**ANALYSIS OF ROLE OF MICROFINANCE INSTITUTIONS IN IMPROVING SMALL-MICRO ENTERPRISES FUNDING**

**(A Case Study On Palembang)**

Rahmad Effendi

Management Department
 Faculty of Economics, University of Bina Darma Palembang

Palembang, Indonesia

e-mail : rahmad\_effendi@mail.binadarma.ac.id

Abstract - This research are to find the role of micro finance institution (MFI) in Palembang and to analyze the problem of small micro enterprises (SME). Through applying descriptive analysis, it can be concluded that in most problem are working capital, raw materials, market, production technology, competition, and human resources. Considering the result of this research, it is recommended to improve human research development in MFI, sustainability of several aspects, and integrating various strategic economic components and strengthening relationships between micro financial institutions and small micro enterprises. The conclusions are microfinance institutions running micro-enterprises, is dominated by cooperatives, and rural banks; The main micro constraints in addition to capital, is acompetition, production techniques, raw materials, human resources and marketing; MFIs as agents of development in a dilemma between the principle of prudence and the magnitude of the potential for SMEs

Keywords : Micro finance Institutions (MFIs), poverty, small micro enterprises (SMEs)

1. **INTRODUCTION**

 To achieve poverty reduction targets, the government of Palembang has addopted two community empowerment strategies: First, by reducing the consumption expenditure of the poor and Second, by increasing the income of the poor throungh enterpreneurship. Productivity improvements has been done through the development and empowerment of people, especially by establishing small micro enterprises which include sharpening program, funding and mentoring.

 The current structure of Indonesia's economic configuration is dominated by small and Micro enterprises. From 39.72 million units of existing enterprises, 39.71 million or 98.97% are micro enterprises. This reality has driven the government to develop the people's economy, and consider this as a strategic issue. This has risen the questions why micro-enterprises have difficulty to grow. For micro enterprises, the issue of capital is still the main issue (40.48%), followed by raw materials (23.75%) and marketing (16.96%), BPS(2008).

 Micro enterprises often do not have acces to funds provided by formal financial institutions. They are not considered to be bankable as they do not have collateral and has lower perceived ability to repay the loan. As a result of this assumption, the accessibility of micro-enterprises to formal financial resources are low, that most (90.36%) of them rely on the capital that they have. This situation is exploited by financial services such as illegal money lenders operating in traditional markets and the only option for enterpreneur.

 Micro-finance system on the appearance seem less professional, has a narrow scope and only focused on service in a very small scale. The presence of micro-finance system actually supported by socio-cultural factors that integrate with commercial considerations.

1. **LITERATURE REVIEW**

**2.1.Definitions of Poverty**

 *Seseorang dikatakan miskin bila pendapatan yang dia terima tidak dapat dipakai untuk memenuhi kebutuhan dasar minimum. Tingkat pendapatan minimum sering juga disebut sebagai garis batas kemiskinan. Konsep ini seringkali dipakai untuk menentukan tingkat pendapatan minimum yang dapat dipakai seseorang untuk memenuhi kebutuhannya akan makan, pakaian dan perumahan yang diharapkan mampu menjamin kehidupannya. Kemiskinan sub-sistensi, penghasilan rendah, jam kerja panjang, perumahan buruk, fasilitas air bersih mahal.* (Zikrullah,2006). Opinion about what is poverty itself is very diverse. Some define poverty as the inability to meet basic consumption needs and improve the quality of life.

 In Indonesia there are at least three poverty measures that be used. According Bapenas, poverty is defined as, unable to fulfill their rights to maintain and develop the quality of life. Central Bureau of Statistics (BPS) provides limits of poverty, when the number of rupiahs spent to meet the consumption needs not less than 2,100 calories per capita.

 Furthermore, BKKBN (P2KP, 2006) defines *keluarga miskin apabila (a) tidak dapat melaksanakan ibadah menurut agamanya, (b) seluruh anggota keluarga tidak mampu makan dua kali sehari, (c) seluruh anggota keluarga tidak memiliki pakaian berbeda untuk di rumah, bekerja/sekolah, dan bepergian, (d) bagian terluas dari rumahnya berlantai tanah, dan (e) tidak mampu membawa anggota keluarga ke sarana kesehatan.* While the latter is according to the World Bank, which did not achieve a decent life with earnings of U.S. $ 2.00 per day.

**2.2 Micro Finance Institutions**

 The presence of micro-finance can not be separated from efforts to reduce poverty. Even the attention and effort to develop micro-finance is mainly based on the motivation for accelerate the efforts to reduce poverty. This is precisely what underlies the various international institutions directly engaged in microfinance activities as well as in the development of the financial institution. According to the Robinson (Rudjito, 2003), poverty reduction can be implemented through a lot of facilities and programs, including the food programs, health, housing, education, family planning and acces to the loan in the form of micro credit.

 Without access to which is fixed at micro financial institutions, almost all poor households will depend on the ability of the financing itself or to the informal financial institutions (money lenders, middlemen, moneylenders) that limit the ability of the poor to participate and receive benefit from development opportunities.

1. **METHODS**

**3.1. Research Objects and Sampling Methods**

 Selecting of Palembang city as entrepreneur city is determined purposively from 14 sub-centers (kecamatan) are estimated to have micro-enterprises. The number of elements which are concerned with micro purposively taken at least 5 owner of enterprises to get a representative profile of the observed variables.

**3.2. Stages of Research**

 Data collection techniques were: (1) Interview to micro respondents, (2) Focussed Group Discussion and (3) Documentation Study. For collecting data on the questionnaire about the micro entrepreneurs that they use their knowledge of the role of microfinance institutions.

1. **DISCUSSION**

 **4.1. Poverty and Micro Enterprises Profile of Palembang**

 Micro, Small and Medium Enterprises (SMEs) in the regional economy has an important and strategic role. These conditions can be seen from the various data that support the existence of SMEs are dominant in the economy of Palembang. First, a large number of industry and found in every sector of the economy. Based on Central Bureau of Statistics and the Department of Cooperation and SMEs (2008), the number of SMEs recorded 1,906,377 units or 99.8% and total business unit. Second, a large potential in employment of informal sectors. Each unit of investment in the SME sector can create more job opportunities when compared with the same investment in large enterprises. SME sector in South Sumatra in 2006 to absorb 2.75 million workers or 97% of the total labor force. Third, the contribution of SMEs in the formation of GDP is quite significant, 37% of total GDP (Dinas KUKM of South Sumatra, 2008).

 South Sumatera economy is also growing high in the last two years, which increased 7.31% (without oil and gas) in 2008, and 6.92% in 2007. As a barometer of the economy of South Sumatra, the inflation rate in the city of Palembang to October 2009 reached 6.24%. However, the relatively high economic growth with relatively low inflation is not fully able to overcome the problem of high unemployment and poverty. In South Sumatra, the unemployment rate in 2007 reached 10.44% of the workforce, or 352. 191 people. While the number of poor in 2007 reached 413 965 households (1.66million) or 24% of the population.

 P2KP (2006) suggests that there are 4 (four) the causes of poverty in the city, that called: individual factors, access and opportunity factors, government policy factors and natural factors. Individual factors, among others, low work ethics, education is relatively low, have no capital, and no permanent jobs. Factors include access and opportunity, lack of infrastructure, lack access to financial institutions, limited employment opportunities and limitations of further education. Factor is government policy, there are activities that do not directly touch the people's needs as well as lack of confidence. While the last factor is the existence of natural disasters, fires and the presence of elderly people.

**4.2. The Role of Microfinance Institutions**

 Based of capital, most of them is about 76.36% still use their own capital to funding the business, followied by 14.21% from loan institutions. Approximately 23.63 percent related to microfinance institutions, cooperatives are the largest source of loans (26.72%), followed by BPR (23.24%). Commercial banks were still used by micro entrepreneurs (11.36%) as in the following table

Table 1. Micro-enterprise funding sources

 

Sources: Survey Results

 Regarding the financing pattern that can be channeled to micro, can be broadly divided according to several criteria. First, the financing of an administrative nature, for example, education, production techniques, marketing, access to information and so on. Second, the pattern of cooperation micro enterprises, for example, profit-sharing system by venture capital firms, friends, relationship, business partners, Islamic banks and so on. Third, the pattern CSR program, requiring aside five percent of its profits to help small-micro enterprises and cooperatives. Fourth, micro credit from non- financial bank institutions such as pegadaian, leasing companies and so on. Fifth, bank credit which can be either working capital loans, investment loans, consumer loans. Sixth, financial assistance from abroad of the financial institution, company, or a donor country.

**4.3. Capital constraints of Micro-Enterprises**

 Identification of the constrains type micro-small enterprises still about the access to financial institutions 36.63%, while marketing is the lowest problems in micro-small enterprises (only 4.43%)

**4.4. Dilemma of microfinance institutions**

 SMEs expect the requirement for capital in a timely manner, with the requirements and procedures are easy and low cost. Any financial institution (formal or informal) is not a problem, but they can meet their expectations. The expectation is not always be met, either it always appears the problem of financing.

 While the financial institution expects to provide financial services according to specific requirements and procedures to generate profit as proportional. Requirements and procedures into the standard parameters must be met.

 The fact is a reason why these practices money lenders is still survive. Practices of moneylenders at high interest rates, clearly oppressive the small-micro enterprises. But such a practice are still alive and has its own market share.

1. **CONCLUSION**

1. The Role of Microfinance Institutions running micro-enterprises, is dominated by cooperatives, and rural banks;

2. The main micro constraints in addition to capital, is acompetition, production techniques, raw materials, human resources and marketing;

3. MFIs as agents of development in a dilemma between the principle of prudence and the magnitude of the potential for SMEs;

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