

The Role of Microfinance Institutions on the Improvement of Community Social Welfare:

The case on impacted persons in the development areas of Jatigede reservoir in Sumedang District, West Java Indonesia

Sulaeman Rahman Nidarr, Helda Fitri Febrianty, Mokhamad Anwar, Layyinaturobbaniyah Layyinaturobbaniyah

Faculty of Economics and Business
Padjajaran University
Bandung, Indonesia
sulaeman.rahman@unpad.ac.id

Abstract—Microfinance institutions (MFIs) are financial entities with their activities are as fund-raising and lending agents on micro-businesses. This study aims to examine the quality of performance of MFIs that have provided microcredit services to micro-scale borrowers and to evaluate the conditions of those microbusinesses that have obtained the credit. The sample employed in this research is the impacted people (IP) of the development of the *Jatigede Dam Reservoir* project in Sumedang District West Java Indonesia which covers around 100 people spread in five sub-districts namely *Wado, Jatinunggal, Damaraja, Cisitu, and Jatigede* Subdistricts. The people are also regarded as the owner of microbusinesses in the areas. The data collection is done by filling the questionnaire directly by the people. The results of this study indicate that the performance quality of MFIs accessed by the people are in the *good* category, meanwhile the variable of *the affected people welfare* who have obtained micro-credit is in the category of *good enough*. These findings suggest that the presence of microfinance institutions is required especially in premises far from urban area and more importantly in the case of taking into account pointing out the sustainability of the people affected by the massive projects undertaken by Government.

Keywords—*microfinance; microcredit; MFIs performance; social welfare*

I. INTRODUCTION

The paradigm of economic development puts social welfare as an inseparable part with the attainment of economic indicators. In order to achieve sustainable development, the programs launched by the government have an ultimate goal to improve the welfare of their people. Therefore, economic development is said to succeed if the level of welfare of society is getting better.

The *Legatum Institute*, one of the welfare research institutes located in London has undertaken the surveys for 10 consecutive years and has revealed the findings that in the year of 2016 the welfare of Indonesia is at the position of number 61 out of 149 countries. This result is quite embarrassing considering that this is quite far behind some neighboring countries including Malaysia, which was ranked 38th. The

Assessment includes 9 aspects of economic quality, business environment, governance, education, health, safety & security, personal freedom, social capital, and natural environment.

In addition, Cigna Corporation has also conducted a welfare score survey. The survey was conducted in 13 countries covering China, Hong Kong, India, Indonesia, New Zealand, Singapore, South Korea, Spain, Taiwan, Thailand, Turkey, United Arab Emirates, and the United Kingdom in 2016. As a result, the health and welfare score of the Indonesian people declined in 2016 compared to the previous year where Indonesia managed to occupy the top three positions. From 13 countries, Indonesia is ranked 6th with 62.8 score. This score is assessed based on the 5 main pillars of physical, financial, work, family, and social. In its press release, it is mentioned that the decline in Indonesian score was caused by financial factors. The findings are in accordance with the initial survey conducted in 2015 where the financial factor is a major challenge for the people in Indonesia in enhancing their welfare.

The province of West Java itself, as quoted from the Central Bureau of Statistics Indonesia [1], is a province that entered the ranks of 10 provinces with the highest gap in Indonesia. This circumstance has been addressed by the government of Indonesia as well as the provincial government to diminish the gap in order the prosperity is not felt by all people in urban and rural areas. Thus, the problem is then how to tackle this welfare gap especially for rural residents so that they can also enjoy adequate welfare just like the society of the urban area.

Jatigede Reservoir is the second largest reservoir in Indonesia which is located in Sumedang District, West Java Province, Indonesia. It was started watered in 2015 and drowned 6,000 hectares of agricultural land. As a result, 10,924 people were affected by this development, such as loss of shelter and livelihood. This development has reaped a lot of controversy because affected persons (APs) feel they are not getting the adequate compensation that is worth it. However, the Government of Indonesia finally fulfilled all the requested by the affected persons.

Many affected persons (APs) lose their livelihood and must start to open new businesses. Lack of business capital has caused many of the APs to look for a financial institution that can help them finance their businesses without the need for warranties. Microfinance Institutions, whether formal or informal, should be able to accommodate the needs of the APs from the aspect of capital to the provision of training so that they have new skills assisting them in developing their business. Utilization of an optimal MFI will make the business processes grow and generate profits so that the APs can meet their needs including the need for education, health, decent shelter, or other indicators to mencapai life prosperous.

The affected persons which are then running a business are then categorized as microbusinesses. The Case of this Jatigede Reservoir is expected to be able to bring better prosperity especially to micro-businesses. Similar to any other businesses, the main obstacle faced by micro-businesses is the problem of financing so that the presence of microfinance institutions seem to be regarded as a supporting institution for them.

The interesting thing is then to investigate whether the presence of microfinance institutions that provides microcredit to microbusinesses in the area of Jatigede has any influence on the sustainability of their business and improve their welfare Reservoir area. Thus, this research is conducted with the aims to analyze and investigate the impact of micro-finance institutions (MFIs) presence on the welfare of the people affected by the Jatigede Reservoir project in Sumedang District, West Java Province of Indonesia.

This study has the advantage in terms of the real observation investigating the MFIs' presence on the welfare of the society which is regarded as microbusinesses as well as the affected persons (APs) of the development project of the Jatigede Reservoir located in Sumedang District, West Java Province, Indonesia. Thus, the primary data are employed to generate the results.

The results of the study reveal that the performance quality of MFIs accessed by the people are in the *good* category with the detail of each dimension as follows: the dimension of *tangibles* are *good enough*; the dimension of *reliability* which is divided into four indicators: *the disbursement* and *credit terms* are *very good*, while *the interest rate on credit* and *credit installment* are *good*; the dimension of *assurance*, *responsiveness*, and *empathy* are all in the *very good* category; On the other hand, the variable of *the impacted people welfare* who have obtained micro-credit is in the category of *good enough* with the category per indicator are *the level of income* is good, *the expenditure* is good, *the education access* is good, *the health access* is good, and *the decent shelter* is good enough.

II. LITERATURE REVIEW

A. Microfinance Institution and Microcredit

Microfinance Institutions (MFIs) have some meanings according to experts. James Roth states that MFIs are the availability of financial products targeting low-income communities [2]. MFIs or Microfinance are financing that can include many types of Farooqui financial services, including

microcredit, which is a type of loan that is given to borrowers of micro and small businesses (or other than medium and large scale enterprises) and tend to have never been in contact with the banking world [3].

Agustin defines Microfinance Institutions (MFIs) as the engaged in providing loans and financial services to people below poverty line at reasonable cost [4]. Beside it, they are also engaged in other activities like deposit payment services, leasing, remittance, and insurance services.

The universal understanding of microcredit based on the World Summit in Microcredit meeting in Washington on February 2-4, 1997 is a program or activity of providing small loans to lower middle class people for business income-raising activities, lending to take care of themselves and his family.

Meanwhile, The Canadian International Development Agency (CIDA) defines microfinance as, "the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions" [5].

B. The Service Quality Performance of Microfinance Institutions

Service Quality (SERVQUAL) is a multidimensional research instrument (i.e. questionnaire or measurement scale) designed to measure service quality by capturing respondents' expectations and perceptions along the five dimensions of service quality [6].

SERVQUAL models can be applied to a broader spectrum such as financial institutions, libraries, hotels, and so forth. This model consists of five dimensions consisting of *tangibles*, *reliability*, *assurance*, *responsiveness* and *empathy*. a) *tangibles* or direct evidence covering distance of location or other supporting facilities, b) *reliability* is the ability to provide promptly, accurately and satisfactorily promised services, c) *responsiveness* is the desire of the employee to assist the customer, d) *assurance* is guarantees that include knowledge, capability, courtesy and trustworthiness by the customer, e) *empathy* is ease of engagement, personal attention, and understanding of customer needs.

C. Social Welfare

Social welfare has a fairly broad understanding, but its core includes all kinds of actions taken by humans to achieve a better level of community life. According to the Indonesian Law no. 11/2009, Social Welfare is the condition of the fulfillment of the material, spiritual, and social needs of citizens in order to live properly and able to develop themselves, so that someone can carry out his/her social functions.

This study uses the condition of welfare or prosperous of the affected persons (APs) as follows:

- The level of income measured by the amount of income after getting the credit.
- The level of expenditure measured by the ability to meet daily needs.

- Access to education as measured by the ability to pay school fees, purchase uniforms, and other school supplies.
- Health access as measured by the ability to afford treatment and the ability to provide adequate nutrient intake.
- Residential decent as measured by the ability to repair the house and the ability to make the house as a comfortable residence.

D. Framework of the Study

For more than 30 years microfinance or microfinance institutions have achieved good achievements in poverty alleviation and improving the welfare of rural communities with limited access to capital resources, especially those that require them to provide guarantees on credit. With the principles upheld by the MFI, it does not only focus on the economic aspect, but the social aspect becomes one of the main concerns.

The popularity of microfinance itself can not be separated from the role of Muhammad Yunus in Bangladesh in developing an institution called Grameen Bank. Muhammad Yunus's success in developing microfinance seemed to make people aware that microfinance institutions are needed to reach the poor who were previously difficult to obtain capital facilities for their businesses [7]. A lot of research is done to reinforce the idea that MFIs can really alleviate poverty and improve welfare.

Based on the results of his research, Khan and Rahaman stated that there is a significant influence of microfinance activity in improving the standard of living not only in economic terms, but also in social terms [8]. This opinion is reinforced by the results of research by Naeem et al. which states that MFIs positively affect some welfare indicators of access to education for children, access to health and spending levels in the Quetta district of Pakistan [9].

People affected by Jatigede Reservoir construction serve as research subjects because they lost their livelihood due to the development. Therefore, many of the APs are trying to start new businesses to meet their daily needs. Unfortunately, there are still many of them who use their own capital. Those conditions lead the reluctance of people to open a business due to inhibited capital problems and lack of knowledge.

The condition of the new villages that are used as transitional villages for the APs makes them not yet have a microfinance institution that is able to accommodate their capital needs. Plus, people who are still not too familiar with each other make the lack of initiative to perform microfinance activities in the midst of AHs. So that the OTD who want to find credit to solve the problem of capital forced to look outside the construction area Jatigede. These conditions encourage researchers to find out how to picture the welfare condition of the APs after accessing credit in the MFI. The hope, the results of this study can attract the attention of many parties, especially the government of Sumedang District to empower the potentials of the APs. The existence of an MFI can certainly help the capital problem of APs so that they can

pioneer and develop their new business. The result of a growing business is certainly an increase in the welfare of the AHs that will also trigger economic growth in Sumedang Regency.

When viewed from the results of the survey carried out by Legatum Institute, Indonesia ranked 61 which is far below Malaysia. In addition, when viewed from the indicators of education, health, and per capita consumption levels issued by BPS [1], Sumedang Regency is the region in West Java the smallest growth from 2015 to 2016. The existence of access to MFIs around the Jatigede reservoir development area is considered able to increase social welfare indicators of the affected people of Jatigede Reservoir.

When viewed from the results of the survey by Legatum Institute, Indonesia ranked 61 which is far below Malaysia [10]. In addition, when viewed from the indicators of education, health, and per capita consumption levels issued by BPS [1].

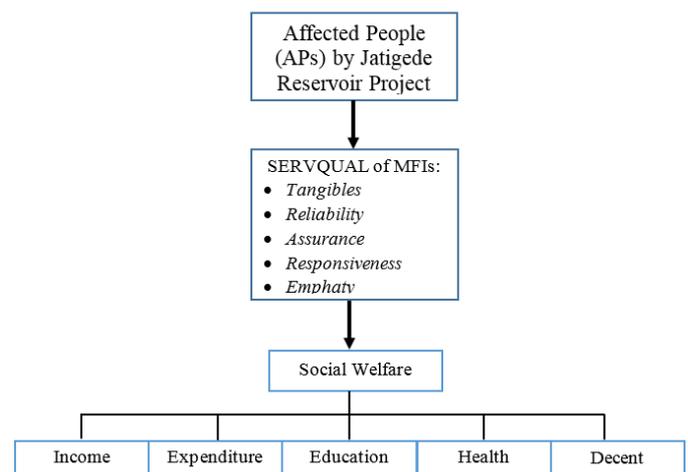


Fig. 1. Chart of thinking framework.

III. RESEARCH METHOD

The method used in this research is descriptive and quantitative. From the number of population of 10,924, the samples taken as many as 100 people identified by Slovin formula. The people are then asked to fill out the research questionnaire. The respondents selected are those with the following criteria: (1) being residents of one of the five sub-districts: Wado, Darmaraja, Jatinunggal, Cisitu, and Jatigede, (2) employing credit from formal or informal MFIs within a last year, and (3) have a business that has been running for at least the past year.

The Stages of analysis is conducted by describing the meaning of the score of the frequency and percentage obtained into the form of a sentence in order to obtain a conclusion. The raw data from this research is the respondent's answer which in this research is affected persons (APs) from Jatigede Reservoir for all questions in the research questionnaire. The data are grouped and tabulated and then given an explanation of the facts found, i.e the largest response frequency (mode) of the

MFI's performance quality and the welfare condition of the APs after accessing the MFIs. Grouping of each indicator contained in each variable will be calculated based on the weighting of the value obtained in accordance with the results obtained by the questionnaire. Then, it is calculated the range of category scores to determine the score category. Then, a continuum line is used to determine the category of score obtained from the recapitulation of respondent.

IV. RESULTS AND DISCUSSIONS

Based on the results of data processing on the questionnaires, APs mostly access the formal MFIs to obtain financing. The MFIs' products identified in the areas are the People's Business Loan (KUR) of Bank BRI (Bank Rakyat Indonesia) and the loans from the National Program for Community Empowerment (PNPM) Mandiri. The following is the recapitulation of the responses of respondents regarding the performance of MFIs they have accessed.

TABLE I. RECAPITULATION OF RESPONDENTS' RESPONSES ON MICRO-FINANCE INSTITUTIONS

Statement	Performance Quality of the MFI					Total
	5	4	3	2	1	
1	4	52	0	44	0	
2	34	65	0	1	0	
3	53	47	0	0	0	
4	33	54	0	13	0	
5	38	47	0	15	0	
6	43	52	0	5	0	
7	34	62	0	4	0	
8	34	61	0	5	0	
	269	388	0	43	0	
	(273X5)	(440X4)	(0X3)	(87X2)	(0X1)	
Total	1365	1760	0	174	0	3299

Source: Questionnaire data processed, 2018

In the variable of Micro-Finance Institution with number of question items as many is 8 it generates the score of 3299, hence its scores range can be determined as follows:

$$\text{Category Score Range} = \frac{(100 \times 8 \times 5) - (100 \times 8 \times 1)}{5}$$

$$\text{Category Score Range} = \frac{4000 - 800}{5}$$

$$\text{Category Score Range} = 640$$

The length of interval for each category is 640, then the range of categories is as follows:

- 800 – 1439 = not good
- 1440 – 2079 = poorly
- 2080 – 2719 = pretty good/good enough
- 2720 – 3359 = good
- 3360 – 4000 = very good

Here is a continuum line that shows the respondents' perceptions of MFIs viewed from the quality of their performance, especially in providing micro credit services:

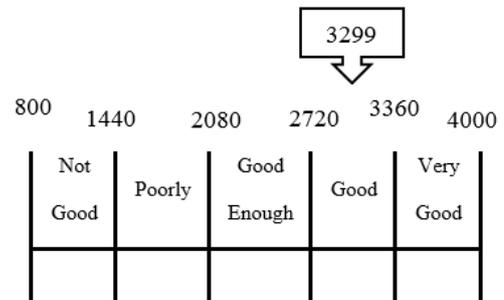


Fig. 2. Respondent's perceptions of MFIs view ed from the quality of their performance.

Based on the figure 2 categorization, it can be seen the perception of Affected Persons (APs) to Micro Finance Institutions. It is seen from the quality of its performance. Financial Institutions that have been accessed by APs have got a *good assessment* in terms of quality of performance. This indicates that the MFIs that have been accessed have performed their functions well. By scoring the same, the results obtained are tangibles or the distance of the transition village location to the MFI is in a *good enough* category; reliability or the length of time required for loan disbursement is in the *very good* category, the loan application requirements are in the *very good* category, interest expense is in a *good* category, and installment burden is in a *good* category; the assurance or reliability of officers to provide clear information related to micro credit is in the category of *very good*; the responsiveness of officers to process the filing of credit is in the category of very good; and empathy officers where the officers have been able to build familiarity with the APs and care about the business development of the APs are in the very good category. Many APs feel greatly helped by the microcredit channeled by the MFIs and they gradually build their business with the capital gained from the microcredit.

Furthermore, *social welfare responses* analysis is divided into five indicators, namely *income level, expenditure level, access to education, health access, and the last is decent dwelling*. The following table recapitulates the responses of respondents regarding the welfare of the APs after they access the MFIs:

TABLE II. RECAPITULATION OF RESPONDENTS' RESPONSES ON SOCIAL WELFARE

Statement	Social Welfare					Total
	5	4	3	2	1	
9	3	72	0	25	0	
10	5	63	0	32	0	
11	10	61	0	29	0	
12	7	67	0	26	0	
13	2	42	0	56	0	
	27	305	0	167	0	
	(27X5)	(305X4)	(0X3)	(167X2)	(0X1)	
Total	135	1220	0	334	336	1691

Source: Questionnaire data processed, 2018

In Social Welfare variable with the number of items in question as much as 5, it is obtained the score of 1801, then it can be determined the range of its score as follows.

$$\text{Category score range} = \frac{(100 \times 5 \times 5) - (100 \times 5 \times 1)}{5}$$

$$\text{Category score range} = \frac{2500 - 500}{5}$$

$$\text{Category score range} = 400$$

The interval length for each category is 400, then the range of categories is as follows:

- 500 – 899 = not good
- 900 – 1299 = poorly
- 1300 – 1699 = pretty good/good enough
- 1700 – 2099 = good
- 2100 – 3500 = very good

The following is a continuum line that shows respondents' perceptions of the social welfare of the APs after they have obtained credit from the MFIs for the past year.

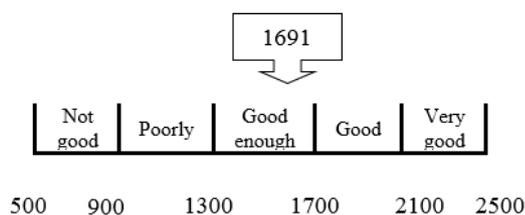


Fig. 3. Respondent's perception of the social welfare of the Aps.

Based on the results of figure 3 recapitulation, it can be seen that the well-being of APs who have accessed MFIs fall into the category of quite good. This is because many of the challenges beyond the capital must be faced by APs to run the business. Besides, the age of the new village transition which lasts over the two years also has caused the APs is still in the development stage. The existence of microcredit offered by MFIs helps a lot to reduce the burden of APs who want to try to make ends meet through the business being initiated. The ability of individual APs, geographical conditions, regulations, and others are to be considered for the welfare of APs in order to continue to increase in the future.

V. CONCLUSIONS AND RECOMMENDATIONS

Based on above explanations, it is concluded that:

- Out of Affected Persons (APs) by Jatigede Reservoir, most of them access the formal Microfinance Institutions (PT Bank BRI) in terms of Credit for Business People (KUR) and PNPM Mandiri (83%). Based on the results of the questionnaire, the results revealed that the quality of MFIs accessed is in the *good* category. Meanwhile, if described per dimension or indicator, then the dimensions of *tangibles* are in *good enough* category; dimension of reliability divided into four indicators that is the time of disbursement is in the

category of very good; credit terms are in the category of very good; credit interest is good; credit installment is in good category; assurance dimension is in the very good category; responsiveness is in the very good category; and empathy is in the very good category. This means the MFIs have performed their functions well as they should be in accordance with the MFI's principles.

- Viewed from the level of welfare of the APs who have accessed the MFI, the results of categorizing their welfare are in the category of good enough. If viewed based on each indicator, the results of revenue rate is in good category; spending rate is in good category; access to education is in the good category; health access is in good category; and decent shelter is in the category of good enough. This is due to many other factors outside the capital problem that hamper their business development such as skills and ability, geographic conditions, infrastructure in the village transition, and so on.

Based on those findings, it is suggested that the presence of microfinance institutions is required especially in premises far from urban area and more importantly in the case of taking into account pointing out the sustainability of the people affected by the massive projects undertaken by Government. For other researchers, it is advised to undertake the determinants of Loans Supply of MFIs generating some variables inside the MFIs themselves and some environmental variables.

REFERENCES

- [1] Badan Pusat Statistik, Social Welfare Statistics Sumedang City, BPS Kabupaten Sumedang, 2016.
- [2] J. Roth, The Limits of Micro Credit as a Rural Development Intervention. Master Dissertation, Manchester University, Unpublished 1997.
- [3] F. Farooqui, "Role of Micro Finance Institutions in Micro Insurance," Global Journal of Management and Business Studies, vol. 3, no. 5, pp. 535-540, 2013.
- [4] A.F. Agustin, "The Role of Microfinance Institution To Economic Performance of Jombang City," Jurnal Ekonomi Pembangunan, vol. 9 no. 2, pp. 225-241, 2011.
- [5] CIDA and Microfinance: A Poverty Reduction Approach, Policy Branch, October 2002
- [6] A. Parasuraman, L.L. Berry, and V.A. Zeithaml, "Refinement and Reassessment of the SERVQUAL scale," Journal of Retailing, vol. 67, no. 4, pp 57-67, 1991.
- [7] K. Esty, "Lesson from Muhammad Yunus and the Grameen Bank," OD PRACTITIONER, vol. 43, no. 1, pp. 24-28, 2011.
- [8] M.A. Khan, and M.A. Rahaman, Impact of Microfinance on Living Standards, Empowerment and Poverty Alleviation of Poor People: A Case Study on Microfinance in the Chittagong District of Bangladesh, 2007.
- [9] N. Abdul, K. Shadiullah, A. Qamar, and S.ul.H. Faqir, "The Social Welfare Impacts of Microfinance on Household at District Quetta, Pakistan," Interdisciplinary Journal of Contemporary Research in Business, vol. 5, no. 9, pp. 126-140, 2014.
- [10] Legatum Institute, The Legatum Prosperity Index. London: The Legatum Institute Foundation, 2016.