Institutional Logics of Development Actors on Microcredit Program
(Case of Group-Based Microcredit Program (PMBK) in Sukorame Village, Binangun District, Blitar Regency, East Java Province, Indonesia)

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ABSTRACT

The efforts to facilitate community’s participation and encourage their contributions to the decision making process has led to increased development initiatives. Among community development initiatives, the program of Group-Based Microcredit Program (PMBK) has been recognized by development stakeholders as a development approach that offers poor people access to financial services (financial intermediation). In addition, social intermediation in the form of training programs (capacity building) is the key success in eradicating poverty in sustainable development. This study aims to compare the institutional logic of various development actors in the PMBK program in a rural Indonesia. This study found that there are differences in institutional logic between development actors in the microcredit program to support sustainable development, namely 'economic logic' and 'development logic'.

Key words: microcredit; institutional logics; sustainable development

How to Cite:


1. Introduction

On a global scale, the purpose of development initiatives is to increase economic growth, well-being, empowerment, gender equality and to eliminate poverty. As time has passed, development strategies have shifted from a top-down to a bottom-up approach (Chambers, 1997, 2004; Reddy and Heuty, 2005). This has encouraged the implementation of participatory approaches, for development strategies to be effective. For example, facilitating people’s participation (Becker et al., 2003; Chambers, 2004; Fraser et al., 2006), and encouraging people’s contribution to the decision-making process in development process (Hoque and Itohara, 2009). Among community development initiatives, group-based microcredit program (Program Mikrokredit Berbasis Kelompok/MBK)) have been recognized by development agencies as one of the development approaches that can offer poor people access to financial services, with the objective of improving their quality of life (Pitt and Khandker, 1998; Ledgerwood, 1999). In addition to a financial intermediation function, microcredit also offers a social intermediation function and thus promises to be a key strategy in the eradication of poverty, contributing to the achievement of sustainable development goals (Ghatak and Guinnane, 1999; Robinson, 2001; Elahi and Rahman, 2006; Banerjee, 2008; Worthen, 2012; Fouillet et al., 2013).

In this study, PMBK has chosen as part of Participatory Integrated Development in Rainfed Areas (PIDRA) project in rural Indonesia which effectively started from 2001 to 2008. Although the PIDRA project has ended, microcredit groups have been existed and maintained its sustainability (IFAD, 2004a, 2008). The key strategy in the PIDRA project was consistent with Indonesia’s development priorities that aimed to help poor people to overcome poverty and to reduce inequality through participation, community

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empowerment, and institutional capacity-building based on a gender perspective through microcredit (IFAD, 2004a, 2008; BKP, 2011).

As the main feature of the PIDRA project in Indonesia, the initial process of microcredit group (PMBK) formation was crucial. Various actors from the national to local government levels were involved as development stakeholders (as the PIDRA project team), including representative staff from the Food Security Agency (BKP) in national, province, district, and regency level, as well as rural governmental level. The management of the working pattern of the PIDRA project was performed a top-down, while the PIDRA project at the local government level was conducted by a bottom-up approach (involving local communities) (IFAD, 2008). Development stakeholders (actors) in PMBK have their own institutional logics in establishing the microcredit groups as a development approach in rural Indonesia.

Hybrid Organisation Theory is used as a theoretical framework to explain the dynamics of microcredit groups (PMBK). This theory is consisting of combinations of multiple elements (e.g. logics, forms) and multiple value systems (e.g. trust, negotiation), involving various key stakeholders, and often with various and conflicting goals (Tracey et al., 2011; Seelos and Mair, 2012, Battilana and Lee, 2014; Besharov and Smith, 2014). Using the framework of Hybrid Organisation Theory, PMBK as a new form of microcredit organization which categorized as a hybrid organization. In practice, PMBK provides loan and saving services, as well as life-skills training. This indicates that PMBK combined two logics, including economics and social logics. However, the involvement of development actors in the PMBK formation faces challenge in identifying the institutional logics. This research provides comparison of institutional logics from development actors which has an impact on the sustainability of microcredit program.

2. Methodology

Microcredit group (PMBK) in Sukorame village, Binangun District, Blitar Regency, East Java Province, Indonesia was chosen as the field site of study (https://goo.gl/maps/Scezz2pK2doWy4GHr7). This was based on the case of microcredit group (PMBK) in this field site which experiencing a diversity of group outcomes, such as a ceased to exist group and existing groups. Exploring the unique characteristics of PMBK as a case study as Yin (2013) states that the use of case studies is not only to describe ‘the object under study’, but also to thoroughly clarify ‘how and why’ the existence of such cases may occur.

Non-probability sampling using snowball sampling technique was implemented to choose participants. The success of this technique depended greatly on information about the participants obtained from key persons who had been asked/ interviewed previously. This research encompassed 10 of PMBK with 30 people (14 male and 16 female) as participants. The success of this technique depended greatly on information about the participants obtained from key persons who had been asked/ interviewed previously. Qualitative method was used, namely Focus Group Discussion (FGD). According to Litosseli (2003; p.24), ‘The focus group elicits information in a way which enables the researcher to find out why an issue is salient to the participants’. This research adopted Miles et al. (2014) concept of qualitative data analysis which consists of: 1) reducing data (or data reduction), 2) displaying data, and 3) drawing and verifying the conclusion.

3. Results and Discussion

The initiation of PMBK started in 2001 through the PIDRA project. PMBK established to improve the income of the rural poor through new Small and Medium Enterprises (SMEs) and supporting them with microcredit program. The microcredit activities consist of financial intermediation (loan and saving) and social intermediation (training and capacity building). Economics and social independence of rural poor will have an impact on their ability to access development program in rural areas (BKP, 2011).

Structurally, PMBK managed by Food Security Agency (BKP) as a representative of Indonesia government and International Fund for Agricultural Development (IFAD) as a representative of international fund institution from United Nation (UN). Due to the scale of project was nationally, development actors involved in the PMBK program has the work pattern directed from the central (national governmental level) to the local governments (province, district, and village governmental level) implementing the top-down approach.

However, along with the development of participatory mechanisms, which required the participation of the entire development stakeholders in management activities, a bottom-
up approach was also needed to ensure a common understanding among all the development actors, including the local communities. For example, in the process of microcredit group establishment (PMBK), selecting of rural poor as the members of PMBK has an important meaning for rural development. Various development actors were involved in the selection of the rural poor. This process was carried out by a selection team consisting of local people in the study location (for example: village officers, social leaders, religious leaders, youth leaders, and village community representatives). The selection process was intended to select rural people who were categorized as rural poor and as members of the microcredit group (PMBK). In conducting the selection process, the team accommodated global perspectives (UNDP criteria) and local perspectives (rural community criteria) in determining the criteria of the rural poor. The involvement of local communities as a selection team indicates good social impacts because of their involvement in development programs.

**Tabel 1.** The institutional logics of development actors in Indonesia

<table>
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<tr>
<th>Development Indicators</th>
<th>The Institutional Logics Of Development Actors</th>
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<td></td>
<td>Government</td>
</tr>
<tr>
<td>1. Development purpose</td>
<td>Improving welfare</td>
</tr>
<tr>
<td>2. Human resources involvement</td>
<td>High education level</td>
</tr>
<tr>
<td>3. Development priority</td>
<td>Growth</td>
</tr>
</tbody>
</table>

In addition, the process the microcredit group (PMBK) establishment involves various elements in the community as development actors, including representatives of rural governments, facilitators, religious and social leaders. The reason for involving them was because they have already known the daily situations and the dynamics of real life in their communities. Moreover, this process provides opportunities for local communities to participate in various stages microcredit program activities (including the formation of the microcredit group). This study found that at the rural governmental level, development actors have different of institutional logics in the process of microcredit group establishment (PMBK), including having different development objectives, having diverse human resource involvement, and having different development priorities. This can be seen in Table 1.

Although the involvement of development actors at the village level has given importance to the process of microcredit group establishment (PMBK), institutional logics differences among the actors remain exist. For example, in the initial selection process to determine the rural poor as the members of PMBK, there are different criteria and indicators used by actors. As a representative of the village government (Village Head), Suparno (Respondent-7) has a commercial logic in determining the members of PMBK (for example by offering willingness to donate to the village from loan interest). This mechanism was not in accordance with the procedures microcredit group establishment (PMBK) and carried out due to the excessive authority as the village head. The testimonial as follows:

"I was invited to attend a meeting to discuss the microcredit program (PMBK) in this village. Because I was appointed as a development actor from the elements of the village government, I was often involved in the process of identifying members of PMBK, including identifying the rural poor. With the authority I have, I offered this opportunity to rural people as long as they have a commitment to provide donation for the village (FGD, Respondent-7).

However, there are different consideration in determining the members of PMBK. This was mentioned by a community leader (Abdullah - Respondent-10) as follows:

"I recommend rural poor (men and women) to join in the microcredit program as the members of PMBK. Rural poor are indicated by the house is made with bamboo, the floor is earth floor, the bathrooms and toilets are not feasible, and they do not have access to electricity and clean water. In addition, I also recommend the rural poor who are active in social activities to be the PMBK members "(FGD, Respondent-10).

From this case, institutional logics of development actors at the village level (in the formation of microcredit groups/ PMBK) was different. Institutional logic is the way of thinking of various development actors towards the development strategy undertaken. Every actor must have their own institutional logic. This cannot be directly because it is a hidden goal. Through the FGD process, this study shows that
each actor will openly reveal their own development logic.

By applying the Hybrid Organization Theory framework model, PMBK as a new form of microcredit organization in managing loans, savings, and providing life-skills training. However, the involvement of development actors in the formation of microcredit group (PMBK) as a new type of hybrid organization faces institutional logics challenges, which has an impact on the sustainability of microcredit organizations as part of the development strategy.

This research found that there are two institutional logics applied in the formation of PMBK, namely 'development logic' - social mission to help the poor and 'economic logic' - profit orientation to support the organization's operations (looking for business profits). Therefore, PMBK is expected to be able to combine these two institutional logics in an unprecedented way (a combination of economics and development logics). The institutional logics in PMBK can be explained in the table 2 as follows:

<table>
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<th>Table 2. Institutional Logics in PMBK</th>
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<tbody>
<tr>
<td><strong>Indicators</strong></td>
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<tr>
<td>Purposes of PMBK</td>
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<td>Target of members PMBK</td>
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<td>Management of PMBK</td>
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4. Conclusion

This study shows that there are differences institutional logics among development actors in the implementation of microcredit programs in rural Indonesia. The case of the formation microcredit group (PMBK), the government places more emphasis on economic logic which consider aspects of business (profit oriented). On the other hand, donor agencies put more emphasis on development logic which concern for poverty alleviation in rural areas. These two institutional logics produce a combination of logic expected by local communities in the implementation of PMBK (referred to as a combination of economic logic and development logic), for example: PMBK is able to increase access of the rural poor to financial services to support their business. With a participatory approach (bottom-up), this study suggests that the process and implementation of good governance is very important in the management of PMBK. Such conditions, relevant to governance in hybrid organizations stated by Battilana and Lee (2014), and Besharov and Smith (2014), that good governments are required to develop special forms of authority for tighter coordination and control so as to be able to support development actors.

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