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Research Article

THE GOVERNANCE OF COMMUNITY MICRO FINANCIAL INSTITUTION IN THE REGENCY OF JEMBER EAST JAVA

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ABSTRACT

This study attempted to scrutinize the governance of Community Microfinance Institutions (known as *LKMM*) which was established by the Department of Cooperative and Micro Enterprise of Jember regency in Patrang Sub-district, namely "Semenggu" *LKMM* and "Mawar" *LKMM*. The study involved five principles of organizational governance namely transparency, accountability, fairness, and independence. The method operative was a qualitative descriptive in nature. The method was applied to describe and interpret objects based on their actual occurrence. The descriptive approach aimed to generate an overview of the management of "Semenggu" *LKMM* and "Mawar" *LKMM*. In order to maintain the data validity, key informants were selected by purposive sampling. The sampling focused on involving people who were able to afford accurate, detail, and clear information concerning the governance of *LKMM*. The research findings have evinced that the principles of transparency, accountability, fairness, and independence on "Semenggu" *LKMM* and "Mawar" *LKMM* have not been fully implemented. The implementation of the five principles of organizational governance in "Semenggu" *LKMM* and "Mawar" *LKMM* is still tainted with numerous problems that must be addressed by *LKMM* administrators to improve the principles of transparency and accountability as a manifestation of good governance.

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INTRODUCTION

Based on World Bank records (in Mardikanto and Soebiato, 2013) approximately 60% of Indonesia's population currently live below the poverty line. One of the efforts to alleviate poverty in Indonesia is by developing micro, small and medium Enterprises (MSMEs). The policy of developing MSMEs is directed at creating employment opportunities and increasing exports which are national development priorities, as well as for increasing the income of low income people. However, the problems that often occur in the development of MSMEs are often connoted weak, small scale, very informal appearance, and weak administrative governance due to the inability of MSME actors to carry out financial records of their economic activities. One of these issues is influenced by the low education of MSME actors. This has obstructed MSMEs and poor people from reaching formal banking (unbankable market).

Cooperatives as a representation of popular economy are considered to have strong constitutional footing and come into direct contact with the lives of the poor. Objectively, cooperatives are able to become one of the catalysts for

improving people's welfare as well as a powerful entity to support poverty alleviation programs. However, the current problem, regardless the significant number of cooperatives, is the fact that they still cannot make substantial contribution to the welfare of the poor. Especially from the total number of cooperative 21,135 units, only 150,223 cooperative units are active, while 61,912 cooperative units are not active.

As a result, MSME actors and poor families resort to loans from moneylenders or informal banks in developing their businesses. When poor families access loan sharks as the only alternative source of financing, structural impoverishment occurs because the margins received are only sufficient for the minimum living needs, yet they have to pay high interest rate. This phenomenon eventually has triggered the development of the informal financial sector called the microfinance, which aims to participate in financing for the lower classes of society.

The Jember Regency Cooperative and Micro Business Office in supporting the cooperative revitalization program created a new concept that became the cooperative embryo in the future, namely the program of Community Microfinance Institutions (*LKMM*). *LKMM* or more popularly called "*Bank Keluarga*

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Miskin” (Poor Family Bank also known as *Gakin*) was formed in 2005 by the Department of Cooperative and Micro Business of Jember regency, and it is a program specifically designed to alleviate poverty through the development of micro enterprises, based on institutional empowerment, sustainability-oriented business and commitment to help poor families. Conceptually, *LKMM* is a microfinance concept that combines the Grameen Bank concept with the cooperative concept. Similar to Grameen Bank, *LKMM* also empowers women in developing micro-enterprises. However, the difference is that Grameen Bank is a formal financial institution, while *LKMM* is an informal financial institution.

LKMM is formed in all segments/neighborhoods, especially in areas where poverty is omnipresent in Jember Regency, and the concept developed is savings and loans without collateral. *LKMM* initial capital funds are sourced from Jember regency regional budget. Based on data from the Department of Cooperative and Micro Enterprise of Jember in 2015, the total amount of *LKMM* capital assistance starting from 2005 to 2014 was IDR 14,750,710,000. At present, the total number of *LKMMs* from 2005 to 2014 was 518 *LKMM* spread across villages of Jember regency. Of the 518 number of *LKMMs* formed by the Department of Cooperative and Micro Enterprise, 27 *LKMM* have transformed into Women Cooperative.

RESEARCH METHOD

The research method applied in the study was qualitative method with descriptive approach. According to Bogdan and Taylor (cited in Moleong 2007:4) qualitative research is a research procedure that generates descriptive data in the form of written or oral words from people and observable behavior. Descriptive research is a research method that attempts to describe and interpret objects according to their actual occurrence. Moleong (2007:11) explains that data collection in a descriptive approach focus on words and images, not numbers. Primary data collection was done through interviewing key informants selected by purposive sampling, namely people who were able to provide detailed information clearly and accurately concerned with *LKMM* governance. The secondary data collection was done by collecting *LKMM* documents, such as *LKMM* evaluation reports, *LKMM* operational guidelines, and so on. The data were then tested for validity through triangulation to obtain data relevant to the research foci. Furthermore, the data obtained from the field were analyzed through data reduction, data presentation, and drawing conclusion.

"Semenggu" *LKMM*

"Semenggu" *LKMM* is the first *LKMM* established in 2005 and was a pilot *LKMM* in Jember regency. "Semenggu" *LKMM* is located on Branjang road, Bintoro intersection, Bintoro sub-district, Patrang sub-district, Jember regency. "Semenggu" *LKMM* received initial capital from the Jember regency regional budget (known as APBD) amounting to IDR 25,000,000. Poor-Household Micro Enterprise Empowerment (*PUM RTM*) conducted by "Semenggu" *LKMM*, namely by giving loans to members equally for the development of micro-business capital. This means that the loan provided by the "Semenggu" *LKMM* can only be used as business capital. So, for people who want to be "Semenggu" *LKMM* members, the

main requirement must have a business. For members who do not have a business, the *LKMM* management "Semenggu" will guide the member to set up a business. The amount of loan funds that can be accessed from "Semenggu" *LKMM* is at least IDR 200,000, and a maximum of IDR 1,000,000 per member. The loan must be repaid within 10 weeks with an interest of 0.5% per week and admin deductions of 1% of the loan amount.

LKMM "Semenggu" was able to transform into a Women Cooperative in 2009 through the East Java Provincial Cooperative and Micro Business Service program, namely every village, there must be a Women cooperative, so that the "Semenggu" *LKMM* was chosen as one of the 25 East Java Women Cooperative formed in 2009. At the beginning of its formation, "Semenggu" Women Cooperative received a grant of IDR 25,000,000 from the East Java Provincial government. The application of transparency principle to the "Semenggu" *LKMM* was still not optimal. This was because the "Semenggu" *LKMM* management was still improper. Administrative documents such as financial reports and reports on the number of members were almost nonexistent, even the "Semenggu" *LKMM* Memorandum and Article of Association had been lost and none of the administrators know where to locate these essential documents. In addition, regulations regarding the amount of loan interest and the amount and mechanism of cash deductions were non-formal, nor were these clearly stipulated in the Memorandum and Article of Association (known as *AD/ART*) or other "Semenggu" *LKMM* written regulations.

The application of accountability principle in "Semenggu" *LKMM* was also proven improper. This was indicative of the unstructured financial data. Upon its establishment in 2009, "Semenggu" Women Cooperative possessed no statute of association or other institutional regulations that could be used as a reference to run its business. As a result, the management's job description was not detailed and was not clearly written in the Memorandum and Article of Association or other "Semenggu" Women Cooperative regulations.

In applying accountability principle, the *LKMM* "Semenggu" was responsible for properly managing *LKMM* funds vertically and horizontally. With respect to the vertical accountability, *LKMM* "Semenggu" board composed monthly reports on the progress of *LKMM* and financial reports to the Department of Cooperative and Micro Enterprise. With regard to horizontal accountability, it made financial reports to its members every year. The social responsibility was actualized by giving 10% dividend (known as SHU) for corporate social responsibilities. On the principle of fairness, "Semenggu" *LKMM* performed fairly well. The administrators had given the rights of its members evenly as described in its Memorandum and Article of Association. Concerning the application of independent principles, this institution was structurally an institution formed and under the supervision of the Department of Cooperative and Micro Enterprise of Jember regency. That is, as an institution under the management of the Department of Cooperative and Micro Enterprise, *LKMM* was not an independent institution. This can be seen from the assistance given by the department particularly to monitor the progress of "Semenggu" *LKMM*.

“MAWAR” LKMM

"Mawar" LKMM is located on Mawar road 26, section IV, Jember Lor village, Patrang district, Jember regency. "Mawar" Women LKMM was formed by the Department of Cooperative and Micro Enterprise in 2009. The establishment of "Mawar" LKMM was based on the decree of the aforementioned department, number 518/597/410/2009 concerning the establishment of "Mawar" LKMM in Patrang district of Jember regency. The decree also stipulated the management structure and duties of the "LKMM Mawar" board. "Mawar" LKMM received initial capital from Jember regency APBD grant amounting to IDR 15,000,000. The management of grant funds carried out by the "Mawar" LKMM was meant to support the achievement of social economic engineering developed by the Department of Cooperative and Micro Enterprise and to conduct business activities with a jointly held savings and loan system without collateral.

Poor-Household Micro Enterprise Empowerment (PUM RTM which stands for *Pemberdayaan Usaha Mikro Rumah Tangga Miskin*) conducted by "Mawar" LKMM in tandem with "Semenggu" LKMM. This initiative was made by providing loans to the members for the development of micro-business capital. The amount of loan accessible from "Semenggu" LKMM was at least IDR 200,000, and a maximum of IDR 1,000,000 per member. The loan must be repaid within 10 weeks with an interest of 0.5% per week and admin deductions of IDR 5,000. "Mawar" LKMM was able to transform into a Women Cooperative in 2015 based on the proposal of "Mawar" LKMM management and received funding from the Department of Cooperative and Micro Enterprise for IDR. 25,000,000.

The application of accountability principle in "Mawar" LKMM was already better than that of "Semenggu" LKMM. The financial report and the development of "Mawar" LKMM into "Mawar" Women Cooperative were documented properly. However, similar to "Semenggu" LKMM, the amount of loan interest and the amount of admin money in "Mawar" LKMM was not regulated in its Memorandum and Article of Association. On the principle of accountability, the institution performed fairly well. The administrators were able to manage financial report and data on its developments in proper structure. This evinced that the administrators had understood their respective job descriptions.

In applying accountability principle, "Mawar" LKMM had been responsible for managing LKMM funds vertically and horizontally properly. In terms of vertical accountability, "Mawar" LKMM administrators provided monthly reports on the progress of LKMM and financial reports to the Department of Cooperative and Micro Enterprise. Concerned with horizontal accountability, "Mawar" LKMM administrators provided financial reports to its members on yearly basis. In the same vein, social responsibility was actuated by giving 10% dividend for corporate social responsibilities.

On the principle of fairness, "Mawar" LKMM was also proven well-managed. "Mawar" LKMM administrators had given the rights of its members evenly as described in the "Mawar" LKMM Memorandum and Article of Association. In terms of independent principles, similar to "Semenggu" LKMM, "Mawar" LKMM was a program formed by the Department of Cooperative and Micro Enterprise, it was structurally under the very department. That was, as an institution under this department, this institution was not an independent.

CONCLUSION

The application of the five organizational governance principles in "Semenggu" LKMM and "Mawar" LKMM has been found similar. The study has identified several problems and shortcomings that must be addressed by the LKMM management to make sure that the five principles can be implemented properly to support good governance. The problem that often occurs in LKMM governance is that it tends to underestimate the organization's written regulations. This is true even though these regulations are to facilitate the performance of the administrators and serve as a robust legal basis in the event of a deviation. As a corollary, these issues lead to poor transparency and accountability of managing LKMM funds.

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