

**MICROFINANCE INSTITUTION  
AS AN ALTERNATIVE OF MSMEs DEVELOPMENT PROJECT  
(Case Study on Gakin Bank Jember)**

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**Abstract:** *Gakin Bank is a microfinance institution (MFI) aims to reduce the poverty rate in Jember. The limited employment opportunities had forced the poor people to build their own informal business. However, the difficulty in gaining the capital loan and the high level of interest rate offered by formal banks were the major obstacles for the poor to develop their business. Gakin Bank was built responding to such condition. This research aims to analyze performance and capacity building of Gakin Bank. The analytical methods used are descriptive analysis approach and SWOT analysis. The data used are primary data from the interviews and secondary data obtained from various sources. Results show that MFI has an important role as the micro financial institution in lending funds to the poor people and also for the empowerment of Micro, Small, and Medium Enterprises (MSMEs).*

**Keywords:** *Gakin Bank, Microfinance Institutions, MSMEs, Development*

**Abstrak:** Bank Gakin adalah sebuah lembaga keuangan mikro yang bertujuan untuk mengurangi tingkat kemiskinan di Jember. Terbatasnya jumlah lapangan pekerjaan memaksa rakyat miskin untuk membangun usaha sendiri di sektor bisnis informal. Namun, kesulitan dalam mendapatkan pinjaman modal usaha dan tingginya tingkat suku bunga yang ditawarkan oleh bank-bank formal merupakan kendala bagi mereka untuk mengembangkan bisnisnya. Berdasarkan kondisi tersebut maka Bank Gakin kemudian didirikan. Penelitian ini bertujuan untuk menganalisis kinerja dan penguatan kelembagaan Bank Gakin. Metode analisis yang digunakan adalah analisis deskriptif dan analisis SWOT. Data penelitian yang digunakan adalah data primer yang bersumber dari wawancara dan data sekunder dari berbagai sumber. Hasil penelitian menunjukkan bahwa lembaga keuangan mikro memiliki peran penting dalam meminjamkan modal usaha ke rakyat miskin dan sekaligus sebagai lembaga pemberdayaan Usaha Mikro Kecil Menengah atau *Micro, Small and Medium Enterprises (MSMEs)*.

**Kata Kunci:** Bank Gakin, Lembaga Keuangan Mikro, MSMEs, Perkembangan

**Introduction**

ASEAN Economic Community (AEC) 2015 will be implemented immediately. The economic crisis in Southeast Asia in 1997-1998 triggered all ASEAN countries to improve and strengthen intra-regional cooperation. Facing AEC 2015, Indonesia should be ready to respond the flow of increasingly fierce competition by improving itself in every sector. It is due to the four main pillars of AEC: (1) single market and production base unit, (2) competitive economic region, (3) equitable economic development, and (4) integration into the global economy. Competing in AEC 2015, the government, the employers, and all stakeholders should prepare a competitive strategy, especially in strengthening the Micro and Small Medium Enterprises (MSMEs) sector.

In developing ASEAN, MSMEs have made significant contributions over the years in terms of: (a) number of enterprises, (b) employment; (c) production and value added, (d) Gross Domestic Product (GDP), (e) enterprises set up by women entrepreneurs, and (f) regional dispersal of industry. MSMEs account for more than 96% of all enterprises and 50% to 85% of domestic employment. The contribution of Small Medium Enterprises (SMEs) to GDP is between 30% and 53% and the contribution of MSMEs to the exports is between 19% and 31%. MSMEs are important in terms of generating income and employment for the poor, empowering youth and women through business participation, and their widespread existence in non-urban and poorer domestic regions. MSMEs are the backbone of ASEAN, and MSMEs' development is integral to achieve a long run and sustainable economic growth (Asean.org)

The ASEAN Policy Blueprint for SME Development (APBSD) 2004-2014 provides the framework for SME development in the ASEAN region in order to narrow the development gap in the region. It aims to accelerate the pace of MSME development and enhance the competitiveness and dynamism of ASEAN'SMSMEs by facilitating their access to information, market, human resource development and skills, finance, and technology. It also aims to strengthen the resilience of MSMEs to with stand adverse macroe conomic and financial conditions along with challenges arising from a more liberalized

trading environment and improve MSMEs' contribution to overall growth and development of the ASEAN region (Aldaba, 2013).

MSMEs sector has a major contribution to the Indonesian economy with 99,99% domination. In 2011-2012, an increasing number of MSMEs was 2,41%, and the increased contribution to the creation of the GDP was 13,15%.

Table 1: The Number and Contribution of MSMEs and Large Enterprises in GDP

No	Indicator	Unit(s)	2011		2012	
			Number of Enterprises	Contribution (%)	Number of Enterprises	Contribution (%)
1.	Bussiness unit (A+B)	Unit	55,211,39	99.99	56,539,56	99,99
	A. MSMEs		55,206,44	98.82	56,534,59	98,79
	-Micro enterprises		4	1.09	2	1,11
	-Small enterprises		54,559,96	0.08	55,856,17	0,09
	-Medium enterprises		9	0.01	6	0,01
	B. Large enterprises		602,195		629,418	
			44,280		48,997	
			4,952		4968	
2.	GDP at constant prices (A+B)	(Rpbillion)	2,377,110		2,525,120,	
	A. MSMEs		1,369,326	57.60	4	57,48
	-Micro enterprises		761,228,8	32.02	1,451,460,	31,32
	-Small enterprises		261,315,8	10.99	2	11,65
	-Medium enterprises		346,781,4	14.59	790,825,6	14,51
	B. Large enterprises		1,007,784	42.40	294,260,7	42,52
					366,373,9	
					1,073,660,	
					1	

Source: www.depkop.go.id, 2012

Table 2: Problems Faced by MSMEs in Indonesia in 2010

Type of Problem	Unit(s)	Percentage
Raw material	483,468	22.6 %
Marketing	495,123	23.21%
Lack of Capital	806,758	37.82%
Energy	34,759	1.62 %
Transportation	39,571	1.85 %
Skill	68,162	3.19 %
Labor wages	20,884	0.97 %
Etc	184,408	8.64 %
The number of MSMEs facing serious problem	2,133,133	100 %

Source: Tulus, 2011

Sabirin (2001) explained that in order to empower the low-income communities or small business sectors, we must provide an affordable source

of business financing. One of the financial institutions that can be used to finance activities and encourage the poor economy is the Micro Finance Institution (MFI). MFIs are either a formal, semi-formal, or informal financial institution conducting financial services to micro-entrepreneurs and low-income communities (Krisnamurthi, 2002). Microfinance institutions (MFIs) have special characters, such as: (1) consist of various forms of financial services, especially savings and loan, (2) directed to serve low-income communities, and (3) using the system as well as the simple procedure (Chotim and Handayani, 2001).

One of the regencies developing MFIs to reduce the poverty rate is Jember. The poverty rate in Jember is quite high (237,700 residents) and it becomes the main duty and responsibility for the government to immediately overcome the poverty problem. Moreover, the phenomenon of the dispersion of creditors among the MSMEs community gains full attention from the Department of Cooperatives and MSMEs Jember. Bank Gakin (as the Poor Family Bank) is an MFI that was built in 2005.

## **Methodology**

The research used a descriptive approach where the author exploring the studied phenomenon. The interview was conducted with the head of the micro enterprises division in the Department of Cooperatives and Micro, Small and Medium Enterprises in Jember, Agus Edhi Susanto. Literature studies were conducted to obtain secondary data by examining various written references (books, documents, papers, articles from the internet, and so on) relevant to the discussed issues.

## **Results and Discussion**

### Gakin Bank's Profile

#### a. History

In a cooperative effort to encourage the revitalization program, since 2005, the Department of Cooperatives and MSMEs in Jember has initiated a new concept as a future cooperative embryos through Gakin Bank or Bank Programs for Poor Families. Gakin Bank is a microfinance institution or MFI

aims to mentally, emotionally, and socially in still the spirit of cooperation in the community, and then confirms the institution into a cooperative.

Gakin Bank itself is a title given by the poor who become its members. The term was later popularized by several officers and members of MFIs as antithetical that the formal bank is not willing to take care of the poor economy. On the other hand, the selection of Gakin Bank name, not named as the Cooperatives, was a strategy of Department of Cooperatives and MSMEs in Jember to make the concept more acceptable, because poor people's phobia of the cooperatives institution. The same strategy was also carried out by a number of countries in order to revitalize the cooperatives institution.

Conceptually, Gakin Bank in Jember is a unification between the concept of Grameen Bank (GB) by Muhammad Yunus, a Bangladeshi economist, and the concept of cooperatives by Bung Hatta, an Indonesian former vice president and the father of the cooperatives institution. This program won the Millennium Development Goals Award 2009 and become a role model for the similar concept in a number of areas in the country. Such as the Grameen Bank, the main target of Gakin Bank is the poor and the productive women.

Seeing the success of GB, the Department of Cooperatives and MSMEs in Jember replicated the GB's method, especially the method of loans distribution for the members without replicating the welfare system in the form of improving service delivery and the provision of small deposits of social security. Literally, public welfare means the savings and the social security for the future.

#### b. The Number of Gakin Bank

Up to August 2013, the number of Gakin Bank in Jember is 433 units, consisting of 430 hamlets from 200 villages in 31 sub-districts in Jember (Depkop.go.id, 2013).

Table 3: Number of Gakin Bank's Units

Year	The Number of Gakin Bank (units)	Village (units)
2010	180	180
2011	217	217
2012	248	247
2013 (August)	433	430

Source: Department of Cooperatives and MSMEs Jember, 2013

#### c. Gakin Bank's Capital

Gakin Bank's initial capital came from Jember's Local Government Budget (APBD). Each branch of Gakin Bank had an average of Rp 25,000,000.00 for the initial capital.

#### d. Collateral

Gakin Bank is not stipulating collateral to its customers, because the customers are poor people who do not have anything as the collateral of their loans. The system used to avoid the bad debts or non-performing loan is called *tanggung renteng*. *Tanggung renteng* is a kind of system that divides responsibility evenly, applying the concept of collectivity, ranging from designing programs to address the problems faced (Indiyon, 2006). The advantage of this system is that all parties are involved to think, to work, and to monitor. The loans are granted by the community groups (*pokmas/kelompok masyarakat*) consisting of 5 people with the payment mechanism managed by the leader of the community group. The application of this pattern is based on the conviction that the social capital in the form of mutual aid is still available. If, for example, there were members of the community groups avoiding the installment payment, the social sanctions would be applied automatically, such as being ostracized from the society. According to the data from the Cooperatives and MSMEs Department, this system is successfully working, as has been proved in 2012 where the average of repayment rate was up to 98%.

#### e. Gakin Bank's Officer

At first, Gakin Bank's employee or officer recruitment did not employ certain procedures. The education level of the employee candidate was not a priority. Department of Cooperatives and MSMEs would come to every hamlet

and negotiate the candidate of Gakin Bank’s officer. The elected candidates had to be social minded, helpful persons, and trustworthy because initially, the officers were not paid by the Gakin Bank. But after a year, there was compensation per arrival (once a week arrival) with the amount of Rp 5,000.00. Now, as net income (surplus or SHU) increased, each officer earned Rp 50,000.00 per arrival. Up to 2011, the total of bank officers from poor families was 870 people from 217 units Gakin Bank. More specifically, the educated officers were consisted of 46% elementary school graduates, 28% junior high school graduates, 16% senior high school graduates, 2% college graduates, and the rest was not graduate from the elementary school. Ninety percent of Gakin Bank’s officer is women because, in the beginning, this program was also formed to empower the unemployment women.

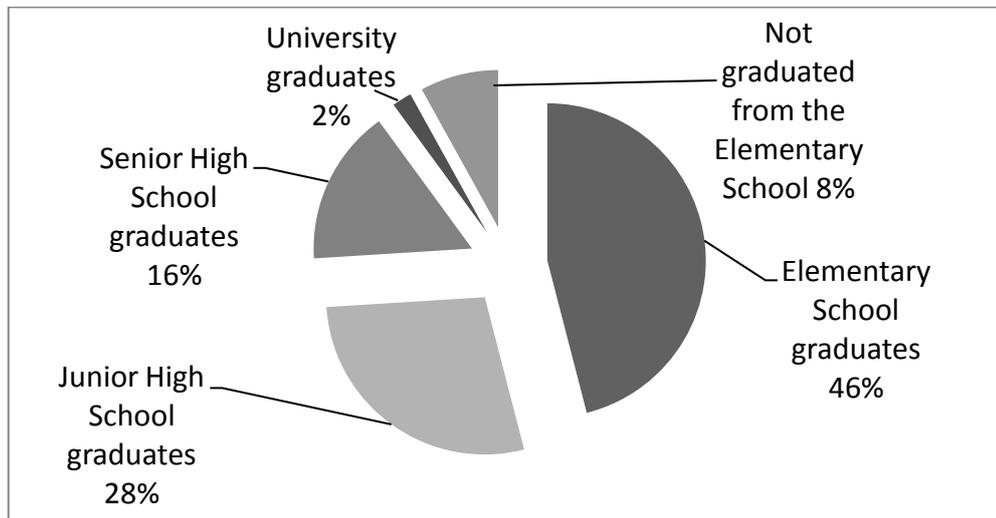


Figure 1: Education level of Gakin Bank’s officer

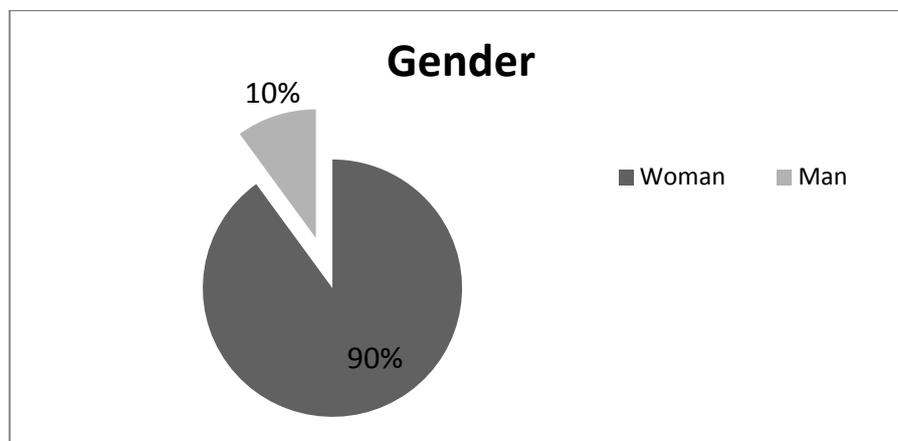


Figure 2: Gakin Bank’s Officer Proportion of Gender

The stewardship of all poor families as the member of Gakin Bank is divided into 3 banks, i.e., coordinators, clerks, and cashiers. But recently, there is a specific procedure in recruiting Gakin Bank's officer as the following:

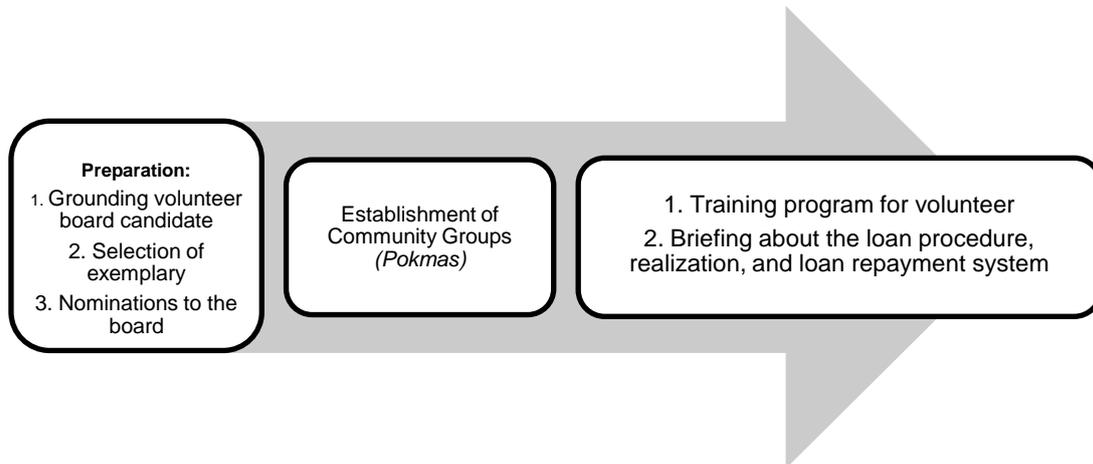


Figure 3: Recruitment Process in Gakin Bank

Source: Department of Cooperatives and MSMEs Jember, 2013

#### f. Credit Analysis

For customers who are just starting their business and wish to apply for a loan, the Gakin Bank's officer will first visit their business location or their residences. From the direct investigation on the clients' business prospects, the officer then examines the business opportunity in order to determine the amount of granted loan. The officer does not immediately give the appropriate loan amount based on customers' demand, but it is given gradually. Typically, it is ranging from Rp 100,000.00. Thus, improper use of the debt or loan and the inability to repay can be minimized.

#### The Development of Gakin Bank

Most efforts in defining standards for the microfinance are focusing on two major categories of performance measurement, the outreach and the sustainability. Outreach is considered as a critical component of the success of MFIs because the vision is based on the fact that all MFIs is focusing on offering financial services to the majority of the poor on the one side, and the achievement of economies of scale on the other side. Size outreach was designed to find or to attract a number of people served, as well as the information on the level of poverty. These indicators generally include the number of active customers, the number of depositors, percentage of the

customers below the poverty line, and the average loan (Wardoyo and Prabowo, 2006).

Table 4: Gakin Bank's Performance Growth

Period	Groups/ <i>pokmas</i> unit	Members (unit)	Lending Amount (million)	Total Revenue (million)	Current Earning (million)
2010	3,885	18,082	12,582.5	572.8	229.1
2011	4,868	22,601	27,717.9	1396.7	726.2
2012	5,881	24,995	31,789.7	1468.9	777.4
August 2013	6,328	28,971	36,619.6	1510.2	810.3
Average Growth Rate (%)	<b>17.9 %</b>	<b>17.2%</b>	<b>50.1 %</b>	<b>50.6 %</b>	<b>75.8 %</b>

Source: Department of Cooperative and MSMEs Jember, 2013. Data was processed

Based on the above data, there is a significant growth over the past 4 years, based on the outreach size which is one of the success measurements of MFIs. An average group (*pokmas*) growth percentage is 17.9% or about 814 community groups per year. An average member growth percentage is 17.2% or about 3,630 people per year. An average growth of total loan is 50.1% in the amount of Rp 8,012,370,000.00 per year. The average growth in total revenue percentage is 50.6% or Rp 312,466,700.00 per year. The average current earnings growth percentage is 75.8% or equal to Rp 51.2 million per year. This growth indicates a significant performance of Gakin Bank for the period of 2010-2013.

Table 5: Average Loan per Member

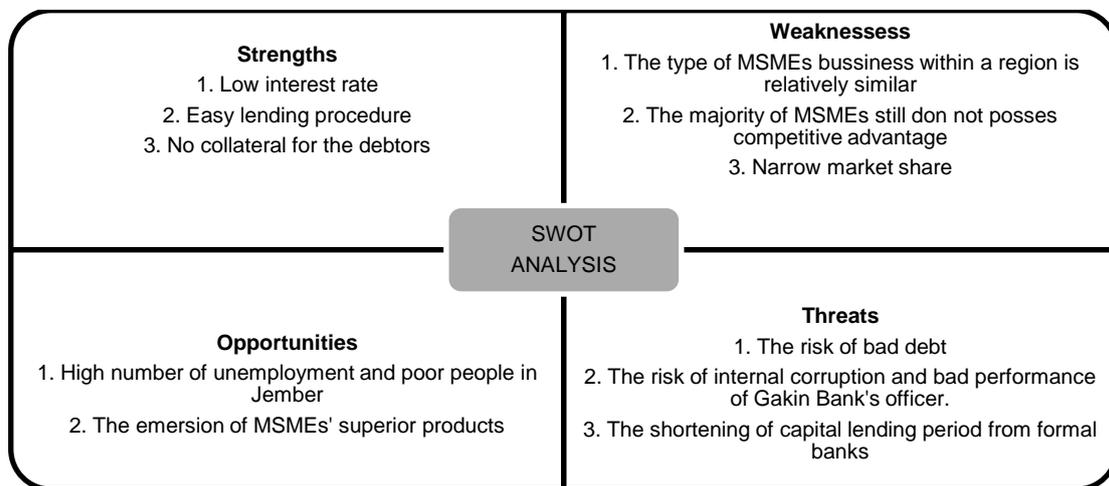
Year	Total Loan	Total Member	Average Loan per Member
2010	Rp 12,582.5	18,082	Rp 695,858
2011	Rp 27,717.9	22,601	Rp 1,226,401
2012	Rp 31,789.7	24,995	Rp 1,271,842
2013	Rp 36,619.6	28,971	Rp 1,264,009

Source: Department of Cooperative and MSMEs Jember, 2013. Data was processed

From the above data, the average loan growth is Rp 189,400.00, although in 2013 the average loan per debtor decreased from the previous year.

The number of poor people in Jember is 237,700 people, and the number of Gakin Bank up to 2013 is 433 units, then the ratio between the Gakin Bank and the poor people is 1:550. If every Gakin Bank served 550 customers, then poverty reduction can be maximized. Poverty rate can be reduced because poor people can survive and develop their informal business sector, by establishing MSMEs. The growing of MSMEs sector will increase the competition and trigger MSMEs for inculcating competitive and comparative advantages in their production. Competitive and comparative advantages will increase the competitiveness of MSMEs both in domestic and foreign markets, especially in welcoming AEC 2015.

### SWOT Analysis



### Capacity Building of Gakin Bank

Capacity building is the development of an organization's core skills and capabilities, such as leadership, management, finance and fundraising, and programs and evaluation, in order to build the organization's effectiveness and sustainability. It is the process of assisting an individual or group to identify and address issues and gain the insights, knowledge, and experience needed to solve problems and implement change. Capacity building is facilitated through the provision of technical support activities, including coaching, training, specific technical assistance, and resource networking (Campobaso and Davis, 2001). Thus, in general, capacity building is a set of strategies or some organization's improvement activities to increase effectiveness and efficiency in order to achieve the organization's goals.

Capacity building is facilitated through the establishment of technical assistance activities, including education and training, specific technical assistance, and network strengthening (Wardoyo and Prabowo, 2006). The principles that need to be applied to build people's economic empowerment through the capacity building are: (1) institutional, (2) funding, and (3) service. In addition, internal problems that must be faced are the efficiency, limited human resources, and technology (Krisnamurthi, 2002).

Based on the SWOT analysis in the previous section, specifically, the strategies to improve and to maximize the performance of Gakin Bank are the following:

1. Conducting training about product innovations for the potential developers of MSMEs, so there will be diversity in the district effort that has its own characteristics and advantages. Lending to customers who have the same type of business with the other MSMEs will not lead them to create a superior product. The variety of Indonesia's natural and cultural potential should be maximized to create superior products of MSMEs in order to be able to compete in international markets.
2. Conducting training about risk management for the Gakin Bank's officers in order to minimize the risk of loss and bad debt.
3. Conducting training about work efficiency for the Gakin Bank's officers in order to reduce the useless expenses.
4. The government and the formal banks should work together in funding or lending the business capital for the Gakin Bank in order to increase the number of Gakin Bank and the total loan distributed to the debtors.

## **Conclusion**

1. The performance of Gakin Bank as MFI has shown significant growth. It was proved by 17.9 % of groups, 17.2 % of the members, 50.1 % of the lending fund, 50.2 % of revenue, and 75.8 % of current earning were increased in average. If the unit of Gakin Bank or MFI was increased, MSMEs with their financial problems could be reduced. The number of unemployment and poverty rate could be diminished automatically and the economic gap could be narrowed.

2. Based on the SWOT analysis, the capacity building of Gakin Bank is needed to reach a better and sustainable performance.
3. The concept of Gakin Bank can be implemented in ASEAN countries to reduce the poverty rate and to develop MSMEs sector as the backbone of the national economy.

### **Suggestion**

From the results of the research, it is suggested that the other parties' roles are needed as the donor in expanding the business capital of MFIs, such as the integration with the formal banking, capacity building of human resources for the sustainability of the organization, and the mentoring for MFIs. Therefore, the subsidy could be justified to support MFIs as long as it is appropriate with the rules and directions for institutional sustainability.

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