

Credit Cooperatives Development Strategy through Partnership with Financial Institutions in Papua

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ABSTRACT: *This study aims to understand and construct partnership model between cooperatives and financial institutions in Papua Province. This research used a qualitative method design which utilizes phenomenological approach. The informants involved in this research are 8 informants who have a background as cooperatives management (caretakers) and employees of financial institutions. This result is the strategy of credit cooperative in Papua to arrange partnership with financial institution is based on mutual principle. Cooperative should improve its management to meet feasibility and bankability criteria, including (a) capital resource, legal aspect, and collateral which should be highly considered by the cooperative management and (b) human resource practice like good administrative affairs, good governance, and trust that must be the priorities to improve cooperative business. These matters can encourage financial institution to arrange partnership with cooperatives in Papua Province which then can make those cooperatives grow and develop.*

KEYWORDS: *strategy, partnership, credit cooperatives, financial institutions.*

I. INTRODUCTION

Micro Small and Medium Enterprises (MSME) in developing countries often becomes the greatest economic activities regarding with its number and ability to absorb workforce. The existing condition of Indonesia reflects that the contribution of MSME sectors on Gross Domestic Product is not quite high; yet, this sector is still a backbone for national economic stability. The role of MSME is expected to be able to improve the welfare. The role of MSME to support Indonesia economic can be seen from several aspects like: (1) its position as the main actor in economic activities on several sectors, (2) highest job vacancy offering, (3) important player in developing local economic and society empowerment, (4) creating new market offering and source of innovation, and (5) its contribution to maintain balance of trade through export activities (Cooperative Department, 2010). Not all of those important roles can remain sustain during the recent global crisis due to economic recovery process (Cooperative Department, 2010). This condition, as stated by Van Gils (2007) in Ates and Umit (2008), makes MSME becomes pivotal part to encourage economic growth.

MSMEs in Indonesia take on pivotal role to support Indonesia economic. The main driver of Indonesia economic basically is MSME sector. In addition, there are some main functions of MSME in driving Indonesia economic, like (1) MSME sector provides job vacancies for millions of people that cannot be absorbed by formal sector, (2) MSME sector contributes to Gross Domestic Product (GDP) enhancement, and (3) MSME sector as the source of Indonesia reserve fund through the export of various product coming from this sector. MSME has a power to survive and ability to improve its performance during economic crisis. It is due to the dependability of the MSME sector to adjust its product, develop with its own funding, paying loan with high interest, and not highly get involved in bureaucratic matters. Even though, MSME takes important role since the number of MSME reaching 99.19% from the total of 113,990 business units in Papua Province (Economic Census in 2006 – BPS Papua).

One of the MSME sectors which often supported by economic activities that the society was cooperative. The essence of cooperative is a value system. Cooperative does not only reflect this distinctiveness from other business forms but also firmly applies a set of value in economic activities (Baswir, 2003). Further, based on Djawahir (2012), the essence of cooperative consists of five elements: (1) cooperative as a constitutional medium to achieve nation's objective in improving society welfare, (2) cooperative as a medium to fulfill expectation, objectives, and needs of its members and society, both for economic and non-economic matters as well as physical and non-physical matters, (3) cooperative as a medium to encourage better life for its members and society, (4) cooperative as a learning center, and (5) cooperative as a medium for society empowerment to achieve better quality of the society.

One of the types of cooperative which has an important role to develop MSME is credit cooperatives (*Koperasi Simpan Pinjam/ KSP*). Law No. 17 2012 defines credit cooperative as one of cooperative institutions. Credit cooperative, based on the applicable law, is defined as a cooperative which runs its business for credit/loan service that serves its members. Savings and loan, as one form of Microfinance Institutions (MFIs) have become the main base of cooperative activities that make the cooperative continues to survive and thrive stand through time. Credit cooperative even becomes the main objective of micro and small businesses in finding financing sources that is "friendly" and easy to reach with unconditional convoluted with the principle of the kinship "seemed to belong to himself".

Wijono (2005) states that the development of Micro Finance Institutions (MFIs), including credit cooperatives, occurred along with the development of SMEs, and especially because there are many barriers to SMEs in accessing sources of financing from formal financial institutions. These obstacles arise because the formal financial institutions are generally treated the same as the SME Medium and Large Enterprises in any filing financing, which include adequacy of collateral, capital, and business feasibility (bankable). The most of the SMEs are not able to meet these requirements in addition to the need they are still on a small scale, which is seen by some actors of formal financial institutions burdensome operational costs.

Former research about cooperatives regarding the condition of human resource and partnership pattern. The growth and development of cooperative is based on the development of human resource. The partnership pattern between cooperatives and financial institution is only characterized by executing and channeling the funding for loan. This kind of partnership cannot enhance the development of cooperatives in Papua. The partnership pattern requires more than just loan executing and channeling to empower the existing cooperatives in Papua.

Low quality of human resource in cooperative institutions as well as ineffective partnership pattern between cooperatives and financial institutions provide an opportunity to re-explore the partnership strategy between cooperatives and financial institution. This research aims to develop the partnership pattern between credit cooperatives and financial institutions in Papua since Papua Province is a unique region. The research is expected to enrich knowledge in credit cooperative management particularly at this province. The research focuses on credit cooperatives (*Koperasi Simpan Pinjam/ KSP*) in Papua; though cooperatives have existed in Papua, the contribution to the society is not yet as expected. Cooperative in Papua is not yet able to provide good service to its members; in addition, the other problems are also about lack of funding and lack of qualified human resource which hinder cooperative to develop. This research is expected to be able to build a model of strategic partnership between credit cooperatives and non-*bankable* MSMEs.

This research will explore about the strategy of credit cooperatives in Papua to build partnership with financial institution. Problem formulation of this research is based on the description of the research background. This research is expected to provide contribution and enrichment from the aspect of theoretical perspective regarding with strategic partnership between credit cooperatives and financial institution. The theoretical contribution is expected to deliver a unique perspective about the effort to build strategic partnership between credit cooperatives and financial institution in Papua. From practical perspective, this result is expected to be the source of reference for credit cooperative practitioners in Papua Province to develop partnership pattern between cooperatives and financial institution for empowering society welfare. The result of this research further is also expected to be an important feedback for local government of Papua Province as well as the Papua House of Representative in their decision making related to partnership development model between cooperatives and financial institutions.

II. RESEACRH METHOD

This is a qualitative research which uses phenomenological approach. Qualitative research is a research procedure which produces some descriptions in the forms of written and verbal words and the observed behavior (Bogdan & Taylor, 1975). This research was conducted at Papua Province which considers that Papua province has good potential in economic development and business world, mainly in cooperatives. Papua, particularly in Jayapura and Nabire, is chosen as the research location since this region is the center of development at the eastern part of Indonesia. Papua society is unique as the heads of some ethnics in Papua have pertinent role as the members of the Papua society respect and obey their figure head. Further, Papua has several potentials and prospects as perceived from its natural resource potential. On the other hand, this region is facing several problems like the hindrance to access fund support through banking service and non-banking institution, market accessibility, and technology accessibility.

III. RESULTS

Partnership Requirements between Cooperatives and Financial Institution

This session presents that the result is regarding with the essence of partnership between credit cooperatives and financial institutions in Papua. The informants have some statements about partnership requirement between credit cooperatives and financial institutions. Based on the informant's comprehension, the meaning that can be formulated about partnership is as a pattern or a form of professional relationship among institutions that can be utilized as a medium to cooperate in empowering credit cooperatives, starting from administrative aspect to technical aspect. This kind of partnership alter the former perspective as credit cooperative was perceived as illegible institution for financial funding or loan for banking becomes more legible to attain loan from banking industry. This new perspective causes those credit cooperatives can arrange partnership with bank without significantly between variables.

The Meaning of Partnership between Cooperatives and Financial Institutions

This session describe how informants interpret the meaning of partnership between cooperatives and financial institution. The formulation is presented in the cooperative management in Papua by the financial institution. Therefore, the management needs better attention to provide empowerment for cooperative institution in Papua through supervision for better management. It should be noted that the condition of cooperative in Papua is different from other developed and developing provinces in Indonesia. Therefore, it needs particular policy to develop and empower credit cooperative institutions in Papua.

The Ability of Cooperative to arrange Partnership with Financial Institution

Informant can understanding on the obstacles to arrange partnership between cooperative and financial institution that often occur so far in Papua. The statements proposed by research informants indicate that in arranging partnership between cooperatives and financial institutions is based on the applicable requirements from the financial institution. The requirements should be met by cooperatives which want to attain loan from bank as the cooperatives must be feasible and bankable. On the other hand, the obstacle faced by cooperative to arrange partnership is on the lack of qualified human resource.

Emerging Themes

Based on the formulated meanings, the researcher draws some themes from the research problems as presented below (Table 3.1):

Table 3.1
Emerging Themes

No	Informant	Revealed Themes
1	Sarju, M. Said, Santoso, Supardi Andi Ashadi, and Nurani Cahya	Benefit, Capital, and Supervision
2	Sarju, Santoso, Andi Ashadi, and Ludia Kiding	Feasible and bankable (legible for loan)
3	Supardi, Santoso, Andi Ashadi, Nurani, Ludia Kiding, Irene Wersay	Cooperative Management
4	Sarju, M.Said, Supardi, Santoso, Andi Ashadi, Ludia Kiding, and Irene Wersay	Human Resource and Legal Aspect
5	Sarju, Ludia Kiding, Irene Wersay	Trust and Capacity Building
6	M.Said, Santoso, Supardi, Andi Ashadi, Ludia Kiding, Nurani Cahya, and Irene Wersay	Collateral and Administration

The discussion part aims to articulate the meanings of the data that have been found from the previous sessions. This part discusses: (a) the relevance of research result with the review of literature regarding the partnership pattern, (b) the contribution of research findings and its limitations for further research, (c) the description of research findings to enrich the existing references about partnership model between cooperatives and financial institutions in Papua Province in particular and in Indonesia, (d) the limitations of this research, and (e) description of the researcher's experience related to the partnership model that can encourage cooperative development in Papua.

The Relevance of Research Result and Reference on Partnership Process between Credit Cooperatives and Financial Institutions

This research aims to develop partnership model between cooperatives and financial institutions in Papua for improving cooperative in that province. The results are derived from perception and experience of credit cooperatives management in Papua particularly related to the process of partnership as reflected by the cooperative caretakers and bank management in Papua. In researcher's opinion, there was no research that explores partnership between cooperative and financial institution aimed to empower cooperative. Therefore, the aim of this research is to find a strategy on empowering credit cooperatives in Papua Province. This research does not aim to achieve generalization other than the specific experience from the involved informants. This research is directed to attain in-depth meanings and expression from the experience of the informants regarding with credit cooperative development effort as a way out to solve problems in partnership arrangement between cooperatives and financial institutions in Papua Province.

Partnership Process between Cooperatives Management and Financial Institution

As presented in previous session, the focus of this research is on the partnership process between cooperative management and financial institution in Papua. Partnership between cooperatives and financial institutions in Papua so far is limited only to the loan and funding facility from financial institution to cooperatives. The partnership process runs not yet as expected by both parties. Cooperatives management only knows that partnership is cooperation between cooperative and financial institution to attain loan, supervision, and training. However, this comprehension is not only perceived by cooperative management but also by the bank which provides the loan and funding. In fact, bank has a CSR (Corporate Social Responsibility) that can be utilized to empower surrounding society and economic institution. The understanding discrepancy happens due to financial institution mostly considers its position as an institution with strong awareness to avoid non-performing loan. This phenomenon becomes a burden to arrange a partnership between cooperative and financial institution. The problem faced by credit cooperative in Papua is due to lack of trust from financial institution, both in organizational and individual contexts. Therefore, it hinders the cooperatives to arrange partnership with financial institution. Based on this description, it leads to the following proposition:

Proposition 1: Capital, collateral, and legal aspect define the feasibility and bankability of cooperatives to access funding support from financial institution

Human Resource Quality

Based on the analysis result, human resource becomes one of the crucial problem faced by credit cooperatives in Papua Province to run good management practice. Human resource quality is expected to have high competence in developing product, market, and technology so that they are able to take a lead in the competition on local, national, and regional markets.

Hamel and Prahalad (1994) stated that an organization needs to consider its success in the future as a preparation to develop and arrange partnership for achieving new product (and service) advantages. Thus, market competitiveness strategy requires the top manager of an organization to adapt organization's core competence and its strategy as well as cooperation in managing available resources for business success. In short term, Prahalad and Hamel (1990) further explained that business' competitiveness is driven by performance/price attribution. However, a sustainable organization during global competition hardly needs to achieve differential advantage.

In long term perspective, competitiveness is driven by the ability to develop core competence. Core competence considers more on the product competitiveness which is strongly relevant with vision and mission of organization in short term.

Based on the description above, it comes to the following proposition:

Proposition 2: Administration, management, human resource, and trust possessed by a cooperative unit define the level of feasibility and bankability to access funding support from financial institution.

Credit Cooperatives Development Strategy through Partnership with Financial Institutions in Papua

Partnerships undertaken between Credit Unions with Financial Institutions, understood that the existing partnership has been merely to borrow money from financial institutions yet another form while training and technical assistance needed by managers of cooperatives in order to know and understand the procedure and conditions can assist in the partnership is the support of the cooperative banks in obtaining funding. Partnership as a form of empowerment for Cooperative is still regarded by the bank as cooperation or partnership form a very risky, because in the minds of the perpetrators of Financial Institutions that the partnership is to lend money easily. So to prepare for partnerships that can benefit both parties required the cooperative efforts in order to meet the requirements that apply to financial institutions.

The concept of empowerment of cooperative savings and loan, in this paper formed from the meaning of the recorded information from all information disclosed by informant in this study as well as some of the concepts raised by the experts associated with empowerment. Therefore this empowerment model is not the only model that can be chosen, but rather one of empowerment model that can be applied within the scope of Credit Unions. According to Kieffer (1981) in Suharto (2005), empowerment has three dimensions which include: competence populist, political and social abilities, and competencies participatory (Suharto, 1997; Pearson et al, 1994).

Based on the discussion about partnership strategy between cooperatives and financial institution, it leads to the following propositions:

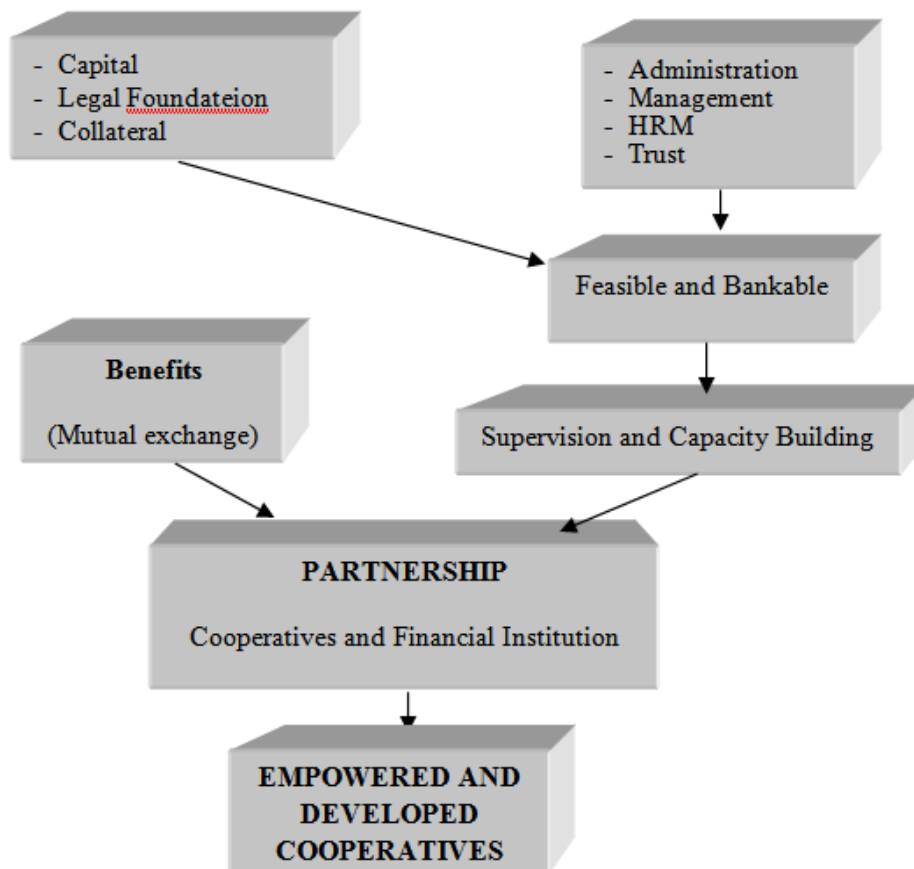
Proposition 3: The fulfillment of feasibility and bankability aspects require assistance and supervision from financial institution

Proposition 4: Mutual relationship principle between cooperative and financial institution is a foundation of partnership arrangement between both parties. The role of financial institution in this partnership arrangement is to assist and to supervise the partner cooperatives.

The Development of Partnership Model between Cooperatives and Financial Institutions in Papua Province

It should be considered that Papua has its uniqueness regarding with land ownership based on cultural norm. This norm becomes a problem for land ownership transfer as perceived from legal aspect when there is a business transaction. All of the cultural figures and their descendants have the ownership right for heritage or cultural land asset so that it is difficult to sell the property. This phenomenon still happens in nowadays so that land/ property transaction for collateral becomes significant hindrance to be considered as collateral for loan from financial institution. Legible for banking service (bankable) requirement seems to be a never ending problem for business practitioners, moreover for non-native Papua.

Figure 4.1
Partnership Model between Credit Cooperatives and Financial Institutions



Research Contribution

The theoretical contribution of this research is on the model of partnership process between cooperatives and financial institution as an effort to develop credit cooperative in Papua Province. There are two things found in this research regarding with the effort to develop cooperatives in Papua Province. First, it is human resource quality (since there is lack of qualified human resource, it needs to know how to improve the quality of human resource in Papua province. Second, based on the statements of the informants, it is expected that the partnership process does not only aim to attain loan but also capacity building and supervision from financial institution to cooperative management in improving human resource quality of the cooperative.

Research Implication

This research finds theoretical implication which deeply explains the partnership process between cooperatives and financial institutions. The theoretical implication reveals that during the partnership process there occur a problem about the requirements fulfilment. Partnership should be built based on mutual relationship. This model can be used to develop cooperative institution. Some partnership is also encouraged by human resource who manage the cooperative institution as they should attain greater core competence for greater benefits. Most of the cooperatives perceive that bankable for loan cooperative is merely due to the collateral matter. Yet, land collateral has a legal problem; also, the low quality of human resource and lack of trust from the financial institution to cooperative are the causes of why cooperative is not legible for loan and funding.

Further, from practical implication perspective, partnership arrangement is possible when there is a trust among the cooperating partners. Partnership enhances financial management ability of cooperative; while the financial limitation of the cooperative can be solved through the loan achieved from the financial institution. Based on the analysis result of the interview with informants, there are found several themes that become the factors which drive a successfulness of partnership process, including: feasibility, human resource quality of the cooperative, and trust. The research model found in this study is a development from the existing model rooted from prior reference and literature as well as deep exploration from the informant statements during field research.

IV. CONCLUSION

From the result, it is found that strategic partnership between cooperatives and financial institution is build based on trust. The cooperatives should also have an ability to well manage their financial matters and have sufficient capital. Cooperative development can be achieved through join training between cooperatives and financial institution. Further, it is also supported by government policy which regulates partnership development between cooperatives and financial institution.

1. Strategic partnership between cooperatives and financial institution can be developed through sufficient capital availability. The capital is supported by regular member's savings. The number of cooperative's asset defines the number of loan that can be achieved by the cooperative. The funding support should be well managed to generate sufficient profit and pay the debt installment punctually
2. Cooperative strategy to develop partnership in capital funding by improving human resource quality both for its caretakers and its members. Good quality of human resource from the caretaker's side can improve cooperative management which then enhance to cooperative's capital through profit coming from the business they manage. Retained profit will cooperative's capital.

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