

RURAL CREDIT MARKET AND INSTITUTIONAL TRANSFORMATION: EVIDENCE FROM JEMBER REGENCY, EAST JAVA, INDONESIA

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Abstract

The Indonesian farmers still face some problems related to the limitation of resources such as a lack of capital to improve their production. Hence, rural credit markets are still needed as stimulants for agricultural production. Agricultural performances are characterized by a time lag between planting and harvesting, and farmers are typically faced with very little cash revenue during this period. All at once, expenditures for materials, purchased inputs, and consumption must be made in cash. The accessibility of credit allows both greater consumption and volumes of purchased inputs used and, therefore, increases the welfare of the farmers. This paper is intended to investigate the pattern of institutional transformation of rural credit access which existed in Klompangan Village and Jatian Village, Jember. This paper also explores pattern of institutional transformation by viewing economic actors of village as subjects. The method used in this paper was in depth-interview and focus group discussion (FGD) in purpose of obtaining information about the process of occurrence of institutional transformation on each study field. The analysis in this paper applied qualitative approach so that it could portray problems of institutional transformation deeply and holistically. The transformation of institutional for credit access existed in both of villages which studied, i.e Klompangan Village and Jatian Village. The role of informal credit institution are minimized rather than the past. Semi-formal and formal credit institutions take dominating part of the credit access on the villages. The transformation of the role of credit institution made consequences for the changing of rule of the game on the credit transaction as well as economic transaction on the villages. The dominating personal guarantee and flexible contract was decreased. Nowadays, the rural credit institutions tend to huge impersonal as well as applying formal contract system.

Keywords: credit access; rural capital; institutional transformation.

Introduction

The typical problems of Indonesian farmers related to the inadequacy of resources such as a lack of capital to develop their production. Consequently, rural credit institutions are still needed as stimulants for agricultural production. Agricultural performances are characterized by a time lag between planting and harvesting, and farmers are typically faced with very little cash revenue during this period. At the same time, expenditures for materials, purchased inputs, and consumption must be made in cash. The accessibility of credit allows both greater consumption and volumes of purchased inputs used and, therefore, increases the welfare of the farmers.

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The problem of access on rural financial institution made the complexity of explanation to run off some farmer's difficulties in agricultural production. Nowadays, in rural areas, there are still naturally two types of credit institutions: formal credit and informal credit institutions. Formal credit markets suggest mediation between depositors and lenders and charge relatively low rates of interest that are usually government subsidized [1]. Money in informal credit markets is lent by private individuals, professional moneylenders, traders, landlords, friends, and relatives. Another perspective in rural market was pointed out by Diagne (1999) which noted that formal and informal loans are imperfect substitutes in Malawi. In particular formal credit, whenever available, reduces but does not completely eliminate informal borrowing. This suggests that the two forms of credit fulfill different functions in the households with the respect to inter-temporal transfer of resources. The formal credit institutions are characterized by the following: (1) the loans provided are for long periods, on the average more than 1.5 years; (2) collateral is necessary before the contract is signed and the most important type of collateral is land secured by a legal certificate; (3) complexity of the procedure [3].

Meanwhile, in the aspect of theory, related to the rural credit market, we are also aware that rural institutional has a huge role to facilitate coordination and cooperation among communities in the use of resources and rules strengthened by sanctions by community members [4]. On other point of view, Uphoff (1992) and Fowler (1992) also state that institutional is "*a complex of norm and behavior that persist overtime by serving some socially valued purpose*". Moreover, in relation to factual institutional dynamics, institutional transformation is not often understood as a meeting process between economic actors or interest groups that can be considered merely as a natural process of the interest among the actors.

Klompangan Village and Jatian Village that became the research objects over the institutional transformation are situated in Jember Regency. However, in terms of social-economy, both of the villages have different sides, where Klompangan Village is better-developed than Jatian Village. Geographically, Klompangan Village is located in the southern part of Jember downtown which in majority is settled by people of Javanese ethnic, and Jatian Village lays in the eastern area which is dominated by those of Madurese ethnic.

Therefore, this paper is intended to investigate the pattern of institutional transformation of rural credit access which existed in Klompangan Village and Jatian

Village, Jember. In rural areas, there are typically dual types of credit institutions; formal and informal credit institutions.

Research Method

This research is a case study in Klompangan Village, District of Ajung and Jatian Village, District of Pakusari, Jember Regency, East Java in consideration that both of the villages are production centers of agricultural sectors in East Java, especially food and plantation plants. The research was conducted for 5 months intensively on the field by taking primary data.

Data resources used in this research consisted of primary and secondary. *First*, primary data primer were obtained through empirical research on a number of economic actors in rural areas. The data were gained by in-depth interview, participatory rural appraisal (PRA) and focus group discussion (FGD). Focus group discussion (FGD) was applied to analyze need assessment of farmers and multi-stakeholders that existed in village.

Qualitative method was used as analytical tool. Quantitative research is intended as a research whose findings are not resulted from statistical procedures or other forms of calculation. Qualitative method used was to investigate and explain something beyond a phenomenon which is not recognized at all [7].

Findings and Discussion

Credit Market in Klompangan Village and Jatian Village in Past Time

Farmers in Klompangan use existing sources of credit in the decade of the 1960s to meet the capital, among others Ngijon, Ondernemer, Lumbung Desa, and Bank Lumbung. Most farmers in the village of informal credit Klompangan is that of tobacco and Ngijon entrepreneurs. Most entrepreneurs are in fact a creditor with a model resembling *Ngijon*, the high interest and without collateral.

First, *Ngijon*. *Ngijon* are individual actors who have capital (money), which lends capital to farmers. Ease of accessibility is due in principle between the borrower and the lender had known each other, such as relationships, neighbors, business partners other kinship relations, and the closeness of personal/emotional. Special credit for sources obtained from money-lenders, the interest to be borne by the farmers are very large, reaching 30-40% each month. Model From this model, the most advantaged loans are the

creditors, because the interest received relatively high and installment payments received each month in the form of loan principal and interest only. While the debtor's most disadvantaged because of the burden of high interest, installments shall each month even though farmers usually have any money at harvest time, which is about 3 months.

Second, *Ondernemer*. *Ondernemer* a class of tobacco planters who usually do business with to lease the land to local farmers, and provide credit to farmers in the form of seeds and tools for the cultivation of tobacco. In one agreement, at harvest time the farmers had to sell tobacco to this group. Credit relationships between entrepreneurs and farmers of tobacco raises the penetration of capitalism (credit) in which the purchase of tobacco crop farmers at risk of the price game. In the most disadvantaged *ondernemer* system is the entrepreneur's own creditors or accept payment for capital and crops. While the debtor's most disadvantaged because of the land and the cultivation process until the harvest is an activity to pay for the capital that has been granted by the employer, and the crops had to be sold to the *ondernemer*.

Third, *Lumbung Desa*. *Lumbung Desa* originally is storage area cultivated rice with the community and village governments. *Lumbung Desa* serves to channel rice seeds to farmers during the planting season arrives). Interest rate of 20% is paid at the time of the season. Interest income is distributed freely to the poor. Along with the development, not only transmits the *Lumbung Desa* rice alone, but is in the form of money. In *Lumbung Desa* system, the party most benefited are the debtor because the payments are relatively old, which at the time of the harvest season, while creditors only received flowers and even then be distributed to poor farmers.

Fourth, the *Bank Lumbung*. *Bank Lumbung* is a response to community needs for capital goods not only in the form of rice per se, but it leads into a more flexible demand for capital, which money. The interest rate offered by banks is only 10% could be paid each week. In the *Bank Lumbung* system, the party most benefited are the creditors due payment every week, so that turnover money relatively quickly. While the debtor's most disadvantaged because of interest and installments shall each week when farmers usually have any money at harvest time, which is about 3 months.

On the other hand, the institutional credit market in Jatian in the past is very different from the phenomena in Klompangan. Financing sources in the village of Jatian in the past consisted of immediate family borrowed capital, the individual (*mebuduk pesse*) or credit union that is in the village. Credit system that most farmers in Jatian of informal

credit is mainly from *mebuduk pesse*. This is because *mebuduk pesse* here not only of a particular officer, but the owners of capital as landlords and merchants also became creditors with a model like loan sharks, which high interest rates and without collateral.

First, the *Model Family Loan*. In this system farmers obtain loans from close relatives that have excess funds that can be loaned to the needs of planting until harvest is complete. Lending capital to the family based as it is easier in the agreement and the rules there is usually no explicit sanctions. Another characteristic is the payback time is free at any time, meaning that the loan repayment can be done when the money was there or after harvest. Loans to the most disadvantaged families are the debtor, because the payback time is more flexible, no interest, no strict sanctions and without collateral. While lenders are most disadvantaged because they do not earn interest, the period is not clear and there is no strict sanctions.

Second, *mebuduk pesse*. In this system of interest to be borne by the farmers achieve 30-50% each month. Relationship debts will terminate if the debtor (the farmer) has paid all interest and principal. Although the provision of very high interest rates, but farmers rely more on money lender as a place to borrow money. There are four reasons why farmers continue to borrow to money lender. First, because of personal or emotional closeness. Second, the bureaucracy is not complicated so that farmers get the money fast. Third, there is an urgent need to not allow a borrower to directly access the loan shopped at formal credit institutions. Fourth, because of easier access to money lenders usually come to the farmers who need capital. In this system the most benefit from the lender or the lender themselves as receiving higher interest payments, payments received each month at no interest charge. While the debtor's most disadvantaged because of high interest charges, to pay each month even though farmers usually have the money at harvest time alone, more than 6 months.

Third, the Village Unit Cooperatives. In the village there are also financial institutions Jatian formal and semi-formal. One distinguishing feature of the formal financial institutions and semi-formal is the type of agreements made in the form of a contract system (contract system). The contract contains the rights and obligations of each party, such as collateral requirements or collateral (collateral), payment models (repayment), sanction (punishment), if one party reneges on the deal. In contrast, informal financial institutions is very easy, just rely on closeness between the personal, but there is no agreement or settlement of administrative requirements that are needed. In fact, the

credit mechanism did not use the contract system, because there is usually no collateral requirements and sanctions. With these characteristics, informal financial institutions are usually easier to be accepted by rural communities. Person who most benefited from borrowing in the model year 1960-1970 KUD's is the debtor, because the flexibility in its borrowing, especially borrowing agricultural fertilizer. KUD aggrieved party with the burden of losses caused by irresponsible borrowers.

Credit Market in Klompangan Village and Jatian Village in Present Time

In the credit market phenomenon in Klompangan at present there are a lot of credit institutions of formal and semi formal offer loans to people with varied flowers on bail or not bail is more flexible. Thus, the villagers now have a simple Klompangan in a matter of good credit credit credit small and medium scale, especially for those who strive in the trade. Sources of financing (credit) in the village today is Klompangan *Koperasi Simpan Pinjam (KSP)* and *Badan Kredit Desa (BKD)*. The role of financial institutions from time to time in helping the greater economic activity in the Village Klompangan, especially to farmers.

First, *Koperasi Simpan Pinjam (KSP)*. KSP Klompangan was originally called KSU. KSP can be accepted by society because of the process of borrowing at KSP is actually quite easy, which is based on trust and can return appropriate with the regulations, in addition, KSP loan interest rate is only 1% and is paid each week. Although interest rates are very low and the requirements are too easy, the borrower may not necessarily owe in large numbers. The number of loans in the KSP for the first time a maximum of 100,000, - rupiahs, if it can pay off on time and can meet the regulations, then the loan amount can then be added. However, the requirements are easily utilized by the borrower does not return to the principal and interest installments. This causes congestion KSP capital, and can eventually interfere with the process of granting further credit and bankruptcy.

Second, *Badan Kredit Desa (BKD)*. In village Klompangan BKD was first established in 1991 which is a mixture of the *Bank Lumbung* and *Bank Desa*. BKD forms of loans, among others: First, the weekly, which the form of loans repaid each week for 12 weeks, with an interest rate of 10% and a maximum loan of 400,000, rupiahs. Second, selapan (monthly), which form of loans repaid during the 5-10 months with an interest rate of 20% while the maximum loan of 500.000, - rupiahs. Third, seasonal, which the form of

loans that can be paid at harvest time arrived, with a 20% interest rate and maximum loan of 500,000, rupiahs.

Third, Jatim Bank. Jatim Bank marketing model now there are officers who went down to the ground. So the distance is not very influential on aksesabilitasnya. Most people who borrow at Jatim Bank is the big farmers and traders. As for the community (small farmers) are very difficult to access fatherly. This is because there are collateral requirements for customers who want to be able to credit. In addition, the process was complicated bureaucracy. As for the terms of which, a certificate from the village and land. In addition, there are officers who conducted the survey the condition of borrowers, both economically and socially, then a new process that takes a relatively long time in waiting for the release of credit. However, for people who want to get capital is relatively large, the bureaucracy as it is not very meaningful. Interest rates offered by Jatim Bank from the BKD is relatively low, amounting to 13.6%. Relatively low interest rates and a relatively large amount of credit is an alternative for the middle class and upper Klompangan Village.

Fourth, Informal Financial Institutions. Informal sources of credit for farmers is of the family. Models of this credit means more as a mutual help between relatives, rather than as debt. Informal financial institutions are fluid, the relationship between creditors and debtors are often personal, and almost no administrative requirement needed. In fact, the credit mechanism did not use the contract system, because there is usually no collateral requirements and sanctions. With these characteristics, such as financial institutions are usually easier to be accepted by rural communities

On the other hand, the credit market in the village of Jatian have a different system in the village of Klompangan. Jatian lending sources in the village at present include *Koperasi Simpan Pinjam* (KSP), Bank Rakyat Indonesia (BRI), *Badan Kredit Desa* (BKD) and money lenders. First, *Koperasi Simpan Pinjam* (KSP). The existence of *Koperasi Simpan Pinjam* (KSP) in the 1990's attracted enough attention Jatian. However, the existence of Credit Unions began to decline due to the breakdown of credit systems in the body of the cooperative. Second, Formal Financial Institutions (BRI). Residents who borrow at BRI is the big farmers and traders. However, the access to credit in this institution constrained by collateral requirements in demand for credit by farmers. Person who most benefited from the loans to the BRI is the big farmers which farmers who have large land area so that credit can be obtained easily. Third, *Badan Kredit Desa* (BKD).

Badan Kredit Desa providing individuals who need capital and individuals who need money for urgent enough. BKD does not provide credit to the agricultural sector, BKD credit is given to individuals who need capital for businesses or individuals who need money for urgent enough. If the loan is lent for agricultural activities, such as the purchase of fertilizer was not perceived as rotating credit or bad, so had to wait three months for the borrower to pay his credit. Interest is imposed equal to the Credit Unions by 20%. Fourth, Informal Financial Institutions. Money lenders are used by farmers during the rice planting time arrives, or when people need to *selamatan* event, wedding or otherwise. Interest rate applied is high enough to reach 50%. Money lenders have greatly benefited from low prices due to the small farmers' dependence on credit..

Institutional Transformation of Rural Credit Market in Klompangan Village and Jatian Village

Institutional Credit Markets Changes in Jatian and Klompangan paradigm in the past and present are caused by various factors thinking about interest rates, collateral, bureaucratic process, the loan amount and the repayment of the loan. Village Klompangan well show a shift in the role of informal financial institutions are beginning to dominate the party lender to the economic actors in rural areas, especially to farmers. The role of informal financial institutions has narrowed slowly its role and was replaced by a semi-formal institutions and formal. The shift is of course also affect institutional (rules) in credit transactions in rural areas. If the first system of rules tend to personal and flexible / not use the collateral (for not using the contract system), then the current credit transactions in the rural areas tend to be impersonal and use the contract (as well as collateral requirements) for the case of a relatively large loans. In the contract system is arranged on the rights and obligations of each party, including any penalty if one party violates the contract. Of course in this system the access of small economic actors (including farmers) to get credit to formal financial institutions has narrowed due to the availability of collateral as well as access barriers to information and bargaining power if there is a misunderstanding.

Meanwhile, in the village of Jatian in reality of the rural small-scale (subsistence) cause they do not have sufficient assets to use as collateral. As a result, their credit access to formal financial institutions is very limited. On the other hand, bargaining power and information of the rural population is very low causing is vulnerable to manipulation practices of financial institutions both formal and semi-formal. Form of manipulation that

vary, such as the imposition of higher interest rates than government policy and lending so late that the effort that has been planned. Another factor is the presence of asymmetric information (from the lender/loan to the borrower (borrower)). Any formal financial institutions have a limited ability to recognize the (ability) of each economy and business enterprises in rural areas so that they tend to be cautious in extending credit. the implication, formal financial institutions as collateral only to see lending criteria, because in case of their failure is still no risk of losing money lent (by way of executing the collateral). in the meantime, informal financial institutions in to fill the limitations that cannot be reached by the agency formal finance. for example, small-scale economic actors in rural areas (farmers, small businesses, fishermen, etc.) do not need to provide collateral to the middleman, moneylender, or a neighbor/friend.

Conclusion

The transformation of institutional for credit access existed in both of villages which studied, i.e Klompangan Village and Jatian Village. The role of informal credit institution are minimized rather than the past. Semi-formal and formal credit institutions take dominating part of the credit access on the villages. The transformation of the role of credit institution made consequences for the changing of rule of the game on the credit transaction as well as economic transaction on the villages. The dominating personal guarantee and flexible contract was decreased. Nowadays, the rural credit institutions tend to huge impersonal as well as applying formal contract system.

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