

DESIGN OF SME FINANCING MODEL FOR RATTAN CRAFTSMEN IN MEDAN

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Abstract: Lack of capital is the problem which frequently appears in the SMEs (Small and Medium Enterprise) management since the access to the Financial Institution is difficult, SME does not have any collateral, and there is no financing model which is in line with the characteristics of SMEs. This research aims to design a financing model which is in line with the characteristics of SMEs. The samples consisted of 50 SMEs rattan craftsmen in Medan. The research used development research method. The data were gathered by using questionnaires and conducting focus discussion group (FGD). The observed variables included definition of target group, the characteristics of the group which became the target, location, payment mechanism, the amount of loan (loan size), interest rate, savings, training, and discipline. The result of the research showed that the appropriate model for SMEs rattan craftsmen in Medan was group lending which was based on Community Based Organization (CBO) which formed the combination of village bank (VB) and saving loan association (SLA), called Group Lending VB-SLA. This model made it possible to use external financing sources as starting funding such as banks, foundations, or NGOs if the members' savings was not adequate to start the lending. If their savings was sufficient for lending, external financing sources would eventually be eliminated.

Keywords: Model, Financing, SMEs, Craftsman, Rattan

1. INTRODUCTION

The main problem which frequently appears in Small and Medium Enterprise (henceforth it is called SMEs) is capital. The government has seriously made various efforts to help SME in capital which can be seen from the significant proportion of credit given to SME in the last few years. According to Bank Indonesia (2014), credit expansion net for SME in 2013 was Rp.87.888.4 billion or about 14.5% of the banking credit of Rp.603.916 billion. According to BPS (2012), GDP contribution from SME reached to Rp.1.504 trillion and could employ 108 million workers. In reality, the growth of SME's income and development is far from what has been expected because of some weaknesses of SME such as weaknesses in management and entrepreneurship, in production technique and infrastructures, and in the access to capital sources. Based on the study conducted by Bank Indonesia (2005),

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it was found that most of SMEs (64.6%) needed loan. The main obstacle, according to BPS (2011), was due to the limitation of the access to financial institutions. The study conducted by the team from the Faculty of Economics, USU (University of Sumatera Utara) (2006), also indicated that the main obstacle faced by SME was financing. There are, of course, some reasons forwarded by SME's members: complicated process of obtaining loan (including the availability of collateral), the assumption that only specific people who are able to obtain loan, the assumption that it would be too risky to get loan and could not afford pay it off, and the lack of knowledge of the credit system itself. These phenomena are closely related to the institution which gives the credit; for instance, it focuses on the collateral (since financial institutions are always oriented on the old book which is called "prudential banking" so that SME members are reluctant to get in touch with "credit" because there is no "collateral."

The objective of the research was to design an appropriate financing model for SME members; it was adjusted to the characteristics of SME which became the object of the research. It was also to analyze the obstacles faced by SME in financing. The design of financing model for SME, especially rattan craftsmen in Medan, which was related to loan, was based on the gathered information. It could be used as the reference for any micro financial institutions which channel loan to SME members.

2. THEORITICAL ANALYSIS

2.1. Financing Model

Some famous financing models are group financing models; one of them was introduced by Grameen Bank in Bangladesh. ROSCA (Rotating Saving and Credit Associations) in Africa applied group financing by using the mechanism of group security (Lukman, 2008). BAAC (Bank for Agriculture and Agricultural Cooperatives) in Thailand applied the mechanism of group financing for farmers (Wardoyo & Prabowo, 2001). In Malaysia, there is AIM (Amanah Ikhtiar Malaysia) which has been succeeded in channeling credit 3,726,052,763 Ringgit Malaysia since 1998; it has 211,069 members all over Malaysia. Some prominent characteristics of AIM are, among others, non interest-bearing loan, no collateral, no law to counterclaim the loan, group responsibility as the substitute for collateral, and each member acts as a guarantee for the other members (Omar, Muhammad Zain, et. al.). In South Sulawesi, Indonesia, there was the Scheme of Regional Banking Financing (Yunus, Zein, *et al.*, 2006). Yusuf (2006) conducted a study on micro credit finance in partnership unit and environmental management of PT SUCOFINDO. The model was an integrated development model, sustainable integrated development model, and factoring development model. Sulisty, Adiatma (2011) created the mechanism of Kempling program Partnership (Business) in some villages in Semarang.

2.2. Financing Model of the Indonesian Government in Financing SME in Indonesia

2.2.1. KUR (People's Business Credit) Program

KUR is a financing model of working capital and/or special investment for SME in feasible productive business although it has its limitation in fulfilling the requirements (not yet bankable) which are usually called cluster 2 and cluster 3 (feasible but not yet bankable). There are three important pillars in the implementation of KUR: Bank Indonesia, the Ministry of Cooperative, and SME. The banks which give people's business credit are BRI, Bank Mandiri, BTN, and some other banks.

2.2.2. Linkage Program

Linkage Program is a cooperation program between commercial banks and cooperatives in order to increase the access to financing SME. The establishment of linkage program is caused by many problems in the lack of capital and in accessing the source of financing by SME. These problems include the lack of credibility of SME viewed from banking analysis, the complex procedures and bureaucracy in applying for loan, difficulty in requirements for security, unevenness of information about banking service and financial institutions used by SME, and limitation in the range of service from financial institutions, particularly from the Banks. Besides that, the objective of this linkage program is to increase the role of a cooperative as a micro financial institution which is capable of servicing SME in supporting financing. There are three models of linkage program between commercial banks and cooperatives:

1. Executing Model
2. Channeling Model
3. Joint Financing Model

Executing model is the loan given by a commercial bank to a cooperative in order to finance cooperative members. Channeling model is the loan given by a commercial bank to cooperative members through the management of a cooperative which act as an agent so that they do not have any authority to decide whether the loan can be given or not. Joint financing model is the joint financing by a commercial bank and a cooperative for cooperative members.

2.3. Micro Credit Financing Model

Financing model is closely related to micro-credit financing. Nowadays, there are some models which are applied by micro financing institutions in some countries. They are, among others,

- a. **Association Model.** The target of this model is an 'association' which conducts its micro financial activities, including savings. The group can be youngsters, women, or certain political activists.
- b. **Bank Guarantees Model.** As what it bears in its name, bank guarantees is used to get loan from commercial banks. The guarantees can come from external sources (donors, government agencies) or from internal sources (for example, by using members' savings accounts). The loan can be directly given to individuals or groups that have been established. Some international organizations have established 'international guarantee funds' in which banks and NGOs can borrow or create micro-credit program.
- c. **Group Model.** Basic philosophy of this model is based on the fact that individual inadequacy and weakness can be handled by collective responsibility. This model includes Grameen model, village bank, self-help, solidarity, and so on.
- d. **NGO Model.** NGO appears as the main player in micro credit. They run this intermediary program in various dimensions. NGO has actively participated in micro-credit program.
- e. **Peer Pressure Model.** This model uses moral approach among borrowers in order to assure them to pay off their credits. It also applies group pressure to settle the credit in condition that if the first borrower does not pay off his debt, the other members will not obtain their loan.
- f. **ROSCA Model.** Rotating Savings and Credit Associations (ROSCA) is an association which consists of individuals who make cycle in establishing public funds which are lent a number of funds to each member in each cycle. After the debt is paid off, the fund will be lent to another member. Who will get the loan is determined through an agreement, by lottery, offered, or by other methods which have been mutually agreed. In Indonesia, this model called 'arisan'.
- g. **Village Banking Model.** It is a people's credit and savings-based association. The group consists of from 25 to 50 people. The starting funding can come from external sources, but the members themselves who run it. Their credit is backed up by moral bond. This model is closely related to Group model.

2.4. Some Factors Which Should Be Considered In Designing Micro-Credit Institution

Reinke in Srinivas (2015) explains that there are some factors which should be discussed in establishing micro-credit institution; they are, among others,

1. **Defining Target Group:** This activity is related to whom micro credit will be given. Some people say that women are capable of creating benefit, have more responsibility in paying off debt, and are punctual and rarely default, compared with men. In some countries, teenagers become a problem in society; many of them are unemployed and dropouts. Therefore, perspective is developed for them to obtain income; therefore, some micro-credit institutions make teenagers to be the important priority.
2. **Economic Characteristics:** Micro credit observers usually point out that micro credit should not be given to business activities because business activity such as running a store will not increase buying power. The store-keeper indirectly decreases the profit of his business. General argumentation states that micro credit should be removed from business activity. This idea can still be argued since business activity is the onset of a creative firm. Is it not reasonable if profit can be reinvested for manufacture activity?
3. **Location:** When micro-lender location which becomes the target is located in rural areas, the location should be moved to urban areas. If the borrowers are urban poor clients, it is reasonable if the location is in urban areas. The location is crucial whether the borrowers will be summoned in their homes or not. If the system which will be developed needs direct dunning by credit officers from the debtors, the group lending should be in the nearest location.
4. **Mechanism of Payment:** The mechanism of payment is concerned with whether payment of debt is done by electronic transfer, through post offices, or direct collection by credit officers. Transfer system is more efficient and cheaper, but in carrying out cash system credit officers can directly converse with group lending (Reinke, 1997), not to mention if a meeting with debtors is needed.
5. **Loan Size:** Many micro-credit institutions apply credit stages. The larger number of credit stages is highly depended on the success in small initial credit. These stages will make entrepreneurs more enthusiastic to pursue bigger need for financing. Stages in micro-credit system pay much attention to the history of payment and the capacity at the time the request is made.
6. **Cost and Interest Rate:** Interest rate should be arranged properly in order to cover costs. Some interest rates in micro-lender are high because the institution provides consultants and wide distribution so that the cost and interest become high. Efficiency in determining correct distribution and location can automatically drive down interest cost. A good micro lender should pay attention to these two aspects. Another factor which should be taken heed is the regulation on permitted maximum interest.

7. **Savings:** Many micro-lenders such as association model, ROSCA model, village banking model, and SLA suggest that their clients put their money in a bank besides borrowing. Savings is useful to create carefulness so that borrowers borrow reasonable sum of money. The habit of depositing money in a bank can also be a 'security' so that the process of selection, observation, and credit will be helpful by the accumulation of the loan. Some models like Saving Loan Association, Credit Union Model (self-help) and ROSCA Model require their members to save since these models rely on savings as the starting funding for their members' credit, unlike Village Bank Model which allows its members to get external funds as the starting funding for their credit besides savings.
8. **Training:** There is close relationship between credit and training. From the micro-lender's perspective, the effect of training is to develop capacity (capacity building). Training is very useful for prospective debtors to be 'eligible' for obtaining loan. It can be provided in two types: vocational training which is aimed to increase technical skill in running manufacture business, and business training which is aimed to help increase managerial aspect in running businesses.
9. **Discipline:** Meeting frequency is highly needed in a group credit scheme. A meeting is important in sharing information and transparency in a group credit scheme where all members take responsibility. The meeting is held twice a month, attended by 5 or 6 groups of borrowers and by credit officers. The group credit scheme does not only have economic benefit but also gets social role.

3. RESEARCH METHODE

The objective of the research was to study correct financing models which are in line with the characteristics of the object of the research. The research began with searching for information from SME and its credit problems and for information about the characteristics of SME, based on the criteria of the specified factors.

The variables were the variation in establishing micro-credit institutions: definitions of target group, characteristics of group economy which became the target, location, mechanism of payment, the amount of loan, interest rate, savings, training, and discipline. From the obtained information, the appropriate financing model was determined according to the respondents' characteristics. The object of the research was 50 SME's rattan craftsmen. The main material used to find the problems and the characteristics of SME was by using questionnaires and focus group discussion (FGD). The research was conducted in Medan as the business location for SME's rattan craftsmen. The data were obtained from respondents and tabulated in order to obtain the percentage value from each characteristic to draw some conclusions.

4. RESULT AND DISCUSSION

4.1. Characteristics of Respondents

Table 1
Based on Sex

<i>Criteria</i>	<i>Total</i>	<i>%</i>
Men	43	86%
Women	7	14%
Total	50	100%

Table 1 shows that men dominate rattan handicraft business in Medan. In the analysis of group credit, it seems that women are more responsible than men in paying off loan. However, there is an exception since 100% of the craftsmen are family heads so that the level of responsibility for paying off debt is high. On the contrary, women are focused on managing financial matters. The culture of the people in Medan and in many parts of Indonesia, men are more dominant in managing family businesses, while women tend to be book keepers so that they are better than men.

Table 2
Based on Age

<i>Criteria</i>	<i>Total</i>	<i>%</i>
30-40 years	12	24%
41-55 years	28	56%
> 55 years	10	20%
Total	50	100%

SME's Rattan craftsmen in Medan are in highly productive ages; only 20% of them are above 55 years old. The remainder 80% was between 30 to 55 years old. These data provides a picture that from the age point of view, giving loan to them does not have any significant problem. In general, respondents are able to manage the loan properly because these ages are categorized as the most productive ages.

Table 3
Number of Respondent, Based on Business Types

<i>Criteria</i>	<i>Total</i>	<i>%</i>
No Legal Entity	41	82%
Families		
PT		
CV		
Firma		
UD (Business)	9	18%
Total	50	100%

The result of interviews and tabulation of questionnaires, it was found that one of the obstacles faced by SME rattan craftsmen was that their business did not have any legal entity. 82% of the respondents admitted that they did not have any legal entity which caused them to get difficulty in the access to obtain loan from the banks. Bigger scheme of loan offered by the Bank required legal entity business. This condition had motivated the researchers to establish loan pattern which does not need legal entity. In this case, micro-lending institution which could give loan for non-legal entity business was needed.

Table 4
Average Sale per Month

<i>Criteria</i>	<i>Total</i>	<i>%</i>
< Rp. 5 million	18	36%
Rp. 5 - Rp. 10 million	13	26%
Rp. 10 - Rp. 25 million	12	24%
Rp. 25 - Rp. 100 million	7	14%
Rp. 100 - Rp. 250 milion	0	0%
>Rp. 250 million	0	0%
Total	50	100 %

The data above shows that the whole respondents' sale is micro business group and small business. Of 50 respondents, 43 of them have the sales turnover under Rp.300 million per month so that they are grouped in micro business. This information gives an opportunity to this business group to design a credit scheme for micro business group. The scheme can rely on the linkage program which is offered by the government through the Ministry of Cooperative in which micro business is its main target. Another alternative is by establishing group lending which is protected by cooperative as the micro-lending institution which uses external financing from linkage program, a program which enables saving loan association to be established.

Table 5
Starting Funding Source

<i>Criteria</i>	<i>Total</i>	<i>%</i>
Individual Saving	44	88%
Loan from Family	1	2%
Loan from Relatives	2	4%
Friends		0%
Banks	3	6%
Joint		0%
Total	50	100%

Nearly all respondents' financing (88%) comes from their own saving. Only 6% comes from banking loan. The use of individual savings as the starting funding indicates they are very enthusiastic to develop their business. This condition can be made as the supporting factor in establishing micro-lending institution.

Table 6
Source of Capital Supplement

<i>Criteria</i>	<i>Total</i>	<i>%</i>
Cooperative	0	0%
Company Loan	0	0%
BMT	1	2%
Pawn Shop	1	2%
Bank	17	34%
Saving	11	22%
Finance Company	3	6%
Moneylender	2	4%
Never Adding Capital	15	30%
Total	50	100%

The source of capital supplement of SME rattan handicraft dominantly comes from banks and individual savings, and 30% of them do not add their capital. Many of them do not have access to loan. They also do not obtain any loan from cooperatives and companies. The role of BMT and Pawn Shop as the sources of financing is only 4%.

Table 7
Respondents who have obtained KUR as capital adding

<i>Kriteria</i>	<i>Total</i>	<i>%</i>
At least once in the past	5	10%
Never	45	90%
Total	50	100%

Besides that, the data revealed that 90% of respondents never obtained KUR, whereas KUR is one of the government policies, through the Ministry of Cooperative, in giving loan to micro and middle business group. The reasons for the difficulty in obtaining loan are as follows: 82% of SME Rattan craftsmen do not have any legal entity so that it is very difficult for them to obtain loan from banks, they have to provide mortgages (90% of them claim that it is difficult for them to provide mortgages), high interest rate (52% of them claim that interest rate is high), providing company's data is complicated (18%), and 12% of them claim that the loan offered is not appropriate. These data are found in Table 8 below.

Table 8
Obstacles in Borrowing Money from Banks

<i>Criteria</i>	<i>Total</i>	<i>%</i>
Requirement for providing collateral	45	90%
Complexity in providing data	9	18%
High Interest Rate	26	52%
Inappropriate Loan	6	12%
Total	50	100 %

4.2. Lending Model Design for SME,s Rattan Craftsman

This model design is closely related to the establishment of body or institution which organizes SME Rattan Craftsmen in channeling loan. This institution is usually called microfinance institution (MFI). It can be a cooperative or savings and loan institution. From the field observation, it was found that this institution which was called KOPINKRA ROTAN (Industrial Cooperation of Rattan Handicrafts) has been established since 1977. It has legal entity with the Certificate of Establishment No. 173/BH/PAD/KWK/97. It has had 50 members so far. However, it seems that it does not do its function as the savings and loan institution. It functions only as a body for buying certain products and not as an alternative in giving loan to SME's rattan craftsmen.

The researchers think that this established cooperative (even though it is not a savings and loan cooperative) can be functioned for managing correct financing model for rattan craftsmen as the members. It can be used as the basis for establishing the real MFI so that the researchers do not need to establish a new institution. Their job is only to increase the status of the cooperative to become a microfinance institution. This increase in the status will be discussed in the second stage.

In order to establish microfinance institution – as an institution which will provide loan scheme – it is necessary to consider some factors which will be adjusted to the condition of SME's rattan craftsmen. From its characteristics, a correct financing model will be established.

Defenitions of Target Group

Based on the observation, it was found that target group was a group of micro business people who run their rattan handicraft business. On the average, they were from 35 to 55 years old; most of them were males (86%) and had spouses. All of the businesses were their own (100%), and they had a turnover of Rp.5 million to Rp.25 million per month.

From these prominent characteristics, it was found that their average ages had the possibility for being categorized as the persons who were credible to be given credit. Adults were more responsible for running businesses and more serious in

the repayment of their loan than those of youngsters. Most of the respondents were males. Although women are usually assumed to be disciplined in managing financial matters and in paying off their installment, men in this case and in some other areas in Medan are reliable business people; therefore, they are more dominant to run the rattan business.

However, in financial matters, they give the authority to women since the latter are more focused on book keeping. It can be said that age does not have any problem in the responsibility for the repayment of loan.

Most of the respondents live in the suburban areas, and some of them live in the urban area (and not in the rural areas) which means that the selling location should be in town. Even though the majority of the respondents are in rural areas, the cost is also high so that the location of the majority of respondents in the suburbs and town is very strategic in supporting the establishment of microfinance institution with low cost.

The Economic Characteristics of Target Group

The characteristics of target group economy is one the factors which needs to be considered in designing microfinance. Literature study, which can still be argued, points out that manufacture business activity is more potential in giving micro loan than commercial activity. The latter cannot directly create profit (added value), while manufacture activity, including rattan craftsman entrepreneurship, can highly increase added value and high profit.

The result of questionnaires showed that all respondents (100%) who became the samples were rattan craftsman entrepreneurs in the category of 2 and 3 (productive but not bankable). Craftsman entrepreneurship like this creates high creativity and very potential to develop although it needs to be supported with capital supplement.

Based on the funding in the field, it was found that this profession has been run for the average of 15 years. These factors highly support the establishment of micro-lending for them in order to have better level of repayment.

Location of Target Group

The success in micro-lending highly depends on the location where a target group exists. Location is closely related to the distribution of target group members, adjustment to the intended payment mechanism, and interest in visiting borrowers. Based on the data in the field, it was found that all SME rattan craftsman (100%) groups were in Medan, and its distribution was concentrated at the vicinity of Jalan Titi Papan – Gatot Subroto, Medan, where the rattan craftsmen settle and run their business as rattan craftsmen.

They are closely concentrated so that they know one another and communicate easily. These factors become the strong basic financing to establish efficient group lending.

From data in the field, it was found that 32% of respondents wanted the mechanism of payment to be done by paying it directly in the office. 58% of them wanted it to be picked up by credit officers, 16% of them wanted it to be picked up by credit officers. These varied answers actually indicate that they do not have any problem since they live close to one another. It is micro lending that easily decides which system will be used. Since they live in concentrated areas, if the institution decides to visit borrowers, such as once a week, there will be no problem to establish micro lending. The factor of location, the mechanism of payment and visiting borrowers become value-added for the establishment of efficient micro lending.

Mechanism of Payment

The success in microfinance is highly determined by repayment from borrowers. Repayment is closely related to the method of collecting the payment from borrowers. It is necessary to formulate correct mechanism of payment from target group.

It cannot be separated from the way how to collect the payment and the location of payment. There are some alternatives which can be provided: 1) directly paid to the office, 2) collected by credit officials, and 3) paid to the group leader. Location of payment can be determined by 1) opening bank account, and 2) paying in directly to microfinance institution.

Of 50 respondents, 58% of them wanted the payment to be paid through the mechanism of direct pickup by credit officials, 32% of them wanted the payment to be paid directly to the office, and 16% of them, wanted the payment to be paid to the group leader. It is recommended that, from these data and their relation to the concentrated location of the borrowers, it should be more efficient if the payment is paid to the group leader because if the group leader collects the payment, the responsibility of the group will be established. Fellow members of the group will remind one another and motivate to pay their installment; in other words, high moral will be established. The establishment of this group will be positively encouraged to do the payment; in other words, high moral will be established. The group leader can discuss with the members whether the payment will be conducted each week or each month. The group leader will pass along the payment to the cooperative office.

Another positive reason for collecting the payment by the group leader is that communication among the members will be established; they can perform discussion together in a certain period of time, and training about the business can be conducted alternately.

In this case, there were 50 rattan craftsmen. Let us say, if one group consisted of five members, there would be 10 groups. The group leader was appointed by the head of the cooperative by considering some criteria such as business development, capacity to communicate, capability of book keeping, and capacity to motivate. Each group leader would get incentive for collecting the payment and the amount was determined in membership meeting.

Loan Size

There are some factors which determine the amount of microcredit: the history of business, loan stages, and the capacity of clients. The history of business includes description about the span of time in running the business. The increase in business will assure microfinance institution to add the loan. The history of business also describes the increase in sales volume. The higher the sales volume is, the bigger the capacity of production and the bigger the amount of loan.

Loan stages are related to the stages which have to get through by borrowers to obtain loan more. Each higher stage indicates more amount of loan. The success in the initial loan will determine the following stage, and so on. The scheme of loan stages will motivate borrowers to add their amount of loan in the following stages.

The capacity of clients indicates the projection of the capacity of borrowers in repaying their loan which is related to their capacity to increase their sales volume. The clients' capacity is known through the feasibility study of loan, performed by the staffs of microfinance institution.

Based on the result of questionnaires - it can be seen in Table 5.4 above - the sale of SME Rattan Craftsman consists of some groups. The sale which is up to Rp. 25 million is 43 craftsmen (86%), the sale from Rp. 25 million to Rp. 100 million was 5 craftsmen (10%), and sale more than Rp. 100 million is only 2 craftsmen (4%).

These variations of sale can be used as the basis for microfinance institution to establish graded loan scheme which is in line with sales capacity. The established loan scheme will also be adjusted to the capacity of repayment of the borrowers through loan feasibility study. From the data tabulation, it can be seen that the amount of the needed loan is line with the capacity; 64% of respondents claim that they need loan from Rp. 10 million to Rp. 50 million.

Interest Rate

The continuity of loan scheme is determined by lending rate. The interest rate which is determined by the institution has to be able to cover the whole cost. It commonly occurs that the interest rate is too high. This is probably caused by the

exaggerated services. It is not uncommon that a microfinance institution provides additional services such as free consultation which, of course, put a burden on certain charge, including interest, so that the interest component increases. Therefore, in the microfinance, this condition should be reconsidered.

For group lending, interest rate is around 2% to 3% per month. This cost is used only for paying the staffs that are on duty in controlling the loan. This interest rate is probably higher than banking interest rate (Mayfield, James B, 1998). Based on the field survey, it was found that BRI set 2% flat per month for KUR up to the credit limit Rp. 25 million. Linkage Program of the State Ministry of Cooperative and Small and Medium Businesses of the Republic of Indonesia set effective interest rate of 16% per year. Amanah Ikhtiar Malaysia (AIM) as a microfinance institution in Malaysia set the charge of 10% per year (<http://www.aim.gov.my> accessed on February 27, 2015).

However, efficient interest rate of microfinance should be lower than informal money lender (which reaches to 5% to 10% per month). These data are only used to confirm the opinion that the interest rate of microfinance institution can be higher than banking interest rate. Low interest rate should be prioritized in a microfinance institution and can only be practiced in a big economic scale. However, one thing which should be noted that microfinance institution does not apply any guarantee.

Savings

If a group lending which will be established relies on funds from its members, depositing money in a bank is required as starting funding. However, if a group lending which will be established relies on starting funding from NGO or a government banking institution like Linkage Program provided by the Ministry of Cooperative and Small and Medium Businesses, giving initial loan can done without waiting for the accumulation of the members' savings.

Depositing can be done at the time the members sign credit contracts. This indicates that the members' savings cannot be used as starting funding for the loan; but, at least, the savings can function as the main pillar as the loan given to the members. Of course, the success in establishing group lending highly needs support from the third party that will give loan to them. If there is no support from the third party, the alternative is by using the starting funding as the initial financing so that it will take a long time for the members to obtain loan.

The result of the research showed that all respondents (100%) claimed that they were ready to deposit their money in banks in order to establish group lending.

Training

The success in the established loan program needs strong commitment from the members, and strong commitment can be realized by conducting training. It can

be conducted in a certain period of time like twice a week or once in a month. The type of training can be adjusted to the members' need.

Based of the field data, it was found that all respondents (100%) wanted training such as training for increasing production skill (88%), capacity in business management (88%), and capacity in financial management (86%).

In order to cut down the training cost, the established MFI can collaborate with the Ministry of Cooperative and Small and Medium Businesses.

Discipline

Discipline in group lending can be realized by the frequency of meetings among the group members. The meeting can be held once in two weeks or once in a month, according to the agreement among the members. The meeting is intended to know whether there are some problems faced by the borrowers. Each member will be expected to give solutions to their problems.

There are 50 rattan craftsmen registered in KOPINKRA ROTAN, Medan, all together. If a group lending consists of 5 members, there will be 10 group lending. The meeting can be held by at least three members in each group lending so that each meeting will consist of 30 members plus credit officials. This meeting should be used as a regular agenda of the MFI which will be established.

From the frequency of meetings, it can be found that the members can share information about business opportunities, about the design of rattan handicraft which is more fashionable, and about any obstacles faced by the members. Last but not least, the meeting will eventually increase moral of the group members to be more disciplined in paying off the installment.

4.3. Financing Model by Using External Institution as Starting Funding

Design for financing model like this will create external institutions such as a foundation, NGO, or a banking institution as starting funding. Besides that, cooperative as a microfinance institution can channel loan to its members.

In this research, the writers had conducted brief study on banking institutions such as BRI as the source of starting funding by using the government program, Linkage Program.

One of the financing forms for SME is Linkage Program which is the collaboration with the Ministry of Cooperative and Small and Medium Businesses of the Republic of Indonesia. This program is the cooperation between commercial banks (such as BRI and Bank Mandiri) and cooperatives in order to broaden the access to financing UMK (Micro and Small Business). This program is intended to broaden and increase the access to UMK on the credit facility/financing for working

capital and investment through Linkage Program between banks and cooperatives. This program is expected to be able to increase the role of cooperatives as microfinance institutions which are able to serve UMk in supporting the opportunity for employment and poverty care (Appendices to the Regulation of the Minister of State for Cooperative and Small and Medium Businesses of the Republic of Indonesia No. 03/Per/M.KUKM/III/2009).

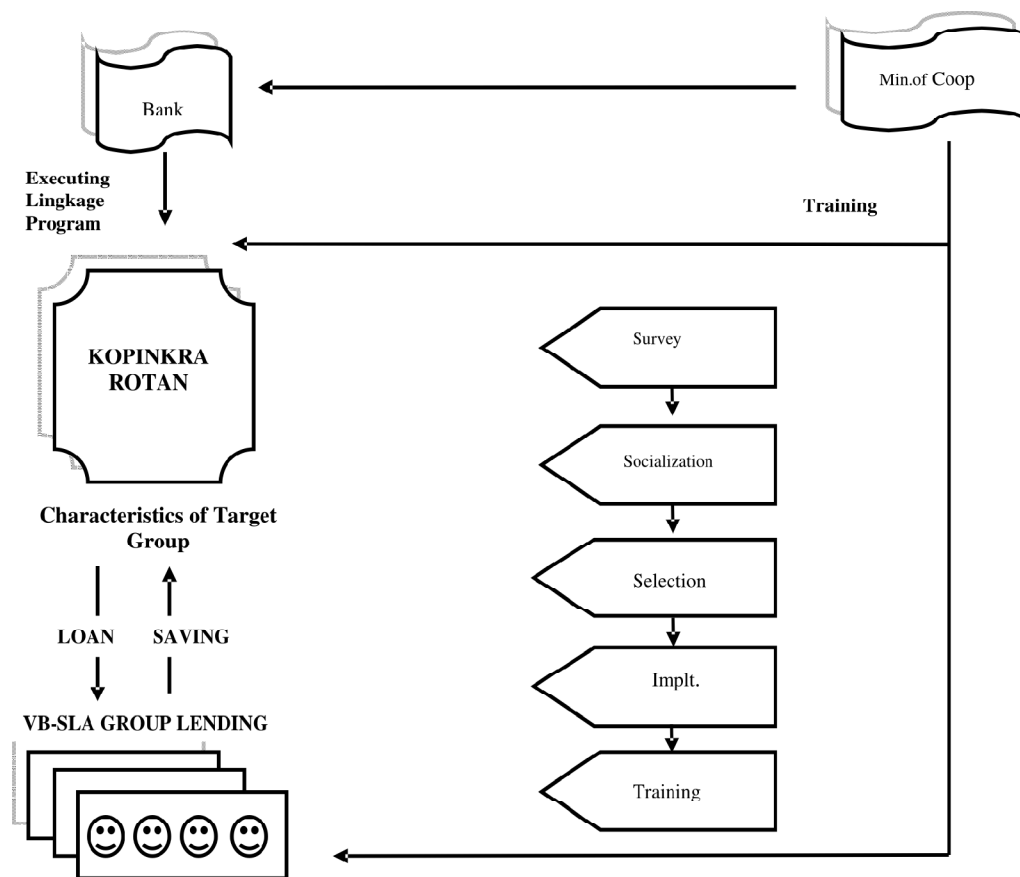
This Linkage Program can be used as an alternative for starting funding source for rattan craftsmen that are affiliated in the Rattan Industry and Handicrafts Cooperative, Medan, to increase the role of cooperative as a microfinance institution. The applied Linkage Program is Linkage Program Executing Model in which a bank channels the loan to a cooperative and the cooperative, in turn, channel it to its members. In this case, cooperative has the opportunity to play its role in determining the members who have fulfilled the requirements for obtaining loan. This role should be developed in order that a strong microfinance institution can be established which will eventually be able to make a correct credit scheme for rattan craftsmen as the members according to the existing characteristics. Based on the observation on the respondents through questionnaires and focus discussion groups, as it has been mentioned above, there are some significant characteristics of rattan craftsmen :

1. All respondents have the same profession as rattan craftsmen, categorized as manufacture activists .
2. All of them are adults and family heads.
3. They live close to one another so that they are familiar with one another.
4. The average sale is less than Rp. 25 million per month so that it is categorized as micro cluster.
5. The mechanism of payment wanted by the members is through group leader, and they are willing to deposit their money in banks as one of the requirements to obtain loan.
6. The members of the cooperative need training about selling skill, business management skill, and financial management skill.

Based on these characteristics and the availability of banking institution as starting funding, the established models are 1) organization-based group lending which is usually called Community-Based Organization (CBO). The choice can be the combination of Village Bank which has the characteristics as follows: starting funding is provided by credit institution, members are required to deposit their money in banks for mobilizing funds, it must have 20 to 50 members, there is mutual responsibility in paying off the loan, and each group member must cover deficit and 2) Saving Loan Association (SLA) which has its characteristics as follows: funding must come from savings and individual capital and external funding source is prohibited. The characteristics of model combination (Village Banking

and SLA) which will be established are as follows: starting funding can be obtained from external institution like banking, as the time passes, the members' savings has become the main pillar in supporting the loan.

The designed model consists of three components: the bank as starting funding with executing linkage program, Rattan Industry and Handicrafts Cooperative (KOPINKRA ROTAN) as microfinance institution (MFI), and the Ministry of Cooperative as the partner that provides training for SME Rattan Craftsmen. The model can be described in the following figure :



Starting Funding is obtained from the executing linkage program, loan program which is given by the government to SME and Cooperative through banking. This program is part of the government strategy (the Ministry of Cooperative and Small and Medium Businesses of the Republic of Indonesia) to increase the role of cooperative as **microfinance institution** which, then, channels the loan to its members. In this stage, the role of cooperative as a microfinance institution begins. The outline of the procedures of giving loan is as follows:

In the first stage, the management of a cooperative collects the data on its members who are potential to borrow. Then, socialization of the loan program is conducted; in this stage, the obligation to deposit their money in a bank if they want to borrow is explained. After that, the members are selected to obtain prospective members according to the requirements. The approved members will establish groups; for example, one group consists of 5 members. The number of members whose data have been recorded is 50 members so that there are 10 groups all together. The next stage is conducting training in management in order to run their business properly. In this stage, it is possible to cooperate with the Cooperative Service. The last stage is the implementation of the program. Here, it is necessary to confirm that the loan is for groups so that each member is required to help the other members.

5. CONCLUSION

1. The main problem which causes SME not to be able to access to banking is that it does not have any legal entity, it is not able to provide collateral, banking interest rate is high, and providing data is complicated.
2. The source of starting funding of SME dominantly comes from individual savings.
3. The role of banking as the source of capital supplement for SME is very small.
4. The use of KUR as the source of capital supplement for SME is very little.
5. The dominant characteristics of respondents are as follows: all of them have the same profession as rattan craftsmen, they live close to one another and are familiar with one another, most of them belong to micro business, payment mechanism wanted by them is through group leader, all of them are willing to deposit their money in banks as the requirement to obtain loan, and they need training about production, management, and financial management.
6. Financing models which is in line with the respondents characteristics are organization-based group lending model (Community-Based Organization – CBO) is the combination of Village Bank and Saving Loan Association which is called **VB-SLA Group Lending**.
7. This model makes it possible for using the financing of the third party; that is, executing linkage program between banks and cooperatives as starting funding if the members' savings is not sufficient for starting to borrow.

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