonesia's Rural Banks schemes have an enormous impact on the lives of vulnerable and unbanked people. They are considered a major source of money, or sometimes the only source of financial support to these people. Rural Banks provide micro-credit programs to their clients, but bill them at high levels. The that demand is motivated not only by the growing financing costs but also by the increased costs of service and research induced by regulation and elevated risks for Rural Banks. High interest rates are motivated by in addition to rising prices. Many businesses actually increase high interest rates to profit.

The interest rates for micro financing are high and are often not affordable for the poor. To order to achieve the main target of poverty alleviation, this is necessary to increase interest rates for the poor to microfinance. Some strategies can help lower interest rates for Rural Banks. If the main cause of high interest rates is raising expenditure, the main reason for raising interest rates is cost reductions. There are no micro deposits , but Rural Banks can be managed in a way that provides a significant, persistent funding stream and assures the viability of Rural Banks, which decreases the expense of funds that are perceived to be a large pool of high interest.

The large overhead costs resulting from the lack of regulations also make an important contribution to high interest rates. Monthly Rural Banks in the Central Bank, however, are sent to the Central Bank as a financial entity that is too expensive for Rural Banks . Therefore, numerous legislation on Rural Banks entities must be applied to lower costs due to their type of operation. High threats often raise interest costs, because Rural Banks may not recognize their customers ' credit background. It ensures the possibility of no repayment of the loan is high.

The creation of a credit agency is an important source of knowledge as it reveals the financial history of consumers. This reduces the possibility of Rural Banks and avoids crosscutting loans. Another means of lowering microloan interest levels as Rural Banks are expected to hold reasonable interest rates controlled by the vulnerable without abusing the vulnerable.

Microfinance's main goal is to provide the poor with tools to further boost their incomes, livelihoods and fight poverty. It is because mainstream banks do not fund the poor that RURAL BANKs benefit the poor and the only funding option is identified. RURAL BANKs are a very useful income stream according to elderly people, particularly during periods of challenging wages, but RURAL BANKs give support to the poor, even though they have not advanced out of poverty. Their life is the only source of money. After paying their expenses, RURAL BANKs would have profits or excess money. This research suggests that Rural Banks organizations should utilize excess funds to provide long-term funding. The main distinction is how overflows between RURAL BANKs are handled. In order to remain stable in order to collect money for purchases, such surplus funds can be added to the organization's assets through the RURAL BANK, or surplus capital spent to extend its operations in order to provide for more needy and developing Lebanese regions and to provide further support for the underprivileged.

Qard Al-Hasan is a non-profit sponsored RURAL BANK, which increases its activities and generates additional funds for new divisions. Being a competitive RURAL BANK, Vitas pays the shareholders with the residual funds to boost their function with a large percentage of their surplus money. Research done in both Rural Banks shows that some Rural Banks are searching for rewards, but some don't want advantage.

A non-profit corporation is not a profit-free enterprise. It utilizes its money to develop its services and fulfill its social objective. In the long run revenue is important for Rural Banks to remain sustainable and to support the poorest. Focusing on sales will therefore help transform the culture of Rural Banks and detach itself from the main goal of eliminating poverty. If Rural Banks focus only on profitability, the way they operate will change. Rural Banks organizations are focused on metropolitan communities rather than on vulnerable rural clients, and thus do not fulfill the social purpose on order to support the poorest. However, the micro financing institutions focus on the very poor rural areas and on medium-sized customers in urban areas in order to achieve profit. This is not enough to provide needy people with micro-credits to meet their social objective of poverty alleviation. Elimination of suffering remains an elusive goal. To achieve this objective, the RURAL BANK should provide micro-lending with fair interest rates for the poor and assist them with business development, business planning, workshops, consultations, health and child conscientiousness sessions, training for women's new income generation activities and micro-insurance. The reduction of deprivation does not involve economic programs. Instead, enhancing the working standards of the vulnerable is also necessary for non-financial programs. Not just do poor people need money. They also do not want to spend their resources wisely in order to sustain a fair quality of life.

Practical Recommendations

Entry Requirements. If they have a license from the Central Bank as a "Rural Banks entity," Rural Banks organizations cannot conduct Rural Banks operations.

Conditions of Licensing. The following requirements should be met in order to obtain a Rural Banks company's license:

The management of the Rural Banks entity will file an application and send the required documentation to the central bank. Once the Central Bank submits its demands, the micro-finance company must pay the Central Bank.

The Rural Banks company must invest in a central bank. It is deposited in a block account named after the Rural Banks business as a compulsory investment.

Administration Hierarchy. The RURAL BANK would set up a management system to handle workers of the Rural Banks company that are hiring 60% to less than a fifth of their staff. The administrative staff would be smaller to be effective than the managers. By handling overhead expenses, the Rural Banks entity may rising interest rates. The CEOs and administrators are professional and have the experience that the Central Bank suggests.

Non-financial services. Not all Rural Banksoffer non-financial services . Through implementing the current regulatory model, it is mandatory for each micro-finance organization offering a non-financial business to endorse it. Every business loan to a client will also be backed with training and guidance about how to establish a company or using the loan correctly to improve their current business. Through implementing this rule, Rural Banks organizations achieve their social function in assisting the vulnerable through growing their sales and reducing their chance of default.

Minimum Capital Requirements. The more Rural Banks have the money, the more losses they can prevent, the more resources they will need to resist shocks. Money is therefore a means to control the amount of entrants to the sector. , the financial institution wants one trillion of Lebanese pounds.

This capital shall be established in this region for aligning existing Rural Banks with entry agencies. This could lead to an increase in the number and surveillance of small Rural Banks companies inferior to one billion Lebanese pounds.

Conclusion. In brief, high interest levels in the Rural Banks sector are attributed to the high expense of Rural Banks triggered by lack of legislation, absence of the loan office, and borrower payment history, which places Rural Banks at a high risk when lending customers. Revenues in every Rural Banks institution should be achieved, on the other hand, to remain sustainable. These funds should be used ethically because they are tools for poverty alleviation and not high profit at the expense of the poor. These funds are to be used.

Limitations. Specific barriers hinder the job throughout its execution. The shortage of Rural Banks oversight is now an immense challenge.

The assumption that no data exists on which the analysis may be focused is a further downside, as there is little oversight, complete privacy and inaccurate statistics. Obsolete figures are also available.

However, owing to the confidentiality, the interviewee declined to address any questions during the interview. The central bank's lack of details on Ru-

ISSN 1998-5320 (Print)
ISSN 12587-943X (Online)

ral Banks is due to the lack of a list of Rural Banks operating or the amounts of loans issued by Rural Banks.

Recommendation. Suggested Regulation Model for Lebanese Micro Finance Institutions

Indonesia has a badly developed Rural Banks industry and the primary reason is a lack of legislation and authority regulating Rural Banks . The lack of regulations influences the effectiveness of RURAL BANKs as stated in the interviews and raises overhead costs due to many factors introduced by the Central Bank. It is important to track these RURAL BANKs and to coordinate the Lebanese Rural Banks Market well. Thus, a new regulatory framework should be developed.

The central bank must introduce the Rural Banks regulatory authority, through its capacity as an intermediary between the RURAL BANK and the central bank. The role of Rural Banks should be controlled. The features of Lebanese Rural Banks firms are distinct from mainstream financial organizations and nongovernmental organizations. The suggested new legislative model in this report contains the following laws to suit the two categories of RURAL BANKs:

Liquidity Requirement. Under liquidity constraints, Rural Banks must retain 20 percent of their total micro deposits in currency. This only applies to Rural Banks organizations with a minimum deposit volume. The primary purpose of this law is to ensure that the institutions of Rural Banks meet all the needs of the vulnerable and meet the unforeseen circumstances, thus preserving public trust.

Branching Requirements. Some of the most relevant regulations are also the branching conditions in which the micro-financing institution informs the Central Bank 15 days before opening its branch to take authorization from the Central Bank and abolish branching operations . Divisions would be spread equally in order to be able to enter the parts. The social objective will also be fulfilled by 30 percent of the Rural Banks industry in rural areas, in order to meet the really vulnerable population.

In the case that Rural Banks organizations decide to close a subsidiary , the Central Bank of Indonesia will, on the other side, be told in order to take the requisite steps to shut the branch.

Credit Bureau. A network between Rural Banks should be developed and monitored by the Rural Banks Authority to track the records and experiences of Rural Banks customers. The credit bureau must address the cross-lending problem of the Lebanese RURAL BANKs. It's a crucial way to raise the likelihood of loans.

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Оценка исламских сельскохозяйственных банков

Аннотация. Эффективность создания института сельских банков однозначно не определила эффективности деятельности по финансированию наиболее уязвимых слоев населения и малых предприятий в сельской местности. Из-за отсутствия безопасности, нехватки финансирования и узости ассортимента финансовых услуг, направленных на решение проблем безопасности, большинство инициатив сельских банков не достигли своих целей. Основные проблемы, с которыми столкнулись сельские микрофинансовые организации, – это нехватка финансирования, недостаток знаний и низкая эффективность надзора. Исследование направлено на определение эффективности сельских банков в её тактическом (выгода) и стратегическом (выполнение задач по сокращению бедности сельского населения) понимании. В статье также объясняются причины высоких процентных ставок, предлагаемых сельскими банками, и определяются способы их снижения. Исследуются особенности организации деятельности сельских банков в зарубежных странах. В качестве методологии исследования применяется качественное и количественное исследование, интервью с представителями трех микрофинансовых организаций. Полученные данные способствуют эффективизации организации деятельности сельских банков, выдвинуты рекомендации и предложения по улучшению схемы интеграции сельских банков с экономическими системами местных сообществ.

Ключевые слова: процентная ставка, прибыль, ликвидность, левередж, долгосрочный кредит.

Дата поступления статьи: 20 сентября 2021 г.

Для цитирования: Шатила Х., Ушаков Д. С. (2021) Оценка исламских сельскохозяйственных банков // Наука о человеке: гуманитарные исследования. Том 15. № 3. С. 169–181. DOI: 10.17238/issn1998-5320.2021.15.3.20.

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