



An Effort for Reducing Poverty by Micro Financial Institution through Social Capital Development in Jayapura Regency. Papua Indonesia

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Abstract

The high cost of transaction fee, the risk in providing loans to micro enterprises and the obstacles to understand the characteristics of poor society make the banks and other formal micro financial institutions (LKMs) hard to reach the micro enterprises. In order for the poor society to get access to LKMs, several adjustments have been made. However, the fact is that the LKMs are not only difficult to be accessed to, these institutions have no power to stop the rising of the poverty rate in Papua. This study analyses the existing LKMs empowerment model of Jayapura regency, the LKM social capital initiation, and the capital of local poor society. It formulates strategies for empowering LKMs. The phenomenology approach was used to reveal the reality hidden in people's consciousness. The analysis process is based on Miles and Huberman's interactive model and the thought of phenomenologists like Husserl, Weber, Schutz, and Berger. All LKMs were not supported by the local government; instead the existing empowerment programs from the government were in the form of supplying facilities, equipments, block grant, soft loan, as well as funds provided through banks. The social capital initiations performed by the LKMs under credit related interaction with their micro customers were still low.

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The potential social capital owned by local micro entrepreneurs was high. Empowering strategy recommended for LKMs was in the form of soft loan model as it would make LKMs and micro enterprises to be independent, professional, and competitive.

Keywords: LKM (Micro Financial Institution); empowerment; micro enterprises; social capital; accessibility.

1. Introduction

The introduction of special autonomy opens an opportunity to rebuild Papua towards a better life of the people, particularly to reduce poverty. In the Law No. 21 of 2001, in particular Article 38, it explicitly stated that the economy of Papua Province which is part of the national and global economy should be directed to create prosperity and welfare for the people of Papua, upholding the principles of justice and equity. Furthermore, Article 39 states that in order to utilize the advanced processing of natural resources as referred to Article 38, the government of Papua Province has to stick to the principles of sound economic, efficient, and competitive. The two chapters above clearly confirm that the execution of development in the province should focus on aspects of welfare, justice and equality, where the implementation is concentrating on further projection of activities. It is the processing of raw materials such as oil and gas, mining, forestry, marine, and agricultural products in general. This processing is intended to increase the values that have a positive impact on the province income, creating jobs, improving development in science and technology, and other kinds of advantages. Unfortunately, in the level implementation, this law of special autonomy has not yet run as it should be which resulted in the low production of surplus.

Symmetrical relationship has not been established in the economic association of the people, especially among micro business partnership and the financial institutions. This has also been resulted in the low production surplus received by rural communities over the years. The public is aware that micro enterprises are very weak when dealing with banks that provide capital for production activities, including assistance to agricultural sectors. Nowadays, the banks have already issued a lot of credit schemes intended for small businesses. However, with such complicated conditions, and for others time-consuming, the micro businesses find it difficult to utilize the credits. In fact, for most micro businesses this scheme of credit is not affordable at all. It happens because every bank views the micro sectors develop high risk financial management. The banks then apply five-C principles (character, collateral, capacity, capital, and condition) to assess the feasibility of micro-enterprises that cannot meet all the requirements. As a result, as published by BPS Papua in 2003, the number of micro loans special position of the agricultural sector could reach as high as Rp 16.12 billion or 1% of the total loans disbursed by the banking sector in Papua. That amount is far below the credit for the construction sector which reaching Rp 249.89 billion and the trade sector moved to Rp 334.90 billion. Due to the lack of access to capital loans from banks, the micro businesses have to reuse the financial channel of traditional financial institutions such as moneylenders, middlemen or bonded labor, which usually strangle their lives.

To empower microenterprises in Papua, these microfinance institutions (MFIs) have to be empowered first. In addition, it is necessary to integrate the micro-enterprises and financial institutions, especially those that affect the economy as a fundamental social transformation. Through these structural changes wider opportunities for

micro entrepreneurs can be opened to develop their ability to participate in regional development. This is also one of the mandates of Act No. 21 of 2001 on special autonomy in Papua which explains that the special authority granted means empowering the potential socio-cultural and the economy of the Papuans, including providing adequate role for indigenous Papuans representing customs, religion, and women. Moreover, empowering MFI in Papua can also be accomplished through developing social capital. Social capital refers to the ability of human beings to associate with other humans [5]. Social capital is a product of human relationships with one another, especially intimate relationships which is consistent [17]. It will not be depleted if used, but rather increasing. Social capital is cumulative and will be able to evolve by itself (self enforcement) when it is used. Reference [1] proved that social capital is a determinant of the performance of program lending in developing countries. The existence of a close relationship between MFI and the borrowers is an important element in ensuring the payment of the loan. In line with [1] also found a positive effect of social partnership on the performance of Grameen Bank, where strong social interaction between staff and customers enables banks to reduce loan defaults from the customers.

Since the topic of this study is too broad, it is necessary to establish a research focus, making the discussion of the results of this study squeezed or packed in together. This study focused on:

1. The empowerment of MFIs that have been implemented by the regional government of Jayapura.
2. The empowerment of MFI performance against its customers of micro entrepreneurs or the poor ones.
3. The development of social partnership organized by MFIs in Jayapura regency towards its customers.

2. Previous Research

2.1. Developmental concept

Sen in [3] that human well-being is viewed from a social and economic capabilities. Socio-economic transformation that delivers a social entity, from the social changes of the level of advancement, to a higher level, can be done in two ways [7] Firstly, revolutionary way, tending to be unfriendly and produce much unfavorable results which are often undesirable. Secondly, evolutionary way, through stages which take longer time. The evolutionary social change can happen naturally or designed intentionally as you wish in accordance with the expectations of the society. Planned evolutionary social change is usually an option of social strategy transformation used in making a peaceful socio-economic status of the community (non-violent social transformation). Modernization style of westernization (western developmentalism) means the development process is taking the shape or pattern as well as applying normative standards and western cultural value orientation as a single progress parameter [23,24]. In this case, the scholars call it modernization without development (see Sajogyo, 1973, [9]). Thirdly, the western modernization is highly profitable in growth and capital expansion as well as in the process of capital accumulation of the west as well as the global economy [11, 21]. Fourthly, western-style modernization processes encourage social disintegration in the developing regions where the spirit of collectivity (mutual assistance) as important social characteristics is decaying (missing) dramatically [13].

2.2. Social Capital

References [17, 12] stated that countries that have high trust which also having high level of well-being, in reality, ignored group of other countries that have lower welfare conditions. Reference [5] says that social capital refers to the ability of human beings to associate with other humans. Reference [17] also mentions that social partnership can be explained as a product of human relationships with one another, especially intimate relationship and being consistent. Social partnership according to [14] has six main elements, namely: norms, values (social values), trust, reciprocity, participation, and proactivity. [10] said that trust as relevant economic component inherent in the cultures that exist in the community that it will form the wealth of social capital. While [12], believes that the dimension of trust is the color of a nation welfare system. The ability to compete will be created and conditioned by the characteristics of social capital in society that is the trust. [6] state that at the individual level, the source of trust derived from the values of religious affiliations, the competence of a person, and openness, which have become the norms in society. Socialcapital can also be understood by dividing it into two related aspects, namely the structural and cognitive aspects [20]. In line with [20] call these two aspects as forms of social capital (social capital formation).

2.3. Poverty

Reference [2] distinguishes poverty as relative poverty and absolute poverty. Relative poverty is seen on the basis of a comparison between the level of income of a particular group of people and other community groups. The absolute poverty is a state of poverty that is determined by first setting the poverty line (the poverty line), and the poor are those who are below the poverty line. [8,18] define poverty as a condition in which a person's income level is not enough to meet basic needs or basic necessities.

Methodologically there are two approaches commonly used to measure poverty, first, the approach based on the method of income/consumption of the family (I / C method). Second, the approach based on the method of participation, in terms of identifying poverty as perceived by the poors themselves [6, 18].

2.4. Theory of Institution

The definition of instituion can be categorised into two classifications. First, when it deals with the process, the institution refers to an attempt to design the pattern of economic interactions among actors who conduct transactions. Secondly, when it refers to the goal, then it concentrates on creating efficient institutional economy based on the structure of economic power, political, social and inter culprit [21, 25].

According to Rutherford [22, 25] the institution could be interpreted as a regulatory behavior or attitude generally accepted by the members of a social group, and it is for specific behaviors in specific situations. Both of which can be controlled by the authorities themseleves and monitored by outsiders (external authority). Manig (1992) in [25] states that change of institution is a permanent transformational process which is part of economic development. Thus, the main objective of institutional change is to internalize the potential for greater productivity of resource utilization improvements which then simultaneously creating a new balance.

3. Methodology

3.1. The Setting, Objects and Subject of the Research

In addition to theoretical framework and the technical Marshall and Rossman (1989) in [4], considerations of the research, as stated by the selection of setting should consider the possibilities. First, conduct in-depth assessment. Second, provide useful opportunities to observe various processes of the research investigation such as people, institutions, activities, interactions, and social structures. Third, determine the researcher's presence in doing research. Fourth, obtain quality data.

The setting of this research is social processes that occur within the scope of microfinance, particularly those undertaken by MFIs in Jayapura regency.

The object of this study is the helplessness of MFIs in alleviating poverty in Jayapura regency about which a depth study will be conducted to find out what is behind the phenomenon. The subjects are the actors who are directly involved in MFIs activities – the MFI board members, the poor as the MFI's clients, and other parties who are also associated with the activities.

3.2. The Sources and the Types of Data

Based on [19], the source of the data is classified into the most obvious data and the vague ones. First, the informant: the position between the researcher and the data in the shape of human is the same.

The informant is not just to respond to what is required by researcher (such as the respondents in the quantitative research) but he can choose the direction, show intention and have more freedom in presenting the information. Second, the documents or records: these can be in the form of written materials and can also be the image of location or events. If they are in the form of formal records then these refer to as archives. Third is the place or the location.

3.3. Technique of Data Analysis

In-depth analysis was conducted in order to answer the objectives of this study. In addition to thoughts of phenomenologists such as Husserl, Weber, Schutz and Berger, the process of data analysis rested upon interactive models of analysis developed by [16].

4. Results of the Research

Findings 1. Relationship of Social Partnership Development and the Credit Congestion. Coaching is one of the means for the development of social partnership in the interaction between the MFI and its customers. By considering the aspect of social partnership development in such an interaction the result of low rate bad credit would be expected. The bad debt case of Ms Dellila arose due to the absence of guidance from the bank mainly on the operational fund management. That the micro clients who had less experience in managing business

operation like Ms. Delilah would of course have difficulties in managing credit funds as well as disbursing the flow of the funds of her own business. Finally, managing business funds are the ideas of those who have not enough experience and knowledge about how to manage business funds. The result, predictably, was the one experienced by Ms. Dellila. According to her, the coaching from BPR Irian Sentosa (if it is called the coaching) concerned mostly the explanation of the loan installment payment and the procedure. Ms Dellila, actually, expected the coaching should include the guidance in running business management as well. However, banks did not seem to know the expectation and the customer's desire. The situation indicates that there wasn't any close relationship between the bank and its customers. This distant relationship causes Ms Delila to experience credit congestion. This kind of distance relationship causes late detection of credit congestion and so the anticipation would also be late. This finding was similar to [1], that one of the main concerns on capital lending programs is the correlation between social interaction and the credit program performance. According to Bastelaer one of the main determinants of the success of program lending in many developing countries is the close relationship between the borrower and fund resources institutions (microfinance institutions).

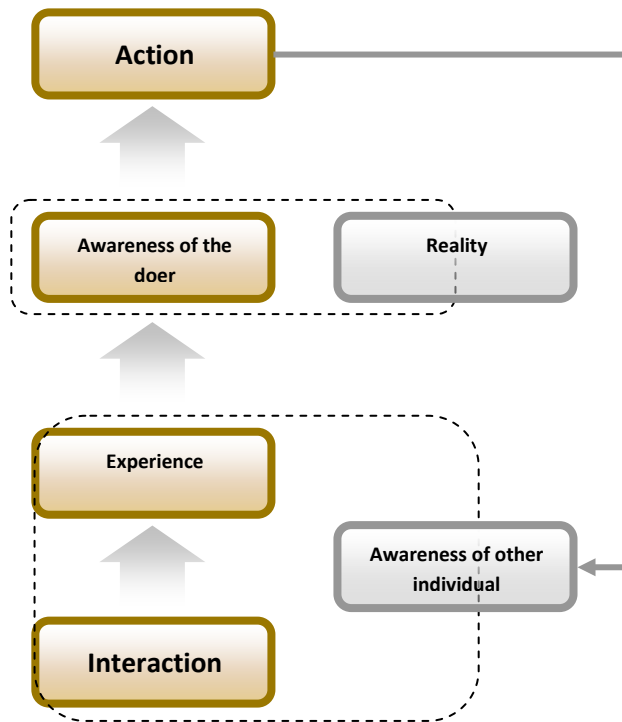


Figure 1: Phenomenon Analysis of Phenomenology

Source: Husserl, Weber, Schutz and Berger

4.1. Proposition 1

If social partnership development carried out by the MFI through its interaction with customers, the potential debt bad credit will be controlled (suppressed).

Findings 2: The existence of imbalance Information (Asymmetric Information). The indication of imbalanced information held by the government is that the government never took their way into the field to

monitor, evaluate, and gather inputs directly from the program objects drawn up, as presented by Ms. Yulika Rorong of BPR Irian Sentosa. In fact the government has formed a monitoring team. The government simply does the monitoring and evaluation based on mostly nominative reports from debtor credit recipients submitted by MFI. The incompleteness of information held by the government could result in the decline of programs reaching the end goal, namely micro-enterprises. This incompleteness of information occurs also at the MFIs as the program implementers. The MFI doesn't know exactly how its customer's business conditions were – healthy or unhealthy. The MFI had only the information regarding mutation of customer loan, so it knows the customers who perform well and those who don't. However, the institution knows nothing about the possibility of customer credit congestion. In addition, the incompleteness of information also raises opportunistic behavior committed by unscrupulous parties of the MFI; the field workers who provide guidance to the group actually conducting business on their own financing. The group that should be the bank's customer, is seized and financed solely by field officers. The incompleteness of information was also experienced by the micro business. Many micro businesses do not understand the position and the details of loan and their savings at MFIs, although the MFI actually has published book loan and deposit books. This happens because of lack of knowledge and experience of micro businesses interact in the context of financing, such as the one experienced by Ms. Louisa Lies Wally who does not understand the position and details of loan and savings at MFIs. The inequality of information on the part of customers can reduce the level of customer confidence in the MFI. The final effect would certainly harm the MFI itself.

4.2. Proposition 2

If there isn't any occurrence of an imbalance of information (asymmetric information) then: the government programs of empowering can stay in contact with the micro enterprises, the MFIs can identify the possible congestion of customer credit, opportunistic behavior of MFI field workers do not exist, and the level of customer confidence in the MFI can be maintained,

4.3. Findings 3

Mastery of Information in Agent Relationship. In association with asymmetric information, the study found some kind of agent multilevel relationships. The first level: the relationship between the government as the principal and the MFIs as the agent. The second level: the relationship between the MFI as a principal agency and the micro business as another agent. The problematic agency issue that occur between MFI and the micro enterprises is characterized by the existence of asymmetric information. Reference [15], describes the asymmetric information as a situation in which each party does not have the same information. Agent is positioned as a party who controls the information than that of the principal. This situation can further trigger a principal-agent problem. However, there is a draw on the findings of this study. The MFI as the principal is not always in a weak position to control the information. It turns out that the micro enterprises as agent are also weak due to having limited-rational mastery of information and lack of experience to interact in the context of financing.

4.4. Proposition 3

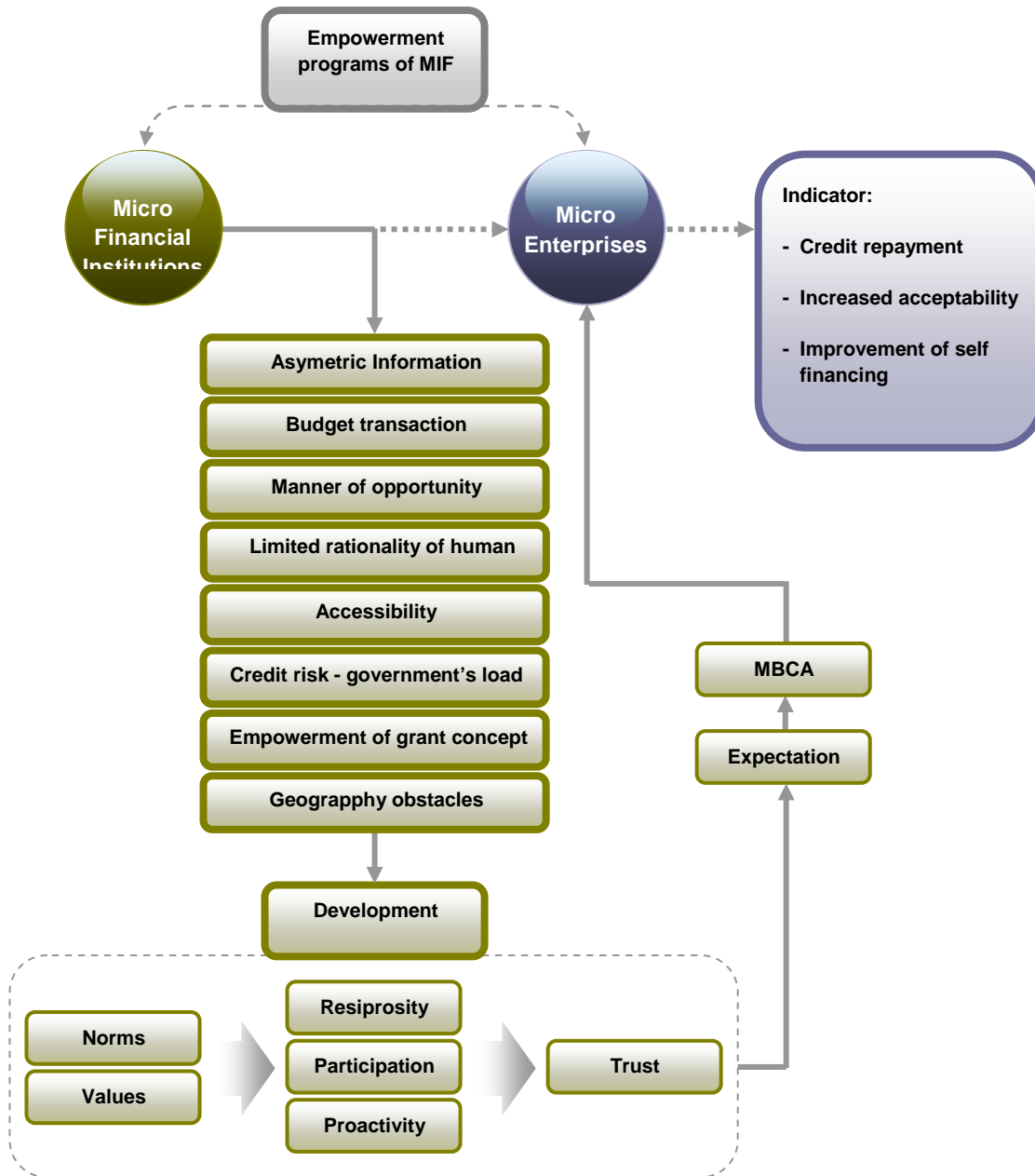


Figure 2: Theoretical Model Reconstruction for MFI's Social Capital Empowerment

The principal (MFI) is not always in a weak position controlling of the information. It turns out that micro enterprises as agent are also weak due to having limited-rational mastery of information and lack of experience to interact in the context of financing.

5. Conclusion

1. The MFI empowerment program of the Government of Jayapura Regency is the placement of funds in the form of clearing or fixed deposit in the executing bank. This was done because of the limited ability of the government human resources as program planners who do not understand the complex concept of financing, as well as the desire to introduce financial mechanisms especially to the common indigenous Papuans. Many obstacles hamper the empowerment program to succeed. Among others: (1) the imbalance of information on the

part of the government, MFIs and micro enterprises; (2) the existence of transaction costs due to the need for assistance process; (3) opportunistic behavior of mentored-field staff; (4) the limited ability of the government and the MFIs' human resources as program planners; (5) low accessibility of micro enterprises due to constraints of the MFI loan terms; (6) the credit risk borne by the government that certainly make MFIs and micro enterprises tend to act unprofessionally and dependently; (7) the empowerment program through grant concept also encourage MFIs and micro enterprises to act unprofessionally, and dependently; and (8) geographical constraints.

2. The development of social partnership program by the MFI within the framework of micro credit interaction with its customers is still lacking. Issues concerning improving, monitoring, and paying a visit, as a means of expanding social partnership to customers are not demonstrated in the field. MFI does not seem to understand the expectations or desires of its customers. This indicates that there isn't any close relationship developed with the customers. This can cause bad debts. In addition, lack of intensity in social interaction by MFI may cause a decline in customer confidence.

3. The potential of social partnership owned by the local micro entrepreneurs is quite high. Values such as collaboration, honesty, solidarity, cooperativeness, supportiveness strongly influence the daily social life of micro entrepreneurs. The entrenchment of these values can increase the capacity of the elements of social cooperation, such as trust, participation, reciprocity, and proactivity. The high capability of social partnership facilitates the process of shopping desired business groups in order to increase the accessibility towards funding sources. Internalization process through training and some kind of religious lecture facilitates vastly the function of social partnership of micro entrepreneurs.

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