

**EFFECTIVENESS MODEL ROLE OF MICRO FINANCE
INSTITUTIONS (LKM)
IN THE PROVISION OF SME CAPITAL REAL SECTOR
IN KABUPATEN BANGKALAN MADURA**

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ABSTRACT

SMEs, especially small micro enterprises in Indonesia are facing two major problems in the financial aspects, namely the mobilization of initial capital and access to working capital and long-term financial investment is necessary for the long-term output growth. While generally the initial capital comes from capital alone or informal sources, but the sources of this capital is often not enough for production activities, especially for investment, especially in SMEs real sector. Besides the phenomenon suggests that how the urgency to address the problem of poverty by pursuing the development of Micro Finance Institutions (LKM). Such an approach is due to the failure of formal credit institutions in addressing the issue of poverty, especially in rural areas. Another reason is because the program providing small loans to the real sector more easily implemented than other poverty alleviation programs such as land reform. Besides, the essence of micro-credit program is not solely on the availability of small loans through various distributors institution name but LKM is a development tool in a broad sense. Related to that this study is a development tool in a broad sense (Ledgerwood, 1999).

The general objective of this research is to find a model of the effectiveness of the role of LKM in the capitalization of the real sector and the formulation of measuring the success rate of LKM role in the capitalization of the real sector.

To achieve the goals and targets of research outcomes, we used quantitative analysis, namely descriptive analysis, PCA analysis, path analysis, ISM and qualitative analysis.

Keywords: LKM, capitalization, SME, real sector

INTRODUCTION

Empowerment of micro, small and medium enterprises (SMEs) in supporting the growth of the real sector should also pay attention to the obstacles in the development of SMEs. One of the main obstacles SMEs to flourish is the limited financial resources due to its micro with a small capital, not a legal entity and management are partly still traditional so the sector is not touched by the ministry to formal financial institutions are always applying banking principles in deciding the credit. Efforts by the government to help SMEs, for example by linking with major employers to partner not yet effective enough to solve the problem considering the amount that many and spread throughout Indonesia (Sumodiningrat, 2003).

SMEs, especially small micro enterprises in Indonesia are facing two major problems in the financial aspects, namely the mobilization of initial capital and access to working capital and long-term financial investment is necessary for the long-term output growth. While generally the initial capital comes from capital alone or informal sources of capital resources but this is often not enough for production activities, especially for investment.

Meanwhile, expect the remainder of the financial needs are fully financed by funds from the bank is far from reality. Therefore it is not surprising that until now even though so many schemes credit from the banks but the sources of financing of the informal sector is still dominant in the financing activities of SMEs, especially micro-enterprises. This is due to several reasons such as the location of the bank is too far for entrepreneurs who live in remote areas, the requirements are too heavy, paperwork too wordy, and lack of information about credit schemes that exist and procedures (Tambunan, 2002; 2003).

When observed, the banks with the master assets of IDR 1,098.80 trillion, or 90.46% of the wealth of all the financial institutions, supported by a network of nearly 10,000 office played a strategic role in the provision of capital to the real sector. But in reality, as it turns out banking intermediation institutions only successful in fund raising functions with public funds reached Rp. 833.4 trillion, while the performance of the functions of lending to the business / real sector is still low, reflected in the still low Loan Deposit Ratio (LDR) is only 50.46% or funds channeled to the real sector through credit only IDR 420.5 trillion, besides, there is also undisbursed (bank credit undiluted) are quite high, reaching IDR 80 trillion.

Availability of funds for credit is still quite large, the role of the banking industry as intermediary institutions have been slow, where the availability of funds is quite large, and reserve requirements has been lowered by 15% to 2% should provide flexibility to banks for credit expansion. In fact the public funds that could be collected by banks have not been able to move the real sector, which is still moving choked-choked and sluggish.

The banks are required to apply the principles of prudential banking and profit oriented to maintain asset quality in order to remain viable and grow sustainable. In general, banks will credit all of SMEs have complied with the technical bank and can be accepted by the banks. For that to SMEs can have access to capital must prepare in advance of other factors such as other commercial enterprises. The application of the precautionary principle is not to banking interests only but also for the benefit of the debtor so that SMEs can take advantage of the capital in accordance with its objectives. Another factor that becomes an obstacle for SMEs is the problem of the availability of collateral for the bank if you want to apply for credit to banks. Usually the capital needs of SMEs is far greater than the value of its collateral.

Banks themselves in the placement of funds raised from the public still play sector financial / finance in the form of Bank Indonesia Certificates (SBI), where the policy of Bank Indonesia in

the BI rate which is 125% above the interest rate of public funds, certainly attract banks to play around in this sector because this sector is quite safe and still produce for banks, whereas the impact on the national economy becomes a deterrent to drive the real sector.

On the other side of the availability of funds, banks have no questions to boost the real sector, but the problem is the extent to which banks would be creative to create systems and products that can accelerate the disbursement of public funds to businesses that boost the real sector. This did not happen because of our financial sector is still dependent on economic growth or the real sector or so-called Growth-Led Finance.

Considering that to date, the role of banks still struggling to issue banking architecture, fulfillment CAR, etc. and credit expansion massively sector consumption, so it has not seen signs towards finance-led growth, the need for alternative intermediary institutions as alternatives to encourage the full rise of the real sector. Alternative financial institution that acceleration can be inflated Cooperatives / Microfinance Institutions, considering this institution directly related to the real sector of society especially the level of micro, small and medium enterprises which is quite a lot.

To overcome these obstacles, the approach needs to be done is the provision of microfinance services, including cooperatives. During this time Micro Finance Institutions (LKM) is an institution that is able to meet the capital needs of SMEs being able to adapt to the characteristics of SMEs are likely to be considered bankable by the commercial banking sector. MFIs are able to provide credit services on a large scale without collateral, without strict rules, and in a way it is also able to cover all their expenses. In addition MFI can also be an extension of the formal financial institutions, before funds for microfinance services that gave rise to the self-help groups or the micro enterprises.

The existence of Micro Finance Institutions (LKM) itself also contains three key elements (the version of the Asian Development Bank and the World Bank). First, it provides a variety of financial pelayana-relevant to the real needs of the community served. Secondly, it serves the low income groups. Third, using the procedures and mechanisms are contextual and flexible, to make it more easily accessible to poor people who need the service.

In his role as a tool for poverty reduction and small business empowerment, LKM can be classified into two according to the approaches and strategies used are: (1) institutional approach as adherents institutionalist schools and (2) the welfare approach as the adherents of welfarist. Until now in Indonesia there are thousands of LKM well managed by the government and private sector where banks provider of credit services as small as BRI village units and Rural Bank is a group approach to institutions and dozens of LKM belonging to non-governmental organizations that are categorized as a welfare approach (Surjandari 2004).

However, there are many micro-credit programs by LKM are not able to break even and efficient point (Hoff and Stiglitz, 1990). The deregulation of the financial sector in several developing countries have indeed succeeded in improving the condition of the LKM, but there are still many LKM that guarantee its survival is dependent and constantly in need of government assistance. As a financial institution that has a very important role in tackling the problem of poverty, LKM are expected to be able to guarantee its survival independently.

Research purposes

The purpose of this study is as follows:

- a. Identify LKM in the provision of real sector capital.
- b. Evaluating the feasibility of LKM in the provision of real sector capital.

- c. Assigning the identification results as a reference preparation of program and policy decision in the establishment of an LKM as providers of financing to boost the real sector.
- d. Determining the Effectiveness of the Implementation role of LKM in the provision of capitalization for the real sector

LITERATURE REVIEW

Credit is an injection, injection and temporary help to boost economic activities. The role of credit or loans from the outside this is supposed to replace the savings collected from the skills themselves. Therefore the credit in this round of economic activities, a time or as soon as possible to be able to create capital accumulation, increasing surplus and improve its own capabilities. Credit prolonged and not able to create their own capital accumulation to a particular economic activity creates dependency (Sumodiningrat, 2003).

In connection with this, the much needed understanding and need dipahamkan to those who received the credit on loans from outside this definition. Once again it must be stressed the role of the credit is to be increased durability and economic activities as well as increase the surplus of credit receiver, creates a capital accumulation and improve the welfare of the recipient credit. And must be avoided their detrimental reliance.

Experience from other countries, such as Japan and Taiwan, shows that development finance institutions as a source of financing the development of SMEs will have bright prospects and is appropriate and justifiable. This argument is based on the idea that formal financial institutional system that existed until now has not been able to fully meet the micro and small businesses while micro and small businesses still have difficulties accessing these needs.

Micro and small businesses in meeting the financing needs have the choice of various types and financing institutions which are accessible suitable internal conditions of micro and small businesses as well as the required qualifications financing institutions concerned. This type of financing is summarized in the form of soft loans , revolving funds, participation, underwriting credit to equity and bonds.

One of these financial institutions are Credit Unions (KSP) or Savings and Loans Unit (USP) Cooperative, which is a business entity, which comply with the provisions of UU. No. 17/2012, which focuses on the field of micro-credit activities and prioritize to meet the needs of its members.

According to UU No. 01/ 2013 on Micro Finance Institutions, hereinafter referred to as the MFI is a financial institution that is specifically established to provide business development services and community empowerment, either through a loan or financing for micro enterprises to members and the public, the management of deposits, as well as the provision of business development consultancy services that are not solely for profit

In Korea, there have been successful LKM mobilize savings and loans, especially agricultural cooperatives have provided examples of success are interesting to observe. The largest part, or 60% of the surplus emerging business comes from surplus savings and loan business professionally managed. The market share usurer and banks in the village in the financial market in the village becomes narrower, even more not free when the activities of savings and loan co-operatives have succeeded in freeing members of cooperatives or other farmers from the confines usurer and private financial institutions, which previously rampant in the village.

If talk about the phenomenon of banks in the world with regard to cooperative business, perhaps we should turn to Germany. The Germans feel proud for being the pillar of the banks they are

cooperatives which retain the principle of one man one vote so that the cooperative has a value of unity, because the sound is not determined by the amount of capital that saved a member of the cooperative and this differentiates it from other business entities, such as Perseroan Terbatas (PT).

In the report Deutsche Bundesbank (German Federal Reserve Bank) revealed that rural banks and cooperatives to be number one or a prima donna in the structuring of credit in the country. Currently estimated at more than 50% market share in the lending business sector achieved the agriculture and forestry cooperatives (Mutis, 1999). This is because they have a vision in banking deregulation to provide opportunities arise so that more banks are cooperative. Besides, because of their positive supra implementation of cooperative concept in improving business efficiency.

The agreement on capital is the "first need" micro and small businesses that have to be solved in empowering themselves although not the only factor that makes the micro and small enterprises difficult to develop or otherwise be the key to business success. A survey conducted by PUPUK Bandung (1997) about the priority issues Small Business to be solved asserted that the problem of capital ranks first (65%), followed by access to the market (41%), creativity of the product (27%), technical production (9 %), labor (9%) and regulatory (9%).

From the demand, the capital is the most sought assistance Small Business while on the supply also grew rapidly, both institutionally and skim credit (Abhiseka, 1997). Financial Institutions / Financing Institutions (banks and non-bank) are lending to Small Businesses increasingly diverse kinds and amount, either locally incorporated or not incorporated. However, lending or financing to small businesses are still faced with various problems, both in terms of small businesses, credit institutions as well as economic conditions.

From the Small Business, Small Business are still many who have not received capital assistance. In the middle of the proliferation of Financial Institutions.

Financing for small businesses it is difficult to look for Financial Institutions / Banking Institutions who want to give credit to the Small Business so many are trapped in suffocating moneylenders at interest. Obstacles encountered include: (1) weak credit terms (assets, traditional business, management, collateral), and (2) do not know the map of credit information for Small Business and creditors. In terms of credit institutions (creditors) difficult to find trustworthy Small Business to get credit. Information on Small Business has not been there, both from associations and government agencies. Obstacles encountered are: (1) high transaction costs, (2) limited office network, (3) the source of funds expensive, and (4) a limited ability in finding the Small Business creditworthy. Furthermore, in terms of economic conditions strongly associated with economic development and the dissemination of information. Equal distribution of credit information to Small Business will help create a healthy credit market given the amount of credit that is much smaller than the number of SMEs, which require that the winner is the Small Business creditworthy. Conversely without equalization credit information, credit worthy cause Small Business Small Business precisely eliminated and the high risk who have access to credit.

In general, financial institutions can be grouped in two forms namely banks and non-bank. Given the major activities of Financial Institutions is to collect and distribute funds, the difference between bank and non-bank financial institutions can be seen through their main activity. In terms of fund raising explicitly mentioned that the Bank can raise funds either directly or indirectly from the public while the Financial Institutions banks can only indirectly

collect funds from the public. By contrast in terms of distribution there is no clear distinction (Susilo et al., 2000)

Table 1

Activity	Finance Institutions	
	Bank	Not Bank
Fund raising	Directly in the form of public fund deposits (savings , current accounts)	
	Indirectly from the public (marketable securities , investments , loans from other institutions)	Only indirectly from the public (marketable securities , investments , loans from other institutions)
disbursement	For the purpose of working capital , investment , consumption	
	To businesses and individuals	Especially for investment purposes
	For the short term , medium and long	Mainly to business entities

Financial Institutions, both the Bank and Non-Bank Financial Institutions, have an important role for economic activity. The strategic role of Banks and Non-Bank Financial Institutions is a vehicle that is able to collect and distribute public funds effectively and efficiently towards improving the living standard of the people. Banks and Non-Bank Financial Institutions is a financial intermediary as the supporting infrastructure is vital to support the economy. Banks and Non-Bank Financial Institutions basically has the function of transferring funds (loanables funds) from savers or surplus unit to borrowers or unit deficit (Susilo et al., 2000)

Unit surplus 'buy' secondary securities (savings, deposits, policies, pension plans, stocks, etc.) issued by the Bank and Non-Bank Financial Institutions and will receive income, for example interest income from the Bank and Non-Bank Financial Institutions. Funds raised from the surplus units channeled back to deficit units and deficit units will pay interest to the Bank and Non-Bank Financial Institutions which distribute those funds. The transaction process can also occur when the unit primary deficit issued securities (stocks, bonds, promissory notes, etc.) which are sold to the Banks and Non-Bank Financial Institutions.

RESEARCH METHODS

The method of implementation kegiatan emphasis on the process of data collection, data analysis, conclusions on the outcome and recommendations, preparation of reports and discussions involving all stakeholders in the development of the role of LKM in the provision of real sector capital.

Research Area

This study will be conducted in Bangkalan, basic site selection is the number of real sector spread in Bangkalan and still take advantage of the facility to assist LKM capital.

Data collection

Data collected through two ways yet meyakini secondary data and primary survey.

a. Secondary Data

Secondary data collection done by studying at institutions / offices in charge of Financing Institutions, Cooperatives and SMEs, research centers, business associations, BPS or information provider associated with LKM. This secondary data related to the facilitation incentives existing businesses. This data will be a reference in the preparation of design development incentive for new businesses in a sustainable manner.

b. Primary data

Primary data were collected in Bangkalan . Primary data were collected through interviews , focus group discussions and field observations to determine the application, the appreciation and perception of respondents , as a preparation of the implementation of the research .

Sampling Technique

Broadly speaking , the LKM can be grouped into the bank and non- bank LKM, the following:

1. Bank (BRI Unit , in the form of branch offices BRI) and Bank SMEs in East Java .
2. Non- bank (National Rural Credit Cooperative , BMT .

The study population was the whole real sector who were receiving credit from LKM . Because data on the names of the debtors by the credit institutions classified as secret . Then the number of population can not be known , the sample frame is not possible to generate and sampling by incidental purposive sampling method , ie deliberately chosen research area and a sample is obtained by chance

In this study, the LKM has determined that the Village Credit Institutions, Credit Unions, and other non-bank micro Institutions located in Bangkalan. The number of samples depends on the degree of homogeneity of the population. If a homogeneous population, the research does not require a large number of samples. But samples taken must meet the requirements set by the analyzer set. According to Hair (2004) the best sample of more than 100-200.

To strengthen and support the analysis of the results of research, in addition to the sample taken, was also taken some of the respondents were considered as key resources, namely: the respondents of a manager / executive LKM lending small.

Data collection

Data collection for each case study with more emphasis on the development and use of semi-structured interviews with decision-makers such as administrators and managers of LKM. Primary data is also done through field studies, questionnaires and interviews experts and stakeholders. To support the primary data is also done FGD (Focus Group Discussion) to stakeholders. Furthermore, secondary data collection is done through the study of literature, to books, reports, documents, and relevant publications.

The advantage of using the interview that is more focused and profound weaknesses while the response of respondent bias, bias against questions and inaccurate. To eliminate the weaknesses of the interview conducted early stages of brainstorming, questionnaires and then do a low cross back to make sure the actual answer.

In doing qualitative analysis with in-depth interviews, there are several procedures or main stages that must be passed, namely: (1) Defining the activity or the various aspects to be analyzed, (2) Defining the various problems of the aspects that will analyzed, (3) Divide again into pieces smaller than the aspects to be analyzed, (4) Make a variety of questions for each element of the aspects to be analyzed, (5) Request of responses of each item questions to the

parties affected by the target, the makers / implementers of activities or policy, and others, (6) Make a decision on the various results obtained for the purpose of recommendations.

Indicators interview, namely: (1) the effectiveness of development assets or finances, (2) the role or existence of MFIs, (3) the role of the system of collateral or guarantees, firmness sanctions and rate / interest rate loans, (4) the ability of the system of selection and planning disbursement procedures, (5) attachment to the real sector with LKM.

RESULTS AND DISCUSSION

Factors that influence the feasibility of LKM in the provision of capital and the real sector development strategy in Bangkalan

The reliability of credit services

LKM sector plays an important role in business development in the economic sector, and also plays a role in improving the distribution of development and its results, as well as economic growth and stability towards improving the living standard of the people. As an intermediary institution, the LKM needs the trust of the public, especially its customers so that the continuity of the sector as the vein may continue to run. To gain the trust of the public, it must be managed in a professional start in terms of service, a good marketing strategy, financial terms of which must be managed with the precautionary principle, and also need to be innovative in creating the products needed by society.

Increasing the intensity of competition and number of competitors claim to the needs and desires of customers and try to fulfill what they expect in a more superior and more satisfying than to do with the other. MFIs so that attention is not confined to goods or services produced, but also on aspects of the process, human resources, and the environment. As the first step in an effort to define the demands of the customer, then that must be considered and can not be separated is the availability of information concerning the perceptions and expectations of our customers for the services offered.

Responsiveness credit services

Responsiveness credit services had strong links to customer loyalty. This results in accordance degan predictions estimate the responsiveness of credit services affect the customer loyalty. of the reliability of credit services to customer loyalty is most likely related to the indicators used. Indicators responsiveness credit services used is the length of the waiting time required for customers to receive a loan realization.

Empathy Credit Services

Empathy credit services had strong links to customer loyalty. The form of the relationship between empathy credit services with customer loyalty showed improvement. Empathy is the degree of attention LKM loan services to understand customers' financial problems. Terdapat 4 indicators for variable credit services, namely: (1) the requirements for obtaining credit, (2) interest expense, (3) the burden of installments and (4) the frequency of the installment period. Empathy credit services to customers will be greater in the form of easier credit terms, lower interest expense and burden smaller installments.

Reliability Officer

Reliability officers related customer loyalty. Thereby indicating that the higher the officer's ability to help clients achieve their financial goals higher levels of customer loyalty. In this study, the indicator variable is kehadalan officers deliver information about credit and its requirements, the ability to process credit disbursement administration and ability to perform the registration installments. Thereby indicating that the higher the ability of officers in delivering credit information and applicable terms and higher customer loyalty. Information on the loan and its terms, is an important part in any activities of credit institutions. On the other hand, prospective customers are also very concerned for information regarding the types of loans and the requirements that must be fulfilled. Therefore reliability officers in delivering the explanation of credit and its terms, the earliest stage in any credit transaction and become an important part for our customers to be assessed.

Response Officers

The responsiveness of officers have links to customer loyalty. These results are consistent degan predict responsiveness attendant effect on customer loyalty. Influence officers responsiveness to customer loyalty is most likely something to do with the perception of consumers to the indicator responsiveness. As noted, the indicators responsiveness of officers in this study is the processing speed of administration credit requirements and process credit realization.

Empathy Officer

Empathy officer had no significant relationship to customer loyalty. Empathy attendant effect on customer loyalty. Significant effect of empathy officers to customer loyalty is most likely something to do with the character of the work of staff in serving customers. As noted, the indicators empathy officers are: familiarity with customers, friendliness towards customers, helping customer interest and attention attendant to the activities financed by credit customers.

Social Capital

Forms of social capital there are two aspects of cognitive and structural aspects. based on the cognitive aspects consists of norms, trust, solidarity and cohesion. While the forms of social capital is based on the structural aspects consist of networks and groups, all of which can be described in terms of customer perception to the questions related to the indicators of social capital aspects of cognitive and structural aspects.

Cognitive Aspects of Social Capital

Cognitive aspects of social capital formed in the interaction between the customer and the LKM is a form of mental process (internalization of consciousness) to norms and values: trust, solidarity and social cohesion that the output in the form of ideas or expectations that lead to behavior collectively in order to generate profits. Cognitive aspects of social capital embodied in the form of civic culture and has properties affect, commonly called predispose. That is affecting customers. Another characteristic of this category of social capital is intrinsic or not observable.

Structural Aspects of Social Capital

Their social interaction with other individuals, both inside and outside the community. If this is associated with individuals who are socially has a higher position, then referred to as a vertical network. Respondents in the network mempresepsikan quite high, meaning that there is a network strength formed between the customer as well as with individuals who are socially considered to have a higher position.

Strategic Environmental Analysis LKM Role in Providing Capital Real Sector Institutional Characteristics

The existence of LKM become a critical factor in poverty reduction efforts are effective. According to Krishnamurti (2003) as cited by Ashari (2006: 153) mentions improving access and storage facility acquisition, financing and insurance that can efficiently build the empowerment of the poor and their chances to get out of poverty, through:

1. The level of consumption is more definite and not befluktuasi
2. Managing the risks better
3. Gradually has kesempatan untuk build assets
4. Develop micro-business activities
5. Strengthening the capacity of the acquisition of revenue
6. Can feel better tingkathidup.

Without adequate access to MFI, almost all poor households will depend on the ability of its own very limited financing or the informal financial institutions such as moneylenders, middlemen or moneylenders. These conditions would limit the ability of the poor to participate in and benefit from development opportunities. The poor who generally live in rural areas and strive in the agricultural sector are supposed to be empowered so that they can get out of the cycle of poverty.

The potential that can be played by LKM in spurring economic growth is huge. There are at least five reasons to support this argument, namely:

1. LKM generally are, or at least close to the rural areas so that it can be easily accessed by economic agents in the village.
2. Villagers prefer a short process and without a lot of procedures.
3. Characteristics generally require credit fond plat is not too large to fit on the financial ability of MFIs.
4. The proximity of the location of LKM and farmers enables LKM managers fully understand the characteristics of the farm so that it can disburse loans in a timely manner and amount.
5. The existence of socio-cultural linkages and relationships that are personal - are expected to reduce the emotional nature of moral hazard in the credit repayment.

Thus, the role of LKM supported by the ease of access, procedures, and the closeness of the community will help the empowerment of the poor, especially to improve productivity through small business they run so as not continually rely on the ability of others or themselves are very limited and can improve his life.

Government Policy

To accelerate regional development, local governments as policy makers lelalu development must integrate all traffic offenders, including the various elements in local government, business, nonprofit organizations and other residents.

Cross actors must work together to create a framework for formal and informal institutions to encourage interaction and regulate the relationship between institutions. Flexibility should be the key of the framework and institutions that should channel the concerns and interests that are relevant in the process and the mobilization of community resources.

Accelerated development of local government may require the establishment of a special development organization, which is responsible for the entire inter-actor pengordinasian and serves as a spokesman for an action plan or platform you want to target. This organization should establish a network for regional development to increase the efficiency of resource allocation as well as a wide range of knowledge and information. Operationalization and financing of these organizations should be supported by a cross-regional actors.

One of the main missions of the local government is to describe and implement all development strategies. This process should begin with the establishment of clear objectives and understand local conditions. Entities should also consider sustainability in all stages of planning and implementation to ensure a healthy environment and a good quality of life. The strategy adopted should be developed with a division of labor among the authors in accordance with their strengths and resources.

In line with the trend of decentralization, local government role has become increasingly important in development. Local government authorities should provide guidance and assistance to the effectiveness and efficiency of the implementation of the development strategy. Simplification and deregulation of bureaucratic procedures to be done to reduce business costs. The local government should build bridges between communities and government authorities higher.

Socio-Economic and Cultural Conditions

Economic activities in the countryside are still dominated by the efforts of micro and small scale with the main actors of farmers, farm workers, traders and agricultural inputs, agricultural product processing, and home industries. However, businesses in general are still faced with the classic problem is the limited availability of capital.

In the long term, the scarcity of capital could be the entry point the chain cycle of poverty in farming communities / rural areas that are difficult to break. Although the incidence of poverty is factually not limited by spatial and sectoral aspects, but it is undeniable that the majority of poor people live in rural areas and generally work in the agricultural sector

Admittedly, some programs have been able to achieve its goal of increasing production (eg in paddy), but there are indications that the performance is not satisfactory, especially on the financial institution as the executor. According to Martowijoyo (2002), the weak performance of financial institutions can be viewed from three aspects, namely: (1) low levels of loan repayment; (2) low morality of the implementing agency, and (3) low level of mobilization of public funds. The weakness of the consequences on not continuing (unsustainable) financial institutions that formed after the program is completed. As a result, program participants will generally go to experience a shortage of venture capital.

Along with the development budget burden increasingly heavy, the fiscal capacity of the government in the allocation of agricultural credit and rural increasingly limited. Thus, the future lies in the allocation of government funds to finance the agricultural sector is not a wise choice. Banking institutions actually have potential as microlenders considering the amount of

public funds that have been collected. But there are still many banks were less enthusiastic in extending microcredit.

According to Indiastuti (2005), banking disinterest caused by three things; First, the experience and the trauma of some banks to face reality when disbursement KUT problem loans; Second, BI strict rules that prudent banks in fund distribution activities; and Third, many banks and especially large banks that do not have the experience to channel microcredit.

To answer the problem of limited capital and with government fiscal capacity diminishing, it is necessary to further optimize the potential of financial institutions which can be an alternative funding sources for farmers and rural communities. One of the financial institutions that can be exploited and encouraged to finance the activities of the rural economy that the majority of businesses included in the micro segment of the population is of Microfinance Institutions (LKM). This institution actually has a lot to grow and take root in rural communities, but has not been used optimally.

In a more macro scale, the presence of LKM in rural areas can be a critical factor in effective poverty reduction in rural areas. According to Krishnamurti (2003) increased access to and provision of storage facilities, financing and insurance that can efficiently build the empowerment of the poor and their chances to get out of poverty, through: (1) the level of consumption is more uncertain and befluktuasi, (2) manage risks better, (3) gradually have the opportunity to build assets, (4) developing micro-business activities, (5) strengthen the capacity of the acquisition of its revenues, and (6) can sense the level of a better life.

In accordance with the results of the study of the Directorate of Finance (2004), then in order to achieve optimum results in rural economic development, an LKM should have the following characteristics (1) Do not use a pattern of financial services of conventional banks, especially do not require collateral and there are no administrative process formal difficult, (2) target is the poor and micro entrepreneurs, in which financial services are provided can be adapted to the characteristics of the target group, (3) Using a team approach, with or not with joint responsibility that emphasizes the relationship patterns in close terms as the primary basis manage risks, (4) the scope of activities of LKM can include kegatan financing the productive and consumptive economy, care and education, mobilization activities and other forms of activities that are needed by entrepreneurs and the poor.

Meanwhile, the number of government programs that support community groups also carry out activities of LKM, such as the KDP, P2KP, P4K, UPPKS, KUBE, PUAP generally operate within the scope of a particular region, whose scope is very small, as in the village / village or district. Unfortunately, until now there has been no exact number of how many people are getting the services of the LKM, including the value of his servant. However, if it is assumed each of the MFI unit capable of channeling funding to 30 poor and or micro-businesses, respectively IDR 100 thousand.

Given the tremendous potential of the LKM may be one effective strategic instrument to reach micro-enterprises, community miskindan / or low income, in order to increase business capacity will increase, as well as lower levels of structural poverty and sustainable. The number of LKM that are very large and diverse, is one of the nation's assets are very valuable. In fact, according to Gonzalez-Vega, Chaves (1992), Indonesia is the largest laboratory in the world of microfinance, which has conducted a variety of tests on a variety of LKM. In other words, if LKM in Indonesia reorganized well, it is not impossible that Indonesia will become a center of LKM around the world, which will ultimately improve the image of the nation.

Characteristics of Micro Financial Institutions Right

MFI's service users, primarily from the public miskin / or low incomes who are economically active. Community group is also often referred to as micro businesses.

Type of micro enterprises are very diverse, but in general can be grouped into:

- Activities effort to meet the needs of primary and secondary, such as agriculture, plantation, farming, fishing, all of which was carried out on a limited scale and subsistence, small artisans, tailors, small food producers, and the like.
- Activities tertiary business needs, such as transport (both land and water, for example taxis, public transportation, wagon, etc.), Activities of leasing houses, land, or means of production.
- Activities associated with the distribution business, such as trade, both in the marketplace and in the form of grocery stalls, street vendors, distributors / agents, as well as other similar unit.
- Activities other services, such as singers, Shoeshine, barbers, mechanics, garbage collectors, street photographers, and so forth.
- Characteristics of micro-businesses are also very diverse, but can be grouped into the following basic characteristics:
 - Informal
Most micro businesses strive beyond legal and regulatory framework (legal and regulatory framework) which exist. The absence or weakness of the existing rules or the inability of the government to streamline the existing regulations (which are often detrimental to small businesses), into spaces that make people's economy can actually flourish. Informality is often cause they could not access formal financial institutions and forced to relate to informal lending sources that is easy, fast and flexible, albeit subject to very high interest rates.
 - High mobility
Aspects informality micro businesses lack collateral consequences sustainability of activities undertaken. Various government policies can dramatically affect the sustainability of the economic activity of the people. In response to these conditions, the people's economy is a sector which is relatively easy to enter and abandoned. If on a particular economic activity there are many opportunities, it will soon menerjuninya many of the perpetrators, otherwise the event of changes that threaten the sustainability of certain types of business then immediately the perpetrators will move on to other types of businesses. The situation is certainly not the case with the primary activity, such as agriculture where the perpetrators rarely leave their farming activities.
 - Family and unfocused
Micro-businesses are generally owned and run by one family together, as their awareness on resource optimization and *asasmanfaat* together. For example, a family with a farming business, they are also in general have farming, goat or calf, which is maintained by his son. The effort was carried out in addition to maximizing resource utilization, as well as often primarily used as an instrument of savings that can be utilized at any time when their farm was crop failure.
 - Independent

For formal financial institutions, micro-enterprises in general are still believed to be an attempt unbankable and high risk. Therefore, capital assistance to micro-enterprises is still very small compared to medium-scale enterprises large amount of the culprit is much less. This condition causes micro businesses to be independent in terms of capital adequacy.

Characteristics of Community Needs of the Poor and Micro Financial Services

The poor or micro-businesses in general in need of financial services to meet the 3 following:

- **Fulfilling Life Cycle**
Life cycle, such as the birth of a child, child education, child marriage, funerals often require a relatively high cost for the poor and / or low-income, so they often have to go into debt to meet these needs.
- **Meet the Needs of Emergency.**
Unforeseen expenses, is also often the reason why the poor or low income should owe. The example of unforeseen events such as the occurrence of illness, crop failure, their eviction place of business, a donation to the neighbors or relatives who are celebration, the event of theft, and so on.
- **Meet the Needs for Utilizing Opportunity.**
In accordance with the characteristics of micro-businesses that have high mobility and informal, in general, they are very easy to capture business opportunities. With these characteristics, the microfinance services fast, easy terms, and flexible use of the needs of the poor / micro-business to business menajalankan in order to capture opportunities.

Characteristics of LKM

Based on the observations, the main purpose of the establishment of LKM are generally intended to mobilize funds from the public in rural and distributed to the poor and / or low-income as well as to finance their businesses are micro scale. Thus, the LKM is concentrating on savings and loan activities. However, some LKM also conducts placement of funds in commercial banks, savings and loans around, acting as an insurance agent, participate in associations which support its operations or scheme of deposit insurance schemes between them (like "tabaru"), and other related activities that are not considered in violation of ethics and regulations. Overall transaction should normally be conducted using the currency.

Area of operation is generally in the countryside in response to adanyagap between the need and availability of microfinance services. However, some LKM also operate in urban areas that still have a gap of financial services for poor urban communities.

In terms of ownership, these LKM are generally owned by individuals in groups, communities in the region, such as villages, towns, and there is also owned by the village administration, or foundation. Some LKM have branch offices, both in its area of operation and sometimes crossing outside the boundaries of their area of operation. In addition to the opening of branches, to expand the range of services to the community at large LKM also operate mobile services, both for fundraising and for loan collection.

Governance structure that is applied LKM are generally led by a manager, and assisted by marketing personnel as well as a collector, and a bookkeeper. Bookkeeping and financial statements issued not standard and tend to be very simple. Supervision is usually carried out by the Board of Supervisors, but in general, the board is not actively monitoring. The vagueness of

this LKM legal entity, is also not uncommon exploited by moneylenders (moneylenders an investor) that operates as if such official financial institutions.

In view of the volume of business, the LKM has a very wide variance, where there are LKM that have total assets or profits far exceeding the BPR or KSP. But most of the others have very small assets. Yields were determined by these LKM are relatively very high compared to the formal LKM, good yields on savings and loan yields. The high yields, in addition naturally to cover the risks are high, also because generally not economies of scale LKM operate at efficient levels

CONCLUSION

- The many types and kinds of LKM in Indonesia is very difficult for both the monitoring and relief efforts for the development of enterprises. With its published rules that govern similar form of law and institutions that regulate and supervise, expected data and information related to LKM in Indonesia can be accessed better.
- The business license for LKM issued by Otoritas Jasa Keuangan (OJK). This regulation gives full authority to the OJK in licensing, regulation and supervision of LKM.
- From the institutional side, the problems related to aspects of sustainability / sustainability is affected by: (a) the capability of human resources (HR) managers of LKM and (b) support for seed capital. While it is necessary also support external factors which include the legal basis for the development efforts of LKM
- Characteristics of the people of Indonesia on the community or mutual cooperation are closely aligned with the characteristics of the LKM which is a community bank.

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