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## **Institutional Transformation of Ex-PNPM-MPd UPK as A Revolving Fund Institution in Candipuro District, Lumajang Regency**

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### **ABSTRACT**

*The termination of PNPM Mandiri Perdesaan (PNPM-MPd) in 2015 required UPK of Candipuro District as a revolving fund institution to transform to obtain legal certainty. This study aimed to describe the transformation of revolving fund management in Candipuro UPK, Lumajang Regency. This study used a descriptive qualitative method to examine institutional transformation based on aspects of legality, institutional (organizational management), philosophy, finance, and business form. The results of the research showed that the institutional transformation of the ex-PNPM-MPd UPK as a revolving fund institution in Candipuro District has been transformed before the termination of the Program to be an Inter-Village Cooperation Agency (BKAD) as a Legal Entity Association (PBH). The most notable change can be seen in the function of BKAD that is limited to revolving fund activities only. Besides, the target beneficiaries are no longer the Poor Households (RTM) only, but also the potential general public. Based on the results of this study, it is hoped that the institutional management will immediately get the legality of PBH BKAD Candipuro from the Ministry of Justice and Human Rights, search for the legality of its financial business to be a legal financial institutions, and continue to bring the 'spirit' of PNPM-MPd empowerment in managing revolving funds. Government attention is needed to facilitate and make regulations on the protection and sustainability of the revolving fund management as a legacy of PNPM-MPd, under applicable laws and regulations.*

### **KEYWORDS**

**Revolving funds, Transformation.**

### **INTRODUCTION**

PNPM Mandiri Perdesaan (PNPM-MPd) was a program to speed up poverty reduction in an integrated and sustainable manner based on community participation and empowerment. PNPM-MPd stood as the integration and the expansion of previous community-based poverty reduction programs, namely P2KP and PPK. The general purpose of PNPM-MPd was to improve the welfare and employment opportunities of the poor in rural areas by encouraging their

independence in decision making and managing sustainable development.

The mechanism for accelerating poverty reduction by PNPM-MPd was in the form of community empowerment through community help and strengthening that relied on local village development by promoting the principle of participatory development (from, by, and for the community). Community empowerment is an effort to create/increase community capacity, both individually and in groups, in solving various problems related to the quality of life, independence, and welfare. This effort requires

great involvement of local government officials and various parties to provide opportunities and keep all the achievements sustainable.

PNPM-MP<sub>d</sub> provided financial resources in the form of revolving funds and micro-finance to develop the economic activities of the poor. The revolving funds were coming from some programs, namely PPK, PNPM-PPK, and PNPM-MP<sub>d</sub>, and managed by UPK (Activity Management Unit) whose members were those had been selected and directly involved in the implementation of its daily operations. UPK was supported by supporting institutions at least by Verification Team and Supervisory Agency whose institutional and operational provisions were stipulated in the BKAD (Inter-Village Cooperation Agency) Statutes/Bylaws.

The legal basis of the management of revolving funds provided for beneficiary groups by UPK, in the forms of Savings and Loans Women (SPP) and Productive Economy Business (EUP), was the PNPM-MP<sub>d</sub> Technical Operational Instructions (PTO PNPM-MP<sub>d</sub>), including the explanations. For instance, explanation X regulated the provisions, mechanisms, and procedures for managing revolving funds. It was emphasized that revolving funds are all program funds and are loans from UPK to fund community economic activities channeled through community groups [9]. The phrase “program funds” means funds originating from the government, not from individuals or banking institutions, as referred to in the Banking Act (Law No. 3 of 2004 in conjunction with Law No.23 of 1999), while UPK refers to as the “manager” of the funds.

In the development of revolving funds managed by UPK in Jawa Timur Province at the time of PNPM-MP<sub>d</sub> termination, the productive assets reached Rp1,632 T managed by 522 UPKs. The funds were distributed in the form of Productive Economic Business (UEP) and Women Savings and Loans (SPP) with the number of beneficiaries reaching 72,582 community groups.

The revolving fund program could motivate the community to become entrepreneurs and

provide easy business capital for productive poor people and micro-business entrepreneurs. It also served the needs for consumptive funds, especially for educational expenses and other family expenses. Besides, it also increased the income of vulnerable poor families, helping to ease the economic burden of very poor households in the form of social funds, which could be in the form of scholarships, mass circumcision activities, and distribution of necessities. Several districts even distributed social funds in the form of livestock with the aim that these animals develop and can improve the community household economy.

The termination of PNPM-MP<sub>d</sub> in 2015 and the enactment of the 2014 Village Law must be seen as an opportunity for the Village Government as an instrument to find and manage sources of village development funds. In this case, the Village Law has provided a space for PNPM-MP<sub>d</sub> institutional arrangement. Transforming or changing the institutional arrangement of UPK as the revolving fund management agency that manages rural community empowerment programs after the termination of PNPM-MP<sub>d</sub> is necessary to a) protect the existence of revolving fund management by UPK and its assets, and (b) protect its managers in terms of legal issues, and (c) open up opportunities to cooperate with other community empowerment programs, including access to other sources of financing.

Based on the Letter of Coordinating Minister for People’s Welfare Number B-27/MENKO/KESRA/I/2014 dated 31 January 2014, the institutional transformation of PNPM-MP<sub>d</sub> revolving fund management can be one of three legal entity forms by applicable laws and regulations, namely (1) Cooperative, (2) Legal Entity Association (PBH), and (3) Limited Liability Company. The UPK of Candipuro District, Lumajang Regency, is one of the PNPM-MP<sub>d</sub> revolving fund managers that have undergone an institutional transformation. It was initially an Inter-Village Cooperation Agency (BKAD) which was not a legal entity and then transformed into a legal entity association (PBH BKAD). This

transformation has changed the system and institutional arrangement for managing the revolving funds [1].

Based on the description above, this study aims to elaborate the changes in the management of revolving funds by UPK institutions, which have been transformed into legal entities, especially those that have occurred in Candipuro UPK, Lumajang Regency.

## MATERIALS AND METHOD

Institution contains two important aspects, namely "institutional aspect" and "organizational aspect". The institutional aspect examines more the behavior of the actors involved in the institution while the organizational aspect looks more at the institution itself as a structure of the actors in it [4].

The causes of institutional change are, among others, the existence of government intervention and action-reaction to government policies [2]. Institutional change is an ongoing process of transformation, leading to changes in conditions, which then makes new adjustments. It can be considered as a process that aims to improve the quality of interaction between actors. It has two dimensions, namely changes in configuration between economic actors that will trigger institutional changes and institutional changes that are deliberately designed to influence (regulate) economic activity [6].

Institutional changes in society mean changes in regulatory and organizational principles, behavior, and patterns of interaction. A change or transformation does not happen instantly but through a process. The transformation process in question includes:

- a. Changes that occur slowly or gradually.
- b. When the process starts and how long it will end are unpredictable, depending on the influencing factors.
- c. Comprehensiveness and continuity. The changes that occur have a close relationship with the emotional (value system) that exists in society. [8].

Transformation can occur intentionally and unintentionally. Intentional transformation is characterized by clear planning and management and clearly expected programs and changes. Meanwhile, the unintentional ones occur naturally due to changes in natural conditions, technology, and so forth [3].

This research was a qualitative descriptive study to examine the institutional transformation of PNPM-MPd revolving fund managers in Candipuro UPK, Lumajang Regency, based on institutional legality, management, philosophy, financial, and business. Data collection was carried out using several methods including documentation, observation, and interviews with revolving fund institutional actors, including administrators of the Association/BKAD, UPK, BP-UPK, Verification Team, and Funding Team, in June 2020.

## FINDINGS AND DISCUSSION

Candipuro UPK office is located on Jalan Griya Pasirian Permai, Kebonsari, Jarit, Candipuro, Lumajang Regency. It has a working area covering 10 villages in the Candipuro subdistrict, Lumajang Regency, including Jugosari, Jarit, Candipuro, Sumberrejo, Sumberwuluh, Sumbermujur, Penanggal, Adrejo, Kloposawit, and Tumpeng.

It was established in 2000 when the PPK Program was implemented and continued with the PNPM-MPd Program in 2007. The initial capital for the revolving funds came from the Community Direct Assistance Fund (BLM) Program, as much as Rp 557.773.250,00 for Productive Economic Business and Rp 1.071.117.000,00 for Women Savings and Loans. The initial capital management for the revolving funds developed very well. At the time of the Program termination in 2015, the productive assets of UPK Candipuro reached Rp4.920.818.142,00 or grew more than 300%.

The PNPM termination was marked by the issuance of Letter No. 134/DPPMD/VII/2015 concerning Guidelines for the Termination and Arrangement of PNPM-MPd Activity Results on 13 July 2015. There were several points

regarding the termination of PNPM-MPd at that time, namely 1) the termination of PNPM-MPd implementation is marked by the end of the period of the PNPM-MPd assistants and facilitators, 2) PTO PNPM-MPd does not apply as a basis and reference for PNPM-MPd institutional work, 3) Structuring and Transfer of Asset Ownership in the form of Infrastructure Facilities in the Village, and 4) Structuring of Revolving Fund Management Institutions. Based on previous research, the condition of Candipuro UPK revolving fund institution during and after the termination of PNPM-MPd did not change much. The actors in the institution continued to carry out their roles and functions following the provisions of the main tasks and functions that have been regulated in the Statutes/Bylaws and institutional SOPs [5].

This study examined the transformation or change in the management of revolving funds at the Ex-PNPM-MPd's UPK in Candipuro District, which was seen from the institutional legality, financial management, institutional philosophy, and financial and business aspects. The results of the study can be described as follows:

#### A. Institutional Legal Aspect

The importance of institutional legality and legal umbrella for institutional development efforts had been realized by UPK managers long before the end of the PNPM-MPd Program. In 2011, the Candipuro UPK BKAD, together with 10 village heads in the Candipuro District, agreed to form an association based on a notarial deed as the beginning of the institutional transformation of Candipuro UPK. As a legal entity, the institution's desire to develop assets in the form of procurement of land infrastructure, operational facilities, and operational vehicles supporting UPK activities that cannot be covered by the PTO, could be legally protected. As for the termination of the 2014 PNPM Program, according to the letter of Coordinating Minister for People's Welfare regarding the choice of the legal forms for revolving fund institutions, BKAD of Candirejo continued to maintain its legal entity

form as a PBH that oversees the revolving fund activities in Candirejo UPK.

The legal basis for institutions in the form of associations is Staatsblad 1942 No. 13 regarding Association, Law No. 17 Th. 2013 concerning Mass Organisation, and Minister of Law and Human Rights Regulation No. 3 of 2016 concerning Procedures for Filing Requests for Legal Entity Ratification and Approval of Amendments to the Association's Articles of Association. Minister of Law and Human Rights Regulation No. 3 of 2016 defines that associations are legal entities which are groups of people established to realize the common goals and objectives in the social, religious, and humanitarian fields and do not share profits with their members [7].

The selection of legal entity association as a legal umbrella for the institutional legality of the Ex-PNPM-MPd's UPK in Candipuro sub-district has consequences, such as

- The revolving fund assets as a legacy of the PNPM-MPd Program would be owned by the PBH, namely BKAD and 10 village heads in the Candipuro District area who represent the people of the Candipuro District. So, it can be said that these assets belong to the people of Candipuro District
- It became legal protection for the revolving fund manager after the end of the program so that there is a guarantee for the continuity of the revolving fund activities for the community.
- Opportunities for cooperation with various parties, especially in the social field, namely community empowerment which is the 'spirit' of PNPM-MPd and humanity, are open. This is because the association's activities, based on the Letter of Coordinating Minister for People's Welfare No. 6 2016, are limited to non-profit and social activities.
- Supervision and guidance based on Law No. 17 of 2013 concerning Community Organisations.



Based on the results of interviews about the legality of the business, namely the legality of revolving fund activities, the institutional management had a plan to transform into the form of a Micro Finance Institution (LKM). However, at the time, there was no preparation to make it happen. The management still focused on handling collectivity and developing groups to absorb idle funds. In conclusion, the legality aspect of the revolving fund institutional transformation of Candipuro UPK has been fulfilled in the form of PBH BKAD but its status needs to be improved until getting the approval of the Ministry of Law and Human Rights. On the other hand, business legality needs to be pursued in the form of a legitimate financial institution.

### **B. Institutional Management Aspect**

The institution that manages revolving funds in Candipuro District still has a complete structure following PTO PNPM-MPd. However, there has been an adjustment because BKAD has become a legal entity association, in which the BKAD management also now administers the association. In the organizational structure, BKAD is the highest institution in decision making for revolving fund management at the district level through the Inter-Village Deliberation (MAD). BKAD in Candipuro UPK has management consisting of Chairperson, Secretary, Treasurer, and members, namely representatives of 10 villages in Candipuro District. At the beginning of the PNPM-MPd Program, BKAD had the task and role of inter-village cooperation in the Candipuro region. However, at the time of the study, the BKAD in UPK in Candipuro District only played a special and limited role in inter-village cooperation relating to revolving funds. Candipuro UPK has complete management, consisting of Chairperson, Secretary, and Treasurer with two additional personnel namely, Cashier and Debt Collector. The addition of these two personnel is to support UPK's task in managing large revolving assets, a group that is growing, and issues of installment collectibility from the

beneficiaries (borrowers). BP-UPK, Verification Team, and Funding Team of Candipuro UPK have a complete structure and are the same as that in the Program. Since the termination period, until the research was conducted, there had been a change of management and management rolling in the institutional revolving fund. Change of management was done because there were administrators who had finished their periods. Management rolling was done so that person would not feel bored occupying the same position.

The Inter-Village Deliberation (MAD) is an inter-village forum that holds the highest authority. It is held once a year or more if there is a special issue to discuss. In MAD, people discuss everything related to the organization of revolving funds, from planning to reporting activities. UPK must report the results of revolving fund activities before the MAD forum. UPK activity reports are prepared and reported monthly and annually. Reports are given monthly to BP-UPK and BKAD while annual reports are presented at the MAD forum after prior approval from BKAD.

Relationships between institutions managing revolving funds are regulated by the Statutes/Bylaws of BKAD and each institution's SOP. Most of the contents of Statutes/Bylaws and SOP of revolving fund institutions in Candipuro UPK still refer to PTO PNPM-MPd. There was, even, SOP of 2011 that was still valid until the time the research was conducted. This was because the principles and rules in the PTO were still considered as good to be applied in the management of revolving funds. But there were also improved SOPs to adjust to the conditions such as in the revolving fund SOP, there was a change in the requirements for applying for a loan. No recommendation from the village head for a loan application is needed.

The competency of the management of each part of the revolving fund institutions is adjusted to the field of work. The revolving fund managers at Candipuro UPK on average have competencies that are appropriate to their field of work and, moreover, they have attended pieces

of training since the Program period. At present, capacity building is being carried out by UPK associations in Lumajang Regency through training in BKAD, UPK, BP-UPK, Verification Team, and so on. The addition of personnel to UPK (cashiers and debt collectors) is carried out through an open recruitment process by forming a selection committee and conducting written tests. Participants who graduate with the highest score will be validated through MAD. Efforts to increase the capacity of new personnel are carried out with training and practice, going straight down to the field.

UPK office services take place every Monday to Thursday at 08.00-14.00 and Friday to Saturday at 08.00-12.00. Managers in UPK receive compensation in the form of a monthly fee that is taken from the UPK Operational Cash. UPK also gets a bonus at the end of the fiscal year allocated from the surplus. BKAD got honorarium by considering the main tasks, functions, and responsibilities of the management as well as the ability of funding from the surplus allocated to the institution. Other institutions receive fees from UPK Operational Analysis. The work schedule and compensation for the revolving fund organization in UPK Candipuro did not change until the time the study was conducted.

The results of this study on institutional management in institutional transformation of revolving funds in Candipuro UPK concluded that

- BKAD in Candipuro UPK is a BKAD that specifically handles Inter-Village Cooperation related to revolving funds. This shows that the role and function of BKAD, which should handle all Inter-Village Cooperation activities, has been reduced and is restricted to revolving fund activities only.
- Institutional tools such as the Statutes/Bylaws and SOPs still refer to PTO PNPM-MPd with a few modifications. It was found that some SOPs were still not updated (still using SOPs during the Program period). This

shows that the contents of PTO PNPM-MPd were still relevant to be applied in Candipuro District.

- The addition of UPK personnel shows that the institution wants to develop better services for the community.

### C. Institutional Philosophy Aspects

The institutional philosophy of the transformation of ex-PNPM UPK in Candipuro District was examined based on the variables partiality towards poor households (RTM), group empowerment, capacity building, and allocation of social funds.

The revolving fund management by the PNPM-MPd UPK provided facilities for poor households (RTM) to obtain capital in the form of Women Savings and Loans (SPP) and Productive Economic Business (UEP). Likewise, PBH was normatively established for social, religious, and humanitarian purposes. However, the results of the study indicated that the partiality towards poor households (RTM) must also be rational with efforts to save and develop SPP and UEP after the Program. In this case, Candipuro UPK still tried to accommodate RTM groups as beneficiaries, which, however, must meet the criteria (productive/have a business). The results showed that the percentage of Candipuro UPK's beneficiary groups from RTM group was only 20% and the remaining 80% were from the general public.

Until now, UPK Candipuro is still trying to increase the number of new groups, both those that are really new and the fractions of the old groups. The effort made to form a new group is doing socialization to potential beneficiaries. In addition, UPK also facilitates groups that have previously "fallen" to be able to rise again.

PNPM Mandiri was one of the national development programs for poverty reduction based on community empowerment. During the Program period, empowerment was done by fostering beneficiary groups through capacity building training and coaching activities. However, when the research was conducted, the group empowerment activities in the form of

training by UPK had not been carried out anymore, and only administrative guidance was given.

Regarding post-program social fund allocation, based on the Statutes/Bylaws, PBH BKAD in Candipuro allocates social funds by 15% of the proceeds of business surpluses to be given specifically to poor households in Candipuro District. The mechanism for providing social funds by PBH BKAD is fairly creative and productive, in the form of capital assistance in the form of business facilities worth Rp2.000.000,00 to 5 RTM in 10 villages each year. Previously, the distribution of social funds was done in the form of scholarships, sanitation, etc. However, the provision of venture capital is considered the most effective.

Based on the results of the study of aspects of the philosophy of revolving funds institutional transformation of Candipuro UPK, it can be concluded that the institutional management still prioritizes the Program philosophical aspects, especially the aspect of partiality towards Poor Households, especially the existence of Social Funds which is budgeted every year. However, weaknesses were found in the aspects of group empowerment and capacity building.

#### **D. Usaha Financial and Business Aspects**

Credit collectibility is the classification of the status of installment or loan, including the interest. At the time of the study, the collectibility V or over-six-month arrears amounted to Rp894,105,742.00 (UEP and SPP arrears), of which 95% were collectability at the time of the Program uncollectible, while the present collectibility is relatively lower. But, after the program, UPK appointed special staff, namely Debt Collectors who are in charge of collecting loans. This is a pretty good strategy because, even if it is slow because the repayment installments are according to the customer's ability, the receivables can be collected.

In general, the terms and conditions for submitting revolving fund loans to UEP and SPP groups still refer to PTO PNPM-MPd. However, there is a slight difference. No recommendation

letter from the village head is needed now. For new groups, everyone can get Rp500,000-1,000,000, while for the old groups, everyone can get a maximum of Rp10,000,000 per person (provided that the person has a good track record in installment payments). The interest charged is 2% per month; 1.5% is for UPK and 0.5% for group administrative costs. The repayment period is 12 months (1 year).

UPK financial reporting is an activity to record all activities or transactions related to financial management at UPK. During the Program Period, the UPK activity report was compiled monthly and reported to the relevant agency (Bapemas, at the time) and was also posted on the UPK announcement board so that the public could see the information. Besides, UPK was also required to present the report before MAD. Post the program, until the time of research, UPK only prepared financial reports for internal institutional and MAD needs.

Candirejo UPK's financial statements are still prepared manually using Microsoft Excel, given the low level of complexity of financial problems. But, it could be going to use financial applications in the future to be more professional. The examination of the financial statements is carried out regularly by BP-UPK very month.

Candipuro UPK still has no plans to develop new businesses like what other Ex-PNPM-MPd UPK institutions, which have undergone an institutional transformation, do. Currently, revolving fund administrators at Candipuro UPK are still focusing on solving the collectibility problem and developing new groups, bearing in mind the idle funds or unused loan capital for revolving funds (parked at banks), are still very large, namely around 2.5 billion Rupiah. Based on the results of the interview, the management of the revolving fund, in terms of capital, human resources, and the legality of the new business, is not ready to open a new business unit. The plan to be carried out is that the management is seeking the legality of the revolving fund business; there is a discourse to transform into a Micro Finance Institution (LKM).

The results of the study of the revolving fund institution of Candipuro UPK showed that the management institution is not ready to transform, based on financial and business aspects. The UPK activities are still focused on SPP and UEP activities only, namely solving collectibility problems and developing groups to revolve out a large number of idle funds.

## CONCLUSIONS AND RECOMMENDATIONS

The revolving fund institutional transformation of the Ex-PNPM-MPd UPK of Candipuro District, Lumajang Regency, took place before the termination of PNPM-MPd. In terms of institutional legal entity transformation, it has become PBH BKAD Candipuro until now. The most notable changes include the BKAD function which has become limited to revolving fund activities only, and the target beneficiaries are no longer focused on the poor households (RTM) only but also on the potential general public. Through the results of this research, it is hoped that the institutional management will immediately get the legality of PBH BKAD from the Ministry of Law and Human Rights, seek business legality to be a legal financial institution, and continue to bring the 'spirit' of PNPM-MPd empowerment in the sustainability of the management of revolving funds. Besides, the government should facilitate and make regulations on the protection and sustainability of the management of revolving funds as a legacy of PNPM-MPd, following applicable laws and regulations.

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