Financing for the Poor: Between Formal and Informal Financial Institutions

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Abstract
The phenomenon of informal financial institutions (moneylenders), which has existed in economic activities are economic phenomena that constantly take place. Various attempts to reduce the practice of informal financial institutions (rentenir) has done repeatedly. But in fact these efforts are not able to eliminate the practice of informal financial institutions. This study aims to determine how the poor public perception of the formal and informal financial institutions and determine transaction costs contained in the formal and informal financial institutions. To achieve these objectives, this study used a qualitative approach with case studies, which aims to understand thoroughly the institutional pattern in accessing loans from financial institutions formal and informal.
Keywords: formal financial institutions, informal financial institutions, transaction costs

1. Introduction

One of the crucial role of financial institutions in the economy. is to channel funds from the excess to those in need of funds. In a macro-economic standpoint, the flow of funds channeled to the community serve as encouragement to turn the wheels of economic activities. Judging from its legality, financial institutions are divided into two groups, namely the formal financial institutions (legal) and informal financial institutions. Formal financial institutions is an institution which has a legal basis and subject to regulation by the government. In contrast to the informal financial institutions no government regulations that govern them.

In the traditional market economy, not only formal institutions that exist, but the existence of informal financial institutions are also coloring activities in the market. The phenomenon described by Boeke (in Nugroho, 2001) as a dual economy, where there is a capitalist sector and subsistence walk together. The formal financial sector such as banking institutions and cooperatives are institutions that are subject to government regulation, while the informal financial institutions have the characteristics of high flexibility and is not regulated by government regulation.

In addition, although the capital assistance program in the form of a soft loan with a revolving system for small traders aggressively implemented by the government but the fact is still not able to break the bonds of society with informal financial institutions. Still eksisnya informal financial institutions to date indicates that the agency still has a role that most people maintain the existence of the institution because it takes a certain community.

Practically, informal financial institutions referred to moneylenders. From the standpoint of religious and societal norms, loan sharks is a job that can not be justified. Damsar (2001) wrote that in order to avoid the things that are harassing social status, cultural capital of the moneylenders used to polish the title back moneylenders bears. So in a way demkian, the risk of isolation from a community can be reduced.

The phenomenon of informal financial institutions (moneylenders), which has existed in economic activities are economic phenomena that constantly take place. Various attempts to reduce the practice of informal financial institutions (loan shark) has done repeatedly, one of which is a program providing soft loans to the business sector people are channeled through banks. But in fact these efforts are not able to eliminate the practice of informal financial institutions.

The existence of informal financial institutions (loan sharks) can be found in the economic activity of traditional market. Operational informal financial institutions in the traditional market customers are mostly small traders. Categories of traders in traditional markets generally are merchants engaged in the informal sector and small business micro-scale or micro-enterprises. The concessions business is managed and owned by the poor or near poor.

Should any rational human being would choose a resource-efficient. It was stated also by Damsar (1994) that the economic problems, people have a tendency to pay the lowest possible mendapakan profit maximization. In the context of lending and borrowing of funds, the borrower should rationally prefer a lower-cost loans. But in fact, traders in traditional markets is still much to be a customer of informal financial institutions, although there are formal financial institutions that provide loans to the cost (interest) lower or revolving fund from the government program.

This situation illustrates that each dealer lending institutions, both in the form of revolving loans, loans of financial institutions formal and informal loans from financial institutions will have their own market segments, depending on the characteristics of the loans.

The cost of borrowing funds acted as one part of the process to obtain loans from various types of financial institutions. In the context of lending, transaction costs occurred as a result of the process to obtain information for the achievement of a loan contract between the debtor with financial institutions. Transaction costs for borrowers is all kinds of costs beyond the interest that must be borne by a prospective borrower to obtain a loan, began to come to a financial institution to obtain information regarding the requirements apply for a loan, when applying, until the stage pay off the cost of cash or its equivalent rupiah from the time loss over the whole process of borrowing. Therefore, this study aims to determine how the poor public perception of the formal and informal financial institutions and determine transaction costs contained in the formal and informal financial institutions.

Some economic literature provides definitions that vary on transaction costs, most authors rely on definitions in accordance with the theoretical conceptualization and / or relevant to the empirical case. Examples are the definitions as shown by Williamson (as quoted by Mburu, 2002) that transaction costs are 'costs for running the economic system' and 'costs to adjust to changes in the environment'. Furthermore, North (1991b) defines transaction costs as expenses to specify and enforce (enforcing) the underlying contract of exchange, so that by itself cover all the costs of political and economic organization that enables economic activity of the profits of the trade (exchange).

In summary, the transaction fee is a fee for negotiating, measuring, and impose exchange (exchange). Meanwhile, according to Mburu (2002), transaction costs can also be interpreted to include a broader three categories, namely: (1) the cost of search and information; (2) the cost of negotiating and executing the decision or contract; and (3) the cost of supervision.

2. Research Methods

Research Approach

To find answers to empirical perception of the poor to formal financial institutions and informal as well know the transaction costs contained in the formal institutions and informal hence This study used a qualitative approach with case studies, which aims to understand thoroughly the patterns of institutions in accessing loans from institutions formal and informal finance.

Research Focus

The focus of this study reveal the poor public perception of the formal and informal financial institutions and determine transaction costs contained in the formal and informal financial institutions to conduct in-depth study of the factors to be considered in determining the financial institutions to meet the lending needs. The dynamics in the form of norms or rules, personal ties and other values in accordance with the institutional meanings constructed by the borrower then becomes the substance of this study.

Data Collection

Data collection used for collecting data are interview, observation and documentation. Implementation procedures adapted to the data source and the location where the informant carries on business as well as the financial institution in question. Interviews conducted by researchers using a structured interview guide using structured questions or questions that sequence. Information obtained from interviews subsequently compiled gradually by the researchers that the interview is more directed and focused, then the result is limited to matters relevant to the focus of research. Researchers used in-depth interviews with a direct meeting between researcher and informant. Besides the interviews, these researchers also conducted observational methods.

Selection of Informants

Selection of informants using purposive sampling. How this is done with the consideration that the informant chosen is the one who really knows or directly involved with the research focus to be studied. Furthermore, to check the validity of the data the researchers used triangulation technique is by interviewing more than one informant who was considered to have a different viewpoint. Variations informants used in this research that is not limited to a group of individuals who often have special interests, so that research results be biased. Informants are the source of the data in this study is a housewife informal sector workers, especially traders.

Data Analysis

The analysis technique used in this research is qualitative descriptive analysis. This data analysis technique decipher, interpret and describe data collected systemically and systematically. To present the data so that more meaningful and easy to understand, then the step of data analysis used in this study are Interactive Analysis Model of Miles and Huberman. This model analysis activities are divided into three stages: data collection, data reduction, data presentation and conclusion. (Milles & Huberman, 1992)

3. Research Findings

Public Perception on Financial Institutions Formal and Informal Financial Institutions

Most people in the world, especially the poor and vulnerable, do not have access to financial services. No distinction is the name given by the people on moneylenders include: brokers, banks thithil, moneylenders, pengijon, weekly bank, bank plecit, tuyul banks and others. However, these names do not distinguish the difference in how the loan money they do. Moneylenders are people who lend money to its customers in order to gain profit through high interest withdrawal. Moneylenders like coin duplicity, on the one hand as a loan shark moneylender because it attracts high interest, on the other hand moneylenders as agents of development because the dynamics of the economy because of insufficient sustain the scarcity of money in the community.

Informal institutions closer to the people because it is easily accessible to anyone who needs a quick, short distance, time and large loans as required, with a simple procedure and without collateral, but the interest rate is higher. Loan relationship is based more on trust than asepk guarantee as usual formal financial institutions.

Infomal financial institutions in the study site is a loan shark (individual owners of capital), thithil bank (bank daily, weekly bank and bank biweekly), while the formal financial institutions that exist around are government banks, private banks, pawnshops, cooperatives. The poor have not or will not access formal financial institutions because they have not / do not have assets that can be pledged as collateral (certificate of ownership of land / house, BPKB vehicles, etc.), even some of them despite having these letters but still scared and do not want to make it as collateral for loans for fear of missing, while channeling loans through group considered not practical, because confidence in the ability and honesty of the management group is not completely reliable. In addition, administrative procedures assessed complicated and takes a long time, so when society requires immediate funds, the funds are not yet available.

Participants choose the informal financial institutions as the source of their capital providers because it has a simple administrative procedure, fast loan disbursement / on time as required, even with higher interest rates. Public appraisal of relatively high interest rates, they assume that the willingness to lend more is defined as "aid" or favor, so that the high interest rates are considered as fringe benefits and are very reasonable and not burdensome.

While the public perception of formal financial institutions are formal financial institutions not to them (the poor) because of the intricate mechanisms, need guarantees, no administration that must be met, while the characteristics of the poor are on average less educated, with a low economic level, as well as having a sense of low confidence.

If the terms are economically there are several factors that hinder people's access to the formal financial sector. These factors can be grouped into two categories, namely from the demand side and the supply side. On the demand side, access is hindered because of the lack of knowledge and public awareness of financial services, low income, lack of social guarantees and inclusive. From the supply side, several factors that often makes people unable to access the formal financial sector such distances the bank branch with a place to stay, a complicated procedure, a mismatch of financial products to the needs, language that is poorly understood, the behavior of employees, and the operating time of the bank rigid , so that the informal financial institutions become the primary choice of the poor.

Transaction costs

In an economic activity to get something will turn up costs. Transaction costs are the costs of specifying and enforcing contracts underlying an exchange, so that by itself cover all the costs of political and economic organization that enables economic activity of the profits of the trade (North, 1991 in Yustika, 2008). Borrowing costs in the role as one part of the process of obtaining loans from various types of financial institutions. In the case of borrowing funds, transaction costs occurred as a result of the process to obtain information for the achievement of a loan contract between the borrower by the financial institution. The cost of transactions, for borrowers is all kinds of expenses excluding interest that should be borne by a prospective borrower to obtain credit, ranging from when it comes to financial institutions to obtain an explanation of terms apply for credit, the time of filing the petition, until the stage pay off both the costs incurred consisting of cash or equivalent rupiah cost of the loss of time on the whole process of borrowing funds.

Various types of transaction costs that occur in formal financial institutions are as follows: the guarantee, the time and nominally. (1) Guarantees, collateral has a function to increase the confidence of financial institutions that the prospective borrower with the efforts that have been made able to repay the loan. Guarantee has the function to cover the event of loan defaults. Therefore, the guarantee can be used as protection for creditors in the certainty of repayment prospective borrowers. The result of research indicating that often the value of assets pledged as collateral loans are typically rated below market prices, thus eliminating the opportunity for the owner of collateral to get a loan with a ceiling more. (2) Time, formal financial institutions survey is one part of the process a loan contract in addition to clarify the supporting documents submitted on loans to the financial institutions. Prospective borrowers waiting for officers from financial institutions to make a visit on whether or not the business stated in the document that has been clarified or appropriateness of the effort that will be granted a loan. But sometimes in reality the survey planned visit longer than a specified time limit, it depends on the completeness or availability of the number of field staff in charge of reviewing the business potential borrowers. The cost also includes the time when the loan contract until the credits realized. Much time is wasted to obtain loans to formal institutions, so that this will eliminate any chance of society by using money either for business or for consumption activities. For employers the loss of time from loan application to disbursement of funds, will eliminate their opportunities to earn income from its business, while for the people of the length of time from submission to the disbursement of funds has eliminated them the opportunity to feel the benefits of using the funds tersebu. (3) Disbursement of loans, the borrower must bear the costs again in the form of rupiah costs, such as waiting for the availability of the amount of money needed, because to get a nominal amount of money in accordance with borrowed credit is not easily available in the near future and nearby locations. In addition, the individual guarantee will lead to credits earned can not be filled, because of the third party who requested the top of the credits borrowed. Usually financial institutions formal presence in urban centers, while for transactions often customers have to deal with the central office, so as to perform a variety of activities ranging request the funds necessary to the realization of cost is not small. Likewise often ordinary people, especially the people to carry out their banking transactions with the request accompanied by the broker / intermediary who certainly is not free, they must pay a certain amount of money to intermediaries.

Meanwhile, in the judgments, the cost of credit transactions in informal financial institutions are also basically the same as the cost of the transaction at a formal financial institution that guarantees transaction costs, transaction costs and transaction costs rupian time / par. (1) Guarantees in informal financial institutions is not a material that does not need to have the legality of the law, one of which is trust. Belief informal financial institutions to clients can be used as collateral in the provision of capital kredit.Dalam achievement of agreement between the debtor's loan deal with informal financial institutions required a relationship between the two sides to know each other more deeply. At the informal financial institutions no special requirements primarily private moneylenders (moneylenders), because of their close kinship in the sense that they usually already know each other well as neighbors, relatives or other kinship. They are a guarantee of mutual trust between the moneylender himself with the borrower. Results of the study found that people who borrow from informal financial institutions without any warranties of any kind, simply photocopy of identity card (ID card) as evidence if someone is really borrowed money. As for the bank is no guarantee BPKB weekly for loans above 2 million. To moneylenders types of banks thithil (weekly and bi-weekly) they give you a policy if customers borrow over 2 million, then there must be a guarantee BPKB, because of the nature of prudential bank thithil ("employee") because generally they are not a native of the area targeted launch of the loan. (2) Transaction costs time. In an informal financial institution transactions, time costs are lower because of the flexibility of this institution in processing loan applications that can be done at any time without being limited office hours as well as the disbursement process could be completed in the same time. That is, at this time it took, it could soon be resolved so that no opportunity is lost. (3) The nominal transaction fee on financial institutions informalpun lower because of the proximity to the customer, so the nominal transaction costs incurred were also lower. Moreover, the tendency of informal financial institutions to come to the customer, of course, will not cause any additional costs that must be paid customers. So that customers can enjoy the loan amount in accordance with the agreement, even if no charges are usually administrative costs (for moneylenders organized, bank weekly, biweekly bank).

Transaction costs for borrowers is all kinds of expenses excluding interest that should be borne by a prospective borrower to obtain credit, ranging from when it comes to financial institutions to obtain an explanation of terms apply for credit, the time of filing the petition, until the stage pay off both the costs that are cash and the rupiah equivalent of the loss of time on the whole process of credit.

Poor people who chose informal financial institutions stated that the procedure is rigid and complicated administrative as well as a long time, causing the cost required for the disbursement of the loan on formal institutions to be higher than having to pay excess interest rate on informal institutions. Poor people assume that this institution has a simple administrative procedure, fast loan disbursement / on time as required but with a higher interest rate. Poor people assume that informal institution has given "aid or assistance" to them when they get into trouble, so the rate of interest to be paid despite the higher are considered as fringe benefits and it is a natural thing and not burdensome, because thanks to the help of moneylenders them can try and get emergence.

The results are consistent with the North's argument that in rural communities in developing countries are usually lower transaction costs (Bardhan, 1995) .This can happen because of the proximity of relationships within the community (family, neighbors) so that information about the activities available in individual communities widely and freely. Meanwhile, the social structure (parents and other respected leadership figure) provide a very important mechanism for the enforcement of the agreement and provides a resolution if there is a conflict among community members. But, in order that economic activity continued, and within the wider community must transact with others outside the community of the village, at the longer distances. The more complex and impersonal trading network, the higher the transaction costs that arise.

Therefore, the challenge of economic development is to reduce transaction costs when the trade occurs increasingly complex. This will be achieved when the institutional design that made it to support trading activities, namely through the provision of information, protecting property rights, and setting up an effective mechanism to enforce agreements (Poulton et al., 1998).

4. Conclusions

Public perception down to the informal institution is very profitable and very helpful because of the ease of obtaining funds (now need now get the funds, do not need to take care of various requirements, does not need collateral), while their perception to the formal financial institutions are very complicated and unfriendly making it less advantageous this is because it must be guaranteed, must fill out a form and other requirements, as well as the disbursement of time there is no clear time.

The cost of transactions, the financial institution loans nonformal more efficiently than with a formal financial institution, due in obtaining loans from financial institutions nonformal time costs, guarantees and nominal relatively small, it is seen from the speed of disbursement of funds, do not need guarantees and no additional costs issued to acquire a loan.

5. Recommendations

Less rapid flow of lending by banks to the poor, primarily due to the trust factor. Although from the standpoint of business assessed prospectively, the poor are often viewed with one eye by banks and considered less have the adequate credit repayment ability. In contrast, the majority of poor people who have inadequate educational background and be in an environment with low banking minded view, that dealing with formal financial institutions would simply result in the burden of higher transaction costs and can even be detrimental to their business. Contrary to reality, hence the trust factor is expected to be able to be a solution to the impasse. In this case the formal financial institutions should believe and are sure that the small entrepreneurs of micro and poor communities will be able to meet its obligations in repaying debt, while the small entrepreneurs of micro believe that banks, through loans, earnest based on a desire to help overcome the problem of capital / financing faced.

To foster that trust, the necessary communication and continuous relationship based on mutual interests and the principle of equality and not based on a sense of superiority of one party against the other party. Thus it would appear a sense of belonging together on the business carried on. Success is a common property, otherwise if it fails will also be a shared responsibility. In the institutional economic standpoint, the trust factor is believed to be able to reduce the high transaction costs (the cost of security surveillance and monitorong) from lending activities.

Confidence did not last long if it was not built by a number of values as a foundation. For that increased interaction of formal financial institutions and small micro entrepreneurs in the financing of capital needs to be equipped with the following values: (1) Establish the principle of transparency to reduce mutual suspicion. It can be reached by an increase in the frequency and quality of communication between them, for example by coaching and regular meetings between the parties with the creditors. (2) Build attitude, mental, character and dignity, it is necessary to emphasize that credit is not a "charity", but as a form of social obligations, which will bring up an obligation for both parties. (3) Using traditional patron-client system (vertical) and the proximity / family relationship (horizontal). More than that, to improve and expand the understanding of the importance of the role of formal financial institutions, then the bank must be flexible and use the approach that bases on the norms and values of society.

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