

MICROFINANCE INSTITUTIONS DEVELOPMENT MODEL AS ALTERNATIVE SOURCES OF FINANCING SMALL BUSINESSES IN RURAL

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***Abstract:** Microfinance Institutions (MFIs) has the advantage of a strong commitment to empowering small and micro businesses, more flexible procedures, and proximity to the rural areas. This study focused on MFIs development model as an alternative for rural economic development is still facing obstacles after the eruption of Mount Kelud in the past and limited capital perpetrators business. This research used descriptive qualitative to describes the development of models of Microfinance Institutions as an alternative source of small business financing in the rural after the eruption of Mount Kelud in East Java provincial government. The population in this study is the regional government of East Java Province. While the sample is Blitar, Tulungagung, Kediri, and Nganjuk district. A purposive sample was taken from each piece, which is considered relevant and important to represent this study. Microfinance Institutions became one of the alternatives empowerment of small rural enterprises. Model 1. General loans, Investment loans, and Consumptive credit, that as offered by MFIs roommates have been running in the area. Model 2. Murabaha, Mudarabah, Musharakah, and Qardhul Ijarah Hasan, as implemented by the Cooperative based on the principle sharia. Model 3. Working Capital Loan and Loan to Maturity as implemented by the cooperative based on the conventional principles, such as savings and loans.*

***Keywords:** Microfinance Institution, MFIs, Small Business, Rural Economic*

INTRODUCTION

Indonesia population people mostly living in rural areas generally have limited access in economic activity. To encourage the development of rural areas is necessary to credit institutions that specifically support development by mobilizing funds in rural and distribute loans to finance the construction. Often a village has a rich natural resource potential, but the welfare of society and the economy the region is low, due to limited production facilities and infrastructure, and weak capital at the farm level.

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Development of the rural economy is still facing obstacles after the eruption of Mount Kelud in the past and limited capital perpetrators business. Microfinance Institutions (MFIs) have the potential as a source of public financing of farmers/ rural despite the availability of funds amounting to formal banking institutions. The advantages of Microfinance Institutions (MFIs) are located on a strong commitment to empowering micro enterprises/ small, more flexible procedures and proximity to the rural areas. Huge potential has yet to be utilized optimally by the community because the Microfinance Institutions (MFIs) still faces institutional constraints and limitations of such overlapping, limited human resources and capital adequacy.

One of the main obstacles in the development of the rural economy is the lack of financial institutions in rural areas, thus slowing economic activity and the rural communities. The implication resulting in the limited employment, business opportunities, and increase incomes. With the reality of rural areas so it is necessary breakthroughs that are stimulating economic activity which among other rural communities with the development of Microfinance Institutions in the village. Given the limitations of performance improvement of the rural economy and rural communities due to limited facilities and infrastructure of the area and sources of business funding, also occurred in the province of East Java. It can be seen from the limited scale of business, productivity, and low income of farmers and fishermen because of the shortage of financial resources to finance the business community.

Microfinance Institutions in Indonesia has existed since the late 19th century with the founding of the *Bank Kreditan Rakyat* (People's Credit Bank) and *Lumbung Desa* (the Village Office). In 1905, the People's Bank of Credit was increased to Bank village whose service coverage expanded to venture outside the agricultural sector. In 1929, the Dutch government published the Gazette No. 1929/137 on the establishment of *Bank Kredit Desa* (BKD)/village bank and granary aimed at addressing rural credit in Java and Bali. In 1930 issued regulations on *Volkskrediet Algemene Bank* (AVB), which is the forerunner of *Bank Rakyat Indonesia* (BRI), and *Afdeelingsbank* (AB), which later became the *Bank* (BPR)/ people's credit bank.

After independence, the Government of Indonesia encouraged the establishment of market banks to provide financial services to the merchant market. The institute is registered as a *Perseroan Terbatas* (PT) (Limited Liability Company), *Commanditaire Vennootschap* (CV), cooperatives, These *Maskapai Andil Indonesia* (MAI), foundation or association. In 1970, the government launched a credit program involving bulk guidance through *BRI Unit Desa* (village Unit) for loan disbursement. Then, in the *BRI Unit Desa* created new savings and credit scheme called general rural credit (*Kupedes*) and rural savings (*Simpedes*) of a commercial nature. Mass Supervision/ *Bimas* credit loan then replaced with *Kredit Usaha Tani* (KUT) credit for agricultural activities which then turned into a *Kredit Ketahanan Pangan* (credit for food security).

The existence of MFIs in principle as a financial institution that provides services financing deposits and micro scale, to the community, expanding employment, and

can act as an instrument of equalization and improvement of people's income, and improve the welfare of the poor and/or low income. Based on that, to meet the needs of financial services to the poor and/or low income, necessary to formulate a Law on Microfinance Institutions to provide a legal basis and legal certainty to the activities of Microfinance Institutions aims 1. Facilitate access to the poor and/or low income to get loan/microfinance; 2. Empowering the economy and productivity of the poor and/or low incomes; and 3. Increase the incomes and welfare of poor and/or low income.

With the Microfinance Institutions (MFIs) in the countryside, it is expected to be used as an alternative source of small business financing in the countryside after the eruption of Mount Kelud in the affected area. Based on the background and explanations above, it needs to be studied and analyzed the extent to the which the role of Microfinance Institutions (MFIs) in the area can be used as an alternative source of small business financing in the countryside after the eruption of Mount Kelud.

THEORETICAL REVIEW

Microfinance is a provision of financial services like savings, credit, insurance, remittance, etc. in a very small quantity generally to the poor people (Dasgupta and Rao, 2003). According to Menon (2005), microfinance or micro-credit is the extension of small loans to individuals who are too poor to qualify for traditional bank loans, as they have no assets to be offered as a guarantee. Furthermore, Little, Murdugh, and Hashemi (2003) various studies on microfinance and poverty reduction have recorded increases in income and assets and decreases in the vulnerability of microfinance clients.

Adams and Von Pischke (1994) note that microfinance of today is based on exactly the same rationale as failed programs to help small farmers in the past. The Millennium Development Goals (MDGs) are globally adopted targets for Reducing extreme poverty by 2015 and they address income poverty, hunger and disease, lack of education, infrastructure and shelter, gender exclusion and environmental degradation (United Nations 2005).

Law No 1 of 2013 on Microfinance Institution is defined as a financial institution that is specifically established to provide business development services and community empowerment, either through a loan or financing for micro enterprises to members and the public, the management of deposits, as well as the provision of business development consultancy services that is not solely for profit.

The definition implies that the MFIs is an institution that also profit motive is a social motive, whose activities are more community development with without prejudice to its role as a financial intermediary. As a financial institution that serves as intermediary institutions, MFIs also, implement micro-credit activities, which in addition to providing loans but also activities required to bring awareness to the public saving, especially low-income people. Microfinance itself is an activity of the financial sector in the form of raising funds and providing loans or financing micro scale with a simple procedure to the poor and/or low income.

Forms of Microfinance Institutions (MFIs) in Indonesia

The Patterns of microfinance in Indonesia consists of (1) Saving Ledd Microfinancemembership based. In this pattern of funding or financing comes from the outstanding micro-entrepreneurs themselves. Examples of Self-Help Groups, Credit Union (CU). (2) Credit Ledd Microfinance, this pattern is not the financial resources of micro-enterprises but other sources such as the *Bank Kredit Desa* (BKD)/ Rural Credit Agency, *Lembaga Dana Kredit Pedesaan* (LDKP)/Institute of Rural Credit Fund, Grameen Bank, Asa Model in Bangladesh. (3) Micro Banking, the bank functioned this pattern for microfinance services such as has been implemented BRI , BPR, Danamon Savings, and Loans. Patterns of relationship banks and self-help groups, integration between banks and Self-help groups.

The Role and Function MFIs

Asian Development Bank (ADB) defines MFIs as institutions that provide storage services (deposits), credit (loan), payment transactions services (payment services) as well as transfer money intended for the poor and small entrepreneurs. Thus, the MFIs has a function as an institution that provides a wide range of financial services for low-income people and micro-enterprises. Microfinance is the financial empowerment of economically active poor through the provision of micro credit as well as other productive asset; it enhances the latent capacity of the poor for entrepreneurship, enabling them to engage in economic activities, be self-reliant and also enhancing the household income as well as creating wealth (Alegiemo and Attah 2005).

Hendayana and Bustamam (2007), explains how the MFIs role in society: (a) The existence of MFIs is recognized community has a strategic role as an intermediary in economic activity that has not affordable public services of banking institutions/ conventional banks; (B) In the factual service for MFIs have demonstrated success, but success is still biased to the efforts of non-agricultural economy. Skim MFIs lending to farming has not received the priority, it is characterized by a relatively small ceiling (budget allocation) to support the farm, which is less than 10% of the total ceiling of MFIs; (C) A critical factor in the development of the agricultural sector MFI lies in the institutional legality, capability management, seed capital support, the economic viability of farming, farm characteristics and technical guidance clients/ service users MFIs; (D) To initiate the growth and development of agricultural MFIs needed guidance enhanced capabilities for HR candidates MFIs managers, support the strengthening of capital and technical assistance to customers of credit users.

METHOD

This research is qualitative descriptive. Descriptive is a research method that seeks to describe phenomena or the relation between the phenomenon under study with a systematic, factual and accurate. The descriptive research aims to make researchers can better illustrate the properties are known to exist and are relevant to the variables studied.

The approach in this study is a qualitative approach and describes the development of models of Microfinance Institutions as an alternative source of small business financing in the countryside after the eruption of Mount Kelud in East Java provincial government. The assumption is made because of the location of the area affected by the eruption of Mount Kelud, how the development of Microfinance Institutions. The population in this study is the regional government of East Java Province. While the sample is in local government 4 Blitar district, Tulungagung, Kediri, and Nganjuk. A purposive sample was taken from each piece, which is considered relevant and important to represent this study.

The condition is the basis of this research study, which is expected by the model of Microfinance Institutions as an alternative source of small business financing in the countryside can be used as an input to the government of East Java Province. The qualitative data analysis model used in this research is the analysis of data developed by Miles and Huberman (1984) conducted with interactive models through the process of data reduction, display data, and verification.

RESULT AND DISCUSSION

Microfinance Institutions Model (MFIs) as an Alternative Small Business Economic Empowerment of Rural

Blitar District

Model MFIs in Blitar since the promulgation of Law No. 1 of 2013 there does not have a legal entity. This is according to field surveys many MFIs are reluctant to take care of a legal entity (Limited Liability Company or cooperatives) because they consider if a legal entity can not move freely as it is today. In addition, permits and capital management is considered difficult as well as engage local governments with the long procedure. However, the general model of MFIs in Blitar work smoothly, although there are obstacles, but can be overcome. The existence of MFIs in Blitar really help poor people and micro and small businesses with conventional or sharia model.

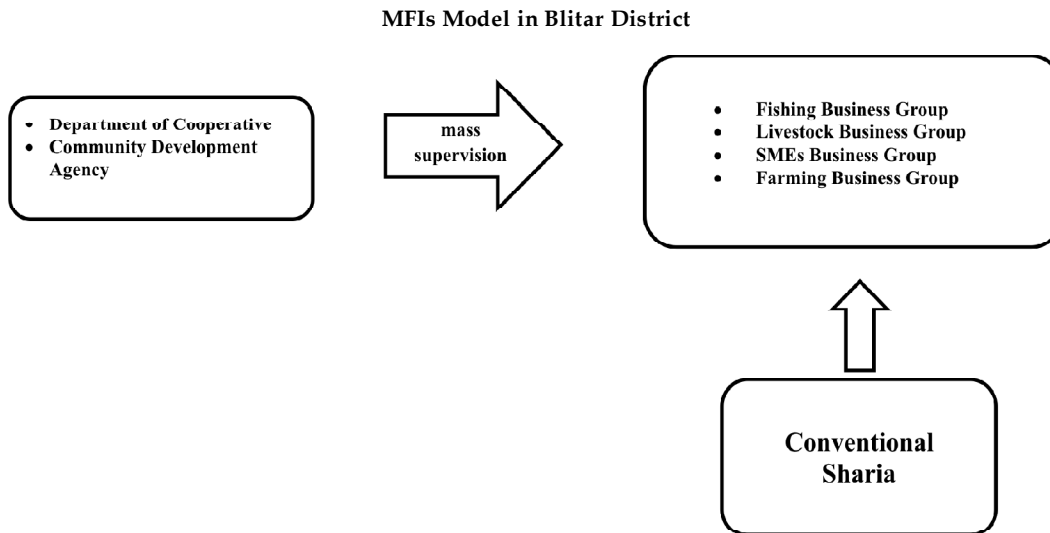
Economic activities in the rural after the eruption of Mount Kelud in Blitar still dominated by micro and small enterprises with the main subject are farmers, farm worker, sellers of inputs and agricultural products, fishing effort and the farm, as well as the domestic industry. However, businesses are generally faced with the classic problem is the limited availability of capital. As an essential element in supporting increased production and rural livelihoods, capital constraints may limit the space for agricultural and rural sectors of activity. Financial institutions involved in microcredit in Blitar generally called MFIs or financial institution whose operations in the rural. Furthermore, the existence of models of MFIs in Blitar district after the eruption of Mount Kelud can be divided into several groups based on their business, namely;

- MFIs business group of SMEs
- MFIs business group Agriculture

- MFIs business groups Fishing
- MFIs business group Ranch

Furthermore, the business groups in Blitar district is almost entirely in the form of conventional cooperatives and cooperative sharia, namely;

- Consumer Cooperative is a cooperative that provides basic needs of the members. for example: basic needs that are provided are rice, sugar, coffee, flour, cooking oil, and so forth. The goods supplied are cheaper compared to prices at other stores. This model is widely grown in the countryside.
- Credit Cooperative also known as savings and Credit Cooperatives. Cooperative members together to raise capital. The collected capital lent to members. Credit unions help members to obtain credit or a loan of money. This model is also much favored in rural communities because they are easier get money quickly.
- Production Cooperative helping members of the cooperative effort. That the cooperative can also perform a type of business together. There are various cooperative production. For example, production cooperative farmers, cattle ranchers, fishing, and so on.



Baitul Maal wat Tamwil (BMT) Model

Existing MFIs model of sharia *Baitul Maal wat Tamwil* (BMT) in Blitar District consists of two meanings of the Baitul Maal which means “house of money” and Baitul Tamwil with the notion of “home financing”. The house of money in this sense is the collection of funds derived from *infaq, zakat, or shodaqah*, and the financing based on the principle

of sharing, which is different from the conventional banking system which was based on the system of interest. Total BMT data in Blitar number between 5-10, the majority scattered in the districts and villages.

MFIs Model in Blitar after the eruption of Kelud Mount average is cooperative conventional and Islamicform, and their operation is savings and loans to its members, who are obliged to save as a compulsory savings requirements. On average almost the entire MFIs in Blitar has not been incorporated, it besides they have not incorporated the local government is also no regulation and declaring that specifically regulate MFIs.

Tulungagung District

Compared with another cities, Tulungagung has incredible passion in the field of the economy, especially the increase in the rural economy. The growth of entrepreneurship in Tulungagung continue to rise from year to year (PDRB 2013 into 2014 Rp 2.290.061.30 to 2.327.990.80). This needs to be supported by appropriate financial institutions and credible so that employers, especially in the SMEs sector may be more developed than now. Cooperatives and SMEs Tulungagung also strive to always improve the coordination of multi-stakeholder development of SMEs, with such efforts will facilitate SMEs in various ways, such as ease of business licenses to export their production process. In addition, as an effort to develop the business community, the government has a soft credit program that can be used to increase capital community. Cooperatives and SMEs Tulungagung in cooperation with financial institutions to hold a meeting followed by the Village Head Tulungagung, with socialization agenda in collaboration with the SME Department of BPR Jatim Bank branch Tulungagung as a government-owned SME Bank of East Java province and at the same time as the loan portfolio. The Bank is ready to provide funding on condition of major public has a real effort, in addition to helping local governments to improve the growth of our strong economy in Tulungagung.

Microfinance Institutions are required to obtain a license through the strengthening of the MFIs to OJK, among others; Village Bank, *Lumbung Desa*(the Village Office), *Bank Pasar* (Market Bank), *Bank Pegawai*(Employee Bank), village bank and granary, subdistrict credit organization, credit for activities of the poor, subdistrict credit institution, Production Work Bank Village, the Agency Rural Credit business, Baitul Maal Wa Tamwil (BMT), Baitul Tamwilmuhammadiyah (BTM), and other institutions equivalent to the already established and operating before the enactment of the Law of the MFIs. Based on the conclusion of the field on the MFIs model in Tulungagung, no one has to take care of legal entities, either a Limited liability Company or MFIs, the MFIs model based on three loan lending products offered to members, namely:

- Model 1, Public Credit/ Regular loans, Investment Credit/ venture capital, and credit consumptive, ie such as those offered by some of the BPR.

- Model 2, Murabaha loans, Mudarabah Loans, Loans Musharakah, Qardhul Ijarah Hasan, as offered by the Cooperative based on Islamic principles today.
- Model 3, Working Capital Loan and the Maturity loans as offered by the credit unions based on the conventional principles.

Procedures for granting loans in general among the models existing MFIs have grooves the same procedure, which consists of the application procedure in the form of form-filling file filing the financing and delivery of compliance with requirements of financing by customers or members of the cooperative, a completeness check file submission in accordance with requirements, site surveys (residence or business) by the MFIs, Financial analysis to produce recommendations for the feasibility of filing of financing, having been declared feasible, it is done at the office of financing disbursement of MFIs (binding contract, the delivery of collateral credit/financing and disbursement of money).

While in Tulungagung for MFIs model of sharia are also many who have not been incorporated, but they are in operation there is no problem with its members. MFIs sharia model is similar to MFIs in other cities, namely: (1) Musharaka consists of Musyarakah al-Inan, al-wujuh, al-Mufawadhah, and al-Mudharabah. Musharaka is an agreement between two or more parties are mutually committed to a concerted effort, as for profit and the risk is borne by agreement. while (2) *Musyarakah Al-Mudharabah* is the type most commonly used in Islamic banking, in which the first party (shahibul maal) as an absolute venture capital providers and others as a manager.

Kediri District

As MFIs in other cities (Blitar, Tulungagung, Nganjuk), models of MFIs in Kediri also as an alternative to community empowerment a weak economy, especially in the districts, especially in rural areas, most people and businesses economically weak use the services of loan sharks and Rural Bank, mostly with high interest. The existence of the cooperative model of MFIs in Kediri can be divided into several groups, namely;

- MFI Model MSME group of industry trade mostly be used by employers
- MFI Model agriculture and agro business group that is widely used by farmers
- MFI Model business groups freshwater fisheries are widely used by freshwater fish farmers
- MFI model poultry farm business groups are widely used by poultry farmers

In general, based on the type of business model of cooperative MFIs in Kediri can be classified consist of Credit Unions, Business Multipurpose Cooperative, Cooperative Consumption, and Production Cooperative, namely;

- *Koperasi Simpan Pinjam (KSP)*/Credit Unions is a cooperative thing to have a single effort Namely accommodate Serving members savings and loan.

Members The savings would get return and services charged to the borrower. A number of services specified For savers and borrowers Meeting through members.

- Business Multipurpose Cooperative is a cooperative effort diverse fields. For example, savings, and loan business unit, unit shops to serve the daily needs of the community are also members, unit production, unit kiosks, etc.
- Cooperative Consumption is a cooperative whose scope of business to provide the daily needs of members. The need is, for instance, the need of food, clothing, home furnishings, etc.
- Production Cooperative is a cooperative whose scope of business to make goods (produced) and sell together. This cooperative members generally own efforts and through cooperative members get funding and marketing.

Nganjuk District

Toughness micro enterprises in Nganjuk that have been tested to date is its resistance to shocks, the economic crisis and micro business entrepreneurs usually a debtor who dutifully pay their credit. In its management faced an important factor with regard to the institutional and user/customer. From the institutional side, the problems related to aspects of sustainability that is affected by (a) the capability of human resources managers of MFIs and (b) need capital support. While it is necessary also support external factors which include the legal basis for the development efforts of MFIs in Nganjuk.

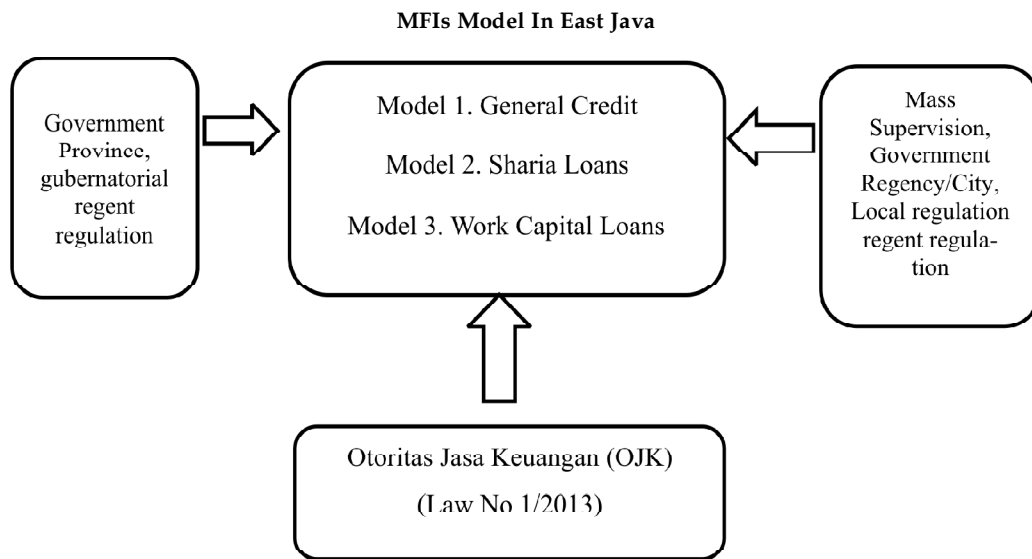
Furthermore, as a model MFIs in the town of Blitar, Kediri, Tulungagung and other cities, the model MFIs in Nganjuk also serves as an alternative to the weak economic empowerment as a substitute moneylenders and loan shark. The existence of MFIs models in Nganjuk can be divided into several groups, namely MFIs model;

- MFIs Cooperative Model
- MFIs Bank Model
- NonBank and Cooperative MFIs Model

Each MFI in Nganjuk The credit scheme apply differently depending on the type of business. For operational patterns, MFIs Bank Model follows the approach of the general banking/ conventional and sharia, As for MFIs Cooperative Model to implement a savings and loan then nonbank and Non Cooperative MFIs Model operational patterns vary. Furthermore, credit schemes Non Bank and Cooperative Model includes the replication of similar patterns of Grameen bank, Farmers Group and Unit Capital business Farmers Capital Group. Financial management by the Association of Farmers and it is basically a form of financial management with a revolving system. Capital is obtained from the Direct Community Assistance/ *Bantuan Langsung Masyarakat (BLM)*.

Analysis of Micro Finance Institutions (MFIs) Model as an Alternative Small Business Economic Empowerment of Rural

The development model of MFIs as an alternative source of small business financing in rural after the eruption of Mount Kelud in the District (Blitar, Tulungagung, Kediri, and Nganjuk), ie all the area is still undeveloped, it is because there is no legal framework Regulation and the decree/mayor. and there is no Governor Regulation (gubernatorial) and the Provincial Regulation (provincial regulations). Therefore, the following as a model solution in Figure, MFIs in accordance with Law No. 1 of 2013, which can be applied in East Java is more suitable and proportionate, as follows



Based on the model image MFIs above, the East Java Provincial Government and District/city should be apart as a manager and supervisor of MFIs in East Java, also issued a legal decree and regulation District/city as well as the Governor Regulation and regional regulations, which the substance as district/city and province has the responsibility of supervision over the existence of MFIs. While the Financial Services Authority (FSA)/*Otoritas Jasa Keuangan (OJK)* in accordance with Law No. 1 year 2013 give full authority to OJK in licensing, regulation, and supervision of MFIs.

From the description of the loan product and analytical results it can be concluded, where there are three models offered loans to MFIs in the Blitar, Tulungagung, Kediri, and Nganjuk district, more suitable and proportionate, namely:

- Model 1. Public Credit/regular loans, investment loans, and credit consumptive, that as offered by MFIs roommates have been running in the area.

- Model 2. Lending Murabaha, Mudaraba Loans, Loans Musharaka, Loans and Loan Qardhul Ijaroh Hasan, as implemented by the Cooperative based on the principle sharia.
- Model 3. Working Capital Loan and Loan Maturity as implemented by the Cooperative based on the conventional principles, such as savings and loans.

The next procedure of granting loans in general among the existing MFIs have grooves the same procedure, which consists of the application procedure in the form of form-filling file filing the financing and delivery of compliance with requirements of financing by customers or members of the cooperative, a completeness check file submission in accordance with requirements, site surveys (residence or business) by the MFIs, financial analysis to produce recommendations for the feasibility of filing of financing, having been declared feasible, it is done in the office MFI funding disbursement.

Then in the flowchart provision of financing, can be explained that the process of loan applications starting from the submission of the loan by filling up the form, the application loans and members of the cooperative to the MFIs, site surveys by the MFIs on the ability and mortgage applicants directly, proposal writing credit worthiness based on paperwork and a field survey results, a committee meeting to decide the feasibility of the credit department of credit application, if declared fit then do disbursement to the applicant.

CONCLUSION

MFIs in the Blitar, Tulungagung, Kediri, and Nganjuk district, is needed now and in the future, because MFIs need each other with the Micro, especially in rural areas, and is expected to MFIs as financial services agent to Micro. Formal financial institutions are relatively slower development than the illegal financial institutions. They thrive in the wider community and are very interested in the community under particularly in rural. Existing MFIs is inseparable from the development of Micro, Small, and Medium Enterprises (SMEs) in their respective areas. The role of SMEs especially since the monetary crisis in 1998, can be seen as a safety valve in the process of national economic recovery, both in encouraging economic growth and employment.

Microfinance Institutions (MFIs) is always an alternative empowerment of small rural enterprises after the eruption of Mount kelud in District Blitar, Tulungagung, Kediri, and Nganjuk district, namely; Model 1. Public Credit/regular loans, investment loans, and credit consumptive, that as offered by MFIs roommates have been running in the area. Model 2. Lending Murabaha, Mudaraba Loans, Loans Musharaka, Loans and Loan Qardhul Ijaroh Hasan, as implemented by the Cooperative based on the principle sharia. Model 3. Working Capital Loan and Loan Maturity as implemented by the Cooperative based on the conventional principles, such as savings and loans.

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