STUDY OF INSTITUTION MODEL OF MICRO FINANCE TO RAISE CHILDREN OPPORTUNITIES OF POOR FAMILIES FOR HAVING HIGHER EDUCATION: GETTING HIGHER EDUCATION AND THE LOCAL INSTITUTIONS IN MALANG REGENCY

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Abstract

The aim of this research is for making micro financial institution that is healthy and sustainable with basic of local institution. Moreover, this research encourages the children of poor families to continue study to higher education. This research is performed within 3 years in Malang Regency. In this second year terms, the main aim of this research are: To explore more about the relation of the determinant of variables which influence the successful of poor households children to pursue study in higher education level with the existing of local economic institutions. Methodology applied in this research mainly qualitative approach. This study found that there are three main factors influencing poor households that are success to educate their children in higher education. First, the support or motivation from their children self. Second, the situation that makes children have to go to higher education. Third, the supports from their parents and family. There are three local social-economy institutions that are exist, namely: pengajian tahlil, arisan, and cooperation. The highest intensity that is followed by people sampled is pengajian tahlil and arisan. Local economy institutions that can help financial problem of poor households are arisan and brothers or family. Cooperation gets less attention from people because there is any doubtful of the people’s ability to pay installment regularly.

Keywords: Micro finance institution, Poverty, Higher education

1. INTRODUCTION

The phenomenon of poverty and events of school dropouts in East Java showed an alarming figure. In 1995, before the economic crisis, the poverty rate in East Java is the highest compared with the provinces of West Java, Yogyakarta and Bali provinces. The percentage of poor people in East Java reached 21.85% while in West Java amounted to 20.87%, and in the province of Yogyakarta at 19.18% and in the province of Bali amounted to 16.60% (BPS). Dropout rate in East Java during the year is still higher than the national rate, reaching 20.80% to 18.19% for junior and senior high school for tingat (BPS East Java).

To overcome the problem of poverty and vertical mobility barriers for young people from underprivileged families is not just the responsibility of government. All parties, including the universities are appropriately participate to develop power-reasoning, labor and funds for program expansion of higher education opportunities for children disadvantaged families through the development of microfinance institutions were able to empower business capacity of mothers to ensure the education of their children to an adequate level as stock entering employment.

2. THEORITICAL REVIEW

2.1. Institutions of Microfinance

Microfinance Institutions have two concepts, namely micro and credit. Credit has the meaning of the provision of financial services or the financing of a project. Micro, has several meanings and interpretations. Some experts interpret as a micro-small scale service providers. Micro credit service providers generally have a small capacity in many aspects, including the financial and organizational capacity is relatively small compared to formal banking institutions. Microfinance institutions (MFIs) are generally able to carry out its activity was with the support of donors because of the limited ability of capital owned. Some others interpret as a measure of micro financial services can be provided. This implies that funds / credit
provided for each project / business are limited. However, some parties are interpreting micro credit services to the poor who really need venture capital. In such cases the poor are assisted by MFIs are those that its capacity is also small. Each interpretation above contains several aspects of microfinance. The interpretation relates to the size of the service agencies or credit services that can be provided and credits associated with the recipient. Each of these elements contains the characteristics of a micro or small size attribute.

Microcredit institutions are reviewed its position in the financial system is as intermediary (ECD, 2000) between the bank (formal sector) with the informal sectors. Called Micro-finance for customers operating on a small scale (although a majority of the population).

Except for the provision of financial services to low-income people, including those on their own, in his capacity as a financial intermediary sector, MFIs can also become a social intermiediation (Ledgerwood, 2000) as in group formation, the development of self-confidence and training in management skills and financial among the members in the group, as well as participate in humanitarian activities such as the occurrence of natural disaster and its aftermath (Nagarajan, 1998), so that the MFI is a vehicle for development.

2.2. Household Sector Investment and Value of Children

The formation of the household sector investment or commonly known as Household Investment is an economic and social issue has been studied in different countries, both theoretically and empirically.

Stephanie et.al (2004) suggests that the variation or diversity portfolio allocations on an investment instrument can be explained by a traditional utility maximizing framework. Heterogeneity in the portfolio due to the heterogeneity of preferences, circumstance or a combination of both. Environmental heterogeneity background includes non-diversifiable risk, demographics, information asymmetries and transaction cost. Non diversifiable background risk is income and human capital, retirement investments and real estate owned. Transaction costs include taxes and variable costs associated with trading of investment instruments.

Micro-economic population, namely from the point of view of the parents or of the child’s family unit has been regarded as a consumer durable or luxury goods, which can give satisfaction in a long time that. Everyone (in this case the parents), has had limited resources and make every effort to obtain satisfaction by selecting the desired number of children. With the approach between the various items, including the selection of the desired number of children. With this approach difficult to explain why rising incomes actually cause a decrease in fertility. One answer is that by increasing the income of the parents, where the parents want their children more educated, so they opt for quality rather than quantity of children (Jones 1990).

The main premise of the theory of demographic transition is that in line with the holding of social development, the economy, the desire to have children is a process more economic than biological processes (Robinson).

The economic theory of fertility expressed by some experts explain that the factors that determine the desired number of births of children per family among them is how many births can be maintained live (survive). The main pressure is the way it behaves in the manner intended when people carry out such calculations depend on a balance between the satisfaction or utility (utility) obtained from the birth of a child added costs, both financial and psychological form.

3. RESEARCH METHODOLOGY

This study will be conducted over three years in the district of Malang regency. Malang district selection is the consideration that the number of poor villages in the district of Malang is still quite large, each about 15% (BPS).

In the second year, the concern of the study is poor households who are success in financing of their children in higher education. The sample is taken by purposive sampling method (with criteria as follows: poor households that are having children in higher education. The respondent of the study is the head of family of poor household sampled).

4. RESULTS AND DISCUSSION

According to the result of survey conducted to 8 respondents on poor households, it provides general description about the existing condition of each respondent as follows:
4.1. Financial Burden and The Sources of Financing

The financial burden that is borne by the poor households in funding their children for college varies considerably. Mostly, the tuition fee is around Rp. 2,000,000, - and Rp. 0, - up to Rp. 499,999, - per semester (it is 37% of the total 8 respondents or 3 children respectively). Based on the survey, there is one of the poor household’s children that reach Rp. 5,000,000, - per semester. That total amount of tuition fee is definitely quite expensive for them. For the children which cost Rp. 0, - are those who get scholarship namely bidikmisi from the government. Furthermore, the last is the children with the tuition fee in the range of Rp. 500,000, - up to Rp. 999,999, - per semester (25% of total 8 respondents or 2 children).

The scholarship from the government (Bidikmisi scholarship) is extremely essential and helpful in financing the children to study in college. However, for those who do not get a scholarship, the parents themselves who must bear the cost of study or on the other hand, their own children who independently finance the cost of their study. Based on survey, at least 25% of poor household’s children receives scholarship from government (Bidikmisi scholarship). While the rest of them do not receive any scholarship by roughly 75%.

4.2. The Relation of Factors that Influence the Successful of Poor Households in Effort to Finance Their Children in Higher Education

Based on survey, there are three factors that influence or push poor households having success in effor to finance their children in higher education. First, the motivation from children self (argumentation of six respondents or 75% of eight respondents). Most of poor households’ children have powerful motivation to continue their study in higher education. There are many reasons to support this, namely: (1) the hope to change the destination in better way, (2) the desire to help their parents to solve economic issue, (3) the desire to get a better good job. Second, the motivation that is coming from other party (argument of one respondent or 12% of total eight respondents). This motivation is a support from the institution of the workplace of poor households’ children. From survey, there is a child of poor households that after graduating from high school she continues work in education instituion (sekolah PGRI). The institution wants this child to continue study in higher education as the requirement of her profession. With this support, finally she agree to continue study in higher education. Third, the support of parents and the helping of family (argument from one respondent or 12% of total eight respondents) has quite role in supporting children to continue study in higher education. In a case from survey, there is a child of poor households that continues study in higher education because of this. Initially, his parents is poor to finance their child to study in higher education. However, because there is a family
in another city that wants to help their child to study then this child is having motivation to continue study in higher education.

![Graph showing the determinants of poor households' children to study in higher education.](image)

**Figure 3: The determinants of poor households’ children to study in higher education.**

*Source: Survey result, 2016*

### 4.3. Intensity of Variety of Local Financial Institution Role in Supporting Poor Households’ Finance

#### 4.3.1. The Role of Local Financial Institutions as Sources of Fund

From five kinds of local financial institution in Wagir, the intensity of people in using the institution can be described as follows. From survey results, cooperation is at the first place as local financial institutions that is most used by people to support the financial of poor households. Moreover, Wagir’s people have known local cooperation in their regions well. This is proved by the trust of people to do borrowing in cooperations. Local cooperations in Wagir is giving easiness to the people borrowing. At least, there are two things that become the reasons. First, the easiness in borrowing, second, the low rate of interest. The meaning of the former is that there is no guarantee for people as the requirements to borrow from cooperation. They just give their identity card (KTP) and family card (kartu keluarga) as the guarantee.

In the second place is arisan (there are three of eight that have experienced having fund in arisan. For Wagir people’s, arisan becomes an important activity that connects more close for the people. Beside that, arisan could be the place to save money and use it to fulfil the need of education of their children. Furthermore, this institution is one of favorite local financial institutions of people because the easiness in saving money.

In the third place is tabungan tahlil and brothers. There are two of eight poor households that have experienced in borrowing fund in both institutions. This institution as mention before is one of local financial institutions that supports poor households’ finance. The role is helping people to save the money. If poor households face lack of money then they will borrow money from tabungan tahlil. This loan is not much, usually about IDR 1 million up to IDR 2 million yearly, in which there is no interest applied. They only pay administration cost for once period of borrowing amount of 10% of fund borrowed. This cost perceived by poor households is not cheap, however, they think that this cost is realible. Besides, the easiness in borrowing in tabungan tahlil becomes the key for most of poor households to do this activity.

For brothers, these local financial institution are having different characters with the others. Basically, brothers have strong emotion relationship with poor households. With trust capital, borrower will get money easily. There is no guarant to do borrowing and no interest applied. The borrowers usually borrow money to their brothers having more money and return the money when already have money to pay their loan. In the case, there is no limitation of due date, but it depends on brothers decision of poor households.

The last place is neighbors or friends (there is one of eight poor households having experienced in borrowing money at neighbors or friends). To part of poor households, borrowing from neighbors or friends can be alternative way that make easier in borrowing fund. This means that neighbors or friends can be the best solution when they need money. With trust capital, poor households will get loan from them. There are no more cost and interest applied when they do borrowing in such way. However, only little poor households do this way. This is because the institution do not have much money to lend.

#### 4.3.2. The Characteristics of Micro Financial Institution that are Suitable for Poor Households

Overall, poor households in the sample area do not have much communication with cooperation. The local financial chosen to socialize is arisan and tabungan tahlil. Finally, the characteristics of micro financial institution that are suitable for poor households are as follows:

1. The procedure and the requirements to borrow fund must be easy and simple.
2. There is no guarantee that have to be given.
3. The process of installment payment and loan disbursement is made by agreement between borrower and lender.
4. The relation between fund manager of local financial institution with borrower should be in informal form.

4.3.3. The Characteristics of Micro Financial Institution that are Suitable for Poor Households

The prerequisites and factors that must be fulfilled those institutions are as follows:
1. Have strong commitment to motivate and support children who they wish continue study in higher education
2. Have enough capability to prepare children in achieving academic ability to success in the entrance test of higher education
3. Availability of fund that is needed by children who they have potential and high motivation to study in higher education and graduate on time
4. Have good and transparent managerial system of fund

5. CONCLUSION

From the result of this study, here is the conclusion:
1. There are three main factors influencing poor households that are success to educate their children in higher education. First, the support or motivation from their children self. Second, the situation that makes children have to go to higher education. Third, the supports from their parents and family.
2. There are three local social-economy institutions that are exist, namely: pengajian tahlil, arisan, and cooperation. The highest intensity that is followed by people sampled is pengajian tahlil and arisan.
3. Local economy institutions that can help financial problem of poor households are arisan and brothers or family. Cooperation gets less attention from people because there is any doubtful of the people’s ability to pay instalment regularly.
4. The characteristics of micro financial institutions that are suitable with poor households are an institution that the prerequisite is simple and easy to be accessed, also the relation between lender and borrower is informal.
5. The prerequisites that must be fulfilled by those institutions are having good management system that can encourage children to get motivation to continue study in higher education and having support of fund that is well managed and transparent.

6. REFERENCE

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