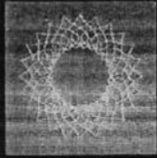
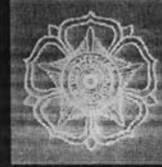


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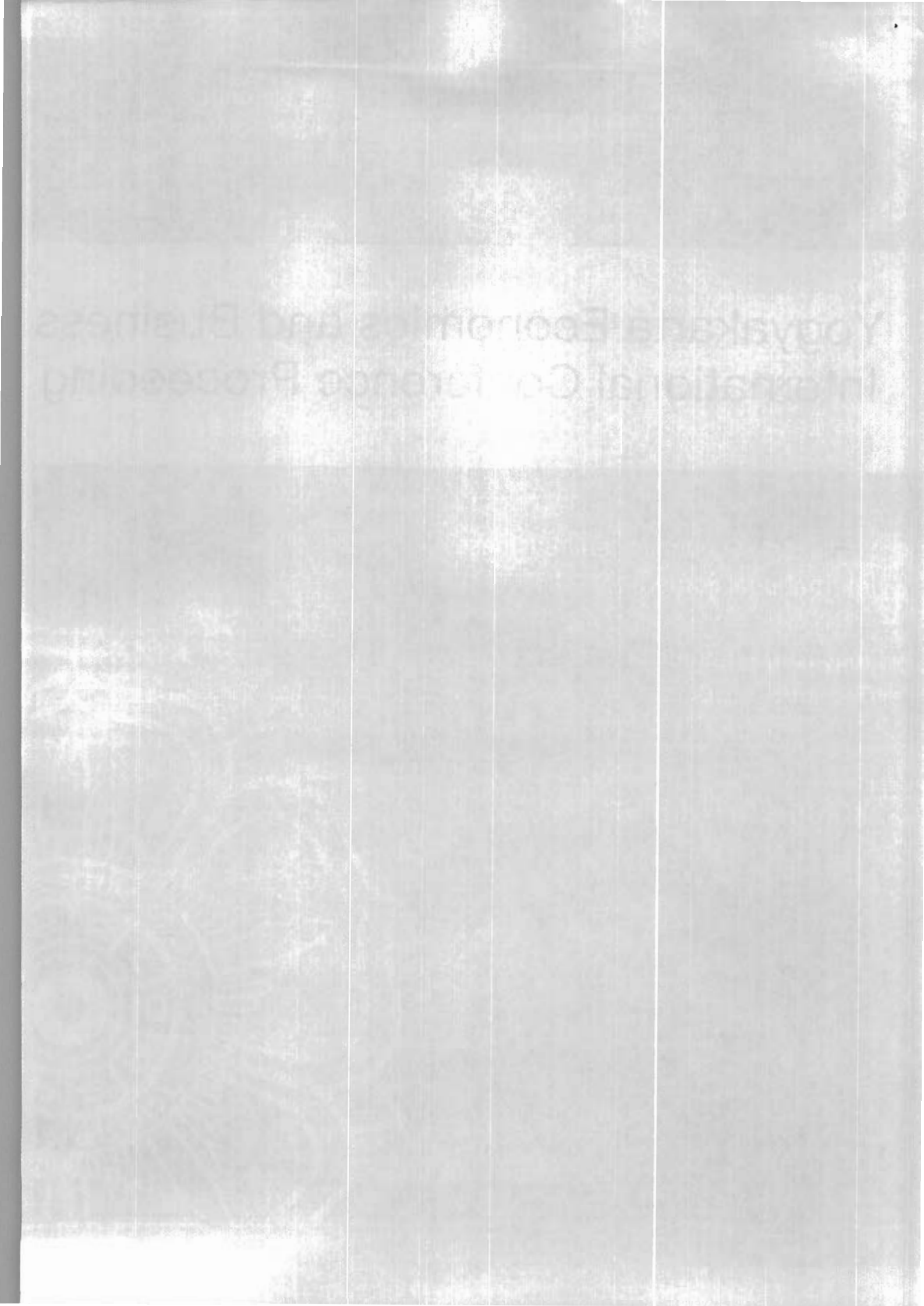
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Dear Presenters and Delegates,

On behalf the Publication Office of the Faculty of Economics and Business, Universitas Gadjah Mada, I would like to welcome you to the First Yogyakarta Economics and Business International Conference (YEBIC) 2013 held at Phoenix Hotel in Yogyakarta, which is Indonesia's most highly acclaimed cultural center.

We are thrilled to find out that there have been voluminous paper submissions coming to our desk for this conference. To be precise, 44 international academic papers were received from Indonesia, Japan, and the U.S. Due to space and time limits, we have carefully and thoroughly selected 20 papers to be presented during the conference, and three of them will be honored with the "Best Paper Awards."

Our international conference is very timely as the Indonesian government through the Directorate General of Higher Education has pushed for the internationalization of high-caliber research and teaching so as to cultivate globally-accredited academic institutions and enhance competitiveness at the ASEAN, Asian, and world levels.

We are very convinced that our presenters and delegates will gain many shared ideas and great experiences from this conference. Furthermore, our participants will enjoy additional insights from our plenary sessions' speakers, i.e., Prof. Jerome Donovan, Ph.D. of Swinburne University and Luky Alfirman, Ph.D. of the Indonesian Ministry of Finance. The plenary sessions per se will be moderated by Prof. Mudrajad Kuncoro, Ph.D. of Universitas Gadjah Mada, who is renowned as an acclaimed researcher and one of the most celebrated economists at his university.

Through this conference, we are committed to promoting and leveraging our forward-looking mission and academic culture of synthesizing global advancement with local wisdom. Once again, it is my great honor to welcome you to the First YEBIC 2013 in the great cultural city of Yogyakarta, Indonesia.

I look forward to meeting you soon.

Best wishes,

Eddy Junarsin, Ph.D.
Chair of the First YEBIC 2013

**Yogyakarta Economics and Business International Conference
Proceeding 2013
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**LOCAL GOVERNMENT POLICY STRATEGY OF NON-BANK MICROFINANCE INSTITUTIONS:
CASE STUDY IN BANDUNG REGENCY**

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ABSTRACT

This study aims to determine the policies required by Local Government of Bandung Regency to raise capital, market segments and minimize the risk of Non-Bank Microfinance Institutions. Object of this study is the Non-Bank Microfinance Institutions in Bandung District. Secondary data and documentation that related to variables were used to be analyzed in this qualitative research. The results showed that the local government needs to steer policy strategy on strengthening capital Non Bank Microfinance Institutions through linkage with Credit Unions and Savings and Loans Cooperative Enterprises and Ventura Capital. Local governments need to steer policies strategy direction at various preparations of Non Bank Microfinance Institutions towards eligibility for the five aspects of supervision of financial institutions by the Government, so that the implementation of financial institutions to be more prudent and professional.

Keywords : *non bank micro finance institution, policy, government*

INTRODUCTION

Micro Finance Institution is compatible with Micro, Small and Medium Enterprises, due to its characteristics that more flexible in serving small and micro businesses. Micro Finance flexibility services for micro and small businesses that are not bankable, while requiring immediate funding is very interested. Tasya Aspiranti research (2010, 2011, 2012), showed that the Micro and Small Enterprises and Micro Finance Institutions complement each other in the fulfillment and distribution of capital. A study of Baitul Mal wat Tamwil and Cooperatives as Micro Finance Institutions showed that there are many problems in meeting the needs of micro and small enterprises and the distribution of capital by Micro Finance Institution. Micro and Small Enterprises which is a market segment of Micro Finance Institution are very large in number. It is estimated that the number of SMEs as many as 51.3 million business units or 99.91 percent of all businesses in Indonesia with an investment of Rp.640.4 Trillion or 52.9 % of the total investment and loan growth in Small Medium Enterprise up to November 2010 reached 25.1 %, higher than the non Small Medium Enterprise that only 18.9%. (Reuters, 2011).

Tasya Aspiranti research (2011, 2012) in Bandung Regency about Baitul Mal wat Tamwil and Cooperatives as Micro Finance Institution showed that issues limited capital held by Non Bank Micro Finance Institution implies a limited range of market segments due to limited operational funds . In terms of risk, capital constraints implies also a greater risk if Non Bank Micro Finance Institution enlarge the range of market segments. The trade off for Non Bank Micro Finance Institution, they have to choose options minimizing risk or elevating market.

Especially for Cooperatives, capital constraints become prominent issues. Cooperative members have not been able to make the cooperative as an alternative source of funding for increase the business, due to the limitations of Cooperatives to be able to access external sources for enlarging their capital. In accordance with the principle of cooperation "for and by member", operations of capital turn among members only. This is still insufficient to meet the working capital needs. It is strongly correlated while in Bandung Regency, only about 50% of the 1,489 Cooperatives are still actively operating (Cooperatives, Trading Affair For Bandung Regency: February 4, 2010)

Research that has been conducted in 15 District of Bandung Regency (Tasya Aspiranti, 2012), examines how the implementation of Central Government policies (Ministry of Small Medium Enterprises and Cooperatives, Ministry of Finance and Bank Indonesia) and the Government of Bandung Regency is not conducive enough to support the microcredit market fairness, in terms of capital , risk and market share. From this research, the study of the various Government policies that have been done have not sufficiently conducive to support micro credit market fairness. The purpose of the research is want to know what kind of policies strategy to increase market segment, capital and minimize risk of Micro Finance Institution in Bandung Regency?

THEORETICAL FRAMEWORK

Tasya Aspiranti research (2010, 2011 , 2012) showed that mostly micro, small and medium enterprises in Bandung regency are not bankable, however did not make the Non-Bank Microfinance Institutions as an alternative source of capital . It is due to the limited capital that owned by Institution. Micro Finance Institution could not be able to meet the capital needs of Micro and Small Enterprises, especially in the industrial sector. The lending of Micro Finance Institution to micro and small businesses still very limited amount, due to limited access to other financial institution. In this study (2011, 2012) there are generate mappings that mostly Baitul Mal Wat Tamwil mostly have better capital compared with Cooperatives. Generally, better access owned by BMT so they are easier to connect the Bank as Financial Institutions. Baitul Mal Wat Tamwil has better access to a wider market than Cooperatives. Baitul Mal Wat Tamwil serves more debtors. They served debtors in wider community. Mostly Cooperatives as Non Bank Microfinance do not have the capacities to meet capital needs of member businesses, due to the restrictive membership in a particular community, and prioritize internal capital by members.

This study showed the asymmetry of information about the credit was happened in Bandung Regency as industrial center that contains many slum area of industry. This phenomenon is in line with Morduch (2000) which states that in the condition of borrowers who are poor and are in informal sectors, it will bring high risk potential and credit monitoring process to be difficult . Also in line with Stiglitz (1990), who states that in a poor area, the characteristics of the borrowers is difficult to be observed, the creditors who are outside the community to be difficult to access local information, so can be increase the cost of information.

This is exacerbated by the unavailability of good legal infrastructure. According to Armendariz de Aghion and Morduch (2005) the unavailability of collateral with an unfavorable legal environment is a hallmark characteristic of poor countries. Without collateral, the debtor only has little opportunities to borrow money, as they will not be able to pay on the income they would earn. Guarantees can be used as a reduction of risk and negotiation in order to obtain larger credits. The problem is that most people in developing countries do not have assets to be guaranteed. Mostly their assets have not been legally legitimated. Based on previous research, (Tasya Aspiranti (2010), rules and regulations is required for effective lending to small businesses . On the other hand strengthening property rights of varied asset collateral is usually not done by small enterprises, so they face the barrier to use their owned assets to be guaranteed. According to Besley (1994), Ghatak , Guinnane (1999) , Armendariz de Aghion and Morduch (2005) in the (Tuuli Ylinen , 2010), the unavailability of collateral causes inefficiency in the credit markets in poor countries. Poor legal infrastructure that causes this condition get become more difficult, the debtor pays even less likely to know that the legal system is not running properly so that the law did not force him to pay . Besley and Coate (1995) states that if there is no punishment from the creditors of the firm, the debtor could not be pressured to pay, the debtor tends not to pay when their income is insufficient.

Previous research (Tasya Aspiranti: 2011) showed that other problems about Non Bank Microfinance are about competition with Bank Micro Finance that can be tend to be unfairness market. Government policy about Non Bank Micro Finance of Bandung Regency, showed that existing policies are still not lead to protect, strengthening Non Bank Microfinance Institution. Cooperatives have the financial problems that require the

completion of proper management. Cooperatives have limited funding to their members and also have limited capital from members, so that funding is usually consumptive than productive. Actually, the mission of the Cooperative in accordance with Regulation is to help micro and small businesses improve their welfare through sources of fund. Mission have not accomplished yet because Cooperatives is not to be a major source of financing micro and small enterprise.

RESEARCH METHOD

Type of research to be conducted is qualitative research. This study seeks to analyze the various policies implemented by the central and regional governments about microfinance institutions through secondary data. In qualitative research the process of data collection and analysis of data conducted simultaneously. Simultaneous processes occur between data collection, data presentation, data reduction, and conclusions. Researchers then simplify and organize the data systematically by focusing the things that are important about the results and findings of the research. To support the research, the data required in this case is documents of policy as secondary data and interviewed results as primary data. Data in the form of various policy documents is necessary to know what the policies are issued by the Central Government and the Regional Government of Bandung Regency associated with efforts to strengthen the Non Bank Microfinance Institutions. Deeply interview with non bank microfinance institution and bank microfinance institution manager about the topics were conducted to collect primary data as supported data for the research.

RESULTS

Capital for cooperative activities can be obtained from two sources, namely equity and loan capital. The cooperative may use the loan capital with respect to the feasibility and sustainability of its business. To overcome the obstacles in financing primarily external sources of financing, it is necessary to increase and expansion of access to many other sources, with synergizing bank financial institutions including commercial banks, through a linkage program between commercial banks and the cooperative Financial Services Sharia or Islamic Financial Unit by mutual support, strengthen and benefit, both with conventional and Islamic patterns.

Based on literature survey on policy documents, Local Government can also seek funding alternatives for strengthening the Microfinance Institutions in the region including through various schemes provided by the State Minister for Cooperatives and Small and Medium Enterprises Republic of Indonesia. Some schemes provided by the Department for strengthening microfinance institutions include Joint Venture. Strengthening Cooperative capitalization is regulated through the State Minister of Cooperatives and Small and Medium Enterprises on Technical Guidelines for Strengthening Capital Cooperatives and Small and Medium Enterprises and Financial Institutions by Seed or Initial Capital Requirement and Credit Unions / Savings and Loans Cooperative Unit. Cooperative Financial institution that facilitates small and medium enterprises is necessary to support capital facilities and investments in them with many Increasing Capital program. Based on the documents, Local Government must implement the selection and nomination of grant recipients, and then decide which Cooperative as grant recipients, create and learn co-operation agreement between the Bank and the Cooperatives and then help to monitor the process of the implementation of the Program.

Government funds Cooperative through Venture Capital is a transfer of funds by Cooperative which have received funding to other Cooperatives that have not received yet. Other program is Linkage Program, aim to expand and elevate linkage of Small Medium Enterprises to credit institution, increasing working capital or investment through a linkage program between commercial banks and cooperatives. Cooperative as microfinance institutions must be able to serve SMEs in supporting the expansion of employment and poverty alleviation.

Based on interviewed with local government and non bank microfinance institution manager, for minimizing the risk of business, Local Government has to create supervision by coaching, monitoring, inspection, and create health assessment unit for Credit Unions and Savings and Loans Cooperatives. The aim that the management of Credit Unions and Unit Savings credit cooperatives performed well and controlled so that foster trust from stakeholders. Cooperatives is classified by their condition or circumstances otherwise healthy, less healthy, enough healthy, unhealthy and very unhealthy. Cooperatives health assessment will conduct the performance measures and the factors that affect the success, growth, development and sustainability of Cooperatives in the short and long term.

To maintain the health, the guideline is required. It is required many policies and management strategies for Cooperatives as institutional, and business organization. Standard Operating Procedure is required, so the operational guidelines that are more technical elaboration of the Standard Operating Management which contains rules and policies and procedures or systems of work and work procedures is needed, so the Internal Control System is required. Internal Control System is a policy and procedure that is run by the board and management of Cooperatives to secure wealth and provide reasonable assurance of the reliability of financial reporting information accountability, compliance with laws and regulations to support the effectiveness and efficiency operation.

Based on literature research, according to the Regulation of the Minister of Cooperative, Cooperatives must be audited by the Independent Auditor of public accountants who perform of Cooperatives examination of financial statements, in accordance with applicable regulations or appointed by the minister or the competent authority, to conduct financial audits or investigation of Cooperatives by the time if there are indications of irregularities.

Cooperative as financial institutions are able to manage funds from members, prospective members, the cooperative and or other members based on cooperative principles, maintain and protect their assets from fraud actions by parties who are not responsible, improving transparency and accountability in the management. Local Government has to encourage management to achieve its goals effectively and efficiently which increases the economic empowerment of members.

Law of Cooperative, by Minister of Cooperatives and SME, coaching the implementation of internal control to Cooperatives, carried out by seven rules. *First*, increase the effectiveness of the implementation of the tasks and functions of cooperatives. Members is the supreme authority in decisions such as the selection of administrators, supervisors, business development, amendments, Earning distribution, business development, branch opening, merger and amalgamation and dissolution of cooperatives. *Second*, improve the effectiveness of the duties and functions as the executive committee to run the organization and cooperative effort that must conform to the interests of members as owners and users of services of the Cooperative. *Third*, improving the effectiveness of supervisory duties and functions as an institution should be able to secure the supervision

and implementation of cooperative property by the board in accordance with the policies mandated by the meeting of members. *Fourth*, improve the effectiveness of the Internal Control System in every part of the structure and inter organizational Cooperatives and practices to ensure a fair, transparent and accountable to the members of the Cooperatives. *Fifth*, encourage the implementation of education members who planned and sustainable in improving the competence and commitment as prerequisites cooperative competitive advantage. *Sixth*, encourage cost efficiency of cooperative organizations in order to achieve the economic promotion of members. *Seventh*, encourage compliance with all guidelines and regulations with respect to savings and loans by Cooperatives.

CONCLUSION

Policy strategies to improve market segment, capital and minimize risk consists of: Strengthening of Capital of Non Bank Microfinance Institutions in Bandung Regency through Seed Capital By Local Government, Venture Capital Institutions and Linkage Program Owned by Pattern Conventional and Islamic financing, to increase the market share, capital.

Development of Microfinance Institutions Credit Unions and Savings and Loans Cooperative Unit that leads to professional management in accordance with cooperative principles, the principle of prudence and health, so as to increase confidence and provide maximum benefit to members and the surrounding community. Non Bank Microfinance Institution management professional manner in accordance with the principles of co-operatives, health care, it will minimize the occurrence of bankruptcy.

To increase Strengthening Non-Bank Microfinance Institutions in Bandung Regency through Seed Capital, Credit Unions / Savings and Loans Cooperative Unit or Venture Capital Institutions Owned and Linkage Program through a pattern of Conventional and Islamic Financing, Local Government needs to improve the competence of Human Resources at the Department of Cooperatives SMEs so always be able to access information from the central government on various schemes of the Ministry of Cooperatives and SMEs.

To encourage Non Bank Microfinance Institutions Development Credit Unions and Savings and Loans Cooperative Unit that leads to professional management in accordance with cooperative principles, the principle of prudence and health, Local Government needs to improve the competence of the Cooperative Human Resources SMEs through training and development.

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