



## Inclusive Finance in Cooperatives for Community Empowerment Through MSME Development in The City of Tarakan

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### Abstract

Inclusive finance has an important role in all eviating poverty and reducing income disparities. One of the development priorities in the Government Work Plan (RKP) is the development of Micro, Small and Medium Enterprises (MSMEs). This is based on the fact that MSME have contributed a lot to the national economy. The development of Micro, Small and Medium Enterprises (MSMEs) is very strategic. One form of government support in developing MSMEs in Tarakan City is MSME capital support through cooperatives. Can every community, especially MSME actors, get the same access to Cooperative services or not and what are the implementations and implications of the institutions for community empowerment through MSME development. This study aims to (1) determine the supporting and inhibiting factors of inclusive finance for empowering farming communities through the development of MSMEs in Cooperatives in Tarakan City (2) Knowing and analyzing the implementation of inclusive finance in empowering farming communities through the development of MSMEs in Cooperatives in Tarakan City. The data analysis method used is descriptive qualitative according to Miles and Huberman. The results of the study show that (1) Financial inclusion in cooperatives in Tarakan City is implemented through a program of providing productive capital. The implementation of this cooperative program has been quite successful, but the performance of the program has not run efficiently. The indicators of financial inclusion in question are indicators of availability of access, indicators of use, and indicators of quality. (2) The implications of financial inclusion show a positive movement in value where most of the recipients have felt the benefits and changes in economic conditions. For those who previously had a business, they felt that there was an increase in income, and for those who started a new business, they felt that there was an increase in economic capacity, although it was not too significant. So, the implications of inclusive finance for Cooperatives in Tarakan City have been able to create empowerment for the community, although not yet significantly.

**Keywords:** Inclusive Finance, Empowerment, Cooperatives

### A. Introduction

The national vision of inclusive finance is formulated to create a financial system that is accessible to all levels of society to encourage economic growth, reduce poverty, distribute income, and create financial system stability in Indonesia. Therefore, inclusive finance enables the poor to save and borrow, build their assets, invest in education and entrepreneurship, and in turn improve livelihoods.

The emergence of this national strategy is inseparable from the joint agreement of the countries that are members of the G-20 in Toronto, Canada, in 2010, which stated that the inequality in welfare between countries and between people was caused by the weak access of the people to conventional formal financial institutions. The Association of South East Asian Nation (ASEAN) has also integrated this financial inclusion program in 2015 through the Economic Blue Print. Likewise with world leaders at the United Nations, they have included a financial inclusion agenda to reduce poverty into the eight Millennium Development Goals (MDGs). At the end of 2015, efforts to reduce poverty through financial inclusion were also affirmed as the first goal of the Sustainable Development Goals or abbreviated as SDG2.

Inclusive finance has an important role in alleviating poverty and reducing income disparities. Khasnabis and Mavrotas say that the effective mobilization of domestic savings for private investment plays a key role in achieving economic growth and poverty reduction<sup>3</sup>. Thus, inclusive finance will greatly help marginalized and low-income groups to increase their income, accumulate wealth, manage risk, and make efforts to get out of poverty<sup>4</sup>.

In Indonesia, community groups that are prioritized to get access to finance include low-income people in this case MBR, MSME actors, migrant workers, disabilities, neglected children, the elderly, residents of disadvantaged areas as well as students and youth<sup>5</sup>. According to Global Findex data in 2017, the level of financial inclusion in Indonesia reached 48.9% or 12% higher than the results of the Global Findex three years earlier where in 2014, only about 36% of Indonesia's adult population had access to formal financial institutions<sup>6</sup>. One of the development priorities in the Government Work Plan (RKP) is the development of Micro, Small and Medium Enterprises (MSMEs). This is based on the fact that MSMEs have contributed a lot to the national economy. The development of Micro, Small and Medium Enterprises (MSMEs) is very strategic, because of its great potential in driving the economic activities of the community, and at the same time being the main source of income for the majority of the community in improving their welfare.

Tarakan City is one of the regions in North Kalimantan Province with a fairly large MSME growth of 9% in 2018 with a total of 4,451 MSME actors. The opportunity for developing MSMEs in Tarakan City, North Kalimantan Province is certainly a strategic one. The position of the North Kalimantan Region which is directly adjacent to Malaysia, makes MSMEs have to improve themselves in increasing their competitiveness, especially with the implementation of free trade in the ASEAN Economic Community (AEC) since 2015<sup>7</sup>. One of the sectors that support the economy of North Kalimantan Province, especially in Tarakan City, is the agricultural sector after the mining sector. Therefore, the empowerment of farming communities must be made on the agenda in the development of the agricultural sector, one of which is a corporate approach that connects farmers with agricultural businesses. In this case, the growth of MSMEs engaged in agriculture<sup>8</sup>.

One form of government support in developing MSMEs in Tarakan City is MSME capital support through cooperatives. This makes it interesting for researchers to see how the opportunities for every farming community who are members of MSMEs can get the same access to formal financial services, especially cooperatives. Can every community, especially MSME actors, get the same access to Cooperative services or not and what are the implementations and implications of these institutions for community empowerment through MSME development. Therefore, researchers are encouraged to conduct research on financial inclusion in one of the microfinance institutions, namely Cooperatives for empowering farming communities through the development of Micro, Small and Medium Enterprises in Tarakan City.

## **B. Methodology**

### *1. Research Design*

The research location was determined purposively in Tarakan City, North Kalimantan Province with the consideration that based on statistical data from North Kalimantan Province, Tarakan City is an area that has the highest number of MSMEs. This research will be conducted from May to December 2019.

### *2. Participants/Respondents/Population and Sample*

Determination of informants is done by snowball sampling method. The snowball informant retrieval technique implies an increasing number of informants as time goes by. The researcher departs from an informant who is considered to have more knowledge about the object of research to initiate data collection. The criteria for informants from MSMEs are MSMEs engaged in the agricultural sector and have collaborated with cooperatives for at least 1 year,

while informants from cooperatives are cooperatives that have served MSMEs engaged in the agricultural sector for at least 1 year.

### 3. *Technique of Data Collection*

The forms of data collection used are observation, interviews, documentation and triangulation

### 4. *Instruments*

The instrument used in this study was a questionnaire.

### 5. *Technique of Data Analysis*

The research method used is descriptive qualitative research method. This study uses the data analysis method by Miles and Huberman (1994) in Basrowi (2008)<sup>21</sup>, where the analysis technique is based on three components: data reduction (data reduction), data presentation (data display), and drawing and testing conclusions (drawing and testing). Verifying conclusions). Data reduction (data reduction). The data reduction step involves several stages. The first stage involves the step of editing, grouping, and summarizing the data. In the second stage, there searcher compiles codes and notes (memos) on various matters, including those relating to activities and processes so that there searcher can find themes, groups, and data patterns.

## C. **Findings and Discussion**

### 1. *Implementation of Inclusive Finance in Cooperatives in Tarakan City*

The financial inclusion program by providing business capital loans and assistance with working tools to MSME actors has on average been carried out since the beginning of the establishment of each active cooperative in Tarakan City. Program Since rolling well from 2013 to 2017, this program has been able to provide inclusive financial services to more than ten MSMEs in Tarakan City. Inclusive finance that is realized through this program is basically aimed at creating community empowerment through the development of micro-enterprises as cooperative philanthropic institutions in carrying out the capital lending program. In the aspect of capital utilization or distribution, so far there are two distribution patterns, namely the consumptive pattern and the productive distribution pattern. Through a productive distribution pattern, cooperative financial instruments will be able to open access to ownership for recipients of business capital assistance in the form of production facilities, either by providing financial access in the form of business capital loans or access to goods in the form of work equipment assistance. From here, cooperatives can actually play a role as financial inclusion instruments to support strategies and realize the national vision of financial inclusion. So, the productive pattern in Cooperatives in Tarakan City is manifested in the form of micro-business capital loans or work tools assistance for developing MSMEs.

The granting of business capital loans or work equipment assistance through this program, prospective recipients of assistance must submit applications and meet certain requirements, which include requirements for recipients of assistance and administrative requirements. However, one thing that is more emphasized for prospective recipients of capital assistance is having an entrepreneurial spirit. The entrepreneurial spirit can at least determine the business concept that you want to develop and be better able to manage the aid funds provided so that there is potential for the sustainability of the business they are undertaking which can eventually change the status of the beneficiary from a developing group to an advanced group.

Therefore, cooperatives are very concerned about the characteristics of prospective beneficiaries. The importance of paying attention to the potential and ability of potential beneficiaries in managing the assistance funds provided is also where the provision of capital to SMEs must also be carefully considered whether the person concerned has the ability to manage the funds provided, so that at some point he does not depend on others. If this can be managed properly with good supervision, then gradually, MSMEs that are given capital loans will continue to progress. After the requirements are met, the implementer of the capital grant program conducts a field survey related to the real conditions that exist in the prospective beneficiaries. The results of the survey obtained are then discussed in a meeting of the community economic program sector, then if it has been declared to meet

Requirements, then the granting of assistance will be approved and given to the prospective beneficiaries. After the business capital assistance or work equipment assistance has been provided, the next program implementer's agenda is to provide assistance. Assistance efforts are carried out by conducting monthly monitoring and visits as well as conducting evaluations to see the development of their business.

Conceptually, community empowerment through the development of MSMEs in Tarakan City is carried out with a system of empowering business actors themselves. To realize the empowerment program for business actors as the target of the activities to be achieved, it is necessary to determine the approach used in carrying out the program. The approach in question is the method used so that the people who are the target of the activity are open to accepting innovations that are intended so that they can be empowered.

## *2. Implications of Inclusive Finance for Community Empowerment Through MSME Development*

Inclusive finance run by cooperatives through productive capital provision programs has no small role in realizing the national vision of inclusive finance to create a financial system that is accessible to all levels of society. This is due to the characteristics of cooperatives that are able to reach elements of the poor and marginalized which have been difficult to reach by some financial institutions. Besides that, this cooperative is able to become a real scheme of the intensity of inclusive financial services that aims to overcome the situation of poverty in the community. The objective here is to make financial inclusion an effort to open up the exclusivity of financial institutions which generally only provide capital to parties who are considered bankable. Determine the intention to carry out financial inclusion, namely the willingness to include non-bankable parties who have been excluded or marginalized from financial institutions to be re-categorized as eligible parties and deserve various financial services. This capital provision program in an effort to make financial inclusion synergies within the program by maximizing the potential of available resources and then turning it into an inclusive financial instrument has been carried out quite well, although it has not yet achieved the expected expectations.

The expectation in question is the expectation that empowers the economically weak community, then ultimately increases their economic scale, then they will be able to reach access to financial services from financial institutions that are generally commercial in nature. In real terms, cooperatives can be allocated to overcome the problems of economic development in Indonesia, namely in the form of debt, unemployment, and poverty. This is due to the potential of cooperatives which are opportunities for the realization of prosperity as a manifestation of the national vision of inclusive finance.

The implications of cooperative financial inclusion in Tarakan City show a fairly positive movement of results. This relates to the narratives given to the recipients of capital assistance that most of them have felt the benefits and changes in economic conditions. For those who previously had a business, they felt that there was an increase in income, and for those who started a new business, they felt that there was an increase in their economic capacity, although it was not too significant. So, some recipients have also felt that there is a form of empowerment as a result of the program that has been received from the cooperative. This is based on a review of indicators empowerment where the community or individual is said to be empowered if a community or individual has one or more of the four variables as an indicator of empowerment. The variables in question are as follows: First, having the ability to meet the basic needs of life and a stable economy. Second, have the ability to adapt to environmental changes. Third, have the ability to face threats and attacks from outside. Fourth, have the ability to be creative and innovate in self-actualization.

From the explanation of the empowerment indicators, the program of providing capital by cooperatives in order to create financial inclusion for community empowerment through the development of micro-enterprises in Tarakan City has had positive implications by creating community empowerment, although not yet significantly. Positive implications are shown by the ability of the cooperative's capital provision program to create conditions for communities or individuals who are more empowered than the conditions they experienced before. As for the implications that have not been significant, it is shown through indicators of empowerment which have not been achieved as a whole in improving the condition of the community or individual. This, as mentioned above, is caused by various factors related to the implementation process, including the principles and approaches of community empowerment that have not been implemented properly, inadequate human resources from both parties, and the limited scope of community empowerment activities.

#### D. Conclusion

Financial inclusion in cooperatives in Tarakan City is implemented through a productive capital provision program. This program seeks to facilitate financial accessibility for MSMEs by providing business capital loans or work equipment assistance. The implementation of this cooperative program has been quite successful, but the performance of the program has not run as expected. The indicator of inclusive financial performance are indicators of financial availability, usage indicators, and quality indicators.

The implication of inclusive finance for community empowerment through the development of MSMEs in Tarakan City shows a positive value movement where most of the recipients have felt the benefits and changes in economic conditions. For those who previously had a business, they felt that there was an increase in income, and for those who started a new business, they felt that there was an increase in economic capacity, although it was not too significant. So, the implication of inclusive finance for Cooperatives in Tarakan City have been able to create empowerment for the community, although not yet significantly. This is based on a review of empowerment indicators where a community or individual is said to be empowered if a community or individual has one or more of our variables as indicators of empowerment, namely being able to meet the basic needs of life and a stable economy, able to adapt to environmental changes, able to face threats and attacks from outside, and be able to be creative and innovate in self-actualization.

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