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**PROGRAM AND  
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## ABSTRACT

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### ANALYSIS OF POVERTY ALLEVIATION THROUGH REVOLVING FUND LOAN IN HEDAM VILLAGE OF JAYAPURA CITY

Meiske M.N. Sihombing<sup>1,3\*</sup>, F.X. Sugiyanto<sup>2</sup>, Firmansyah<sup>2</sup>, Sidik Budiono<sup>3</sup>

<sup>1</sup>PhD Student on Faculty of Economics and Bussiness, University of Diponegoro, Semarang-Indonesia

<sup>2</sup>Faculty of Economics and Bussiness, University of Diponegoro, Semarang-Indonesia

<sup>3</sup>Economics Faculty, University of Ottow Geissler Papua, Jayapura 99225, Papua-Indonesia  
\*meiskemurni@gmail.com

#### ABSTRACT

Poverty alleviation should be able to break the cycle of poverty. For the poor who want to start a business, capital becomes one of the main problems. One of the ways to overcome poor people's access to capital is through the provision of revolving fund loan for micro business in the National Program for Urban Community Empowerment (PNPM Mandiri Perkotaan). Through the programme, the poor improves their welfare by increasing their income.

Hedam Village in Heram District of Jayapura City is one of the places of the programme of revolving fund loan of PNPM Mandiri. The population dominates by residents with high school education level and earn money as traders, freight services and construction workers.

The purpose of this study was to find out whether the revolving fund loan of PNPM Mandiri can improve welfare through increasing the savings of the poor. The analysis method in this research is *Ordinary Least Square* (OLS) and data retrieval by questionnaire.

The result shows that both variables i.e business income and revolving fund loan have positively affect on variable saving at 5 percent. And 64.6 percent of saving variable can be explained by business income and revolving fund loan. Based on result, the revolving fund loan received by the community in Hedam Village has an effect on improving the welfare of the community through the increase of its savings. On the other hand, other studies may be undertake as this result also shows there may be other factors which affect in the model.

**Keywords:** revolving fund loan, PNPM Mandiri, Poverty

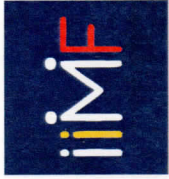


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The study aims to  
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**Keywords:** Profit



This certifies that

**Meiske M.N. Sihombing**

has successfully participated as **“Presenter”** on

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November 11<sup>th</sup>, 2017

**Meiske M.N. Sihombing,**

*PhD Student on Faculty of Economics and Bussiness, University of Diponegoro*

**F.X. Sugiyanto,**

*2 Faculty of Economics and Bussiness, University of Diponegoro*

and

**Firmansyah**

*Faculty of Economics and Bussiness, University of Diponegoro*

**Indonesia**

**Dear Meiske M.N. Sihombing, F.X. Sugiyanto and Firmansyah,**

We are pleased to inform you that based on the recommendation of the conference chair and committee, your abstract entitled:

**“Analysis of Poverty Alleviation Through Revolving Fund Loan in Hedam Village of Jayapura City”**

has been accepted for participation in The 1<sup>st</sup> Indonesia International Microfinance Forum 2017 (The 1<sup>st</sup> IIMF 2017) that is going to be held on November 18<sup>th</sup> – 19<sup>th</sup> 2017 at Military Academy, Magelang, Central Java, Indonesia.

The deadline of full paper submission is on November 15<sup>th</sup> 2017. Please note that all abstract and paper submitted has to be in English. Further information details can be obtained from <http://www.iimfconference.com/Themes-and-Guidelines/>.

The registration should be accompanied by the appropriate payment. The early bird registration can be made up to November 6<sup>th</sup> 2017 and regular registration can be made up to November 16<sup>th</sup> 2017.

Congratulations and thank you for participating in The 1<sup>st</sup> Indonesia International Microfinance Forum 2017 (The 1<sup>st</sup> IIMF 2017).

Respectfully,

**Firmansyah, Ph.D**

The 1<sup>st</sup> IIMF 2017 Conference Chair



# ANALYSIS OF POVERTY ALLEVIATION THROUGH REVOLVING LOAN IN HEDAM VILLAGE OF JAYAPURA CITY

Meiske M.N. Sihombing<sup>1,3</sup>, Firmansyah<sup>2</sup>, Sidik Budiono<sup>3</sup>

<sup>1</sup>PhD Student on Faculty of Economics and Business Diponegoro University, Semarang 50241 Indonesia, email : meiskemurni@gmail.com

<sup>2</sup>Faculty of Economics and Business, Diponegoro University, Semarang 50275 Indonesia

<sup>3</sup> Faculty of Economics, Ottow Geissler Papua University , Jayapura 99225 Indonesia

## **Abstract**

*Poverty alleviation should be able to break the cycle of poverty. For the poor who want to start a business, capital becomes one of the main problems. One of the ways to overcome poor people's access to capital is through the provision of revolving loan for micro business in the National Programme for Urban Community Empowerment (PNPM Mandiri Perkotaan). Through the programme, the poor improves their welfare by increasing their income.*

*Hedam Village in Heram District of Jayapura City is one of the places of the programme of revolving loan of PNPM Mandiri. The population dominates by residents with high school education level and earn money as traders, transportation services, construction workers and home industries.*

*The purpose of this study was to find out whether the revolving fund loan of PNPM Mandiri can improve welfare through increasing the savings of the poor. The analysis method in this research is Ordinary Least Square (OLS) and data retrieval by questionnaires.*

*The result shows that both variables business income and revolving fund loan have positively influence on variable saving. And 64.6 percent of saving can be explained by business income and revolving loan. Based on result, the revolving loan received by the community in Hedam Village has an effect on improving the welfare of the community through the increase of its savings. On the other hand, other studies may be undertake as this result also shows there may be other factors which determine in the model.*

**Key Words:** revolving loan, Urban PNPM Mandiri, Poverty

## **1. INTRODUCTION**

Many factors can causing poverty. It is very difficult to determine which factors are the real cause. Starting from output growth or productivity, net wage rate, income distribution, employment, investment rate, inflation, taxes, tranfers, allocation and quality of resources, technology, education level, physical condition of the region, work ethic, cultural, natural disasters until the war (Tambunan, 2001). Low of productivity levels cause low of income which effect the saving. This also has an influence on capital formation. Such conditions lead to a shortage of capital goods. For poor countries, both of low investment and low income cause the limited market area. Thus poverty will continue. According to Nurkse (1953) the circumstances which creates barriers to capital formation can lead to poverty. Thus, the developing countries which their low savings rates and investment incentives makes that impossible to establish high levels of capital.

The poverty alleviation policies in regional autonomy era make it possible to reduce poverty as spatial and temporal distances, it become closer to the poor. However, the limited coverage of formal Microfinance Institutions can be an obstacle for the poor. In Papua, especially in the main districts, it has few microfinance institutions compared to its size. 6 BPR, 5 Baitul Maal Wan Tanwil Yinbuk, 30 BRI Units, 501 cooperatives, 13 Credit Unions, 5 Perum Pegadaian and 24 Savings and Loans (Landiyanto, 2007 and Bank of Indonesia, 2014). The high cost of reaching the remote areas is one of the reasons for the formal institutions to reach remote areas. One strategy to subdue this limited access is by community development approach. One of them is the National Program for Urban Community Empowerment (Urban

PNPM Mandiri). The aim of this programme is to empower the community through three main activities namely infrastructure, social and economy (Tridaya). In economy activity, there is a revolving loan. This loan is micro loan to poor community in villages area who has self-supporting group (KSM)

In revolving loans, it is expected that the poor who have trouble in accessing formal financial services, shall earn it. Poor households can improve their economic conditions and provide lessons in loan management with such capital. This revolving loan is focused on poorly identified communities with at least 30 percent of the borrowers are women. The amount and interest rate of loan that appeals to the poor and applies the group's mutual responsibility system.

The Province of Papua is one of the provinces in Indonesia, whose percentage of the poor was 31.52 percent by 2014. It was higher than the average of Indonesia's poor which was 10.96 percent (BPS, 2015). Jayapura city with the percentage of poor population was 16.19 percent, has been implementing Urban PNPM Mandiri since 2008. The research location in Jayapura City is Hedam Village in Heram District. The village is close to the center of government and economy. 62, 45 percent of the 13,868 people were high school and junior high school level (Hedam Village, 2014). The livelihood of the population was dominated by traders, transportation services and home industries. This study was conducted to examine the effect of revolving loan program on poverty alleviation in urban areas. Are revolving loans and business income able to increase the savings of the poor?

## **2. LITERATURE REVIEW**

Central Bureau of Statistics (BPS) defines poverty with the standard of food and non food poverty line. The food poverty line is the value of consumption expenditure of food equivalent to 2100 calories per capita per day. Non-food poverty line is the amount of rupiahs to meet minimum non-food needs such as housing, health, education, transportation, clothing and other goods/services. While BKKBN uses household units to measure poverty which is characterized by the difficulty of fulfilling economy and non economy needs.

According to Kuncoro (2000), the cause of poverty due to the inequality of resources ownership. In addition, differences in access and capital as well as differences in the quality of human resources could affect productivity and wages. For poor countries, low investment together with low income levels cause the limited market area. Nurkse (1953) told that the circumstances which create barriers to the creation of capital formation could cause poverty. In developing countries, the low of savings rates and investment incentives make it impossible to establish high levels of capital. In line with the results of SMERU (2001) research, the causes of poverty were the failure of ownership especially land and capital, low productivity and the level of capital formation in the community.

The diversity of problems causes poverty alleviation policies needs to address the root of the problem. Robinson (2002) said that the poor are classified into 3 groups: a) the extreme poor, those who are unpaid and unproductive; b) the economically active working poor, the poor but have economic activity; c) the lower income, those who have a few of income. The approach for each group will vary. The first group needs direct approaches to food programs, transfers and job creation. For other groups using an indirect approaches such as micro loan development, creating a conducive climate for SMEs and synergies with large companies. Yet, the weaknesses during poverty alleviation in the past were the programs still centralistic, macro, less transformative, unsustainable and viewed the society as an object.

One of the efforts of poverty alleviation is by empowering the community. This approach will empower the community to recognize the problems in developing and helping themselves and their group to be better condition. One of them is the National Programme for Urban Community Empowerment (PNPM Mandiri Perkotaan) which was originally called the Urban Poverty Programme (P2KP).

The Urban Poverty Programme has three main activities namely infrastructure, social and economy (Tridaya). There is a revolving loans in the economy, which is micro-loans to the poor in certain urban villages. Sources of funds come from direct public funds, government expenditures (APBD), the private sector, NGO's and other sources. Each loan contains a risk of non-repayment, which covers by a reserve of loan. This reserve is formed every month according to the quality of the group of borrowers.

According to Bank Indonesia's regulation 13/26/PBI/2011, the risk reserve for collectibility is at least 0.5 percent of the loan balance for good borrowers, at least 10 percent for less smooth, 50 percent for the doubtful group and 100 percent for the bad.

The revolving loan decision is based on the analysis of character, condition, capacity, capital and collateral of borrowers. The allowed collateral in PNPM Mandiri is in the form of joint liability only. The groups must deposit savings, principal installments and loan services. The next loan is served if the borrowers have savings. The facilitation and monitoring process are undertaken by facilitators, experts and the community. According to Boediono (2005), to detect the impact of loans consist of 3 levels with such variables : household level (increase in household income, income diversification), business level (increase of business income, fixed assets, labor) and individual level (increase of savings individual, future planning and self-esteem).

### 3. METHODS

The research was conducted in Hedam Village of Heram District in Jayapura City. Data were collected by questionnaires on 67 respondents from 205 population. These respondents come from 44 community self-help groups in 2012-2014.

Economy activities of participants in this study consists of three business groups namely :

**Table 1. Economy Activities of The Population**

Trade Business (105 households)	Services Business (70 households)	Industries Business (30 households)
- Grocery	- Transportation	- Food
- Fruit	- Tailor	- Crafts
- Staples	- Workshop	
- Miscellaneous business	- Food cafes	
	- Internet cafes	
	- Party equipment rental service	
	- Key experts	
	- Photocopy	

Source : primary datas

Those 67 respondents was selected by Stratified Random Sampling. The samples with the following business details in Table 2 :

**Table 2. The Economy Activities of Respondents**

	Amount of Respondents
Trade	35 households
Service	22 households
Industry	10 households

The results analyzed by Ordinary Least Square method on model below :

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 Z_i + e_i$$

$Y_i$  =saving of respondent -i;  $X_i$ = revolving loan of respondent -i;  $Z_i$ = business income of respondent -i

The definition of variables used in the study is described in Table 3 below :

**Table 3. Operational Definition of Variables**

Revolving loan	Business Income	Saving
Revolving Loans used for extensification activities as well as the intensification of productive enterprises, which are owned by household as members of community self-help groups.	Revenues earned from business results. Retrieved from total sales for a month minus total cost for a month.	The amount of deposits that are routinely performed by the participants and counted for a month.

## 4. DISCUSSION

### 4.1. Description Analysis of Respondents

In general, the description of respondents can be grouped in 11 aspects, namely:

**Table 4. Description Analysis of Respondents**

Aspect	Result
Type of work	Recipients of revolving loans stated that the business that is run as main job (88.06 percent) and the rest is odd jobs.
Type of business	At most in trading business (52.24 percent), service business (32.84 percent) and home industry (14.92 percent).
Gender	Female respondents (58.21 percent), especially in service business and home industry. While the trade is mostly run by men (60 percent).
Education level	Dominated by primary school graduates (43.28 percent), especially on trading business. Junior high school graduates (40.30 percent), high school graduates (11.94 percent) and college (4.47 percent).
Age	Dominated by respondents aged between 40-49 years (46.27 percent) and age 50-59 years (35.82 percent).
Number of workers	Dominated by business with the number of workers 1 person (50.75 percent), of 2-3 people (44.78 percent).
Business length	Dominated by 6-7 years (47.76 percent), especially on trading and services business
Number of dependents	Dominated by family dependents of 2-3 people (65.67 percent)
Capital	Classified as a small business because respondents with capital Rp. 300.000,-Rp. 900.000 (37.31 percent) and between Rp. 1,000,000-Rp. 2,000,000 (34.33 percent). Between Rp 2.000.000-Rp. 4.000.000 (20 percent) and the rest above Rp. 4000.000 (7.46 percent)
Business income	At least Rp. 300.000 up to above Rp. 800.000/month.
Saving	Ranging from Rp. 20,000 up to Rp. 100.000 (after following the program)

Source : primary data, 2014

Based on Table 4 that the implementation of revolving loan in Hedam Village is focus on small business trade, with more female recipients. The education level of the respondents was quite low. It could be a barrier in the management of revolving loans. However, in the PNPM Mandiri program, there is a support conducted by facilitators, especially in managing loans to have savings.

### 4.2. Regression Analysis

According to Table 5, the result shows that revolving loan and income significantly have a positive influence on saving (at  $\alpha = 0,05$ ). This indicates that an increase of Rp. 1,000 on the revolving loan can increase the savings of Rp. 0.001887. And an increase of Rp. 1,000 in income, the saving will increase of Rp 0.3112. Yet, there are other variables may determine the saving because just 64,6 percent saving can be explain by revolving loan and business income.

**Table 5. Estimation Result of OLS**

Model	Coefficients of Reg	Std Error	t	Sig
1 (Constant)	22.552	2.896	7.787	.000
X	1.887E-006	.000	2.546	.013
Z	3.112E-005	.000	8.030	.000
R <sup>2</sup>	= 0.646			
F <sub>hitung</sub>	= 58.440			
Sig F	= 0.000			

## 5. CONCLUSION

The revolving loan in Hedam Village provides to poor households that have small businesses. And the majority of the recipients are women. Beside that most of households must carry 2-3 member of their family. In addition, the education level of the poor mostly primary and secondary school. Therefore, by the assistance of PNPM Mandiri facilitators, such revolving loans can influence the savings of the poor. It may



be the good sign for reducing the poverty. Although there may needs more researches to get others variables due to the complexity of poverty problems.

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# UNIVERSITAS OTTOW GEISLER PAPUA

Jln. Perkutut Kotaraja, Jayapura – Papua, Indonesia

☎ (0967) 581562; Fax: (0967) 581133 – 584642; E-mail: [uogpapua\\_birohumas@ymail.com](mailto:uogpapua_birohumas@ymail.com)

## SURAT KETERANGAN No. 08/Perpust.UOGP/IV/2023

Yang bertanda-tangan di bawah ini Kepala Pusat Perpustakaan Universitas Ottow Geissler Papua, menerangkan bahwa hasil penelitian kolaborasi Universitas Diponegoro yang telah dilakukan oleh **Meiske M.N. Sihombing, S.E. M.E.** (Peneliti) Dosen Program Studi Ekonomi Pembangunan Fakultas Ekonomi dan Bisnis Universitas Ottow Geissler Papua dengan judul : **“Analysis of Poverty Alleviation Through Revolving Loan in Hedam Village of Jayapura City”**, benar-benar telah tersimpan pada Pusat Perpustakaan Universitas Ottow Geissler Papua sebagai referensi yang dapat dipergunakan oleh Mahasiswa, Dosen dan seluruh lapisan masyarakat yang membutuhkan.

Demikian surat keterangan ini dibuat untuk dipergunakan sebagaimana mestinya.

Jayapura, 12 April 2023

Pusat Perpustakaan Universitas Ottow Geissler Papua  
Kepala



*[Handwritten Signature]*  
**Dr. Philipus Ramandei, S.E., M.Si., Akt.CA**  
Wakil Rektor Bidang Akademik