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The Outreach of Islamic Rural Banks in Indonesia

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ABSTRACT

This paper shows the empirical evidence about the outreach of Islamic Rural banks in the term of six aspects: depth, breadth, scope, worth, cost and length. This study reveals that the outreach of Islamic rural banks have already increased and better for four aspects: depth, breadth, scope and length. Furthermore, this study recommends several policies in terms of strengthening aspects of regulation, socialization, competitiveness and human resources aspect.

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Introduction

One of the popular solutions to reduce poverty is a program of community development, and it will be more effective for the marginalized community, especially in rural areas. Central Bureau of Statistics (2014) showed that the productive sectors which grow in rural areas are agriculture, commerce and small industries. Generally, all the sector are small-scale or micro sector. The share of SMEs sector (Small-Medium Enterprises) covers 99.99% of the existing business in Indonesia and a market share for micro sector reached 98.77% of them. The SMEs sector represents the largest portion of the people of Indonesia. Amounted to 6.04 million of workers exist in this micro real sector, and around 2.32 million in the small industries.

Financial inclusion is basically aimed for creating harmony between these real and monetary sectors. The success of real sector depends on the establishment of the monetary sector, because access to capital is derived from the monetary sector. World Bank and European Commission (2008) defined financial inclusion as a holistic activity that aims to eliminate all obstacles in the form of price and non price-to-access communities in using or utilizing financial services. Classically, financial inclusion is ease of access to finance for all.

Islam has a perfect concept to develop community, which is based on the *Al Quran* and *Hadits*. *Islam* offer a simple system to improve the local economy that allows a stable and balanced economic development, free from the disadvantages of capitalist and socialist systems (Rivai, 2009, p.243). One of the important solution which must be considered to recover Indonesian economy is to apply the concepts of Islamic economics such as Islamic Banking. Maybe Indonesia is not an Islamic state but economic values of Islam proved more superior in reducing poverty, justice, economic growth and the creation of national stability in many countries such as: Egypt, Sudan, Bangladesh, Pakistan, Iran, Malaysia, and Turkey. The concept of Islamic banking is in line with the program of financial inclusion that have seized the international's attention in the G-20 forum (the group of 20 major economies) since 2010.

Strengthening the concept of Community Development through Islamic financial institutions is one solution to accelerate of economic development, especially in rural areas. Indonesia's economic structure which is dominated by small and medium micro economy, the concept of economy democracy and the booming of Islamic economics supported the development of Islamic banking which based on social justiced. Islamic Rural Banks is the Islamic financial institutions that has already exist in the application of financial inclusion it self, long before the financial inclusion program spreaded. There were 163 Islamic Rural Banks with 402 branch office spread all across Indonesia in 2015. The existence of Islamic Rural Banks focus to save local business and banking services are pro-community.

The outreach can be used as indicator to assess how far the influence of microfinance institutions for economic development, or at least can be a proxy to assess how far an microfinance institution has achieved its goal in providing social benefits for the poor. (Schreiner,1999; Yaron,1994; Yaron,Benjamin & Pirek,1997; USAID,2006). In other words, the outreach is also a indicator of social performance in banking. Related to the achievement of the mission of social benefit, these aspects of outreach covers several aspects namely: the worth of outreach, the cost of outreach, the depth of outreach, the breadth of outreach, the length of outreach, and the scope of outreach (Schreiner et al. 1999).

The main debate in the achievement of social performance in Rural Banks is the difficulty of achieving the good social performance with a good financial performance. One dilemma faced in realizing this mission is a trade-off between the target of outreach and financial sustainability. Its means the trade-off between social performance and financial performance (Olivares-Polanco, 2005; Christen, 2010; Rama et al. 2014). However, some studies show that the objectives of microfinance institutions can be achieved simultaneously (Zerai & Rani, 2012; Zhang, 2013; Millson, 2013; Gakhar, 2015). Both are equally important mission, but to maintain the financial sustainability of microfinance institutions need to take a few steps for these two things into balance. (Luong; 2010, Schreiner;1997 and Rao ;2014).

This study is aimed to analyze an empirical evidence about the issue of the outreach of Islamic Rural banks in the term of six aspects: depth, breadth, scope, worth, cost and length. This study will try to give an overview about the outreach of Islamic Rural Bank in Indonesia by analyzing the secondary data in the last ten years. Furthermore, this study will reveal the problems of the outreach of Islamic Rural Banks and contribute the recommendations to strengthen the Islamic Rural Banks as an icon of financial inclusion in rural area.

Survey of Literature

Studies about microfinance institution got the momentum in the 1980s. The issues related to sustainability, products and services, the practical management of a microfinance institution management, client segmentation and impact assessment became more attractive in the review by some researchers. Many models and frameworks then applied in the management of microfinance and its impact on the poor. (Brau, 2004). Some literature provided an examination the impact of microcredit to the raising in productivity in various sectors and in various areas. Some Studies that tried to look deeper on how far microcredit able to touch the community in the grass root, shows that the poor who become participants as the target client in the microcredit to be in better condition on average compared with non-client community (Yunus, 2007; Lønborg, 2014, Becchetti, 2011, Coleman, 2006). Some literature supported the facts that the existence of rural banks have an impact in the development of rural areas. The context of the selected area in Asia have been discussed by Turvey in the case in Shaanxi and Gansu provinces in the People's Republic of China (PRC), Duy (2012) in the case in Vietnam, Selinger (2008) in the case of Bangladesh.

The issue of financial inclusion is becoming increasingly attracting many people to be researched when the world is shaken by Nobel acquisition by Muhammad Yunus from Bangladesh, which is popular with the Grameen Bank program, which helped to empower millions of poor women in Bangladesh through microcredit. (Yunus, 2007). Although in the case of Bangladesh, the banking institutions that exist are not a kind of formal Islamic banking institutions, this fact is quite astonishing the world. The phenomenon could change the community perspective about the mistaken assumption that making deal with banking or obtaining capital is really hard. Studies on microfinance institution got the momentum in the 1980s. The issues related to sustainability, products and services, the practical management of a microfinance institution management, client segmentation and impact assessment became more attractive in the review by some researchers. Many models and frameworks then applied in the management of microfinance and its impact on the poor. Fadun (2014) examined the financial inclusion as a tool for alleviating poverty and redistributing income in developing countries, with special reference to Nigeria. Some research revealed that there were a real differences in the impact of the distribution of micro-financing to farmers and micro entrepreneurs compared to the condition without micro-finance (Sarmiento, 2013; Akudugu, 2012; Akram, 2013; Beck, 2015).

The concept of financial inclusion means “finance for all” (Sinclair, 2013). World Bank (2008) provides a definition about financial inclusion as an overall activity that aims to eliminate all forms of barrier in price or in non price barrier to access communities in using and utilizing financial service.

Financial Action Task Force provides the definition “financial inclusion involves providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector”. Financial Inclusion is defined as the right of every individual to have full access to qualified financial services in a timely, convenient, clear and affordable as full respect for personal dignity. Financial services are provided to all segments of society, with special attention to the poor low-income, poor productive, migrant workers, and people living in rural area “(Central Bank of Indonesia; the National Strategy for Inclusive Finance).

The Central Bank of Indonesia, the institution that is responsible for the realization of financial inclusion strengthens the monetary climate by issuing a 23 point policy which includes five aspects, namely: 1) the policy for strengthening monetary stability, 2) Policy to develop the role of banking as intermediation, 3) Policy in increasing the resilience of the banking 4) strengthening macroprudential policy and 5) strengthening the supervisory functions. In an effort to realize the financial inclusion, Central Bank of Indonesia has established six-pillar strategy that includes financial education, public finance facilities, mapping of financial information, policies, facilitating the intermediation and distribution channels and consumer protection (The Central Bank of Indonesia, Inclusive Finance, 2014)

Islamic Rural Banks is a type of Rural Bank operating with the concept of Islam (Regulation of Law No. 10/ 1998 about Banking and Regulation of Law No.21 / 2008 about Islamic Banking). In the economic empowerment of rural communities, Islamic Rural Banks comes with its main function as a financial institution established to serve the micro and Small Enterprises (SMEs). Islamic Rural Banks as intermediary institutions that have to expand the use of products in the financing and Islamic financing in their activities, that is the connecting bridge between the financial sector and real sector. Islamic Rural Banks prioritize transactions with productive oriented than consumptive. The purposes of Islamic Rural Banks Islam are 1) Improving the economic welfare of the Muslims, especially for the marginalized community located in rural areas, 2) Increasing employment opportunities, especially at the district level to reduce urbanization and 3) Establishing inter-Islamic Relation (ukhuwah Islamiyah) through economic activities to improve income per capita towards a better quality of life (Sumitro, 2004, p.130).

Implementation of the concept of financial inclusion in Indonesia is still relatively low, because of many thing such as low level of financial literacy, people's income is still low and financial institutions are still small. However, with the involvement of Rural Banks, financial inclusion in Indonesia began to rise because of some the flexibility offered by Rural Banks such as: 1) Rural Banks more closer to the people, especially the lower middle class, 2) Rural Banks also provides banking services that are easily accessible to the public. 3) Profit orientation taken by Rural banks are much smaller than commercial banks, so that the Rural Banks easier to attract the public, and 4) Rural Banks spread the financing to small and medium enterprises sector (SMEs)

Outreach can be used as an indicator of the influence of microfinance institutions in economic development and can be a proxy to what extent microfinance institutions have achieved their goals in providing social benefits for the poor

(Schreiner, 2001, Yaron, 1994, Yaron, Benjamin & Pipek 1997). This indicator can be used to analyze the extent to which financial inclusion has existed. This indicator is divided into three sub-indicator that are the outreach of customers and staff, the outreach of loans and savings/deposits. The issue of outreach or social benefit become an obstacle in the development of Microfinance Institutions. As a financial institution that is closest to the lower levels of society (grass root), microfinance institutions is regarded as the most effective institution in overcoming poverty. One dilemma faced in realizing this mission is a trade-off between the target to increase outreach and financial sustainability or in other words its hard to carry out social responsibility and financial responsibility at the other hand. Luong (2010), Schreiner (1997) and Rao (2014) are studies that tried to analyze issues related to trade off of this. They agreed that the mission is equally important, but to maintain the financial sustainability of Microfinance Institutions require different steps for achieving balance those two things. Schreiner (1999) divides 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 associated with the number of clients, determined by the constraints of the budget, the 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 there is a consensus of experts that the indicators of outreach can be measured by two main approaches, namely the depth of outreach and and breadth of outreach. According to Rhyne (1998), two popular aspects of the outreach is capable of reaching the poor, which in literature known as "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.

Data And Methodology

The data of this research come from the Islamic Banking Report published by the Central Bank of Indonesia and Financial Services Authority. The methodology applied in analyzing is a descriptive quantitative by analyzing the

financial ratio of Islamic Rural Bank in the last 10 years (2007-2016), then analytic descriptive is applied by comparing data based on time cohort. This research is going to explain about indication financial inclusion in rural areas, the outreach of Islamic Rural Banks and also recommend the policies relating to optimalization of Islamic Rural Banks's role in actualizing financial inclusion.

Findings

The development of Islamic Rural Banks becomes one of benchmarks for the existence of Islamic Banks in economic development. Empirical evidence shows a real acceleration of sharia banking development in Indonesia, especially Islamic Rural Banks (popular as *Bank Pembiayaan Rakyat Syariah* in Indonesia). Unlike the Islamic Commercial Banking, Islamic Rural banks focus on developing of rural economic in Indonesia with sharia principle. The development of Islamic Rural Bank in the future have a significant opportunity to realize a shared vision of Islamic banking, financial inclusion or the "Bank for All". This vision is in line with Islamic banks tagline "Beyond Banking", banks that upholds social justice for all people.

One proxy for assessing the contribution of microfinance institutions in the development of society is applied by analyzing the outreach or the social benefits obtained society. In accordance with the purpose of its existence, that is providing the banking services to micro and small enterprises of the poor, the best outreach is also based on "how far the microfinance institutions were able to reach this micro real sector". Table 1.1 show the main indicators of the outreach of Islamic Rural Banks in Indonesia in the last ten years.

Following the approach of schreiner (1999) which divides aspect of this outreach into six major which covering aspects of depth, breadth, worth, cost, length, and scope, the analysis of the outreach of Islamic Rural Banks in Indonesia can be analyzed as follows : *First*, Depth of Outreach. This indicator refers to how poor people are helped by financing channeled by Islamic Rural Banks. Depth of Outreach refers to the depth of the social gains obtained by the public. In general, to measure the reach of financial services to the poor from a microfinance institution using the average outstanding of the loan (Cull et al., 2007; Mersland & Strom 2010; Hermes et al., 2011). More poor people who assisted increasingly within outreach. Or in other conditions, the smaller the scale of business of real sector empowered more deeper the outreach. Depth of outreach in Islamic Rural Banks can be seen from the average of outstanding financing. The assumption that the poor or micro sectors asking for a loan in the amount of small ones, so that the smaller the average funding channeled more impoverished communities are financed.

Table1.1.The Indicators of the Outreach Islamic Rural Banks in Indonesia.

Years	Composition of Financing For SMEs (%)	Numbers Of Learning Account (Unit)	Ratio Non Performing Financing (%)	Composition Of Murabahah Contract (%)	The Equivalent Rate Of Return (%)	Total Revenue Of Irbs (Million IDR)
2007	64.60	110415	8.11	81.01	20.30	186295
2008	52.31	115050	8.38	80.51	19.56	267795
2009	52.50	131258	7.03	80.02	19.22	347093
2010	54.16	148997	6.50	78.70	20.07	440823
2011	57.82	170098	6.11	80.51	19.44	442204
2012	58.54	211385	6.15	80.33	23.19	593366
2013	59.10	215761	6.50	79.99	18.27	753272
2014	60.06	227517	7.89	79.23	18.51	796943
2015	58.83	233496	8.20	77.91	18.28	874261
2016	53.59	250425	8.63	75..85	17.99	976450

Source:Statistics of syariah Banking, Central Bank of Indonesia and Financial Service Authority,2007-2016,Data Processed

Empirical evidence shows that in the period of 2007-2016, Islamic Rural Bank has channeled around 57.15% of the depositor funds to the sector of SMEs (Small Medium Enterprises). This figure did not look dominant, because Islamic Rural Banks are still playing safe by channeling financing in consumptive lending, using *murabaha* contract. Nevertheless, based on the economic sector financed, show there are three main sectors financed by Islamic Rural Bank namely agriculture, forestry and agricultural facilities, restaurant and hotel trade sector and other sectors. These three sector is the leading sector which dominated by micro small and medium enterprises. Its around 77.8% of the total financing extended to these sectors. Furthermore, based on the purposes of financing could be observed that the financing for working capital and investment around 63.62%, and the rest for consumption. The distribution of this funding is quite capable to illustrates that the largest portion of the financing was allocated for the main segment of Islamic Rural Banks, they are poor people and micro real sector. This result is consistent with the vision of development of Islamic Rural Banks by Central Bank Of Indonesia (2016), that is "Creating a Competitive Islamic Rural Banks in serving the Micro Small Enterprises, the local community and contribute to regional economic growth".

Second, Breadth of Outreach. This indicator showed how many poor people who can be served by microfinance. It is associated with a number of clients, which are determined by the constraints of the budget, wants and needs of the community. In the period 2007- 2016, the number of financing's clients that are serviced by Islamic Rural Bank always has increased every year, from 110.415 loan accounts in 2007 become 250.425 loan account in 2016. It means that an increasing number of customer financing over three times throughout in the last decade, around 9.14% per year. This increasing is in line with the increase in branch network of Islamic rural banks and ease the establishment of Islamic Rural banks by government. In the last ten years, there is an increasing number of Islamic Rural Banks, from 105 become 166 banks and an increase in the number of service offices by approximately 4 times. It was observed that the growth of network office of Islamic Rural Banks increased by 45,61% at the last ten years. Rapid growth in the number of Islamic Rural Banks also triggered by converting some conventional Rural Banks (BPR) become to Islamic Rural Banks which run with the concept of Islam. The existence of the Financial Services Authority as a socializing institution banking helps to improve literacy levels in rural communities

Third, Scope of Outreach. It referred to the types of financial contracts offered both products of funding and financing. More diverse types of financing facilities and more suitable with the needs of the community, more better the outreach of Islamic Rural Banks. The name of products tailored to the needs of the community where Islamic Rural Bank located, but with legally skim contract and in accordance with the provisions of Central Bank of Indonesia and the National Sharia Board (DSN). Usually, lending product is channeled into various Islamic-based contract schemes such as *murabaha*, *mudaraba*, *musharaka*, *salam*, *istishna*, *ijarah*, *qard* and multi-service. The domination of *murabaha* contract, its around 79.59% from other contract types at a financing agreement composition, due to the use of this contract is more applicable, multi-purposed and lower risks.

To analyze whether the intermediation function is working properly by using these contracts, FDR (Financing to Deposit Ratio) is a representative variable. This ratio is around 124,99% at the last 5 years. The highest is 128, 47% in 2010. Its implies that the intermediation function of Islamic Rural Banks is very optimal, because it exceeds of 100%. The fact that most loan for working capital also imply that the function of these Islamic Rural Banks is quite optimal. Islamic Rural Banks is really intense in empowering the micro real sectors. The financing is channeled to productive purposes, such as working capital. This is in line with the function of Islamic Rural Banks as the intermediary institution between monetary sector and real sector. The target of Islamic Rural banks are the layers of community in poor-productive but marginalized economically. This indicates that the financial inclusion program is running well by Islamic Rural Banks.

However, a large FDR ratio implies that Islamic Rural Banks extend credit beyond their capabilities, so that banks faced high credit risk. Higher FDR indicates the lower the bank's liquidity. Actually, the condition of Islamic Rural Banks in Indonesia faced with a dilemma between extending the outreach and maintaining financial sustainability. An increase in the FDR ratio implies an outreach expansion, but on the other hand, an increase in FDR leads to worsening financial performance.

Fourth, the Worth of Outreach. This indicator is defined as the willingness of customers to pay for financing, equal to rate of repayment . the Outreach will be better when accompanied with the repayment ability of the community. Observations at the last 10 years shows that the ratio of NPF (Non Performing Financing) reached an average of 7,44%. It indicates that the bad financing in Islamic Rural Banks is quite high. Central Bank of Indonesia suggests this indicator at level 5% or lower. The issue of bad financing in Islamic Rural banks has become common issues that caused by internal or external factors. The limitations of human resource capacity in the analysis of the feasibility of financing, the lack of monitoring and technology is often blamed to be the causes of internal financing problems. While the issue of moral hazard, side streaming in using of funds, and the limitation of skill of customers to manage their business are an external causes of the emergence of bad financing

Fifth, Cost of Outreach. Its defined as the costs that are paid by the customer as the margin rate and other transaction costs. More higher the price will be more lower the outreach. The fee charged by Islamic Rural Bank against society is quite high when compared to other financial institutions that served microfinance. The average of the equivalent rate of return in Islamic Rural Banks in the last ten years is around 19,48%. The level of the rate of return looks much higher than the other financial institution that offers microfinance. Its imply the inefficiencies in the operation and the higher of acquisition price for depositor funds.

Sixth, the Length of Outreach. This is the time frame of micro-finance deals, which is not only measured by profit. However profit is one proxy for measuring the length of outreach. more higher and more stable profit, more better the outreach of financial institutions. It can be seen through the increase of Islamic Rural Banks's total revenue significantly by 21.01% in the last ten year. however, One issue that arises from the activities of Islamic Rural Banks is increasing in ratio of Operating Costs Operating Income (BOPO Ratio), the

ratio of operating expenses incurred to generate operating income.

The rate of operational cost, which at least the same as the operating income, will not be profitable for the Islamic Rural Bank. According to Central Bank of regulation, this limitation ratio is 90%. This ratio in Islamic Rural Banks around 84.75% in the last 5 years, and there is the rising trend in the last ten years. Several things that can be the causes of the increasing in this ratio are increasing in operational costs for expanding banks, high operating cost for micro-financing feasibility analysis and also the high value of Non Performing Financing (NPF) encourage for high operating cost

Increasing the office and network of Islamic Rural banks, increasing of the accessibility of Small Micro Enterprises (SMEs), the customer oriented banking services and the social justiced concept, and also the diversification of products, not necessarily able to be an indicator that the condition of financial inclusion program has been optimal in rural areas. Reinforcement in some of the things required by the Islamic Rural Banks in optimizing its function and purpose, covering :

First; Strengthening the Regulatory Strategy. The early stages of a proper banking development is the existence of regulations that provide guidance in a proper implementation strategy for development of Islamic Rural Banks. There should be a clear rules, that support Rural Bank as a financial institution which has specific characteristics as a community bank and has a comparative advantage compared to the other Islamic financial institutions. Monetary authorities, in this case is Central Bank of Indonesia and the Financial Services Authority, actually have a development blueprint of Rural Banks. It is focused on strengthening the capacity of the industry through the capital, sustainability of Rural Banks, increasing the coverage area and quality of service (OJK. Booklet of Indonesian Banking 2004. Ed 1 . March 2014 p.59). However, the regulation must be supported by given the application of some of the amenities that encourage the development of the Islamic Rural Banks as community banks. Regulatory limitations on some problem, sometimes make the Islamic Rural Banks not independent as a community banks, but as "the extended agent" of Commercial Banks's marketing where the Rural Banks deposits their account. Furthermore, the Islamic Rural Banks even compete with Islamic Commercial Banks which offering sub-branches, cash offices or sales outlet in the Islamic Rural Banks's operational area.

Second; Strengthening Strategy of Socialization. Islamic Rural Bank's socialization related to all the effort in building of public understanding about the presence of Islamic Rural Bank, as the institution which more than just a village bank. Islamic bank's tagline "beyond banking" built well as an effort to present Islamic Banking more than just "a bank", but the bank with the concept of social justice. Islamic Rural Banks declared since beginning as a community bank because of the Islamic Rural Banks is expected to have a comparative advantage which make them distinguish from commercial banks.

Islamic Rural Banks play a role in supporting the development of local areas, for being the closest financial institution for the productive sector, especially SMEs. As a community bank, Islamic Rural Banks is a kind of financial institution that understands the characters, the business needs of the community and have the products and services that are designed according to the needs of the community around it.

Islamic Rural Banks need a kind of synergy between the commercial banks with the Islamic Rural Banks which manage the pooling of funds, to overcome liquidity difficulties, doing linkage programs, providing technical assistance in information technology development, product development, training, and services payment systems and facilitating Islamic Rural Banks in finding other funding sources. By assuming that the system of cooperation is running well, of course the Islamic Rural Banks will be more competitive and develop according to its function as a community bank.

Third; Strengthening Competitiveness. Some strengthening of the competitiveness that intended are Islamic Rural Bank has competitiveness in terms of service, the level of competitive rate of margin and the professionalism in the management of banks. The efforts to increase this competitiveness has begun intensively conducted by Central Bank of Indonesia since 2010 which includes some of the following: a) Policy e-banking services, which are tailored to the size and complexity of the Islamic Rural Banks b) Improving of Good Corporate Governance, and c) Development of infrastructure of Islamic Rural Banks.

Fourth; Strengthening the aspect of human resources. Strengthening human resources in Islamic Rural Banks identical to the implementation of Good Corporate Governance. In order to improve quality and the standart of human resources in Islamic Rural Banks, Central Bank of Indonesia has made some improvement measures such as: the provision of "fit and proper test" in selecting the owner and manager of Islamic Rural Banks, certification programs and facilitate the improvement of skills and knowledge through training. Once again, a classic step such as increasing in the training budget is something that must be done. the average in increasing of the budget for education and training is 25,3% per year at the last 5 years, and of course its still not enough. Training for human resources required an intensive attention from the owner and manager of Islamic Rural Banks, because of the operational risks faced by Islamic Rural Bank is different from commercial banks. Islamic Rural Banks manage many small financing that having unique mechanisms and having high risk .

Conclusion And Recommendation

The contribution of Islamic Rural Banks in realizing financial inclusion has existed before the concept of financial inclusion become popular, since Islamic Rural Banks is a type of financial institution that has been carrying the function as a "community bank" and exist in rural Indonesia. Empirical evaluation of some facts about the outreach of Islamic Rural Bank showed the outreach of Islamic rural banks have already increased in four aspect: depth, breadth, scope and length. However, not seen a good performance for aspect of worth and cost. The limitations of human resource capacity, the lack of monitoring and technology, customers moral hazard, side streaming of fund, and the limitation of managerial business of customers are the causes of the emergence of financing problems. The issue of efficiency and high cost of funding also contributed for the poor performance of outreach. In line with the expansion of the banking sector that is increasingly apparent, Islamic Rural Banks require the optimization efforts at various things that include strengthening the regulatory strategy, strengthening the promotional strategy, strengthening competitiveness and strengthening the aspects of human resources. Strengthening of the external and internal aspects of the Islamic Rural Banks

will guarantee the implementation of reliable community banks and capable of supporting community development in rural area.

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