

Marketing Communications Microfinance Institutions:

Micro Entrepreneurs for Economic Improvement Efforts
(Case Studies on Successful Credit Union)

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One of the *Millennium Development Goals* (MDGs) is the eradication poverty and hunger. And this is the first goal out of the eight MDGs. The growth of microfinance institutions is very helpful in increasing the income of low to the middle class. In addition, the micro finance institution acts with more family-oriented approach, where the paper work required for applying loan is not as complex as the documentation required for banks. So that microfinance institutions are encouraged to reach out to the every corner of the interior. It can be in the form of cooperatives, Economic Business Village - Savings and Loans, and Credit Union. Bank branches may not be able to reach rural areas because of the high cost economy, so microfinance institutions can be relied by the government to improve the welfare of rural and urban communities. But micro-lending, can be misused if not given with appropriate understanding and training. Therefore, microfinance institutions must have a fixed identity, vision and mission, in order not to get stuck in a consumptive rather than productive economy. This research was based on case study of Credit Union live experiences, which have been proven to be successful in improving the welfare of farmers and micro entrepreneurs. This study was also conducted using in-depth interviews to the management of the Credit Union at the head office in Jakarta.

Keywords: Microfinance Institutions, Credit Union, Marketing Communications, MDGs



Introduction

The first point of Millenium Development Goals is eradicate extreme poverty and hunger. The question came after the above statement, is how to eradicate poverty? Especially with current condition in Indonesia. Rupiah currency became weak again towards US Dollar for the past one month. Although it was admitted, other currencies are also devaluates. However, with the high inflation rates after oil price was increased few months ago, it brings Indonesia economic condition in the red alert.

If then the economic growth could not reach to the level being expected, it was a big question mark, the ability of big companies to maintain its employee and as well for recruitment new employee. Kompas Daily Newspaper dated August 21, 2013, stated how low big companies can recruit new employee. It became a red alert for people's welfare. A lot of people will be threatened unemployed or unstable job. Based on this situation, criminality for sure will be increased, due to huge gap in economic income. It would be tough for the government to reach a better living for its citizen. Moreover, to fight the poverty to support the MDG's target.

One of the solution to reduce the above threat and also striving to achieve MDG's target is to encourage entrepreneurship. If entrepreneurship being supported, it will grow and will increase a number of vacancies, even in scale of micro. Micro entrepreneurship has been proven sustainable toward global crisis. Based on Kompas daily newspaper, dated August 29, 2013, under the article of "Permodalan: Pro-keuangan Mikro", it is stated that micro, small, and medium enterprise could afford to face the crisis in 1998. It became the saviour of for those employee who has been dismissed by their office. The micro, small and medium enterprise may be small amount in turnover, but the number of these kinds of enterprises are extremely massive, as much as 55.2 millions enterprise (Kompas, August 30, 2013, page 17). It is believe could provide vacancies for at least 170 millions citizen in Indonesia. And this numbers are equivalent to 99.9% of total enterprises which exist in this country.

Therefore with such a promising number, it is undeniable that the prospect of micro, small and medium enterprise (UMKM = Usaha Mikro, Kecil dan Menengah) should be seriously supported by government through microfinance institutions. It would be a question why microfinance institutions should involve in this area? Because banking has its own pre-requisite to apply loans. And the documentations involve to apply for loans quite a number, and UMKM could easily spend millions of Rupiah just to get the proper documentation. And yet their turnover is averagely only Rp15 million per month. It means the needs of micro

institutions to support the capital for UMKM, desperately needed. Microfinance institutions are much more flexible towards UMKM, as they down to earth and getting closer to those entrepreneurs. Microfinance has the ability to control and monitor the growth of UMKM business. This is where the uniqueness and the strength of microfinance institution.

There are quite a number of microfinance which exist in Indonesia. And the new regulation of microfinance institutions was issued last January 2013, under UU No. 1/2013 about Lembaga Keuangan Mikro (Microfinance Institution). One of the form of microfinance institution is cooperation for saving and lending, such as Credit Union.

Why Credit Union?

Based from the book of Credit Union (CU): *Kendaraan Menuju Kemakmuran, Praktik Bisnis Sosial Model Indonesia* written by Munaldus and team, that the mission of Credit Union is: “The Credit Union provides vehicle; the members use it to arrive at their financial destination”. But literally, Credit Union were taken from Latin word ‘credere’ which means trust, and “union” or “unus” which means a group of people. Yogi Pusa at Kompasiana dated August 30, 2103, define that CU is a group of people who trust one another, under the same common-bond, agreed to make a saving their money in order to create work capital for other members for the purpose of productivity and welfare. And the head office of CU Worldwide, called World Council of Credit Unions (WOCCU), define as follows:” *..member-owned not-for-profit financial cooperatives that provide savings, credit and other financial services to their members. Credit Union membership is based on a common bond, a linkage shared by savers and borrowers who belong to a specific community, organization, religion or place of employment. Credit Unions pool their member’s savings deposits and shares to finance their own loan portfolios rather than they rely on outside capital. Members benefit from higher returns on savings, lower rates on loans and fewer fees on average.*”

In Indonesia, CU had a long history since 1970. The original ideas taken from two staffs of WOCCU, World Council of Credit Unions, in Wisconsin, USA, namely A.A. Bailey and Augustine R. Kang when they visited Indonesia in 1967. They connected with social-economy division of MAWI (Majelis Wali Gereja Indonesia). Then it is decided to appoint Romo Rev. Karl Albrecht, SJ as the founder of CU in Indoensia. Aside of his name, there are also several names who contributed to establish CU, such as Robby Tulus, AG. Lunadi, M.

Woeryadi and others. CU then being called as CUCO, stands for Credit Union Counselling Office. Despite of the law in Soeharto era, CU have managed to get through the storm and exist up till now.

Common bond

One of the uniqueness of CU is common bond among the members. It became the principal for this microfinance institution to establish. Either under the same workplace, association or community. The philosophy of under the same roof, was meant for the member to get to know each other, and having the same vision as a member in CU, and profit taking would be avoidable. Along the way, the common bonding was expanded, and it became possible to have several communities from different umbrellas. Munaldus (2012: 26) stated the most important thing to establish a CU is by common bonding between its members.

In order to maintain the credibility of CU, whoever wants to become a member, should follow certain regulation. For example, the basic training for new members. Borrowing money is not a matter of how to pay the installment, but also responsible to improve life quality. This is how Ms Romauly, the Secretary of General Manager CU at Induk Koperasi Kredit, mentioned the most important thing is the mind set of the members, which should be developed. Knowing how to handle such amount of money, spend it wisely, and ensure the usage of the money for increasing productivity. And the main thing, to avoid bad debt at the end. In every CU branches there are management who responsible toward the growth of the cooperatives. To ensure the growth, then management has to provide guidance to the member, whenever necessary. The management can be called as a financial counselor or financial advisor. There are three main pillars of CU, consist of:

I. Education

It is believe that the growth of each CU, will fully depends on how recent the members could get a proper education or training. Based on their experience, a lot of education or training, the number of assets of the member will increase. On the other hand, if the frequency for education or training is low, then the performance of the member will also declining.

Muhamad Yunus, from Bangladesh who received Nobel prize in 2006, mentioned that poverty is a failure caused by conceptual thinking, not on human ability. Therefore, CU focus on mind set of the members to ensure they won't be trapped in poverty. Friedrich Wilhelm Raiffeisen (30 March 1818 – 11 March 1888) who was a pioneered of rural credits, and considered as the founder of CU

in Germany, said that CU has to developed the mind set of *people helping people help themselves*, and stated that CU is *not for profit, not for charity, but for service*. It is clearly that the philosophy of only a person can help himself. Reduce dependency on others. Having a high self confidence level towards life. CU focusing the education towards financial literacy.

II. Self Funding

A lot of people does not believe that CU's main fund are from its members. Most of them thought that CU receive certain grant to be able to distribute loans to its members. Unfortunately they are wrong. It is based on the history and the experience in Germany, where collecting fund from rich people, did not succeed to improve welfare of the poverties. Therefore, the best way is to encourage the members to do some saving. And based on this saving, the loan are being distributed. The characteristic of individual is the basic principal for lending.

III. Solidarity

With a motto of "If you are in difficulties, I help you. When I am in difficulties, you help me". The mind frame would be clear to everybody among the members. Help each other. It is such a spirit of "gotong-royong" of Indonesian people, that have to live through in the mind of CU members. In sickness, in health, togetherness is being count. Even the planning for retirement fund and health program have been designed to ensure the members are well protected for their live and future.

Research Problems

It is interesting to review from the insight of communication science the typical way of marketing of Microfinance Institutions. Based on thesis of Osmaganic and Antighechian, "Word-of-Mouth as a Communication Marketing Tool for Micro Companies in Service Industry", a research which they conducted in Linkoping, stated that micro companies are mainly using word-of-mouth as their communication marketing tool. And it concluded that micro companies in service sector are not using a communication marketing theories due to their timely and money-consuming characteristics.

It is a question also, whether microfinance institutions also applicable using personal approach in marketing. Considering it is not a matter of "selling" a product, but much more in

social responsibility. Money lending is one thing, but the members have to make a saving as well. And the fund which being lend, should be monitored and controlled on how the progress of the business. Most of UMKM lack of management approach, to help them to resolve problems when they found difficulties in their business. For example, if one lend some money to make a plantation, and at the end, the harvest was not succeed. Then how to overcome this situation. In CU, there would be a counselling on how to handle sensitive issue. It may be also, because of the networking among worldwide, therefore if local Cu could not find the solution, the mangament would seek help from CU abroad. Who might face the same problems before. The solidarity was really shown in this case.

Judging on the UMKM lifestyle, where they hardly have the access of formal education, then microfinance institutions management have to work harder than conventional financial institution, such as banking. Because thousand of varieties business type, have to be learned by microfinance institution management, such as CU's management, to ensure problem solving in every angle of the business. That is why CU has to categorized the line of business, and ensure trainings are being conducted towards specific type of business for its members, such as for fisherman, farmers, and several others. At least it may reduce the risk of the businessand enhance the knowledge of the members.

Considering of the segmented market, recruitment new member would be a challenge. Eventhough it is said, CU is a non-profit organization, however to be exist in the market, the ability to maintain and getting new members would be the reputation of the cooperation. Basically word-of-mouth is being used to promote the successful stories to new members, which was said by Ms. Romauly Sitanggang at CU Head Office in Jakarta, Inkopdit. But based on the typical way of telling the successful stories, I would like to review it from the sense of communication theory, Narrative Paradigm.

Discussions

What is Narrative Paradigm?

It is one of communication paradigm which classified under group or public communication. This approach is founded on the principle that humans are naturally storytellers. The Narrative Paradigm is based on the research of Walter Fisher. It promotes the belief that humans are storytellers and tah values, emotions, and aesthetic consderations ground our beliefs and behaviors.Int other words, we are more persuaded by a good story than a good argument. (West and Turner, 2007: 373). Then using the theory of Narrative

Paradigm is much more appropriate to stimulate the experiences in recruiting new CU members. True stories and real experiences were much more interesting for the UMKM to understand the situation. Rather than forecasting or imaginary thoughts of how the future will be. Actual situation can be a live example for them to understand the benefit to become a CU member.

Fisher in West and Turner (2007: 375) stipulated five assumptions:

- Humans are naturally storytellers.
- Decisions about a story's worth are based on "good reasons".
- Good reasons are determined by history, biography, culture and character.
- Rationality is based on people's judgment of a story's consistency and truthfulness.
- We experience the world as filled with stories, and we must choose among them.

In the view of communication theory, to do the marketing for UMKM should be more specific in the situation. In order to convince new members on how CU works, a real example which has been proven success should be delivered to them. Seeing is believing. Unless actual things have happened, then people will trust and follow. Otherwise, they will claim that CU is talking nonsense. Marketing communication for microfinance institution should understand also the business strategy and its expansion. It would be tailor made, cannot be a mass production, such as marketing communications for corporation.

The strength in CU is down to earth to its members and potential members. Even to ensure all members could get the same information, few persons who have been trained, should convey the same message to the rest of the members. Equality is also the key here. Bear in mind, that each member is the marketer to obtain new member. They are the live experience and could easily tell others on how successful their business became, since they join CU.

The common bonding that describe in Introduction, is also the key of CU to have good communication. Based on the same background, it is much easier to convince others, as putting oneself in one's shoes. But the strong organization culture and good governance in CU, supported by complete manual of Standard Operation Procedure would also contribute in the successful communication in CU. From the vision, mission, financial report transparency which should be announced every end of the month, would convince members to study and see the progress of their CU. Focusing in human development is also one of the successful keys to maintain its 923 branches all over Indonesia.

Conclusion

Based on the strength that CU bears in order to maintain its members, there are also weakness arise on the regulation. If the implementation of being a member is too tight, than people might think twice to be a member of Credit Union. Considering a lot of microfinance institution has been so lenient towards their membership. As long as the credit being distributed, than some incentive will surely become a profit for the institution. Therefore, it is not critical whether a problem arise at the end, such as bad debt, as long as the collateral is as worth as the debt. In this case, value for money is much more being considered rather than idealistic situation. CU might face tight competition in the market, as microfinance institution grow faster than expected. The big banks, which is actually not included as microfinance institutions are also participating in obtaining the market. In this case, to distribute loans, not just a matter of marketing communication strategy only, but also the meaning of distribute the loan, should also be thought, too. Work from the heart is also a must, as the eyes and other body language will show how truthful the marketer convey one's narrative to other members. Theories about marketing is definitely not enough to cover the mission, as the background of the UMKM business should also be understood. Knowledge of related products should also be learned, especially when one is a financial counselor, in order to provide advises on growth of the business. Moreover to advise the potential solutions if problems arise.

In this case the style of narrative paradigm should assist the CU management and the rest of team members, as live experience is a very good example to be followed. The real result has been successful implement, improvement in life quality has been shown. Whoever wanted to be in the same situation should learned from CU, and involve as a team member. The books that have been written by Munaldi and friends open up the eyes of how microfinance institutions should act and how proper the organizations should be maintained in order to gain trust from the community.

Besides it is not just a matter of saving and lending money, but how financial literacy could lead to a successful life. And the mindset of each individual should be trained, educated and developed towards broad minded, enable to be innovative in business. By this way, each members who lend some fund, could get some motivation and ideas to avoid bad debt.

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