

THE INFLUENCE OF MICRO FINANCIAL OF MICRO FINANCIAL INSTITUTION TO DEVELOP COOPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN KEDIRI CITY

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THE INFLUENCE OF MICROFINANCIAL INSTITUTION TO DEVELOP COOPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN KEDIRI CITY

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Abstract. There are various kinds of problems experienced by cooperatives and Micro, small and medium Enterprises (MSMEs). Those are the capital barriers, obtaining raw materials, marketing, production techniques, management, competition, and others. The obstacle which has the highest percentage was the capital problem. MSMEs usually use capital from their own capital. It was because of the difficulty for finding formal capital source such as bank especially when they start the economic activities.

One of the finance institutions that can be accessed by MSMEs is Micro Financial Institution (MFI). The definition about micro finance as abbreviation of micro enterprise finance is financial services for micro enterprises. Microfinance basically serves financial support for micro enterprises to increase the business. One of the special things of microfinance is the procedure that is not complicated and shows that financial services have a big impact on micro enterprises. The purpose of this research is to analyze the impact of microfinance institution to develop cooperatives and MSMEs in Kediri.

This research uses survey method. The population is all cooperatives and MSMEs which received loan from Jatim Bank and Public Credit Bank in Kediri. The study samples in this research were some of cooperatives and MSMEs receiving the loan from Jatim Bank and Public Credit Bank in Kediri City as much as 15 MSMEs. The collecting of the sample is done randomly. The research uses instruments as interview, documentation and questioners.

The research results show: 1) the main problem of cooperatives and MSMEs is lacks of capital, and the capital source is from themselves, so it is required bracing of capital of MFIs. 2) MFIs can be distinguished into bank and non-bank. Microfinance non-bank consists of formal and non-formal. MSMEs can optimize the utilization of capital from microfinance non-bank. And 3) there are positive and significant influence of microfinance institution to the development of MSMEs. The positive influence means microfinance can develop MSMEs and significant influence means that the influence is real so that it is required the greater contribution of MFIs for the development of MSMEs. 4) Because of the big benefit of microfinance institution for MSMEs, so it is required strengthening, empowerment, and development of MFIs.

Keywords: Micro Finance Institution (MFIs), Cooperative and Micro, Small, and Medium Enterprises (MSMEs), Microfinance Institution bank and non-bank, Microfinance Institution non-bank formal and non-formal.

1. INTRODUCTION

There are various kinds of obstacles experienced by MSMEs. Some of them are capital obstacle, obtaining the raw material, marketing, production techniques, management, competition, and others. The obstacle which has the largest percentage is the capital obstacle. MSMEs usually use capital from their own capital. It was because of the difficulty in finding formal capital source such as bank, especially when they start their business.

One of the financial institutions that can be accessed by MSMEs is Micro Finance institution. The definition of microfinance as an abbreviation of microenterprise finance is financial services for micro business. The joint movement of microfinance development of Indonesia defines as a variety of finance services (savings, loan, payment, insurance, and others) which service the microenterprises by the use of appropriate processes and contextual system.

Microfinance basically serves financial support for microenterprises to increase their business. One of the special things of microfinance is the procedure that is not elaborate and shows that the financial services have a big impact on microenterprises. The contribution of income increase of micro business due to microcredit reaches 14% - 215% per month. The largest income increase is mainly at venture and the average of income increase is 87% per month. (Bunga Rampai Lembaga Keuangan Mikro, 2002, in Ismawan and Budiantoro).

Micro Finance Institutions (MFIs) can be distinguished into bank and non-bank types. Microfinance non-bank type covers formal and non-formal. An example of microfinance bank is Public Credit Bank, Bank Rakyat Indonesia Unit, Badan Kredit Desa. The example of microfinance non-bank formal is Cooperative saving and loan and pawnshop. The example of microfinance non-formal non-bank is Community Self-supporting Group, Arisan, Bait Al Maal Wa Al tamwi, MFI-Community Self-supporting Institution.

Cooperatives and MSMEs in Kediri City have utilized the microfinance fund to strengthen the capital. The loan is usually used to increase the business capital for example for cooperatives to lend it to the members, for MSMEs to buy merchandise, to extend the market, to increase the sales and profit, so the business scale increases.

In Kediri City, there are many MFIs bank and non-bank formal and non-formal. MFIs which have served MSMEs are BRI Unit, BNI 46, Mandiri Bank, BCA, Danamon Bank, Mega Bank, Jatim Bank, BPR Kediri, and others. MFIs non-bank formal which have served MSMEs are variety of cooperatives and pawnshop while MFIs non-bank non-formal are BMT Muhammadiyah and Community Self-supporting Group operating in the micro finance service. The purpose of micro finance institution is helping MSMEs to strengthen the capital both working capital and investment capital in order to facilitate and develop business. With the smooth and developing business, it affects in business existence that is going to support the family economic growth, regions, therefore it can increase the welfare of community.

This research will study the impact of MFIs to develop MSMEs in Kediri city. The indicator of micro financial institution is the number of credit which is granted to MSMEs. While the development of MSMEs is in the sense of increase in business scale for example increase in the number of loans given for the members, increase in production, increase in the number of merchandise, increase in marketing area, increase in sale and profit.

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The problem in this research is to study the impact of MFIs both MFI bank and non-bank (formal and non-formal) to develop MSMEs. The indicator of the development of MSMEs is increase in business scale such as production capacity, extending marketing area, increase in the number of worker, increase in sales and profit.

The scope of the impact of MFI is loan/credit given to MSMEs with the total, period, and condition set by MFI. The scope of the development of MSMEs is increase in the number of loan given to members of the cooperative, increase in business scale in the sense of increasing production capacity, increasing in number of merchandise, expanding market area, increasing in sales and profit.

Micro finance institution is limited to micro finance institution which distributes the rolling capital fund of government of Kediri city. Those are Jatim Bank Kediri and BRI Kediri. MSME is limited to MSMEs which get the rolling capital fund from the government of Kediri.

The problem formulation of the research is how the impact of MFIs to develop Cooperative and MSMEs in Kediri City while the purpose of the research is analyzing the impact of MFIs to develop cooperative and MSMEs.

2. LITERATURE REVIEW

2.1 Micro finance Institution

a. The Definition of Micro Finance Institution

Ismawan and Budiantoro (2005:9) said, some definitions of micro finance, Mario Otero said that microfinance is as an abbreviation of micro enterprise finance easily meant as “finance service for micro business” Indonesian Micro Finance Joint Movement define as the variety of finance services (saving, loan, insurance payment, and others) for microenterprise by using appropriate and contextual system and process. While an institution established by World Bank,CGAP (The Consultative group to Assist the Poorest from World bank), said that microfinance as credit methodology done by collateral change effectively for working capital, and also done in the short period and proposed for microenterprises.

From the above definitions, micro finance basically addressed to support the finance for microenterprises to increase their business. One of the special things of micro finance is the procedure which is not complicated and does not need physic security.

b. The Main principals of Micro Finance Institution

In order to to give focused, professional and effective micro finance service for those who are really need, microcredit summit agrees 4 main principals which have to belong to MFIs. Those are:

- a) Reaching the poor (small and micro enterprise)
- b) Reaching and empowering the women
- c) Developing sustainable financial institution
- d) Measureable impacts (increasing the competitiveness, decreasing the poor, decreasing the unemployment.)

c. The Model of Micro Finance Institution Approach

- a) Saving led Microfinance. This model is based from finance mobilization (saving) that based on from the poor's (microenterprise) capacity. This form is also based on membership based, where the membership or the participant is very important for the institution. For example, some having been an institution in the public are: Public Self-supporting Group, Join Business Group, Credit Union, Saving and Loan Cooperative, and others.
- b) Credit Led Microfinance. The main fund Source of this model is not the mobilization of poor's saving, but it is from the other sources which are for micro business development. Collecting saving from the poor is too long to fulfill the loan of the members. And the main microenterprise's need is not for saving but for getting credit access.
- c) Micro banking. This model is based on banking sector designed to serve microfinance. Banks designed to serve it is BRI and BPR. And now the other banks startto serve public economy sector and design in order to reach MSMEs, for example Danamon Bank through Danamon saving and loan.

- d) Linkage Model. This approach model through linkage basically utilizes the existing institution. In this case, there are 2 kinds of linkage, the first linkage is linkage between the finance institutions where the finance institution (bank and other financing institution) related to Madani National Capital and BPR, and others. The second linkage is between the finance institution (Bank) and Public self-supporting Group. This linkage is often called as pattern of link between Bank and Public Self-supporting Group.
- d. The Measurement of Micro Finance Institution
The measurement of microfinance institution is seen from the total of loan or credit of MSMEs of member, opinion of credit time, opinion of interest rest, opinion of credit requirement, opinion of credit procedure.

2.2 The Development of MSMEs

Tambunan (2009:46) explained that the indicator of MSMEs development are 1) The increasing of business scale (the growth of business unit and worker), 2) output structure and PDB share.

The growth of business unit is the increasing of business unit in all business. The growth of worker is the increasing of worker in all business. Output structure or productivity is the increasing of production in all business. PDB share is percentage of product contribution of MSMEs to regional PDB or national PDB.

The measurement of MSMEs development is the increase in loan to members, the increase in product capacity, the increase in merchandise, the increase in product, the increase in capital, the increase in interest, the increase in asset, and the increase in worker.

The definition and the criteria of MSMEs:

- a) UU number 25 1992 about cooperative said that Cooperative is business entity that the members' activity bases on cooperative principal which is also as public economy movement based on family basis.
- b) The Central Bureau of Statistic defines MSMEs based on the quantity of the workers. A small business is business entity that has 5 – 9 workers, while medium business is business entity that has 20-99 workers (Hubeis. 2009: 20)
- c) UU RI number 20 2008 about MSMEs said:
 - 1) Micro business is an independent productive business done individually or business entity the criteria of micro business.
 - 2) Small Business is an independent productive economy business practiced by individual or business entity that is not a branch owned, controlled, or become a direct or indirect part of the medium or big business that meets the criteria of Small business.
 - 3) Medium business is an independent productive economy business practiced by individual or business entity which is not branch owned, controlled, or become a direct or indirect part of small business or big business with the net asset total or annual sales as regulated in constitution.
 - 4) Big business is productive economy business practiced by business entity with the net asset total or annual sales more than medium business including state or private national business. Joint venture and foreign business doing economy activity in Indonesia.

2.3 The Role of MFI to Develop MSMEs

Ismawan and Budiantoro (2005:9) explained that one of ways to solve the financial problem of microenterprise is through micro finance. Microfinance is finance service for microenterprise essentially gives financial support for microenterprises to develop their business. One of the special things of microfinance is the procedure which is not complicated and does not use security.

2.4 The previous Study

The title of the research is the performance of MFI for efforts of the strengthening of MSMEs in Jabodetabek area. The researchers are Wardoyo and Hendro Prabowo Economy and Psychology of Gunadarma University.

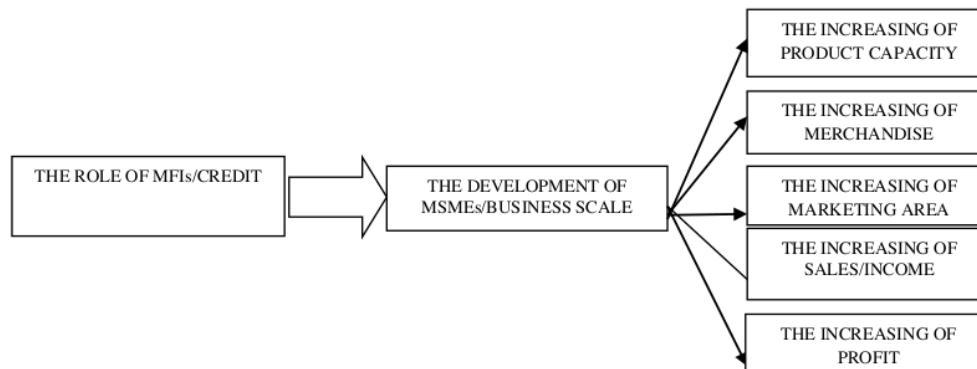
The problems faced by MFIs are: 1) Minim of assistance, 2) minim of fund, 3) the payment of credit is bad, 4) Minim of cheap resource, 5) The continuity is not guaranteed because it's only in a project. While the problems faced by MSMEs are: 1) The difficult access to formal bank, 2) Minim of capital, 3) Quality and quantity do not meet the capacity, 4) bookkeeping, 5) marketing.

The problem of MSMEs, the access to formal bank and the limited capital, can be solved by MFI by accessing to international micro finance or formal bank. While production, bookkeeping and marketing can be solved by training, where the role of MFI is as facilitator. Besides that, some micro finance institution try to get the market for their product.

And for MFI, the problem of the minim assistance and the minim fund can be solved by training MFIs or in other words, MFIs solve it through capacity building both the institution and the staffs. In other side, another findings state that although some efforts to increase the capability of MSMEs to survive and develop has been done, it always faces the problems. Anything done by some parties generally does not give maximal result for the development of MSMEs.

Thus, based on the descriptive analysis, the results show that there are some things that could be said successful enough, those are: the ratio between MSMEs and MFIs, the amount of customers, and the volition of MFIs to join training. The efforts done by MFI in Jabodetabek area is not only to improve the performance of MFIs itself but also to support MSMEs. Every training about the increasing of performance is joined by MFIs in Jabodetabek.

2.5 Conceptual Framework



One of the main problems faced by MSMEs is less of capital. Usually, MSMEs use their own capital because of the difficulty of accessing the bank. MSMEs can utilize micro finance service to support their business operation. Micro finance is finance service for microenterprises. With this financial support, MSMEs can develop their business or there is an increasing in business scale. The indicator of the developing business scale is increase in product capacity, increase in merchandise, marketing area expansion, increase in sales/income, increase in profit, and others.

3. RESEARCH METHODOLOGY

a. Research variable

Independent variable

Independent variable is often called as stimulus, predictor, and antecedent variable. It is an affecting variable or a variable which affects the change or the appearance of the dependent variable.

Independent variable of this research is MFIs and the indicators are the loan/credit lent to MSMEs, opinion about credit period, interest rate, the term and procedure of loan/credit.

Dependent Variable

Dependent variable is often called as output, criteria, consequent variable. It is an affected variable or result variable of independent variable.

Dependent variable in this research is the development of MSMEs and the indicators are the increasing of loan to members, the increasing of production capacity, the increasing of merchandise, the increasing of marketing area, the increasing of sales/income, the increasing of profit.

b. Population and Sample

Population in this research is all cooperatives and MSMEs getting loan/credit from Bank Jatim and BPR in Kediri city. Sample in this research is 15 cooperatives and MSMEs getting loan/credit from Bank Jatim and BPR in Kediri city. The sample is taken by using random method.

c. The instruments in this research are interview, documentation, and questioner.

d. Data Analysis Technique

1. To analyze the number of the client/credit and the number of the loan uses descriptive analysis.
2. To analyze the impact of MFIs to the development of MSMEs is by studying the hypothesis uses linier regression.

4. THE RESEARCH RESULT REPORT

1. The Study

a. Statistic Test Study

In the hypothesis, it is got the result that there is a positive influence of MFI to the development of MSMEs. It means that MFIs can develop MSMEs. In the F study, it also showed the exactness of the linear regression equation. It means that MFI is right to develop MSMEs or simultaneously independent variable (micro finance institution) has an influence to develop MSMEs. This is also supported by correlation study where there is strong correlation between MFI to develop MSMEs. Significant study result also showed that sig is smaller than α , it means the influence is significant/real.

b. Problem Solving

There are several causes of MFIs can influence to the development of MSMEs. The tables below show the difficulty faced MSMEs.

Table 4.1: the difficulty faced by micro and small business

KINDS OF DIFFICULTIES	HOME INDUSTRY	SMALL INDUSTRY
1	2	3
Capital	40,5 %	36,6 %
The raw material	23,7 %	16,7 %
Marketing	17 %	4,4 %
Production and management technique	3,1 %	26,9 %
Competition and others	15,7 %	17,4 %

Source: Processed data of Central Bureau of statistic (1998) in Ismawandan Budiantoro (2005)

Table 4.2: Capital Source of Micro and Small Buiness

CAPITAL SOURCE	HOME INDUSTRY	SMALL INDUSTRY
<i>1</i>	<i>2</i>	<i>3</i>
Individual Capital	90,4 %	69,8 %
Loan Capital	3,2 %	4,8 %
Individual and Loan Capital	6,4 %	25,4 %

Source: Processed data of Central Bureau of statistic (1998) in IsmawandanBudiantoro (2005))

Tabel 4.3: Capital Source UMK in Manufacture industry 2005

CAPITAL SOURCE	MICRO BUSINESS	SMALL BUSINESS
<i>1</i>	<i>2</i>	<i>3</i>
Individual capital	82,41 %	68,85 %
Loan	2,86 %	1,75 %
Individual and Loan capital	14,73 %	29,40 %
Total	100 %	100 %

Source: Central Bureau of statistic in Tambunan (2009)

From table 4.1, it shows that the main difficulty is capital difficulty where micro business (40,5%) and small business (36,6%) so it needs micro finance institution as an institution helping for the strengthen of capital.

From table 4.2 and 4.3, it also indicates that the source capital of micro, small, and medium business in from individual capital where in 1998 micro business 90,4% and small business 69,8% and in 2005 micro business 82,41% and small business 68,85%. This shows why micro, small, and medium business develop less because they only use the individual capital which is very limited for both working capital and investment so it needs micro finance institution as an institution to support the strengthening of capital.

There are several reasons why micro, small, and medium business did not use bank as fund source. The reasons are:

Table 4.4: reasons of micro, small, and medium business in manufacture industry, 2005

REASON	UMI	UK
<i>1</i>	<i>2</i>	<i>3</i>
Doesn't have security	20,69 %	28,55 %
Doesn't know the loan procedure	10,59 %	14,50 %
The procedure is complicated	24,31 %	10,00 %
High interest rate	14,12 %	8,67 %
Not interested	28,00 %	37,50 %
Proposal refused	2,32 %	0,78 %
Jumlah	100,00 %	100,00 %

From table 4.4 above, it shows that the reasons of MSMEs did not borrow to finance institution especially bank are not interested UMI (28%) and UK (37,50%), this is caused because UMI: 1) the procedure felt difficult 2) doesn't have security 3) high interest rate 4) doesn't know the loan procedure 5) proposal refused, while UK: 1) doesn't have security 2) doesn't know the procedure 3) the procedure felt difficult 4) high interest rate 5) proposal refused.

Actually, MSMEs can use the capital source beyond the bank because many MFIs non-bank focus in supporting the capital strengthening special for MSMEs such as saving and loan cooperative, village credit institution, Baitul Mal Wattanwil, society self-supporting institution, society self-supporting group (Tambunan, 2009:229).

Diredja (2008) in Tambunan (2009:230) explained, actually the government hopes that micro finance institutions take role more than commercial banks as the main funding source. This is also expressed by Kisaka; Mwema (2014) first, an increased access to micro-credit and micro-saving institutions will improve the cash constraints of the MSMEs. This increases their solvency and hence the liquidity observed high survival rates among the MSMEs. Access to credit also affords the MSMEs the cash that they need to finance the expansion of their business and especially working capital where the cash requirements far outstrip their internal savings. Furthermore, increased savings to enable the MSMEs access to large micro-loans an increase their working capital and sales revenues. This contributes to the growth of the MSMEs.

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The contribution of microfinance enterprises is also expressed by Akpan (2015) Based on findings of this study, the use of MFBs has potentials for enhancing the performance of small businesses in two ways- regular participation in microfinance and offering of non – financial services. This suggests that government policies aimed at promoting the performance of SMEs should also address the financial and non-financial activities of the MFBS (Microfinance Banks). Iloridan Ayoola (2017) also explained about the importance of Small Loans Center for the development of the business of micro, small, and medium business, those are the results of our studies validate the high relevance of microfinance banks on the growth and sustenance of SMEs in Nigeria. The results show that microfinance arrangement makes it possible for SMEs to secure credit from microfinance banks on more easy terms. The expected financial services would enable the active poor to undertake and develop long time, sustainable entrepreneur activities, mobilizing savings for financial intermediation, create employment opportunities and also to increase their productivity. There is no doubt about the fact that microfinance arrangement was established to make it possible for SMEs to secure credit from Microfinance Banks (MFBs) and other Microfinance Institutions (MFIs) on more easy terms but this study revealed that more still need to be done to facilitate easy access. The study however concludes that small scale entrepreneurs hardly have access to credit particularly from the formal sector. There is also the need to strengthen microfinance institutions for optimal performance so as to solve the problem of small capital base, high interest rate and granting of small loans below customer's needs.

Eric, Anokye, Mathias (2014) explained that the importance of Microfinance and Small Loans Center (MASLOC) to increase the performance of MSMEs', MASLOC, should confront the development constraints of MSEs in an integrated manner, so as to sustain beneficiary MSMEs' growth performance for the development of the local economy. MASLOC should design and implement customized training programs for beneficiary MSMEs. Considering the peculiar characteristics of the MSEs, the training programs could broadly embrace appropriate technology applications, technical and vocational training, packaging and marketing strategies all of which would inure to MSEs growth and effective repayments. Not all, considering the capacity of MASLOC to cope, there should be timely release of loans, possible increase in loan amount and repayment period to promote maximum use of loan. Others include making budgetary allocations for the procurement of the necessary logistics and office unit for the MASLOC within the Municipality.

Today, in Indonesia develop 4 credit service models for MSMEs or called as micro finance in general. The first, financial services rest on mobilization and quarrying fund source from the member's saving or cooperative as foundation to develop micro finance service. The second, micro finance growth is based on belief that the purpose of community to join a group motivated to get credit. This form is practiced in Bangladesh. The third, the bank designed to run micro finance service, such as BRI and other micro finance institutions, and general banks to develop micro finance service. The fourth, finance service meets bank approach and community self-supporting group.

Besides bank and MFIs, state-owned company(non-bank) such as electrical State Entity and Pertamina (oil and natural gas corporation) also provide credit to MSMEs (besides giving gift). According to Hasan(2008) in Tambunan (2009:230), Credit from Public Company gets some facilities compared with bank, including easier credit conditions, lower interest rate, security is only the feasibility business, the repayment of credits and recommendation from the office (cooperative) and Small Business Development. However, credit which is provided by BUMN from earning is very limited, especially if BUMN showed a loss, credit will be not available.

State minister cooperative and UKM since 2000 has disbursed credit in rolling fund form which during 2000-2007, the total reached Rp.3,085 (table 4.5). this fund is essentially investment fund not social fund for strengthening the capital. MSMEs disbursed through public institution or rolling fund management institution. The difference with bank is that MSMEs receive the rolling fund and also receive other help from state minister cooperative and UKM such as education or training (Tambunan, 2009:231).

Table 4.5: The Rolling Fund Total from State Minister Cooperative and UKM 2000 – 2007

DISTRIBUTOR	VALUE
1	2
Production deputy	1,134 triliun
Funding deputy	1,403 triliun
Marketing and networking deputy	131,766 miliar
Restructuring business deputy	410,299 miliar
Secretary of State Minister Cooperative and UKM	2,1 miliar
Deconcentration	3,534 miliar

Source: State Minister Cooperative and UKM in Tambunan (2009:231)

From the description above, it can be concluded that MSMEs can use various funding sources out of banking and from state minister cooperative and MSMEs, rolling capital fund to help capital bracing both working capital and investment.

It is so much contribution of microfinance institution on the strengthening of MSMEs, so it can develop the business. It needs strengthening, empowering, developing micro finance with the principle below:

- 1) Respect the diversity, uniqueness, and relatedness of micro finance to community development.
- 2) Giving recognition and legality on the existence of micro finance and micro finance institution.
- 3) Protecting community involved in micro finance activity.
- 4) Prioritize the strategy of the development of micro finance on basis of join movement from all parties related to the development of micro finance.

Ismawan and Budiantoro (2005:135) also explain micro finance development strategy includes:

- 1) Develop independent and sustainable assistance including conducting the strengthening of the institutions especially functioned relating the formal and non-formal sector.
- 2) Combine the group and individual approach appropriate to the needs and community acceptance.
- 3) Develop the integration between loan distribution and community saving mobilization, as well as making saving the basis of system and micro finance strength.
- 4) Build the capacity of micro finance institution in collaboration with college, institution, business, international institution, cooperation between MFIs and government agencies especially in the increasing of human resource capability. System and operation procedure, technology especially information, net-working, accessibility various support and to increase the service to community.
- 5) Reconfirm and recognizing and appreciating of the woman's role in every efforts to develop micro business.
- 6) Develop supporting micro finance institutions as follows;

- a) Institution that can function as capital source for MFIs (secondary source of fund), either through the linkage development with bank and finance institution or through the development of funding institution (wholesaler of fund, pooling of fund) special micro finance.
 - b) Institution that can execute protection function on saving and loan.
 - c) Inspecting institution which conducts minimum standardization on micro finance practice, supervision, auditing, rating, and micro finance institution certification.
 - d) Institution which can execute the function of micro finance development, the socialization of the roles and the function of micro finance, the development of human resource, the development of system and procedure,, the development of technology, and the development of Indonesian micro finance data base.
 - e) Institution building net-working among micro finance institutions.
- 7) It should be thought for the consideration on the establishing of institution “alternative central bank for MFIs” established by government, Indonesian bank, and (association) micro finance institution.
 - 8) Realize the bank commitment to develop micro finance, particularly by ensuring the fund allocation in “business plan” bank for micro enterprises can be distributed through the capable and integrated micro finance institution. In this case, it is needed to develop the relation strategy of bank and micro finance institution as the development of the relation strategy of bank and group./
 - 9) Develop and strengthen the by cooperation with some international institution both in finance sector, technical help for capacity development, and in net-working development, relation with other parties.
 - 10) Develop and strengthen the cooperation with business sector especially in business cooperation, competence sharing, cooperation sharing, and capital sharing.

Besides micro finance institution strengthens the activities above, MFIs also pay attention to the financial performance and organization development oriented profit in order to increase the contribution in micro, small, and medium business. ¹⁰isire at all (2014) explain several issues affecting the increase of the performance MFI, that is a) **Costs.** Operational and Administrative costs: First, MFIs charge high lending rates to cover transactional and credit delivery costs which are higher for small transactions in terms of resources and personnel e.g. a two million loan and a five thousand loan Uses the same resources and personnel. However, smaller transactions increase per unit transaction cost. Most of the loans accessed from MFIs are small amounts that range between Kshs. 2,000 and Kshs. 20,000. This makes per unit cost very high in terms of processing and maintenance. MFIs respond to such costs by increasing lending rates in order to cover the cost.

- a) **Financial costs:** Secondly, MFIs deposit savers money in commercial banks where they again borrow at a higher lending rate than the deposit rate they earn on these deposits for onward lending to the savers. When MFIs source for finance at a higher lending rate which normally is the commercial lending rate, the MFIs pass such cost to borrowers by charging a higher lending rate than commercial banks. Therefore, the interest rate charged for sourcing for funds increases the cost of borrowing. Due to the need for self-sufficiency and sustainability, they pass such cost to borrowers and savers by charging a higher lending rate and paying minimal or no deposit rate for the compulsory savings.
- b) **Profitability and Growth.** In a growing Micro Finance sector, interest rates must cover costs in order to promote sustainability, return and growth. There is need for growth in the sense that the sector has to reach out for increased numbers of the poor in order to achieve its objectives. Therefore, interest rates can't fall below the costs. Secondly, increased focus and pressure for returns (profitability) impacts negatively on affordable pricing in the Micro Finance sector. Such pressures increase lending rates and reduce or stagnate deposit rates.

5. CLOSING

a. Conclusion

1. The main obstacle is lack of capital and source capital from them, so it is needed the strengthening of capital from micro finance institution.
2. Micro finance institution can be divided into micro finance bank and micro finance non-bank, MSMEs can optimize the utilization of capital source from micro finance institution non-bank.
3. There is significant and positive effect of MFIs to the development of MSMEs. Positive effect means micro finance institution can develop MSMEs and significant effect means the effect is real, so it is needed more role/contribution of micro finance institution for the development of MSMEs.
4. Because of much benefit of the micro finance institution for MSMEs, it would be needed the strengthening, empowering, and the developing of micro finance.

b. Implication

1) Theoretical

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There is significant and positive effect of micro finance institution to micro, small, and medium business.

2) Practice

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a) It is needed more roles and contribution of micro finance institution to micro, small, and medium business.

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b) It is needed strengthening, empowering for the development of micro, small, and medium business, and the development of micro finance institution in order to contribute more.

c. Suggestion

1) For the Government and Indonesian Bank

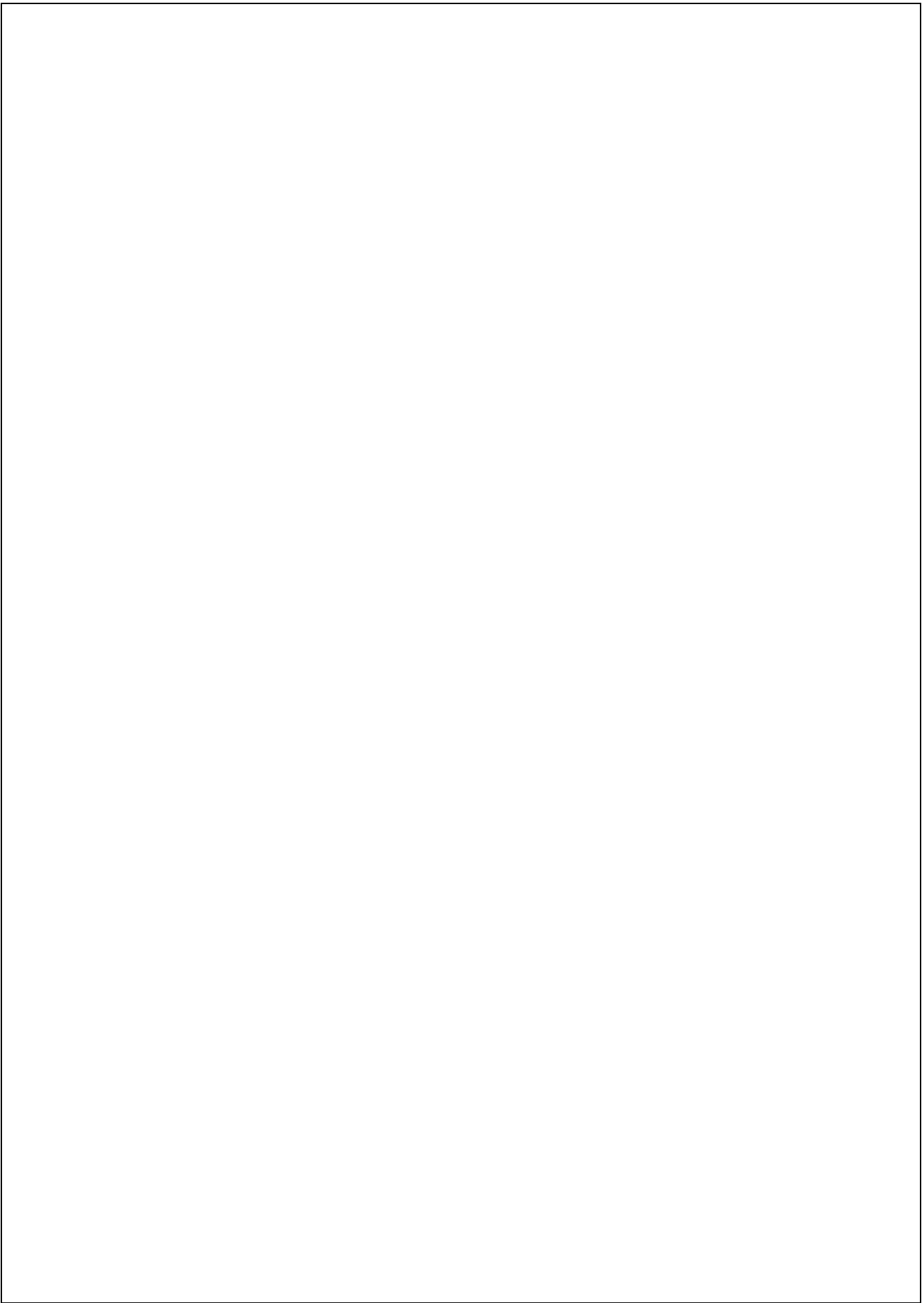
Government/Indonesian bank must immediately determine the legal framework and management of micro finance to protect community that save money in MFIs, protection of legality principle of micro finance institution and the relation with other institutions, and the strengthening and developing of micro finance (Ismawan and Budiantoro, 2005:136).

2) For micro finance institution bank and non-bank

Micro finance institution especially non-bank must take a role and contribute more for capital strengthening of MSMEs because having more flexible loan condition than MFI bank. It is needed more study to micro finance bank to be able to decide the credit condition is easier than commercial credit.

3) For MSMEs

- a) MSMEs must have commitment and discipline to return the credit on time.
- b) MSMEs must begin to make transaction administration especially finance that is usually as basis of successful measurement.
- c) MSMEs must utilize fund source from micro finance institution bank or micro finance institution non-bank to develop the business because internal fund source is usually limited.
- d) MSMEs must manage the business professionally, innovatively, and competitively.
- e) The owner/the management of MSMEs must have entrepreneur character and be hard, innovative, creative.



THE INFLUENCE OF MICRO FINANCIAL OF MICRO FINANCIAL INSTITUTION TO DEVELOP COOPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN KEDIRI CITY

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