International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2017, 7(3), 57-61.

Social Capital in Moneylenders Phenomenon in Blimbing Traditional Market Malang Indonesia

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ABSTRACT

A moneylender is a person who lends money at excessively high rates of interest. The moneylender is called loan shark. The reality shows that moneylender is still an important capital source for merchants. The aim of this research is to know the role of social capital (network, trust, and norm) on moneylender phenomenon. By using phenomenology, the result shows that: (1) Social capital makes merchants prefer using moneylender than formal financial institutions, (2) the more personal relationship that is part of a network makes moneylender is friendlier than the formal financial institution, (3) the intensity of interaction creates trusts that can substitute collateral, (4) moneylender behavior which is humanist is accepted by merchants as added value.

Keywords: Social Capital, Moneylender, Merchants
JEL Classifications: Z1, Z13, Z130

1. INTRODUCTION

Traditional market merchants in Indonesia have characteristics small merchant and identical with informal sectors. The limited of capital to their business become they need a loan from financial institutions. But they get a problem to a credit access informal financial institution. This is not surprising especially in less developed economies where small medium enterprise have limited access to credit (Distinguin et al., 2016). Moreover, they do not have access to formal financial institutions because of lack of collateral. The poor are often excluded from formal credits (e.g., Ray, 1998; Shoji, 2012), partially due to the lack of collaterals or guarantors (Yuan and Xu, 2015). Besides that, they must complete a complex and various requirements. Moreover, the requirements are difficult to be understood by the merchants. The other choice is moneylenders that impose very high-interest rate but easier to get a loan.

The response of the interest rates in the informal sector depends on the characteristics of both sectors such as the market structure in the informal sector as well as repayment schedule of the formal sector (Mallick, 2012). In monopolistic ally competitive market with free entry and one moneylender being an imperfect substitute for another, may cause the interest rates in the informal sector to rise because the induced new entry drives up the marginal enforcement cost of lending in the informal sector (Hoff and Stiglitz, 1998).

The main feature of formal financial institutions is a that is made in the form of a contract system. The difficulty of credit access in both formal institutions and nonbank financial institutions (pawnshops, cooperatives, etc.) create a gap for the informal sector to get for incredible market merchants. In this case, the informal financial institutions step to fill the area that is difficult to be reached by the formal financial institution. That chance is utilized by moneylender to create loan contract simply without any collateral. The moneylenders use social capital (trust, network, and norm) become basis on credit transaction. Unlike another form of capital, social capital inheres in the structure of relations between a person and among persons. It is lodged neither in individuals nor in physical implements of production (Olives and Kawachi, 2015). In this sense, networks, norms, and trust constitute a locally available "stock:" A composite asset that represents a community's capacity for cooperation and collective action (Levien, 2015).

Social capital is defined as informal forms of institutions and organizations that are based on social relationships, networks, and associations that create shared knowledge, mutual trust, social norms, and unwritten rules (Durlauf and Fafchamps, 2005; Shoji, 2012). On the other hand, households with poor access to a formal credit market may constantly invest in social capital to secure access to informal credit sources, because social capital improves credit market accessibility through social enforcement and social collateral mechanisms (Besley and Coate, 1995; Karlan, 2007; Karlan et al., 2009; Shoji, 2012). Then it is important to investigate how and why appears, and subsequently result in the decision to credit contract between moneylenders and traders. Moreover, while trust intensity has been used to explore the likelihood of coo-petition as a variable (Bouncken and Fredrich, 2012). The purposes research is an analysis of social capital to the loan contract and the second purposes are the influence of loan contract from moneylender for business by the merchant.

2. LITERATURE REVIEW

A social being humans always interact in individual or groups. The interaction that continually process will create an embedded condition. Embeddedness is created by economic action socially and attached in the personal social networks that are being developed among the actors. On the other side, the connectivity based norms of trust are called as "social capital." Social capital is defined as informal forms of institutions and organizations that are based on social relationships, networks, and associations that create shared knowledge, mutual trust, social norms, and unwritten rules (Durlauf and Fafchamps, 2005; Shoji, 2012).

Social capital has been defined as the resources available to individuals and groups through membership in social networks (Olives and Kawachi, 2015). The social capital is will be the replacement of credit guarantees on moneylender's credit contracts. This analysis proceeds from Portes (2000) observation that there are two distinct meanings of social: As social networks that convey benefits to individual or families, and as "stocks" of networks, norms, and trust adhering in larger social units that enable collective action for mutual benefit.

1. Trust. Trust in economic activity is very important because its presence can reduce expenses to conduct monitoring and enforcing contracts. Thus, trust that exists between the merchant and the moneylender will smoothen the credit. Therefore, trust can give benefits for both side, merchants trust can erase the guarantee and on the moneylender's side can reduce the costs of monitoring and minimizing the risk of bad debts.
2. Network consistently with the network approach to strategy (Hakansson and Snehota, 2006), scholars indicate that multiple and overlapping relational linkages in the larger network in which the firm is embedded, influence competitive tensions (Pathak et al., 2014). Network provide access to resources as the basic of important information. The network can facilitate both actors, for merchants, the network will allow merchants to obtain business capital. And for moneylender, the network of moneylender will facilitate in extending credit.
3. Norm. Norm is understood as shared rules that guide a person's behavior. Norm is formed through tradition, history, and charismatic figure that build a behavior or rule in society group. Norms are social rules that are not written and organized but able to prevent individuals from social deviations. In this case, if the merchant does not pay off debt can affects the social interaction and the impact to social functions.

3. METHOD OF RESEARCH

This study has used qualitative methods to explain clearly an empirical reality of moneylenders phenomenon. Qualitative research provides detailed description and analysis of the quality, or the substance, of the human experience (Marvasti, 2004). Besides that, phenomenology approach to explaining the experiences of one's life including interactions with other people. The main informants are merchant that have contract credit with moneylenders and actor of moneylenders. The object of research was conducted in Blimbing traditional market, Malang City, East Java Province, Indonesia because of full-time operational (24 h).

The type of collecting data is unconstrained, in-depth exploratory interview. In-depth interviewing is founded on the notion that delving into the subject's "deeper self" produces more authentic data. In-depth interviewers aim to gain access to the hidden perceptions of their subjects, or as (Johnson, 2002; Marvasti, 2004):

> "[In-depth interviewing] begins with common sense perceptions, explanations, and understandings of some lived cultural experience … and aims to explore the contextual boundaries of that experience or perception, to uncover what is usually hidden from ordinary view or reflection or to penetrate to more reflective understandings about the nature of that experience."

After that is coding process. A code in qualitative inquiry is most often a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of language-based or visual data. The data can consist of interview transcripts, participant observation field notes, and so on (Saldana, 2009). The last is validity data use credibility, transferability, and dependability.

4. RESULT AND DISCUSSION

A variety of economic and non-economic motives can affect a merchant's decision to have a credit contract with moneylender. The merchant reason usually motivated by the economic condition for business. On the other side, some of the merchant reason to have a loan from moneylender is motivated by their child's education fee. This is a statement from Mrs. Juwanah that become vegetable merchant:

"I borrow money from moneylender only to education cost my children."

The noneconomic motives are environment can be answered by the study of economic sociology. This is a statement by Mrs. Senik because she has often done a loan contract communication between herself with other merchants.

"I borrow in moneylender just imitating my friends."

The intensity of the interaction between the merchant will produce network. Thus, that the network information between merchants may affect the merchant's decision to contract a loan to the moneylender.

4.1. Network

Micro networks are intense social interaction will give birth to a social relationship. Moneylender trying to communicate with the merchants for offers loan. According to the economic principle that when the offer must be made by the demand. Supply loan from moneylender this was responded by merchants. When there is a response by the merchants formed the loan contract. The term moneylenders already become familiar to merchants in particular Javanese merchants. In Blimbing Traditional market, there are also "Bank Perkakas." In this below showed that difference of the work system in each institution.

First, local merchants get to know the type of loan as "moneylender." Moneylender running activity of loan every day around 7:30 a.m until 11:00 a.m. While the amount of money lent also diverse, from 50,000 up to 1 million rupiahs. While the interest, is charged to the merchant are also different. The installment payment system applied by moneylender from daily to monthly. Thus it would benefit merchants because merchants can adjust the loan installments with their circular business.

Second, merchants can also lend in the forms of goods such as a plate, pan, and other. In Javanese Called as "Bank Perkakas" because terms of goods which is credited and commonly referred to as "bekakas." The systems also offer goods using the proactive system. "Bank Perkakas" carry all goods offered in 1 day and for the next days or weeks only taking installment from the merchants. While for the price determination, "Bank Perkakas" is flexible and negotiable. The payments system on the "Bank Perkakas" also diverse from daily, weekly, and monthly. "Bank Perkakas" applied down payment system for expensive goods (more than 1 million rupiahs). Down payment system aims to reduce the risk of default or canceled credit (Table 1).

4.2. Trust

Inconsistency of merchant payment can pose a risk for moneylender before receiving profits. The inclusion of risk into the decision can be described with one word that is "trust."

a. Establishment of trust

Trust has generally been understood as the perceived credibility and benevolence of the target of trust (Doney and Cannon, 1997). Trust is not immediately formed between merchants and moneylender. The establishment of trust can cause by various factors, actions, or processes. Here are things that can establish of trust: First, processual trust emerged through a process of social interaction built by the merchants and moneylender. Trust is basis of collaboration or the "lubricant facilitating collaboration."

b. Upward and downward of trust and its consequences: The trust aims to capability assessment. This refers to the ability of the target to fulfill commitments, including competences and resources (Doney and Canon, 1997). Communication structure faced by the trust grantor can potentially affect the increase and decrease in confidence. But not just fall and rise of trust that happen.

In the Figure 1 shows that preference by the merchant to choose of moneylender type. 81.25% merchant choose moneylender, 18.75% choose "Bank Perkakas," and 6.25% choose both of them. The majority merchant choose of moneylender due to money more flexible to used based on need by the merchant.

4.3. Norm and Value

Norm is understood as something that is expected or unexpected, while the norm is understood as the rules. If applied to loan contract in moneylender, it can be explained in more detail as follows.

a. Maintain loyalty of loan contract with norm: Maintain a good relationship with someone can be done by keeping the values and norms that are believed by the public. Especially for moneylender to keep customer convenience and do not switch to another moneylender.

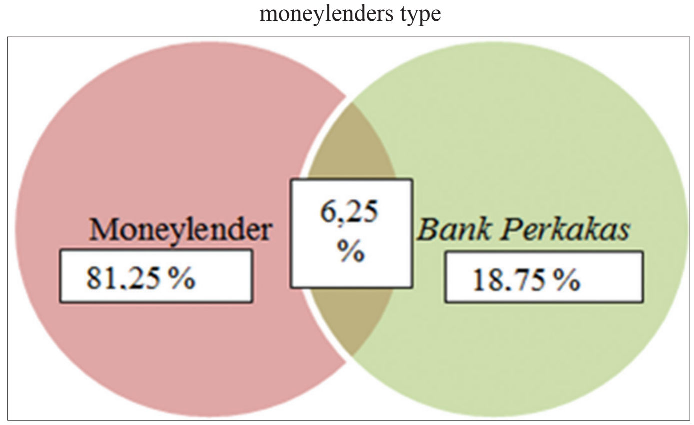
b. Difference contract regulation between moneylender loans and cooperative: In carrying out the action, the moneylender not the only institution that provides loans to merchants. But

Table 1: Difference of moneylender and "Bank Perkakas"

Explanation	Moneylender	"Bank Perkakas"
Transaction form	Money	Goods
Payment system	Daily, in 2 days	Daily, weekly, and monthly
Down payment system	Non use	Only for expensive goods
Bergaining system	Non negotiable	Negotiable
Range of interest rate	20% per month	More than 20% per month

Source: Author based on survey, 2014

Figure 1: The percentage of preference by merchants to choose moneylenders type



Source: Author based on survey, 2014

there are still other agencies which also involved in serving the capital merchants services, one of which is cooperative. The system is applied in the cooperative was not much different with moneylender system when viewed from the installment system, where it is also done every day. While the rules that distinguish moneylender with ease cooperative. The difference between the moneylender and cooperative can be seen in Table 2.

Based on Table 2 describes the differences of loan contract system between moneylenders and cooperative. The moneylender is without the requirement of collateral but the interest rate is high. Whereas of the is a collateral, but a low-interest rate.

4.4. Role of Social Capital on Loan Contract Moneylender

The relationship element of social capital is trust, networks, and norms are interrelated and influence each other.

a. Network for trust and efficiency: A network has been established between the merchants and Moneylender to give information for both the actors. Based on merchants side, the information provided charge and the interest rate.
b. The trust that binds network and norm flexibility. Trust born of such a network that processual trust. The trust building mechanism is precision. Fundamentally it is based on the assumption of continuing behavior in the future, while past behaviors provide premises for drawing conclusions. Actors refer to the extended and broader experience with a partner (Doney and Cannon, 1997). Then trust also had born of the network intermediary merchants who are next to them as the key information to the moneylender. Trust can backed-up by a third party who comes from the network. When mutual trust is formed then a negotiation occur.
c. Norm maintaining trust and network: In the loan contract is not only based on mutual trust but necessary rules that have been believed by the merchants and moneylender action.

Figure 2 describes the interlocking relationship between these elements of social capital. The network will be tied by the trust and maintained by the norm. A network will give embeddedness, and provide information that will give birth to an innovation. It is generated on the network will be bound by the trust through symbols, intermediaries, as well as third parties. However, only if there is a prior history of interactions, a memory of when introduction was made by trusted third parties, will information about experience and credence attributes be known beforehand (Huang and Wilkinson, 2013).

Then the network is already bound by the trust will be driven by norms through regulation, negotiation, value, and flexibility. Furthermore, the norm would maintain the network formed by the merchants and moneylender. Thus, the elements of social capital cannot stand alone, but there is a relationship between elements of the interrelationship with another element.

4.5. Implications Loan Contract to Business Continuity

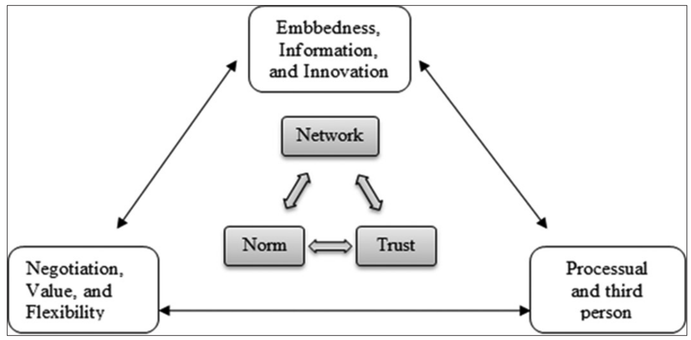
The impact to any merchants cannot be known exactly how this can affect their business because it is influenced by other factors. There are factors that affecting business depend on business

Table 2: Comparison between moneylender and cooperation

Description	Moneylender	Cooperative
Collateral requirements	Not required	Required*1
Admiration fee	Not charge	Charge*2
Money saving system	Not required	Required
Minimum limit of loan (rupiah)	50,000	500,000
Maximum limit of loan (rupiah)	1,000,000	5,000,000
Interest rate (% per month)	10-20	2.5
Term of loan (month)	1	1-3

Source: Author based on survey, 20141. 1 - Such as motor certificate or house certificate, 2 - the administration fee depend on amount of loan

Figure 2: The relation of social capital elements



Source: Author based on survey, 2014

continuity of merchants. Factors can be grouped into two: Internal and external factors.

Internal factors include the use of funds that the motive is not only used as capital to business but also used as children's education and others need. Additionally, confidence about not "blessing" and the latter is recording an irregular, with a bad system of registration, the merchants usually do not know if they get profits or loss. External factors include installment loans moneylender with high-interest rates, which caused relocation market and the rainy season.

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There are factors that affecting business depend on business continuity of merchants. Factors can be grouped into two: Internal and external factors. Internal factors include the use of funds that the motive is not only used as capital to business but also used as children's education and others need. Additionally confidence about not "blessing" and the latter is recording an irregular, with a bad system of registration, the merchants usually do not know if they get profits or loss. External factors include installment loans moneylender with high-interest rates, which caused relocation market and the rainy season.

5. CONCLUSION

Based on the formulation of the problem that has been made and the discussions that have been described, it can be concluded that the role of social capital makes merchants choose moneylender than the formal institution: First, the personal network makes merchants feel comfortable borrowing in moneylender. Besides, that innovation like "Bank Perkakas" are meant to keep the network. Second, trust was formed on mutual trust than default exists, it still negotiable. Third, the positive values and agreed norms become support so the loan contract can continue. The value to became something unique and different because it is a contrary to public perception about moneylender dominated by a negative perception. Moneylender encountered did not do confiscation if merchants delayed on payment. The Implications of loan contracts to the sustainability of the business merchants can result in surplus and deficit. It depends on the internal and external factors.

The recommendations are as follows: First, formal financial institutions should outreach to merchants in the administrative costs associated with the loan process. The socialization explained that administrative costs are charged when borrowing in the formal financial institutions is not a continuous one. Second, the access to credit for citizen should be continued in order to provide capital injections to the small merchants that do not depend on Moneylender. In addition, it needs to be disseminated to merchants that credit has no administration fee and penalty in case of delay in payment.

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