

# Model of Accommodating Microfinance Institutions for SMEs

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**Abstract:** Financial institutions have the function as intermediaries in the activities of an economy. If this function runs well, then the financial institution can produce added value. Economic activities here are not distinguished between the businesses carried out large / small, because the only difference is the amount of added value based on the scale of the business (Gunawan Sumodiningrat, 2003). This means that even small businesses, if utilizing financial institutions will also increase value added, so one of the efforts to increase people's income can be done productively by utilizing financial institution intermediary services, including productive businesses carried out by the women's micro-business base. The purpose of this study is to develop an accommodative Micro Finance Institution Model through empowerment of women's micro-based businesses. The focus in the long term is to become Kota Lama Kelurahan, Kedungkandang District, to become the fried onion center in Malang City and the positive impact of reducing unemployment through related business development.

**Indek terms:** MFI, SMEs, Accommodative

## 1 INTRODUCTION

THE development of micro, small and medium businesses has great potential in improving people's lives [1]. One form of people's economy is to place the Micro, Small and Medium Enterprises (MSME) sector as the basis of economic life. Fried Onion Products produced by MSMEs in the Old City Kelurahan area have an important role especially for the economy of the surrounding community. The existence of the Fried Onions business is done in almost all houses in Kota Lama Kelurahan and the products produced are on average distributed or sold directly discussed or sold directly at Pasar Besar Malang. The fried onion business in Kota Lama Village has been around for decades, making the surrounding community familiar with the ins and outs of fried onion processing. In its development, MSME fried onions in Kota Lama Kelurahan have problems in maintaining and developing business. the problem faced is almost the same as other Small and Medium Enterprises (SMEs), namely capital problems. The need for SMEs for easy-to-access capital is urgently needed to improve and develop businesses. Meanwhile, the system of obtaining funds so far is still in the form of loans with friends, neighbors, and relatives has weaknesses in terms of the amount of funds and guarantees [2]. Therefore, the initial step that needs to be taken is to conduct a thorough exploration to obtain all information regarding SMEs and existing microfinance institutions. A survey will also be conducted to obtain input from fried onion businesses as well as local residents to obtain input for the development of the establishment of microfinance institutions.

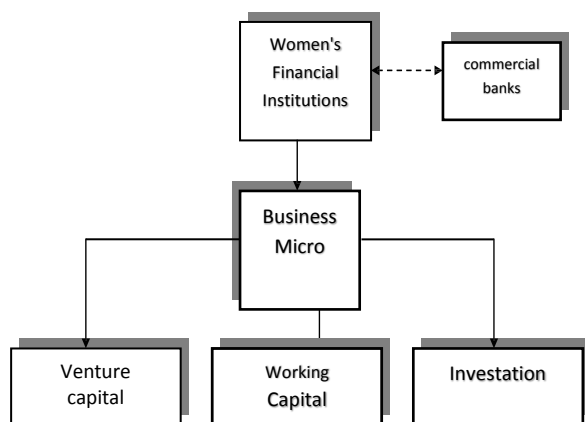
## 2 LITERATURE REVIEW

Financial institutions in this paper are financial institutions for Micro Enterprises. The growth of Microfinance Institutions in Indonesia was estimated at 30 percent in 2008. [3] explains that MFI is an institution that provides financial services to the poor and low-income families (and their micro-scale business activities), enabling them to better manage their risks, achieve consistent consumption patterns, and develop its economic base. [4] explains that MFI is an institution that provides financial services to poor people and low-income families (and their micro-scale business activities), enables them to better manage risks, achieve consistent consumption patterns, and develop their economic base. MSMEs according to the Ministry of Cooperatives and MSMEs in [5]: Small Business (UK), including Micro Business (UMI) are business entities that have a net worth of at most Rp. 200,000,000, excluding land and buildings for businesses and having an annual sales of at most Rp. 1,000,000,000. Meanwhile, Medium Enterprises (UM) are business entities owned by Indonesian citizens who have a net worth greater than Rp. 200,000,000 to Rp. 10,000,000 excluding land and buildings. The weaknesses of MSMEs are reflected in the constraints faced by the business. Constraints commonly experienced by MSMEs are limited capital, difficulties in marketing and supplying raw materials, minimal knowledge about the business world, limited technological mastery, low quality of human resources (formal education), poor financial management, lack of division of tasks. clear, and often rely on family members as unpaid workers ([6].

### 2.1. The model of community-based microfinance institutions

The microfinance institution model has the main task of channeling loans to microbusinesses or low-income communities and the environment familiar with funding institutions. In practice, microfinance institutions provide financial services with business confidence on the basis of repayment installments. With this view shows that the community-based financial institutions as a form of financial services in the micro business group with a standard loan formula standard micro business [7].

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**Figure 1:** Loan funds for women-based financial institutions

In Figure 1, it can be shown at the top that is the source of loan or capital funding that can be accessed by micro businesses and at the same time the institutions that handle it. From the picture functionally, each community-based financial institution has its own market segments.

## 2.2. Relevant Research

In a study conducted by [8] on the role of community-based microfinance institutions in the Regional Economic Development Program in East Java Province, the research sample was the BKAD (Inter-Village Cooperation Agency) and microbusiness, there was a strategic role in the BKAD institution. The results show that the presence of local institutions that have a role in the process of providing capital for micro businesses in rural areas is very much needed. This is due to the limited access of rural microbusinesses to formal financial institutions. Besides that, there is a powerless attitude in micro businesses when they have to deal with administrative processes with formal financial institutions. This is similar to the findings of [9] stated that microfinance or microfinance, especially in the informal sector, grew rooted along with the development of the community. Since the days before independence, microfinance became an alternative for low-income groups to meet their funding needs. At that time, microfinance grew and developed in various variations according to the needs of the community. Basically, the presence of a microfinance institution that has a value of alignment to microbusinesses, is expected to help it in overcoming business problems (ie capital) and business management.

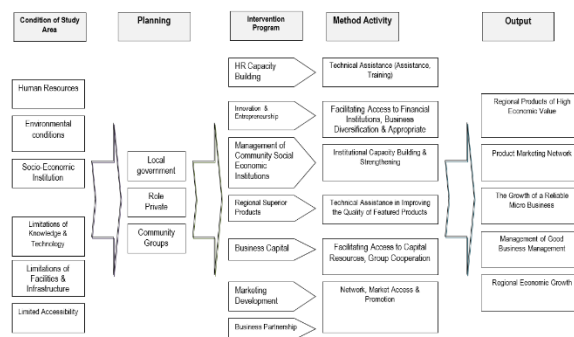
## 3. RESEARCH METHODS

This research is a combination of exploratory, descriptive, experimental and applied research that is carried out in stages in a comprehensive manner to look for an integrated accommodative Micro Finance model based on women's micro-based onion fried businesses in Kotalama District, Malang City. The aim of this research is to find a model of an accommodative microfinance institution based on a micro-based onion business for women in Kotalama Subdistrict, Malang City.

## 4. RESEARCH RESULT

### 4.1. Design Concept Framework

The concept of local economic development design is a way of looking at the overall economic sector, not only limited to how a person or group conducts business, but also how the overall role of the resource component in supporting business activities in an area. In the design concept, local economic development emphasizes efforts to utilize local economic resources that focus on the interrelationship and dependency between actors in the production network and efforts to develop innovation with the final achievement is the creation of a marketing network of products, superior products of high economic value regions, business growth reliable micro management, good business management and regional economic growth.[10] The operational foundation of the design of Local Economic Development is based on the principles of: Economy, Partnership, Institutional, Participatory, Self-Reliance, Transparent and Accountable, Integration, Autonomy and Decentralization and Sustainability [11]. In accordance with the principles of economics, partnerships and institutions and others, the scope of local economic development will lead to the strengthening of the economy of a region by focusing on five keywords: human resources, marketing, partnerships, economic institutions and empowerment. In order to realize these various objectives a local economic development design framework can be seen in Figure 2 as follows :



**Figure 2:** Conceptual Framework for Local Economic Development Design and Community Empowerment

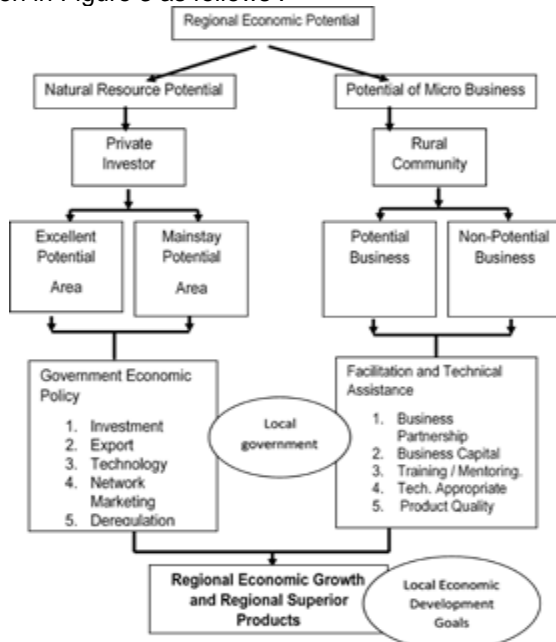
Based on the detailed design concepts of local economic development and community economic empowerment, the parts that must be an important concern and always be a foothold in carrying out activities include:

- 1. Input :** In the context of developing the local economy, the things that become the basis and input are the potentials and weaknesses of each region.
- 2. Planning:** In the context of developing the local economy, institutions / institutions that are expected to become initiators / planners of local economic development programs are needed. a) The regional government as a regional stakeholder who is very interested in local economic development. b) Private parties which are expected to stimulate the development of local economic bodies through investment capabilities, technology and access to information and markets, c) Communities are parties who receive benefits from local economic development, must have concern and commitment as well as a willingness to participate in local economic development .

3. Intervention Program: In the context of accelerating local economic development, an intervention program is needed that is expected to stimulate the growth and development of locally based economic activities. The intervention programs carried out: a) Increased HR Capacity, b) Increased Innovation & Entrepreneurship, c) Institutional Management of the Socio-Economic Community, d) Regional Superior Products, e) Business Capital.
4. Activity Method : Intervention strategies are needed in the framework of local economic development as follows: a) Technical assistance (Assistance and Training), b) Facilitation of Access to Financial Institutions, Business & Product Diversification, Appropriate Technology, c) Formation and Strengthening of Institutional Capacity, d) Technical Assistance for Enhancing the Quality of Superior Products, e) Facilitation of access to capital resources, group collaboration, f) Networks, market access and promotion.
5. Outputs : The outputs expected from local economic development are, among others, a) Regional superior products of high economic value, b) Product marketing networks, c) Growth of reliable micro-businesses, d) Good business management, e) Growth regional economy.

#### 4.2, Tentative Design of Local Economic Development SMEs Kedungkandang District

In the framework of local economic development, all available resources in an area seeks to be optimized. In order to develop local economic potential, it is first necessary to identify correctly with the right key assessment indicators in order to determine the potential of the region (superior and reliable) and economic potential micro community (potential businesses and non-potential businesses) which will later become regional superior products. In terms of community economic empowerment, the key factor that must be carried out is how to grow and develop community economic activities. Details of steps in local economic development can be seen in Figure 3 as follows :



**Figure 3 :** Prototype Models of Local Economic Development and Community Economic Empowerment

Based on detailed models of local economic development and community economic empowerment, the stages of Local Economic Development are divided into 5 stages[12]. Each stage is part of the program that must be completed well and intact, so that it becomes the basis for the next stage. The four stages are:

1. **Planning Phase** : The Planning Phase is the stage of the activities carried out after the program's socialization which aims to compile proposed activities in a participatory manner.
2. **Implementation and Strengthening Phase** : This stage is the implementation of regional economic development programs at selected locations based on the results of potential mapping at the planning stage.
3. **Independence Phase** : The independence phase is a follow-up to the implementation and strengthening phases aimed at encouraging the performance of community economic institutions so that they can carry out regional economic development activities by optimally utilizing their resources. The independence phase is focused on developing human resources, venture capital and product marketing networks. Management at this stage is carried out independently by the community, with regular guidance and supervision from the local government.
4. **Program Control** : Program control is carried out to ensure that activities run according to established principles, systems and procedures, are optimally successful, and have a strategic impact. Program control includes reporting, public supervision, monitoring and evaluation.
5. **Assistance** : Assistance is carried out to facilitate program management so that it can run optimally in accordance with existing mechanisms, systems and procedures.

#### 4.3. Prototype of Operational Design Development of Accommodative Microfinance Institutions (Community-Based at the District and Village Level) in SMEs

The most important indicator that determines the success of community empowerment is the growth of the process of structural changes that occur naturally[13]. The process of natural structure change occurs when the ability to increase local capacity is significant with a sustainable increase in adequate community welfare marked by an increase in capital accumulation at the local level. Because the increase and creation of local economic activities that are increasingly varied can encourage increased demand for money. So that money management institutions become important in determining the occurrence of local creativity to promote local economic activities. In order to realize the various objectives of local economic development, a design framework for community empowerment is needed to support local economic development, which can be seen in Figure 4 as follows:

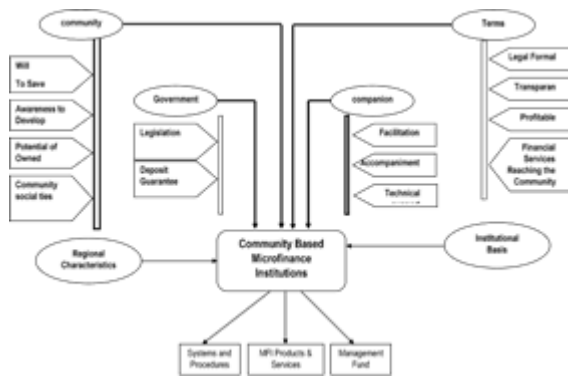


Figure 4: Community Based Microfinance Institution Model

Based on the operational design details of developing a microfinance institution as a support for local economic development, there are several important things to understand, including :

- Objectives of the Establishment of a Microfinance Institution :** LKM is the manager of the Local Economic Development Program in the District / Village. MFIs are formed through Musdes and stipulated by Village Regulation (Perdes). If in the village location there is an economic institution owned by a village government similar to an MFI, as long as the institution is functional, not problematic and agreed upon in deliberations, then it can function as an LKM that manages the Local Economic Development Program.
- Form of Legal Entity for Microfinance Institutions :** Based on the results of a survey in a sample area, it shows that the community's desire for a microfinance institution that is a cooperative legal entity.
- Mechanisms for the Establishment of Microfinance Institutions :** The ideal mechanism desired in the formation of microfinance institutions is through community deliberations.
- Institutional Management Mechanisms for Microfinance Institutions :** In the framework of managing local economic development programs and community empowerment, the structure of financial institutions can be seen in Figure 5 as follows:

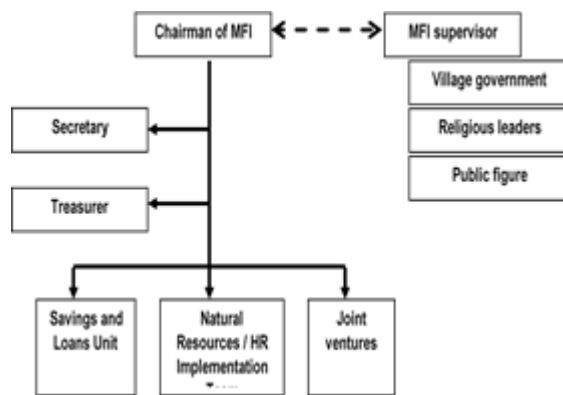


Figure 5 : Organizational Structure of Accommodative Microfinance Institutions Local Economic Development Manager

The MFI management structure consists of at least the Chairperson, Secretary, Treasurer, USP Coordinator, Joint Business Coordinator, SDA / HR Implementation Team[14].

**Duties and Responsibilities of MFI Managers:** Assisting the implementation of Musdes, Allocating venture capital by 40% of UEP Development fund allocation for management and development of local businesses, Managing Savings and Loans Businesses, Overseeing local economic business activities, Carrying out PSDM and PSDA activities, Delivering accountability in Musdes , Report the implementation of activities and business development to the department or agency involved in the process of developing the MFI on a regular basis, Forming a Natural Resources / PSDM Implementation Team.

Whereas the duties and responsibilities of the MFI Management structurally are [15]:

- MFI Chairperson :** Leads and is responsible for all MFI activities, Together with other management conducts data review and identification of needs and formulates a plan for Human Resource Development, SDA, USP and Joint MFI Business, Together with Treasurer opens an account in the name of MFI at the nearest Government bank, Arranges proposal proposed activities (PSDM, PSDA, USP, Joint Ventures) and proposals for disbursement of funds assisted by secretaries and treasurers. Coordinate and control the activities of PSDM, PSDA and USP.
- MFI Secretary :** Informs the procedures for submitting and disbursing USP loans to the public, Receiving loan application documents for prospective customers, Together with other management examines the truth of the proposed activity files and submitting loan applications through direct checking to the field, Carrying out general administration of MFI operational activities .
- MFI Treasurer :** Receives, stores, pays and records financial transactions, Storing and signing customer loan books, Filling Proof of In and Out Cash, Making proof of non-cash transactions, Reporting financial position to the chairman periodically (1 month) or at any time time required.
- USP Coordinator :** Together with other management, examine the validity of USP activity proposal files and submit loan applications for prospective customers. Conduct a feasibility study on submitting loan applications for prospective customers through direct checking in the field, Managing and coordinating the USP Division
- Joint Business Coordinator :** Develop business plans (type of business activities, management patterns) with business partners in the village, Manage local economic potential with a partnership or self-management pattern, Assess business feasibility and establish cooperation agreements with business partners, Provide facilitation and technical assistance to business partners, Submit accountability reports to MFIs regularly.
- HR and SDA Development Implementation Team :** Arranging business plans (type of business activities, management patterns) with business partners in the village, Managing local economic potential through partnership or self-management patterns, Assessing business feasibility and establishing cooperation

agreements with business partners, Providing facilitation and technical assistance to business partners, Delivering accountability reports to MFIs on a regular basis.

### MFI Financing Sources

1. **MFI Revenue Sources** : MFI Revenue Sources come from: (i) USP income in the form of services / interest, administration, fines and (ii) UB-LKM revenue
2. **Distribution of MFI Gross Income** : Gross income received by MFIs is used for: Increasing Working Capital by 65% (additional working capital is used for USP development by 35% and joint business development by 30%), Management incentives by 25%, MFI operational costs 10% (MFI operational costs are used to buy stationery, meeting fees, transportation, photocopy, etc.), given at the end of each month or accumulated to be submitted at the end of the financial year.
3. **MFI Management Incentive Distribution Model**. There are several models for the distribution of incentives for management: a) Based on equity. Each executive gets the same rights regardless of performance, b) Based on performance; Management incentives consist of basic salary, transportation, and bonuses. (Principal salary is determined according to the duty and responsibility burden or in accordance with the management agreement, Transportation is given to the management according to attendance. The amount of transportation costs agreed by the MFI management, Bonus, is given if USP installments (interest and principal) payments reach 100%. amounting to 5% of USP revenue and divided according to the agreement of the MFI management).
4. **Distribution of Remaining MFI's Operating Results** : Remaining MFI's Results of Operations [SHU] is revenue derived from transaction results less expenses and liabilities to other parties, and depreciation of inventory items in one financial year[16]. SHU is distributed at the end of each year. The components of SHU are: a) Increase in Working Capital by 50%, b) MFI Management Incentives by 25%, c) Social Security by 5%, d) Village Original Income by 10%, e) Development of HR by 5%, f) Reward Customer 5%.

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