

The Effectiveness of Lumbung Pith Nagari on Social Capital Based As a Local Financial Institutions in West Sumatra

Dahnil Johar

Lecturer of Management Studies Program, Faculty of Economics & Business, University of Bung Hatta Padang,
West Sumatra-Indonesia

1. Introduction

Activities in the rural economy is still dominated by the efforts of small scale farms with the main actors of farmers, farm workers, traders and agricultural inputs, agro-processing, and household industry. However, businesses in general are still faced with the classic problem of the limited availability of capital, capital constraints may limit the movement of agricultural activities in the rural sector (Hamid, 1986).

In the long term, the scarcity of capital could be the entry point of the chain cycle of poverty in rural farming communities that are difficult to break. Although the incidence of poverty is factually not limited by spatial and sectoral aspects, but it is undeniable that the majority of the poor live in rural areas and generally work in the agricultural sector. According to Central Bureau of Statistic (BPS) , the number of poor in 2012 reached 29.31 million people and as many as 18.48 million (58.8%) of them work in the agricultural sector.

Weak capital economic actors in rural areas has been recognized by the government, the state government has launched several programs for credit to farmers and small farming businesses. Starting with the credit Bimas 1972, then followed Credit Small Investment (CIC) and the Permanent Working Capital Loans (KMKP), Project Income Farmers / Fishermen Small (P4K) Farmer Business Credit (KUT), and to this day still occurred People's Business Credit (KUR). Although the government has implemented a variety of loan programs, but the achievements of results are deemed still not in line with expectations. This is reflected in the performance of financial institutions has not been satisfactory, especially in the financial institution as the executor.

According Martowijoyo (2005) weak performance of financial institutions as a financial intermediary can be seen from three aspects: (1) low levels of loan repayment; (2) low morality executive officers, and (3) low levels of mobilization of public funds. The weaknesses has consequences for not continuing financial institutions set up after the program is completed. As a result, program participants will generally re-experiencing a shortage of capital.

To answer the problem of lack of capital and banking institutions are less accessible to small farmers, it is necessary to further optimize the potential of financial institutions that can be an alternative source of funding for farmers and rural communities. One of the financial institutions that can be exploited and encouraged to finance micro segment is the Informal Financial Institutions (IFIs), yet can not be used optimally.

IFI built by individuals able to exist and contribute to serving the needs of capital in low-income communities in rural development although in these institutions received government assistance. Existence IFIs could play a role in serving the needs of rural small and medium enterprises, although it is still limited in the scope of a particular group. This indicates the existence of internal capital mobilization in the communities of farmers / rural, so the issue of small and medium business capital is not always only be overcome by relying on external capital mobilization (government)

Subandi (2007) said the success of microfinance institutions is influenced by several factors, namely; (1) each institution usually makes its own concept of credit in accordance with the conditions in which the institution is located, (2) the ability to foster a sense of kinship among members raises openness, and those who receive loans are really in need, (3) beliefs, dogma and or certain myth that states that the poor will have difficulty in repaying the loan.

This dogma was still firmly attached among lenders both formal and informal, including the government. These conditions are characterized by making rules which in principle is for securing a loan, but on the other hand a constraint that is very burdensome for employers farmers in low-income and (4) the main factors that hinder the success of microfinance institutions to finance farming is not to include an element of social capital in calculus analysis.

In economic development, Dasgupta and Serageldin (1999) argues that social networks can affect economic progress because it contains a trust which is an important element in the network. The importance of this element of trust in social networks is also proposed by Fukuyama (1995), in which case he is more focused on the social capital of the trust as a key factor in mediation to reduce transaction costs in communities and enterprises that enable people to work together more effectively.

Fukuyama (2002) argues that social capital that focuses on the importance of the relationship in economic affairs. Furthermore, it is said that the companies, regional industry and the national economy can function more efficiently if there is mutually respectful and the trusting relationship between citizens.

Fukuyama of view, can be said that the formation of social capital can contribute to economic development because of the network, norms, and trust in them. World Bank (2003) said that social capital is particularly relevant for the economic development of a country, because social capital is a recipe for raising the economic prospects of communities and nations, including improving educational facilities and health, development of competent and accountable political institutions. Besides social capital can encourage the emergence of a free market in the global economy. An increase in education for example, has led people in developed countries more developed.

Putnam (1993), has also shown evidence that economic growth is positively correlated with the presence of social capital. Economic development in a community and economic development of rural (village) would be good if the following characteristics are owned by the economic actors in a synergy between the activities of the community, namely: (1) presence of close relationships in a village with other village between members people, (2) The presence of leaders who are honest and egalitarian who treat themselves as part of a community, not as rulers, and (3) The existence of mutual trust and cooperation between elements of society.

Social capital is defined quite diverse. World Bank (1999) defines social capital as the institutions, relationships, norms that shape the quality and quantity of social interaction. He became an adhesive between community members to one another. According to Fukuyama (1999), social capital is a norm that appears informally underlying cooperation between two or more individuals. Norms or social values as a basis of cooperation and glue each member of society in social relations.

Sculler (2001), Putnam (2000), Woolcock (2000), Cohen and Prusak (2001) agree that these norms, not only as a basis or adhesive relationship amongst members of the public, but it contains an active relationship people includes trust, mutual understanding, and behavior as well as the shared values that bind each member involved. People who have social capital more easily work together towards a common interest in the field of social and economic good, compared with people otherwise.

Hayami and Kikuchi (1987) says that the norms and principles of traditional facilitate the community to act collectively achieve economic progress, and he also said that the villagers are already accustomed to regulate any economic activity by facilitating coordination in the use of scarce resources through customs and institutions. Collective action is a must for rural communities to provide for the needs / interests together is both physical, such as roads, irrigation systems, and others as well as institutional, ie rules and regulations.

One manifestation of the values of social capital is in the rural community of collective capital formation. Collective capital is a source of internal capital that plays an important role when people have difficult access to external capital sources.

In the study Nuwirman (1998) and Zakri (2001) mentions the raising of capital in the form of principal savings, mandatory, voluntary or sadaqoh (given) in activity of align group institution and Lumbung Pitih Nageri (LPN) in West Sumatra.

Communities that have a high social capital will open up the possibility of resolving the complexity of the problems more easily. Mutual trust, tolerance, and they can build networks of cooperation both within community groups as well as with other community groups. Traditional communities, are known to have an informal relationship that is generally strong and has the values, norms, and collective ethics as an interconnected community. This is social capital which can encourage the emergence of modern organizations with the principles of openness and informal networks within communities can autonomously develop the knowledge and insights with the aim of improving the welfare and quality of life together in community development framework.

In general, the ability of social capital (social relationship) is still strong and entrenched in the countryside including the willingness and mutual assistance in the execution of farming. Agricultural development will succeed if the farmers as the subject of development passionate and motivated to work hard, the motivation will

foster creativity farmers and cooperativeness among them which in turn foster social capital that has guaranteed the successful application of agricultural technologies for sustainable agricultural development in the future

Study of Chaves and Gonzalez-Vega also revealed that the Village Credit Institutions (LPD) Bali involving agents of the village in their credit granting system is commonly called the techniques of credit based on the characters. Further Chaves and Gozales-Vega said that lending based on character and local control is efficient to avoid the possibility of a loan was not returned.

Snow stated that sustainable MFIs are always together and linked with existing local institutional network. Therefore, IFIs must be socially constructed, namely that environmental, social and economic arrangements must be made to meet the specific purpose (Cernea, 1993). Cernea (1993) says that the failure of many projects due to have ignored the social factors such as social action, relationships with others, institutional arrangements, cultural, pattern, unity, honesty, values, customs and religious values that regulate behavior they are in an institution.

Other institutions have managed to take advantage of local institutional as financial intermediaries with rural communities is a non-bank credit institutions such as LPD in Bali and Lumbung Pith Nagari (LPN) in West Sumatra. The purpose of the institution is a financial intermediary for the rural poor (Robinson, 2001).

LPN concept was developed at the Institute of Rural Village (Lembaga Perkreditan Desa/LPD) in Bali with management fully empowering indigenous peoples, because by empowering indigenous peoples would be affected beneficiaries customary sanction if the problems in the credit worthiness and the way that brought LPD Bali so evolved. Finally the question, why LPN who had died in West Sumatra, but then grow and develop in Bali?.

2. Research Problem

IFI models that exist in rural areas can be divided into Individual Financial Broker and financial Financial Self-help Groups (Korpp, 1989). IFIs in the form of individual financial intermediaries are very dominant in the countryside (Wharton Jr., 1973; Gammel, 1994; Hayami and Ruttan, 1971) and generally exploitative (Mubyarto, 1990; Ahmad, 1991). While the IFIs in the form of self-help groups (SHGs), although relatively less dominant (in the restricted group), ut are able to exist in serving the credit needs of small and medium-sized enterprises are not exploitative, as Julo-Julo (Zakri, 2001) and a group of joint venture (Nuwirman 1988). The agency is able to meet the credit needs of people who are not able to access credit sources LKF.

The ability of IFIs play a role in rural areas because these institutions grow from the community and has a joint capital (Acharya et al, 1992; Quinones Jr., 1992) based on the social values developed in the community. Even at the Kongsi Group in West Sumatra are social values, customs and religion in financial management (Nuwirman, 1998). This is in accordance with the lifestyle of the people Minangkabau "Custom based on Syari'a (Adat Basandi Syarak/ABS), and Syariah Base on Alqur'an (Syarak Basandi Kitabullah).

Based on the above phenomenon can be formulated research problem as follows:

- a. Why Informal Financial Institutions can survive in the long term and play an effective role in serving the needs of capital UTK in rural areas?
- b. How Informal Financial Institutions applying social capital in enhancing the role of microfinance institutions to serve the needs of capital UTK?

3. Research Objectives

In accordance with the research problem as formulated above, the purpose of this study is:

- a. Identify the factors that influence the IFIs can survive long-term presence and play an effective role in serving the needs of capital UTK in the countryside.
- b. Explain how financial institutions can utilize the Informal Social Capital element in improving service to the UTK.

4. Review of Literature

4.1 The concept of Financial Institutions

To understand the definition of financial institutions clearly need to put forward some definitions by several experts, including a financial institution as an institution that launched the exchange of goods and services with the use of money or credit, help channel the savings of society that excess funds to community in need of funds. Then Seibel (1996) more clearly defines financial institutions as a body that collects funds, give credit to the public or equity participation, as well as doing more than one activity mentioned above at once.

In the money market commonly known as the two-term formal and informal financial institutions, although between these two institutions are the term semi-formal financial institutions (Seibel 1996; Kropp, 1989). Formal and informal use of the term in the rural credit market researchers are widely used in various studies, but still a bit of literature that suggests about formal and informal sense of the term.

In this context simply they emphasize the importance of the law or any official government permission in the use of formal and informal term for rural financial institutions. According to Formal Financial Institutions (LKF) is when a financial institution is a legal entity and has official permission from the government. Instead say Informal Financial Institutions (IFIs) if the financial institution has not been / is not a legal entity or does not have official permission from the government.

In contrast to Kropp (1989) distinguishes LKF by the IFIs with emphasis on aspects of whether there oversight of government (central bank) to the financial institution or not. According to the financial institution can be classified into LKF if these institutions are under the supervision of the government or the central bank. Conversely, when not under supervision of the government or the credit transaction is not subject to the laws or financial policy / government credit, the institution is classified into IFI.

Microfinance institutions are program loans for small amounts to the poorest to finance the project he's working on his own in order to generate income, allowing them to care for themselves and their families, "Programmes extend small loans to very poor for cell-employment projects that generate income , allowing them to care for Themselves and their family ". Microfinance Institutions (MFIs) in Indonesia according to the Asian Development Bank and the World Bank (Gunawan, 2007) has a main characteristic, namely; (1) provides a variety of financial services that is relevant or appropriate to the real needs of the community, (2) serve low-income communities and (3) using the procedures and mechanisms for contextual and flexible to make it more easily accessible to poor people in need.

Microfinance institutions have the most obvious advantages, the procedure is simple, without collateral, to do that liquid (personal relationship), and a flexible repayment period (negotiable repayment). It is in accordance with the characteristic traits of economic actors in rural areas (particularly in agriculture) which have limited assets, low levels of education and income irregular cycles (depending on the harvest). Rustic character like that are captured well by actors microfinance institutions, so easily accepted by the existence of small communities. The main drawback of microfinance institutions, the loan interest rate is very high, its existence should be corrected because the poor tend to be exploitative.

Government regulation can design by limiting the interest rate, or expand the poor's access to formal credit so that in the long term interest rate microfinance institutions will be depressed. This model should be adopted so that the interests of small communities are not harmed.

MFI presence is needed at least for two reasons (Pantoro, 2008). First, as one of the instruments in order to overcome poverty. Poor people generally have a micro-scale enterprises. Terminology World Bank, they are referred to as economically active poor or micro entrepreneurs. In the configuration of the Indonesian economy, more than 90% of business units are micro enterprises.

Develop micro-scale enterprises is a strategic move as it will realize the broad bases development or development through equity. They require capital in order to develop its capacity. The effort to increase (become small-scale enterprises), will effectively address the poverty suffered by themselves and expected to help people in the poor category.

4.2 Role of Social Capital

In the view of economics, capital is anything that can be profitable or generate capital itself can be divided into (1) capital in the form of material such as cash, buildings or goods; (2) the cultural capital in the form of educational quality; cultural wisdom; and (3) social capital in the form of togetherness, social obligations that were institutionalized in the form of common life, role, authority, responsibility, reward systems and other attachments that generate collective action.

Coleman (1988), social capital is inherent in the structure of relationships between individuals. The structure of relations forming a social network that creates a wide range of social qualities such as trust, open, unified norms, and assign various types of sanctions for its members. Putnam (1995) defines social capital as "features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit".

Social capital is the glue for each individual, in the form of norms, beliefs and networks, resulting in mutually beneficial cooperation to achieve common goals. Social capital is also understood as knowledge and understanding shared by the community, as well as patterns of relationship that allows a group of individuals doing one productive activity. In line with what is proposed World Bank (1999), social capital is defined to the institutional dimension, relationships are created, norms that shape the quality and quantity of social relationships in the community. Social capital did not mean only a number of institutions and social groups that support them, but also social glue which maintain the unity of the group as a whole.

Lesser (2000), social capital is very important for the community because it (1) provide easy access to information for members of the community; (2) into a media power sharing or division of power in the community; (3) to develop solidarity; (4) allows the mobilization of community resources; (5) allows the achievement of joint; and (6) shaping the behavior of togetherness and community organization. Social capital is a commitment of each individual to open with each other, mutual trust, give authority to any person who chooses to act in accordance with its responsibilities. This means generating a sense of togetherness, solidarity and responsibility at the same time will progress together.

Togetherness, solidarity, tolerance, spirit of collaboration, the ability to empathize, the social capital inherent in social life. The loss of social capital can be ensured unity of the community, state and nation will be threatened, or at least the collective problems will be difficult to resolve. Togetherness can ease the burden, share thoughts, so you can bet the stronger the social capital, the higher the resilience, fighting spirit, and quality of life of a community. The absence of social capital, the community is very easy intervention even destroyed by outsiders

Specifically World Bank (1998) provided a focus of attention in the assessment of the role and implementation of social capital and the possible contribution in the process of poverty reduction, especially in developing countries. The role and position of social capital in the community daily activities also have been studied more intensively by experts from various scientific viewpoints among others, from the perspective of agro-eco system, economics, sociology, politics, anthropology and psychology.

As in the classical understanding in general, physical capital has been considered a major contribution in the process of production and development, but currently there are several types of capital Among other form of human capital, institutions and social capital that also has received greater attention and wider.

Experts already believe and agree that the capital-capital that deserves more serious attention to more than just the conventional capital in the form of physical capital. Understanding that non-physical capital that has the ability to make a significant contribution in the process of social and economic development of society has been increasingly widespread. This is in line with the views Georgi (2003) which basically concluded that social capital includes individual talents, the accumulated knowledge of society, and society's forms of interaction, organization and culture can make a significant contribution to economic growth and development of society.

4.3 Definition of Social Capital

Fukuyama (1995) illustrates the social capital in the trust, believe and *vertrauen* means that the importance of trust rooted in cultural factors such as ethics and morals. Trust appears then the community share a set of moral values, as a way to create a common hope and honesty. He also stated that the associations and the local network really has a positive impact on economic welfare and local development and plays an important role in environmental management. James S, Coleman (1999) asserts that, social capital as a tool for understanding social action that combines theoretical perspectives of sociology and economics. This notion was reinforced by Serageldin (1999) that social capital always involves the community and make people appear not only on the interaction of market and economic value. Serageldin provides a classification of social capital among others:

- Social capital in the form of social interaction that is durable but unidirectional relationship, such as teaching and social interaction trade relationship was reciprocal such as social networks and associations.
- Social capital in the form of social interaction effects are more durable in the direction of such a relationship of trust, respect and imitation are in the form of a reciprocal relationship such as gossip, reputation, pooling, social roles and coordination, all of these contain high economic value.

Simple and general conclusion that can be raised about the main elements of social capital includes norms, reciprocity, trust, and network, Fukuyama (1995). The fourth element is a significant influence on the behavior of co-operation to achieve the desired results, which could accommodate the interests of individuals and groups who cooperate collectively. In real in everyday life, if examined in depth, all the behavior of socio-economic activities of local community members embedded in networks of social relationships.

To provide a general description of the social capital, some sense and the basic elements and their source are summarized in Table 1. Through in-depth study could conclude about the meaning and the role and contribution of social capital in the economic development of society.

Table 1. Definition and Basic Elements of Social Capital

Sources	Definiton and Basic Element of Social Capital
Coleman (1988)	Social capital consists of some aspects of social structures, and they facilitate certain actions of actors--whether persons or corporate actors--within the structure
Putnam et.al (1993)	Features of social organization, such as trust, norms (or reciprocity), and networks (of civil engagement), that can improve the efficiency of society by facilitating coordinated actions
Narayan (1997)	The rules, the norms, obligations, reciprocity and trust embedded in social relations, social structure and society's institutional arrangements which enable members to achieve their individual and community objectives
Uphoff (1999)	Social Capital can be considered as an accumulation of various types of intangible social, psychological, cultural, institutional, and related assets that influence cooperative behavior
Dhesi (2000)	Shared knowledge, understandings, values, norms, and social networks to ensure the intended results social capital includes the institutions, relationships, attitudes and values that guide and drive the interactions among people and contribute to social and economic development.
World Bank (1998)	Social capital is not as simple as just as the sum of the institutions established by the community, but also the underpinning that unites them together. Social capital includes shared values and rules for social conduct expressed in inter-personal relationships, trust and a common sense of responsibility to society, all these things make the public more than just a collection of individuals.

Sources: Coleman (1988); Putnam et.al (1993) ; Narayan (1997); Uphoff (1999); Dhesi (2000); World Bank (1998)

Social capital and trust can create and enable economic transactions become more efficient by providing the possibility for the parties concerned to be able (1) to access more information, (2) allowing them to mutually coordinate the activities in the common interest, and (3) can reduce or even eliminate opportunistic behavior through transactions that occur repeatedly in a long period. Is inherently social capital contains a social sense. Almost all forms of social capital are formed and grow through a mix or combination of actions of a few people. Social capital will be growing and growing when used together and instead will decline or even a decrease in extinction and death if not used or institutionalized together. Social capital can not be transferred fully automatically from generation to generation like a genetic inheritance in terms of biology. Referring to Fukuyana (1995) there are three parameters of social capital are:

a. Trust

As explained Fukuyama (1995), the belief is growing hope in a society that is shown the behavior honest, orderly, and cooperation based on norms adopted together. Social trust is the application to this understanding. Cox (1995) later noted that in communities that have a high confidence level, social rules tend to be positive, relationships are also collaborative. Social trust is basically a product of good social capital, the social capital that is well characterized by the existence of social institutions were sturdy, social capital gave birth to a harmonious social life (Putnam, 1995). Damage to social capital will lead to anti-social behavior (Cox, 1995),

lack of social capital in financial institutions will lead to customer relationship with the manager of the institution will not trust each other.

b Norma.

The norms consist of understandings, values, expectations and goals which are believed and run together of religious, moral guidelines, and standards seem secular ethical code profesional. The norms are built and thrive based on the history of cooperation in the past and implemented to support the climate of cooperation (Putnam, 1993, Fukuyama 1995). The norms can be a precondition nor a product of social trust.

c. Network

Lenggono (2004) describes the notion refers to the network of social relationships on a regular, consistent and longstanding, that relationship not only involves two individuals, but many individuals. Relations between individu will form a social network as well as reflecting the social groupings in the community life.

Dynamic infrastructure of social capital is formed in the form of networks of cooperation between humans (Putnam, 1993). The network facilitates communication and interaction, enabling the growth of trust and strengthen cooperation. Healthy communities tend to have social networks are robust, they then build a strong interrelationship both formal and informal (Onyc, 1996). Putnam (1995) argues that social networks will strongly reinforce the feeling of cooperation among its members as well as the benefits of the participation.

5. Results and Discussion

LPN Pulau Mainan, 62.8 percent of the savings collected as a source of collective capital. In other words the contribution of members of LPN highest source of funds in savings (62.8%) of total funds raised.

The large amount of savings (62.8%) at LPN Pulau Mainan is an indication that there is a potential surplus of small farmers' income. This allows the potential presence (LPN) can exist and act by relying on the mobilization internal capital, so it does not have to depend on government capital resources. It means that even without external capital mobilization (government), LPN Pulau Mainan can exist and act effectively serve the needs of credit and at the same time increase the income of farmers in the countryside.

If such a condition in the LPN Pulau Mainan can survive and thrive, it is expected to help farmers to meet the shortage of capital in the development of micro enterprises, so that the development of micro-enterprises will be able to improve the welfare of the micro entrepreneurs / farmers and ultimately will improve the bargaining position of farmers themselves ,

On the other hand the success of LPN Pulau Mainan role is to UTK because this institution is a local institution, built and managed by small farmers, as well as be used for small farmers themselves (indigenous institutions). Institutions do not depend on outside parties, especially government intervention, but rather on the basis of collective action with the values of social capital (trust, networks and norms) that they form and stick together.

From the above, it can be concluded that there are three important factors that led to the LPN can survive and contribute effectively to serve UTK rural namely:

a) The element of trust.

The nature of mutual trust between members and managers cause LPN easily accessible by UTK for cooperation and mutual trust based on the suitability of the characteristics of the institution with the characteristics of farming. Characteristics institutions characterized by UTK as the main target of credit services, procedures and administrative requirements are relatively simple, does not apply collateral, repayment system is relatively lightweight and flexible, and easily accessible location. While the nature and dynamics of UTK is characterized by limited land area, there are sharecroppers, and the business is seasonal. While the dynamics of UTK include reliance on credit loans, no collateral, and is only able to access credit at low interest rates and can be obtained easily and quickly.

b) Effectiveness Network.

A network of cooperation among members resulting in effective credit services at LPN thus obtained credit UTK felt by both the credit needs as well as increased revenue (LPN Pulau Mainan). This is in addition determined by the procedures and requirements of easy administration, the system returns a lightweight and flexible, and the absence of collateral requirements also by the board's role in managing and supervising the use of credit as well as to motivate members to participate in advancing the institution belonging to the community to support the process of improving the welfare of farmers.

c) Elements of Norma

Success in internal capital mobilization particular cause LPN. LPN Pulau Mainan has a major capital source of the initial capital and savings deposits (11.1%) in 2012 with the amount of wealth has reached 14 billion more, so as to empower UTK well in meeting the needs of capital and an increase in revenue without relying on external capital mobilization, especially from the government.

Of the three factors (trust, networks and norms), has a fundamental role, thus becoming a key involvement of LPN effectively serve UTK. financial contributions of members in the mobilization of internal capital as shown in Table 2 below:

Table 2. Financial Contributions Member in the Internal Capital Mobilization at Lumbung Pitih Nagari Financial Institutions, Years 2012

Institution	Kind of Contribution	Amount of Contribution/persentase	
		Nominal	Persentase
LPN	Paid-up capital	1.804.650.000	11,1
	Saving	10.144.773.46	62,8
	Time Deposit	691.500.000	4,2
	Capital Reserves	770.577.847	4,8
	Other liabilities	2.756.824.847	17,1
	Amount	16.168.326.15	100
	NPL		2 %

Activities of the institution, especially the establishment of institutions, borrowing and loan repayments, and the mobilization of internal capital based on the values of social capital through mutual no trust between management and members, the formation of a network of cooperation that led to the high level of participation of members towards the development and sustainability of the institution, as well as adherence to the norm defined collectively, as a factor causing the growth of local institutions (LPN) independent and sustainable

The high amount of savings is indicative of the mutual trust between the agency board members, this condition reflects a high sense of the institution, so as to build a sense of participation of all members of the desire of members to develop and increase the independence of the institution. None indicator of the low level of performing loans (LPN) / loans (2%) also describe compliance and adherence to the norms prevailing in the institution is established, implemented and monitored by its own members.

LPN compatibility between the characteristics of the nature and dynamics of UTK as a result of the confidence, networks and norms lead this institution capable of acting effectively. UTK is the object of service is characterized by farming with limited land, and cultivated their own land, and crops that are seasonal. In terms of the dynamics of farming, farmers are very dependent on loans as the main source of capital, but do not have a mortgage, and is only able to access low interest loans and easy to obtain.

Credit services performed by the administrative procedures and requirements are relatively simple and straightforward and does not require providing collateral, the loan bears interest at a low (12%) per annum and affordable by UTK, credit payment system is very simple and easy. Such services based on the values of social capital (trust).

Values underpin lending credence to members without collateral, loans granted bail only on the basis of trust and honesty (social collateral), while the value of togetherness and cooperation is reflected in the participation of formulating or deciding the rules of credit services between management and members. Ease of servicing such loans indicates that the LPN is more oriented to meeting the needs of capital and improve the living standards of farmers / members as well as the independence of the institution.

The existence and role LKPN intended to provide credit facilities for the UTK and simultaneously build / develop sustainable and independent institution (availability and attainability oriented).

Independence and sustainability LPN built through collective action form the source of capital. This collective action based on the values of social capital (social capital) that live and thrive in the community. LPN, the values of social capital serve as the basis / foundation of collective action to build and manage the institution effectively. LPN Toy Island, built on the basis of the wishes and community initiatives, without the direct intervention of government or other parties.

More involvement of the relative values of social capital at LPN due to more members are involved in various activities of the institution. This corresponds well with the nature of the institution as a local institution, so that members feel has the institution. While the role of religious values and customs in this institution, in addition to the desire and mutual awareness between the board and members to apply religious values and customs to meet venture capital together without getting involved with the issue of usury, is also influenced by the position of the majority of the board LPN which also serves as caretaker of the mosque and indigenous stakeholders (ninik Mamak).

Government intervention in the LPN, are relatively small and are not directly only in the form of grants / scroll and coaching. Whereas in the form of regulation is not found. Although, never received grants / revolving of the government that are beneficial in the capital increase, the institution is not positioned such assistance as a destination and a source of capital that can create dependency.

Institutions capable of mobilizing capital from members / citizens in the form of savings, compulsory savings and special savings / volunteer can become a pile of collective capital which is used as the primary source of capital in the credit granting members. This causes the LPN is not dependent on the government, so as to exist and contribute to UTK by independence sources of capital. This condition indicates that the existence and role of these institutions can be built on the basis of internal forces (internal mobilization) through collective action in the form of internal capital mobilization.

From the foregoing, it is clear that the fundamental existence, role and development institutions show perspective built and managed by small farmers and used for the benefit of small farmers themselves (indigenous institution). In other words, these institutions exist and thrive because of the internal forces (internal mobilization) in the form of internal capital mobilization based on the social capital that is integrated with the values of religious and traditional values.

6. Conclusion

Based on the results of research and analysis conducted, it can be concluded that there are three important factors that led to the LPN can survive and contribute effectively to serve UTK rural namely:

1. Element Trust

The nature of trust between members with members and between members of the board resulted in the formation of a network that allows the formation of mutually beneficial cooperation between members to achieve a common goal. These conditions affect the suitability of the characteristics of the institution with the characteristics of the nature and dynamics of UTK, this condition causes the LPN is easily accessible by UTK. Characteristics institutions characterized by UTK as the main target of credit services, procedures and administrative requirements are relatively simple, does not require collateral, the system returns a relatively lightweight and flexible, and easily accessible location. While the nature and dynamics of UTK is characterized by limited land area, there are sharecroppers, and the business is seasonal. While the dynamics of UTK include reliance on credit loans, no collateral, and is only able to access the credit that does not bloom / low interest and easy to obtain.

Ease of access of farmers to financial institutions led to successful farmers in the implementation of agricultural activities. This condition indicates that the character of financial institutions in accordance with the characteristics of farmers, lead to the development of agriculture and improve the welfare of farmers better. Mutual trust between managers and members by making mutually beneficial working system between the managers and members. Mutual benefit will arise if the results of the activities performed felt by both sides. This situation will lead to mutual trust, sympathy, mutual participation and sense of belonging to the institution. This was evident at LPN Pulau Mainan effectively serve the needs of capital.

At LPN Pulau Mainan, in addition to meet the capital requirements also managed to increase the income of members (72%) and developing a strong and independent institution with a wealth LPN Pulau Mainan 14 billion more and the percentage of bad loans is only a maximum of 2 percent.

2. Element Network.

Empirical fact states that credits earned by UTK perceived benefits both credit needs and increase revenue. The increase in revenues of approximately 72.5 percent of the farmers of credit user, especially in the area of Dharmasraya is one indication of the success of agricultural development in the study area. This situation as a result of involvement of financial institutions serving the needs of capital for UTK who become customers.

In addition to the benefits received by the members, the benefits are also obtained financial institutions in developing the sustainability of the institution by mobilizing internal capital, it is seen increasing numbers of savings in LPN Pulau Mainan (63%).

Success in internal capital mobilization caused LPN Pulau Mainan has a major source of capital (initial capital contribution and savings), so as to empower UTK well in fulfilling the capital requirements and increased revenue without relying on external capital mobilization, especially from the government.

3. Elements of Norma

From the aspect of the rules / policies of government, at upfront analysis indicates that the LPN does not have a dependency on the government, so as to exist and contribute to UTK. This condition is seen on the level of compliance with the rules, the rules that they make together. This indication is reflected in the low level of NPL / loans (2%).

7. Suggestions

System Operating Procedures (SOP) is formulated based on the element of trust that has been shown to create an independent local agencies and beneficial in meeting the capital of farmers and increased incomes. To reduce operating costs, the establishment of a network of proven systems also make the system more effective cooperation and norms / rules are made jointly make the members abide by the rules as agreed, it also makes a collective capital formation was effective.

References:

- Acharya. M, Shrestha.B, and Seibel.H.D. 1992. *Self Help Groups in Nepal, in Self-Help as informal intermediaries*. B.R. Quinones Jr.Ed. 1992. Bangkok, Thailand: APRACA Publication.
- Ahmad Muchtar et al, 1991 *Institutional Agriculture and Poverty in Riau*, Riau Pergepi Commissariat.
- BPS, 2012, *The Human Development Index 2009-2010*, Jakarta: BPS.
- Cernea, M.M. 1993. The Sociologik's Approach to Sustainable Development. *Finacial & Development*, December 11 to 13
- Coleman, J. 1988. Social Capital in the Creation of Human Capital. *American Journal of Sociology* 94: S05-S120.
- Cox, Eva. 1995. *A. trolley Civil Society*, Sydney: ABC Book.
- Dasgupta, P. and Ismail Serageldin, eds., 1999. *Social Capital: A Multifaceted Perspective*. Washington DC: World Bank.
- Dhesi, U.S, 2000, Social Capital a Fukuyama, F. 1995. *Trust: The Social Virtues and The Creation of Prosperity*. New York: Free Press.
- Fukuyama, F. 1995. *Trust: The Social Virtues and The Creation of Prosperity*. New York: Free Press.
- Fukuyama, F. 1999. *Social Capital and Civil Society*, Institute of Public Policy, George Mason University.
- Fukuyama, F. 2002. Social Capital and Civil Society. *International Monetary Fund Working Paper*, WP / 00/74 1-8 In Elinor Ostrom an T.K. Ahn. 2003 Foundation of Socil Capital. Massachusetts: Edward Elgar Publising Limited
- Gemmel, N, 1994, *Development Economics*; Several Survey Jakarta: Library LP3ES.
- Georgi, B.P. 2003, *The Role of Human and Social Capital: Extending our Understanding*, Department of Economic, University of the Witwatersrand (unpublished paper). © Pages in Agro Economic Journal Vol.11. 1 June 2004 (Page 77-86)
- Hamid E.S..1986, *Records of the Seminar. In the Rural Credit in Indonesia*. Mubyarto and Edy Suandi Hamid (Eds) .Yogyakarta: BPFEE.
- Hayami, Y. and Vernon W. Ruttan, 1971. *Desequilibrium in World Agriculture Development in Agriculture Development: An International Perspective*, Baltimore and London: The John Hopkins University Press.

- Hayami, Y. and Masaro Kikuchi. 1987. *Village Economic Dilemma*. Jakarta: Yayasan Obor Indonesia.
- Korpp, Erhard. Et al, 1989 *Linking Self-Help Groups and Banks in Developing Countries*, APRACA GTZ, Eschborn.
- Lenggono P.S 2004, Social Capital In Fispond Management, A Case Study of Farmers in Fishpond Communities Pantuan Muara District of Anggana Regency, *Thesis*, Bogor: The Graduate School of Bogor Agricultural University.
- Lesser, E., 2000, *Knowledge and Social Capital: Foundation and Application*, Boston: Butterworth-Heinemann,
- Martowijoyo, S., 2005. *The Future of Microfinance Institutions in Indonesia: Review of Aspects of Regulation and Supervision*.
- Narayan, 1997, *the Voice of the Poor: Poverty and Social Capital in Tanzania*, World Bank,
- Nuwirman, 1998, Role of Local Organizations In Survival Defend the Poor Rural Economy. Padang: *Thesis*, At the Graduate University of Andalas.
- Putnam, et.al., 1993, *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton
- Putnam, R., 1995. Bowling Alone: America's Declining Social Capital. *Journal of Democracy*, 6: 65-78.
- Robinson, M.S., 2001 *The Microfinance for the Poor, Revolution: Sustainable Finance for the Poor*, Washington, D.C. : The World Bank.
- Sculler, T., 2001, The Complementary Role of Human and Social Capital. *Isuma*, Volume 2 No. 1. Spring / Printemps ISSN: 1492-0611.
- Seibel, H.D. 1996 *Financial System Development and Microfinance Germany*: GTZ, Robdorf.
- Subandi, S., 2007. *Successes and Prospects concept of Grameen Bank Replication for: Micro Credit Institutions*. Ministry of Cooperatives and SMEs.
- Uphoff, N, 1999, *Understanding Social Capital: Learning from the Analysis and Experience*
- Wharton, Jr., C, R, 1973 *The Infrastructure for Agricultural Growth, in Agricultural Development and Economic Growth* (Herman M. Southworth and Bruc F. Johnston, Ed.). 1973, Perss Corneli University, Ithaca and London. P.125-126.
- World Bank, 2003. *Social Capital*. Download from <http://www.worldbank.org/proverty/scapital>.