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PERCEPTION OF MANAGER OF MICRO FINANCIAL INSTITUTIONS ON THE ROLE OF CREDIT UNION TO MICRO ENTERPRISES DEVELOPMENT IN SURABAYA AND SURROUNDING AREA

Ninuk Muljani¹

¹Faculty of Business,
Widya Mandala Catholic University
Surabaya,
Indonesia

Lena Ellitan²

²Faculty of Business,
Widya Mandala Catholic University
Surabaya,
Indonesia

ABSTRACT

This research has objectives: 1. To know and analyze the role of microfinance institutions in micro business development. 2. To know and analyze the linkage between performance of micro finance institution and micro business performance. 3. To identify the constraints faced by microfinance institutions in providing credit for micro business development. 4. To identify strategies undertaken by microfinance institutions in handling credit risk. 5. To identify strategies implemented by microfinance institutions for micro-enterprise development.

Data collection was done by using Focus Group Discussion method with Chairman and Manager of Credit Union as informant. There are 5 credit unions that participate, namely Pukat, Dharma P.S, Dwijasa, Mapan Sejahtera and Tirtadana. The results of this study indicate that the credit union has the role of providing easy access to borrow capital, providing additional business capital loans, providing entrepreneurship training and providing consultancy services for business development. Credit union performance is related to the performance of micro business, because the better the performance of credit union, the more credit union contribution in the member business development. Constraints faced are members who neglect to pay credit and lack of information about the use of credit by members. The strategy for dealing with credit risk is more on the action of applying the principles of prudence and establishing harmonious communication with members. While the strategy for developing micro business undertaken by credit union is to organize entrepreneurship education/training programs and helping to market member products.

KEYWORDS: *Credit union, The role of Credit Union, micro business survival*

INTRODUCTION

Background of the Study

In Indonesia, micro, small and medium enterprises (MSMEs) have contributed significantly to the national economy, even MSMEs are not affected by the crisis, it is proven MSMEs able to stand firmly when the economic crisis in 1998 (LPPI dan BI, 2015). In Law no. 20 Year 2008 on MSME stated that MSME is a business activity that is able to expand employment and provide economic services widely to the community, and can play a role in the process of equity and increase people's income, encourage economic growth and play a role in realizing national stability (Saiman, 2009). The number of SMEs from year to year continues to increase, in 2014-2016 the number of MSMEs has more than 57.9 million units and in 2017 is estimated the number continues to grow to more than 59 million units or has a proportion of 99.99% of the total number of perpetrators business in Indonesia (Amalia, 2017).

Although the role of SMEs to the Indonesian economy is so great, but it does not mean that SME business is always running smoothly, because there are still many problems faced by the perpetrators of SMEs (Permana, et.al. 2017). CEO of Pro Indonesia Foundation, Budi Satria Isman, in the Task Force Aggregator Consolidator of SME-IKM Empowerment, Export, Socio-Cultural and Creative Economy, Global Summit 2017 (22.08.17) mentioned that from survey conducted in 30 cities, the main constraint of SMEs are capital. It can be understood, because to maintain the viability of even doing business development, of course, SMEs should have competitive advantage, and to be superior in competition then the support of capital is needed. Actually, Bank Indonesia has issued provisions requiring banks to allocate credit/financing to MSMEs starting in 2015 by 5%, 2016 by 10%, 2017 by 15%, and the end of 2018 by 20%, but by 2015, around 60% to 70% of all MSME sectors do not yet have access to financing through banking (Amalia, 2017).

The limited access to capital faced by MSMEs, particularly micro-enterprises, from formal financial institutions such as banks, has made micro-enterprises difficult to grow. Therefore, the existence of Micro Finance Institution, which is a non-bank financial institution, is one of the important factors to support the acceleration of micro business development. In essence, microfinance institutions play a role in strengthening capital for the development of micro economic enterprises that are difficult to serve by banks because of the large number of people to be served and the lack of credit for most banks (Muljani et al., 2017). Nevertheless, microfinance institutions are expected to survive and thrive from their business income, sustainable.

RESEARCH QUESTIONS

To know how far the role of micro finance institution for the development of micro business, hence this research problem formulated as follows:

1. Is there a role of microfinance institutions for micro-enterprise development?
2. Is there a link between the performance of microfinance institutions and micro business performance?
3. What are the constraints faced by microfinance institutions in providing credit for micro enterprise development?
4. What are the strategies performed by microfinance institutions in handling credit risk?
5. What strategies are implemented by microfinance institutions for micro-enterprise development?

THE PURPOSE OF THE STUDY

Based on the formulation of the above problems, the purpose of this study can be formulated as follows:

1. To know and analyze the role of micro finance institutions in micro business development.
2. To know and analyze the linkage between performance of micro finance institution and micro business performance.
3. To identify the constraints faced by microfinance institutions in providing credit for micro business development.
4. To identify strategies undertaken by microfinance institutions in handling credit risk.
5. To identify strategies implemented by microfinance institutions for micro-enterprise development.

SIGNIFICANCE OF THE STUDY

The results of this study are expected to be an input for microfinance institutions to: (1) design a more flexible main product, in accordance with the conditions faced by micro entrepreneurs; (2) developing strategies to overcome credit risk; and (3) increasing the commitment of microfinance institutions in assisting micro enterprise development.

LITERATURE REVIEW

Micro Business

In Indonesia, under articles 1 and 6 of Law no. 20 Year 2008, "Micro Enterprises" means a productive enterprise for individuals and/or individual entities with net assets of Rp 50,000,000, - excluding land and building of business premises, and having annual sales of not more than Rp 300,000 (Saiman, 2009). Meanwhile, according to the **Central Bureau of Statistics** (Riadi, 2013), micro businesses are businesses with less than 5 employees, including additional unpaid family members.

Microfinance Institutions

Microfinance institutions are specialized financial institutions established to provide business development services and community empowerment,

either through loans or financing in micro-scale enterprises to members and communities, savings management, as well as providing business development consulting services that are not solely for profit (OJK, Informasi Umum Lembaga Keuangan Mikro). Microfinance institutions established by the community themselves may be in the form of cooperatives or non-cooperatives, while those formed by the government include Rural Credit Enterprises and Village Credit Agencies (Rochadi, 2000). One form of credit unions is credit union (Meliala, 2015). Credit unions have the meaning of a pool of believers, in a unifying tie that agrees to put their money together so as to create mutual capital to lend to members for productive and welfare purposes (Pusa, 2015)

Based on the type of services provided, the service providers and the lending system, Mc Guire and Conroy (1999) argue that microfinance is the provision of financial services, especially savings and loans to poor households who do not have access to formal financial institutions. According to Gulli (1998) microfinance is a practice that involves granting small loans to borrowers without conventional guarantees. The term of the loan is short, usually less than two years and is usually required to be used for investments in productive capital eg for agriculture, trade, handicrafts or other industrial processes. The interest rate charged is usually higher than the commercial interest rate but still lower than the loan shark.

The activities of microfinance institutions (Ledgerwood, 2000, Robinson, 2001) usually involve things like: (1) small loans, usually for working capital, (2) informal assessments of borrowers and investments, (3) involves replacement warranties such as joint liability as well as the provision of compulsory savings, (4) may obtain a larger loan, based on the performance of the loan already performed, (5) streamline loan disbursement and (6) the implementation of the loan safe savings products and some of them insurance services.

Problems of Microfinance Institutions

According to Hadinoto (2005: 80, in Wahyono, 2013) the problems of microfinance institutions are differentiated into internal and external. Internal issues include limited human resources, management that has not been effective so that less efficient, and limited capital. While external factors include ineffective monitoring capabilities, weak experiences, and less supportive infrastructure (Ellitan, 2017).

Ashari (2006: 154, in Wahyono, 2013) also stated that the development of micro finance institution is still faced with internal and external constraints. Internal problems faced by MFIs are operational aspects that involve the ability of microfinance institutions to raise funds, because they are still dependent on the number of members/customers and their own capital, as well as the ability of human resources in managing the

limited business, so that in the long run it will affect the development of the institution microfinance, can even be a serious inhibiting factor. While the external problem is the institutional aspect, which resulted in the form of micro finance institutions diverse.

RESEARCH METHODS

Research design

This type of research is descriptive qualitative research, that is research which aims to reveal facts, phenomena, and circumstances that occur when research is done and serve what it is. These research activities include data collection, data analysis, data interpretation, and ending by making a conclusion that refers to analyzing the data (www.informasi-pendidikan.com/2013/08/penelitian-deskriptif-kualitatif.html).

Informants of this Study

Informants of this research are: Chairman and Manager of credit union as manager of micro finance institution. There are 5 credit unions that participate, namely Pukat, Dharma P.S, Dwijasa, Mapan Sejahtera and Tirtadana

Data Collection Procedures

To answer the research question, the method of data collection is done by Focus Group Discussion (FGD). Irwanto (1998: 1) defines FGD as a process of collecting information on a particular problem that is very specific through group discussion. According to Suhaimi (1999: 3), FGD is a process of gathering information rather than through interviews, not individuals, and not free but specific discussions and FGD methods including qualitative methods.

Data Analysis

Data analysis in this research using qualitative method. Qualitative data analysis is an effort done by working with data, organizing data, sorting it into manageable units, synthesizing it, finding and finding patterns, finding what is important and what is learned, and deciding what can be told to others (Bogdan & Biklen, 1982; in Moleong, 2007: 248). Based on the above definition can be concluded that the first step of data analysis is to collect existing data, by conducting a directional discussion with key informants, ie people who really understand and know the situation of the object of research. Subsequently, transcripts of the discussion result were made by taking and recording useful information in accordance with the research context with the informant language.

FINDINGS AND DISCUSSION

FGD results with Chairman and Manager of five credit unions as financial institutions distributing credit for micro entrepreneurs participating in this research obtained the following results:

The Role of Credit union for Micro Business Development

FGD results indicate that the credit union has a role in providing easy access to business capital loans, providing additional business capital, providing financial education, providing credit

consultation and how to start a business, providing entrepreneurship training, such as how to market products and financial records. Credit unions not only provide business capital loans, but also make visits to member businesses, so as to know the development of the business and the problems faced by its members. However, sometimes loans are not only used for the development of venture capital but also for the personal interests of members.

Linkage of credit union performance with micro business performance

FGD results related to the presence of linkages between credit union performance and business performance of members show the following findings: of the five credit unions participating in the FGD only one credit union has the assumption that the performance of the credit union has nothing to do with the member's business performance, only to provide loans and services to members. While the other four credit unions assume that credit union performance is related to the member's business performance. This is due to the better credit union performance, the more contribution that can be given to the development of member business, either through entrepreneurship training and business consultation or in lending business capital. The more active credit union in communicating, providing additional education, and conducting coaching visits to members, will further develop the business members. In contrast, credit unions that have poor performance will hamper efforts to disburse loan funds. The slow disbursement of funds resulted in the slow turnover of the business. Nevertheless, the credit union also admits that the role of credit union is still weak in monitoring members, it is because of the lack of human resources and credit union management.

Constraints faced by credit union in providing credit for micro business development

The results of the FGDs in this study show that the obstacles faced by the five credit union participant, namely: the lack of valid information received by the credit union regarding the use of capital borrowed by micro entrepreneurs, and often the loans are not used for productive enterprises. Constraints become more serious when micro entrepreneurs experience a "down time" which affects the delay in repayment of business loans, so the repayment of loans is not within the deadline or not according to the agreement.

Often the credit union also faces the problem of negligent credit, because the member admits that his business went bankrupt, even the member went away from his group. As a result, the credit union has difficulties in channeling loans to other members, although it has been adapted to the entrepreneur's ability and the health of the credit union, therefore the credit union is very selective and careful in lending, especially to the seasonal population. Although credit union failures are not

entirely due to negligent members, but member support for timely loan repayment is necessary to keep the credit union in place. The failure and success of the credit union also depends on the commitment, mentality, morality and performance of the caretaker.

The strategy Undertaken by Credit Unions in Handling Credit Risk

Bad loans is a condition where members can not fulfill the obligation to pay principal and interest. Bad credit results in disruption of cash flows, as funds are expected to come from pending loan repayments, while liabilities to third parties (members, savers) should not be suspended, especially withdrawals of non-stock deposits. In addition, non-performing loans will also reduce credit union income and impact on other posts; influencing institutional capital, lowering the power/lending ability to members and causing the credit union's inability to cover operational costs, especially in providing salaries for managers and competitive staff. Bad credit will cause the credit union's inability to improve the functional and member's human resources to stimulate progress and sustainability, affect the growth and performance of credit unions among members and communities, thereby weakening the credit union's "bargaining position" reputation or image of the credit union.

Bad loans are allowed to drag on may cause material losses because the value of the guarantee (for which there is a guarantee) is insufficient to cover all member's liability, and may even result in a credit union going bankrupt. Bad loans also require greater attention, as there will be increased costs for billing and other administrative costs. Looking at the various credit risks that may occur, then there should be a strategy applied to minimize the occurrence of bad loans.

In this study, the strategies undertaken by credit union participant in dealing with credit risk can be summarized as follows: a) by withholding the guarantee, b) settled amicably, c) applying prudential principles by conducting feasibility studies based on field surveys covering assets, type of business and ability to return to identify prospective borrowers, d) conduct training on business to reduce business failure, e) request collateral that is greater in value than the size of the loan, and large loans are tied to notarized deeds, f) establishing harmonious communication with members, g) there must be a guarantor (fellow member, 2 persons), h) loan is given in the short term (10 months) and if 2 months negligent is visited continuously and if paid for 6 months, rescheduling, reminding and collecting with many heart-touching attempts to fine, and spiritual coaching (some credit unions work together with parishes).

Implemented Strategy by Credit Union for Micro Business Development

The FGD results show that the strategies implemented by credit union for member business

development are: 1) to provide training information held by SMEs Surabaya, 2) to organize entrepreneurship education / training program on finance, packaging, marketing and product quality, 3) facilitate access to capital, 4) provides a one-month leniency for interest payments, especially for borrowers who are 3 times of non-performing loans, 5) provide the best savings and loan services that can encourage business development, 6) assist marketing, that is by promoting business products as they exist meetings and education organized by credit union, 7) provide assistance/advice but the nature is still limited, this is due to lack of companion labor skills and limited management skills of the management.

There are four credit union service and health perspectives: financial perspective, member perspective, internal business perspective and learning and growth perspective. In a **financial perspective**, the strategic objectives are to reduce negligent credit, increase liquidity, and increase asset growth. Therefore awareness and discipline of members to return the loan on time is very necessary. In **member perspective**, the strategic target is the growth of members, providing quality services so as to create the satisfaction of members and members participate in seeking new members. For **internal business perspective**, the strategic objective is to build a good work culture, to realize the dream of building prosperity for credit union and all its members. For the last **perspective of learning and growth**, strategic objectives are to improve the quality of members, supervisors and management to produce competent persons for productive purposes and common welfare.

The vision of credit union clearly wants to fight against dependency, poverty, ignorance, low quality of health, and weakness of access in all fields. The ultimate goal is to improve the quality of life, discovering the true meaning of life and socially transforming (majalahukm.com, edisi 99, 2014). As a responsibility in developing member businesses, it is appropriate that credit unions organize training for members, assist marketing, entrepreneurship education, and provide mentoring/advice although the nature is limited.

CONCLUSION

Credit union has a role in providing additional business capital loans, providing entrepreneurship training and playing a role in providing credit consultations. Credit union performance is related to the performance of member micro business. This is due to the improved credit union performance, which means that the credit union will provide better service to its members, so that the provision of credit to the members more smoothly. The obstacles encountered are limited human resource and management capabilities in monitoring member businesses, so the information received in relation to the use of the loan is less valid. Strategies to deal with credit risk are more on the application of prudential principles and spiritual

coaching. While the strategy undertaken by the credit union for the development of micro-business members by organizing educational programs and entrepreneurship training. These trainings are held to increase member's knowledge, in the hope of encouraging business development and reducing the member's business failures that impact on loan repayment. The failure and success of credit unions, generally depends on the discipline of members in returning the loan, as well as the commitment, mentality, morality and performance of its managers. Collapsed credit unions are usually caused by conflicts among administrators or administrators who do not have good management skills.

SUGGESTION

Based on the main results of this study, it is necessary to consider the viability of credit unions and their members. Governments, credit unions and business actors need to consistently drive credit unions that are considered dead for quite a while. The focus of empowerment of credit unions is the development of people (members), not the multiplication of assets. The strategies and policies undertaken by credit union should be as much as possible regulating savings and loans, so as to lift the quality of life of its members.

Credit unions should focus on member education/training. The empowering Credit union is what trains its members to be proficient in finance, and is skilled in the business they are in. It is wise to train members to entrepreneurship or to develop the business they are in.

Credit union from the beginning was built on human values, which departed from the social concerns of its day, therefore building life in the credit union can not be separated from the spirit of kinship and togetherness among members. Only then, on the basis of strong beliefs, members will be easy to help each other, and make ends meet, so as to achieve mutual prosperity.

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