

The Effectiveness of Agribisnis Microfinance Institutions Based Social Capital As A Financial Institution of Agriculture In The District Agam West Sumatra

Dahnil Johar

The lecturer of Economics and Business Faculty, university of Bung Hatta Padang, West Sumatera Indonesia

1. Introduction

Economic activity in the countryside in general is dominated by small-scale farms with the main actors of farmers, farm workers, traders and agricultural inputs, agro-processing, and home industries. However, businesses in general are still faced with the classic problem of the limited availability of capital, capital constraints may limit the space for agricultural activities in the rural sector (Hamid, 1986).

Weak capital owned by economic agents in rural areas has been recognized by the government, with the state government launched several programs for credit to farmers and small farmer entrepreneurs. Starting with the credit Bimas on yeras 1972, then followed Credit Small Investment (KIK) and the Permanent Working Capital Loans (KMKP), Income Generation Project Farmer / Fisherman Small (P4K), Farmer Business Credit (KUT), and to date they occurred People's Business Credit (KUR). Although the government has implemented a variety of loan programs, but the performance results are deemed still not in line with expectations. This is reflected in the performance of financial institutions has not been satisfactory, especially on the financial institution as the executor.

According Martowijoyo (2005) the weak performance of financial institutions as financial intermediasi institutions can be viewed from three aspects: (1) low levels of loan repayment; (2) low morality of the implementing agency, and (3) low level of mobilization of public funds. The disadvantage of these has consequences for not continuing financial institutions set up after the program is completed. As a result, program participants generally will again experience a shortage of capital.

To answer the problem of limited capital and banking institutions are difficult to access for small farmers, it is necessary to further optimize the potential of financial institutions which 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 Microfinance Institutions (LKMA), yet can not be used optimally.

LKMA built by the Government is able to exist and contribute to serve the capital needs of low-income rural development although in these institutions received government assistance. LKMA existence in the countryside could play a role serving the needs of small farms, although it is still limited in scope particular group. This shows their internal capital mobilization in the communities of farmers / rural, so the issue of capital is not always small farms can only be solved by relying on external capital mobilization.

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

Fukuyama (2002) argues that social capital, focused on the importance of the relationship in economic affairs. Furthermore it is said that companies, industries, regional, and national economies can function more efficiently if there is respect for one another and the relationship of trust between citizens.

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 would be good if the following characteristics are owned by economic actors in a synergy between the activities of the community, namely: (1) The 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 among the public.

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 have been used 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, namely the rules and regulations.

In the study Nuwirman (1998) mentions the raising of capital in the form of principal savings, mandatory, voluntary or sadaqoh activity group bodies Kongsis and Barn Pitih (money) Nagari (LPN) in West Sumatra.

People who have 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 informal associations were generally strong and has the values, norms, and ethics collectively as a community interconnected.

Studies 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.

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

LKMA models that exist in rural areas can be differentiated into the individual financial intermediary (Individual Financial Broker) and financial self-help groups (Financial Self-help Groups) (Korpp, 1989). IFIs in the form of individual financial intermediaries is very dominant in the countryside (Wharton Jr., 1973; Gammel, 1994; Hayami and Ruttan, 1971) and generally exploitative (Mubyarto, 1990; Ahmad, 1991). While IFIs in the form of self-help groups (SHGs), although relatively less dominant (in the restricted group), but are able to exist in serving the credit needs of small medium businesses and not berifat exploitative, as Julio-Julio (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 Formal Financial Institutions (LKF).

The ability of agencies played in the countryside because he grew out of the community and has a joint capital (Acharya et al, 1992; Quinones Jr., 1992) based on the social values developed in the community. Even in the group Kongsis in West Sumatra are social values, customs and religion in financial management (Nuwirman, 1998). This is in accordance with the lifestyle of the people Minagkabau "Indigenous Basandi Syarak (ABS), Syarak Basandi Kitabullah (SBK). Based on the above phenomenon can be formulated research problem as follows: a. Why Microfinance Institutions (LKMA) can survive in the long term and play an effective role in serving the needs of capital Small Farm (UTK) in rural areas?.. How Microfinance Institutions implementing social capital in enhancing the role of microfinance institutions to serve the needs of capital UTK. According to research problem as formulated above, the purpose of this research is: Identify the factors that affect LKMA can survive long-term presence and play an effective role in serving the needs of capital UTK in the countryside and Explain how Microfinance Institutions can utilize Social Capital element in improving the service to the UTK.

2. Review of Literature

2.1 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 people with excess funds to mesyarakat in need of funds. Then Seibel (1996) more clearly defines financial institutions as an agency which collects funds, give credit to the public or equity participation, as well as doing more than one of the above activities as well.

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 is widely used by researchers in various studies, but still a bit of literature that suggests about formal and informal sense of the term.

In this regard, they emphasized the importance of a simple legal aspects or their official government permission in the use of formal and informal term for rural financial institutions. According to Financial Institutions

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) The main characteristic, namely; (1) provides a variety of financial services that are relevant or appropriate to the real needs of the community, (2) serve low-income communities and (3) using the procedures and mechanisms are contextual and flexible to make it more easily accessible to poor people need.

Microfinance institutions have advantages that most real, the procedure is simple, without collateral, to do that liquid (personal relationship), and flexible loan repayment period (negotiable repayment). Characteristics accords with the characteristics of the economic actors in rural areas (especially in agriculture) which have limited assets, low levels of education and income irregular cycles (depending on the harvest). Perdesaaan characters like that are captured well by actors microfinance institutions, so easily accepted by the existence of small communities. The main drawback of microfinance institutions, yaknii still limited capital, making it less smooth institutions meet the capital needs of members.

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

Developing micro enterprises is a strategic move because it would realize the broad bases development or development through equity. They need capital to develop its capacity. With business increases (becomes small scale enterprises), will effectively address the poverty suffered by themselves and expected to help people in the poor category.

2.2 Social Capital

Fukuyama (1995) illustrates the social capital in the trust, believe and *vertrauen* means that the importance of trust is rooted in cultural factors, such as ethics and morals. Trust appears the community to 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 the community arises not only from the interaction of market and economic value. Serageldin provides a classification of social capital among others: First, Social capital in the form of social interaction but durable unidirectional relationship, such as teaching and social interaction trading relationship was reciprocal (mutual) such as social networks and associations. Second, social capital in the form of social interaction effects are more durable in such unidirectional relationship of trust, respect and imitation are in the form of a reciprocal relationship like 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 include norms, reciprocity, trust, and network, Fukuyama (1995). The fourth element is a significant influence on the behavior of co-operation to achieve the desired result, which could accommodate the interests of individuals and groups who cooperate collectively. In real terms in everyday life, when examined in depth, all the behavior of socio-economic activities of local community members embedded in social relationships network.

Social capital and trust (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 activities in the common interest, and (3) can reduce or even eliminate opportunistic behavior through transactions that occur repeatedly in the long span of time. Social capital is inherently contain 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 ie social capital:

a. Confidence (trust): As explained Fukuyama (1995), trust is a growing expectation in a society demonstrated their honest behavior, organized and co-operation based on the norms that are shared. Social trust is an application to this understanding. Cox (1995) later noted that in communities that have a high confidence level, the 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 are solid, social capital gave birth to a harmonious society (Putnam, 1995). Damage social capital will lead to anti-social behavior (Cox, 1995), the absence 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 applied 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) explain the meaning of the network refers to the social relationships that regular, consistent and long lasting, this relationship not only involves two individuals, but many individuals. Relations between vindividu will form a social network as well as reflecting the social groupings in community life.

Dynamic infrastructure of social capital networks tangible cooperation among humans (Putnam, 1993). These networks facilitate communication and interaction, allowing the growth of trust and strengthen cooperation. Healthy communities tend to have social networks that are sturdy, 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 from that participation.

2.3 Role of Social Capital

In the view of economics, capital is everything that can benefit or yield, capital itself can be divided into (1) capital berbetuk material like money, 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 social relations form a network that creates a wide range of social qualities such as trust, open, unified norms, and define the 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 adhesive for each individual, in the form of norms, trust 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 perform a productive activity. Sajalan also with what is proposed World Bank (1999), social capital is defined to the institutional dimension, relationship created, norms that shape the quality and quantity of social relations in society. Social capital did not mean only a limited number of institutions and social groups that support them, but also the adhesive (social glue) that maintain the unity of the group as a whole.

Lesser (2000), social capital is very important for the community because it (1) provide ease of 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) establish and organize a community kebersamaam behavior. Social capital is a commitment of each individual to open with each other, mutual trust, authority for any person who chooses to act according to its responsibilities. This tool generates 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 assured the 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. In the absence of social capital, people easily intervened 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 different scientific viewpoints among others, from the perspective of agro-eco system, economics, sociology, politics, anthropology and psychology.

Experts have agreed that trust and social capital of Understanding that social capital has the ability to contribute significantly to the process of social and economic development of society has become more prevalent. This is in line with the views Georgi (2003) which basically concludes 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.

3. Results and Discussion

3.1. Role of Financial Institutions on Financing Small Farmers

The results of the analysis of the role of LKMA found that LKMA Panampuang have alignments and is capable of meeting the needs of credit UTK. But still there are problems that the limited amount of funds that can be given to members. This is due, among others, the poor ability of members to raise capital collectively. In addition, the contribution of loans to the increase in revenue (yield) members are still relatively low, because there is still borrowed funds used for the benefit of family / consumer and the limited number of credits earned. The conclusion of this analysis of empirical findings on facts on the ground by analyzing the five aspects above the LKMA Panampuang).

a) Establishment of the Institute of Philosophy. LKMA Panampuang (Panampuang= name of place) was founded in 1996 by the Government of Agam as a response to the failure of IDT program and KUT in some jorong in Kenagarian Panampuang, especially in villages Panampuang. Although initiated by the government, but with determination, the spirit of togetherness and support of all citizens, especially public figures such as village chiefs, traditional leaders, religious leaders, and youth, however, the organization may be formed in accordance with the government's desire. Purpose of establishing the institutions to improve the local economy is relatively weak, by providing credit.

LKMA Panampuang Prima established by the government in 2008 by the Government of Agam. The establishment of the program is motivated by the failure of previous Bangdes so the acclaim and the support of community members such as village heads, religious leaders. and the youth. With his determination and spirit for the common good ultimately these institutions can be formed in accordance with the government's desire.

In accordance with the economic conditions at that time were relatively weak and many people trapped practice of moneylenders, the institution established to improve the local economy by providing credit for venture capital, with the hopes of the people no longer borrow credit from moneylenders.

In carrying out its activities as a source of capital in the countryside, this institution is able to realize the objectives of the institution to meet the capital requirements UTK. This is supported by the application procedures and requirements easily and without collateral in credit services. Although the agency established by the government, but were able to show partiality to the UTK.

b) Accessibility. LKMA Panampuang is a financial institution that was introduced by the government but managed by members of the community, so that in carrying out its activities depends on the participation of members. As a savings and loan institutions, these institutions are still implementing procedures and administrative requirements as other financial institutions, but relatively simple. To get a loan, members must be registered as an active member, has a decent effort to be financed, and fill out a form of borrowing.

Procedure to be followed is fill out a form of borrowing, then the board will check the business to be financed. When owned businesses there and in accordance with the funds raised, the board approved and the funds can be disbursed. Requirements and procedures easily provide ease of access, especially small farmers.

The location is very close to the institution housing residents. Panampuang LKMA office has its own building and located in the middle of human settlements Panampuang villages, districts Ampek Angkek Agam district. Thus a very strategic location because it lies between the residential area, it is very easy to reach by foot or rural transport and motorcycle taxis.

Credit application process until the credit disbursed relatively short. In LKMA Panampuang only 2-3 days, this is possible because the first location is ditengan residential institutions and between institutions and the board members know each other.

Determination of collateral requirements on LKMA Panampuang only required for the loan is not more than Rp 5 million, turn over the collateral, however Borrower must have a viable business. This requirement is only a formality to see the seriousness member uses credit, even less so the board just ask the establishment, regardless of the physical.

Credit refund system set by installments. In LKMA Panampuang originally defined according the harvest, but many members objected, finally converted into monthly installments. Each member is required to attend the meeting, either wishing to borrow and pay the installments. For the smooth return of credit, members of delinquent fines then 0.25 per cent per day of the installment amount for one-time arrears.

Determination of credit repayment system at this institution does not affect the level aksesibilitas members, but will affect the level of loan repayment terms of the number of arrears is still relatively low. only 0.5 percent of total loans.

The low percentage of arrears of members illustrate that members feel has the institution as a source of venture capital. Specifically indicate that farmers more easily meet the refund system for retrieval system in accordance with members' expectations. Besides, the general low level of arrears credit institutions Panampuang LKMA also be caused by the following factors:

- 1) Their perception of the notion of an individual, that credit is a local government assistance, which can help undercapitalized.
- 2) The high awareness of members paying the installments. This is evident from the low percentage of delinquent members to pay credit.
- 3) The existence of mutual trust between members and administrators in developing lemabaga (LKMA) for officers / officials have a good relationship with a member of either family or friendship relationships fellow citizens.

Based on the procedures and administrative requirements, collateral requirements, as well as relatively easy to reach location, the process of borrowing relatively short, and the loan repayment system, it can be concluded that the source of credit from a financial institution that can be easily accessed by members. It proved most members can take advantage of the available credit, including farmers.

At LKMA Panampuang accessibility level of farmers to credit sources is quite high in 2012. Of the number of active farmers in 2012 the number of members who can access credit in the agricultural sector amounted to 30 members (68%), whereas 14 (32%) in the trade sector. This condition illustrates that LKMA more aligned to farming than trade.

The composition of loan recipients based on the type of work on both LKMA can be seen in Table 3.1. following:

Table 3.1. Number of Receivers of Credit, by Type of Work At LKMA

LKMA PANAMPUANG			
JENIS USAHA	RESP.	JMLH KREDIT	TUJUAN
	(Org)	(000)	(%)
UTK	30	142.500	68
DAGANG	14	66.500	32
PENGRAJIN	-	-	
PERABOT	-	-	
TOTAL	44	209.000	100

c Justice Distribution

From Table 3.1. The above also can be seen equity attributable lending. In general, the two agencies have been distributing most of the credit to small farmers. In LKMA Panampuang, enough credit loans properly distributed to farmers. From all loan recipients, there were 68 percent of the farmers who received credit, 32 percent of merchants. LKMA means Panampuang distribution of loans to small farmers has been quite good, without any discrimination between farmers and traders.

This description indicates that LKMA Panampuang in distributing loans to UTK in the countryside has been quite good, and feel can help meet the capital to farm.

Table 3.2. Contributions Loans to Members User Credit Income on LKMA Panampuang

Types of Work	Jumlah Anggota Penerima Kredit	Peningkatan Pendapatan	Persentase
	(org)	(org)	(%)
Farmers	30	3	10,00
Traders	14	2	14,29

d Role of Credit for Small Farms

In general, the two institutions could play a role LKMA Panampuang capital requirements UTK. Pada tahun 2012 from all members active farmers are 68 percent of loan recipients. able to utilize sources of credit. Quite a high percentage of the allocation of the loan, indicating the existence of LKMA has benefited UTK in meeting the needs of business capital.

While in increasing the members' income as a result of the use of credit has not given the expected results. In LKMA Panampuang of total farmers loan recipients, only 10 percent who use credit for the benefit of productive and felt an increase in revenue, compared to traders who are able to achieve 14.92 percent. The low contribution of the loan to increase farmers' income, caused by the use of credit that are not entirely for the sake of earning. Farmers are forced to use some of the funds for the purposes of the family while waiting for the harvest.

From this description it can be concluded that from the aspect of expediency of credit for small farmers in the countryside, the institution only at the stage LKMA Panampuang meet only a fraction of capital requirements UTK. While a role in increasing revenue, not yet felt by farmers. Conditions such as these reflect the ineffectiveness LKMA as a driver of agricultural development in the study area.

e role of the Board in the Capital Mobilization

In LKMA Panampuang, administrators / managers selected through community meetings attended by the clerk's office of rural development (PMD) as well as the village head, the head of KAN, religious leaders and youth. Board selected through consultation with the spirit of togetherness based on guidance from the clerk PMD. Board which is chosen from the several elements of the society, with consideration of the effectiveness of management of the institution. Board at the beginning was formed consisting of the supervisory board, companion extension, board committees, the chairman, secretary and treasurer plus 5 managers.

In LKMA Panampuang, officials drawn from village residents Panampuang which consists of various elements of society. Board selected through consultation with the spirit of togetherness based on instructions from the clerk's office PMD, attended by the village head, the head of KAN, religious leaders and the young man. Some administrators are active at this time include Supervisory Board Chairman of the Manager, Secretary, and Treasurer. Generally administrators / managers in both the background of the financial institution to the top high school education, and in the absence of selection but select appointed by consensus at a meeting of members. But still equipped with management skills through special training by the district at the beginning of the establishment of the institution. In LKMA Panampuang Prima is an institution established by the government, so that the authorized capital of these institutions came from the district government through the department of agriculture and PNPM, but the board does not just rely on these funds, but do collective capital formation through the members' contributions in the form of deposits. Help initial capital of Agam received government LKMA Panampuang In LKMA Panampuang shape and size of deposits was decided involving the participation of members in management and members of deliberation. Principal paid each member at the time of loan borrowing, amounting to Rp 25.000, -. While deposits shall be paid on each monthly meeting of Rp 5.000.-.

Besides fertilizing done through a capital loan service payments by 1 percent and loans received. In LKMA Panampuang collective contribution to capital formation in 2012 largely from the source of funds in the form of compulsory savings, voluntary principal and Rp 186 045 000, - The high contribution of compulsory savings and voluntary savings due to both an obligation that must be met when receiving a loan, while the low contribution of principal due to the relatively small amount of capital available to members. While the low contribution of voluntary savings due to the relatively small contribution of credit to the increase in revenue that can be set aside. Sources of funds in capital mobilization collective Panampuang LKMA can be seen in Table 3.3. following:

Table3.3 Sources of Funds in Capital Mobilization Collective LKMA

No	Sources of LKMA Fund	Years 2012	
		Amount	%
1	Mandatory Saving	37,395,000	20.10
2	Basic Saving	7.725.000	4.20
3	Voluntary Saving	140.925.000	75,70
	TOTAL	186.045.000	

From the above it can be concluded that in addition to the mobilization of external capital from the government, also found internal capital mobilization of members. In the internal capital mobilization role of the board and the members are very important, not only able to meet the credit needs, but also to develop the independence of institutions, however both Imbaga not maximized in raising capital sourced from internal collective.

3. 2 Personality and Dinamics of Small Farm Credit Services as Object.

From the analysis of the nature and dynamics of farming on LKMA Panampuang, show that. LKMA existence in the study area tend to be aimed at serving the needs of capital UTK, especially for UTK who are denied access to formal financial institutions. This is consistent with the nature and dynamics of farming organizations, namely the object of credit services both agencies are small businesses with total area of between 0.25 to 0.5 hectares.

Most farmers cultivate land belonging to other people (tenants) with food crops (rice) and pulses, as well as using a credit not only for farmers, but also to cover the costs of the family that are urgent as is the case for financial institutions semi-formal, conditions such as it became one of the causes of bad loans.

Although the number of credits earned relatively limited, but to obtain farmers are not subject to collateral requirements. Most farmers are very dependent on loans, but the procedure - terms and credit pengembalan system is felt not so burdensome. This conclusion is supported by the empirical findings of the analysis of the nature and dynamics of the farming area of land, land status, type of plant, the intended use of the credit, collateral, the amount of credit, capital resources, procedures and requirements, and loan repayment system.

a) Land. The land area is cultivated by farmers from both LKMA Panampuang Prima generally range between 0.25 -0.5 hectares. Based on data collected in the field turns on LKMA Panampuang 85 percent of farmers have land area between .25 to 0.5 hectares and 15 percent pursue an area of between 0.51 to 1.0 hectares. The area of land cultivated by the farmers credit recipient, it can be said the majority of farmers are small farmers who are the target of credit services in rural areas.

b) Land Status. Land tenure on the loan recipient farmers LKMA Prima Panampuang more (80 percent) in the form of arable land or to manage other people's land, while the rest (20 percent) the status of their own land.

c) Type of Business / Plants. Farmers who are members of both the credit receiver LKMA Panampuang generally cultivate the land with food crops (rice and pulses), which is seasonal. In LKMA Panampuang 70 percent of farmers cultivate their land with food crops (rice), while the other 30 percent of land planted with crops.

The variation of plant species this institution is more influenced by the characteristics of the livelihoods of local people who cultivate land crops (rice and Palawija).

d) Purpose of Use of Credit. In general purpose member farmers apply for loans with the purpose to finance the farm. This is in accordance with the conditions set by the board LKMA Panampuang But in the field, farmers tend to avail loans to finance not only farming, but is also used to fund family life such as school fees, the cost of child marriage. This is caused by the lack of selection of beneficiaries tight credit, weak supervision of the board after the credit disbursed, and their family needs are very urgent.

In LKMA Panampuang only 76.5 percent of the farmers who use loans to finance farming. While 23.5 percent of other farmers loans used to finance not only farming but also to finance the needs of family life, such as consumption and children's school fees.

e) Collateral. Generally members do not have collateral. Thus, in applying for loans of credit to LKMA Panampuang for a loan as a member is not required to submit collateral. In this case the credit lending is based more on trust. However, to obtain a loan must have a member of the land / business eligible to be financed by the agency, which is a formality that the loaned funds are intended to finance the farm.

f) Capital Resources. In LKMA institutions Panampuang limited capital is a constraint faced by all members of the farmers, so that the loan is a major source of capital. Farmers do not have their own capital to finance the schemes, farmers are very dependent on loans from the institution. Lack of institutional capital is not all the expectations of farmers / members can be met, so as to obtain a loan teraksa members until one month.

g) Procedures and Requirements for Credit. In all farmers get loans to institutions (LKMA Panampuang) meets. Procedures and credit requirements that must be met relatively simple and easy to fulfill. Farmers only apply to the management of credit by filling out the form requirements, have a viable business, and registered as a member.

In LKMA Panampuang within 2 to 7 days of credit is received by the farmer. From interviews with farmers, all farmers feel the procedures and requirements set board is relatively simple and easy to fulfill, but with the limited amount of funding exists on both institutions led to the loan amount is very limited, it is causing the benefits of these loans have not been up to the capital small farms.

h) Credit Refund System. In LKMA Panampuang credit refund system is felt by all the farmers are relatively not burdensome. At the beginning of the establishment of a credit Panampuang LKMA can be paid in installments every harvest time or in installments over 4 times in the credit period (10-12 months), but because some members objected credit eventually be repaid each month. When farmers are delinquent fines amounting to 0.25% of the loan. Although farmers do not get into trouble paying back the loans, but due to failed harvests cause farmers in arrears up to 0.5 percent of borrowers but still categorized institutions in healthy status (<5 percent). When farmers are in arrears, the board only take action first to give warning verbally, if not successful, the management brought the issue of arrears

to the steering committee (committee) in which there are elements of village government, ninik mamak, and the scholars so that arrears could dislesaikan relative.

i) Total Loans. In Panampuang LKMA credit institutions is a source of major capital obtained by farmers and the procedure is easy and straightforward. However, the loan amount ranging from \$ 500 thousand up to Rp 20 million and is highly dependent in its ability to provide funding.

Number of farmers' needs in this institution exceeds the capacity of financial institutions in providing funds, the relatively limited amount of funds available in the two institutions because of this limitation collective capital accumulation. The limited amount of capital provided by the agency to make the customer of the institution is forced to wait their turn until two months of the petition submitted to the board.

3.3 The Role of Social Capital on the Effectiveness of Financial Institutions

From the analysis of the data shows that in LKMA found only values the role of social capital in several aspects analyzed. In LKMA religious values and traditional values are found in the implementation of the activities of this institution. With the role of religious values and customs on both LKMA shown that in recruiting

prospective members / new borrowers, the board always involves a longtime member (fixed) in deciding whether the loan will be disbursed or not.

In terms of monitoring and evaluation functions permanent members are also involved whether in terms of tackling while members are in arrears to pay the loan (jointly and severally), then in terms of religion has also been involved in motivating members of the clergy to be obedient and responsible for obligations that should be paid. While traditional values are also seen to involve the mamak ninik both in the lending process as well as in the framework of evaluation and monitoring, including the settlement of bad debts.

In LKMA Panampuang values of social capital in the form of shared values, participation, trust, and financial contribution was instrumental in the founding of the institution, the selection committee and the management of institutions, capital formation, the credit lending process, as well as monitoring and evaluation. This is reflected in the structure of the board, where there is one part of the steering committee.

The steering committee is working to provide direction to the board, especially in developing the institution, but it also serves to resolve the arrears payments of members. Committees involved in village government officials, department of agriculture, ninik mamak, and scholars.

a) Establishment Process Institute. LKMA Panampuang founded in 1996 by the Government of Agam. The Institute is one of the government programs as well as a response from the district to the failure of IDT program and KUT in some jorong in Nagari Panampuang. Although the formation was initiated by the government, but with determination and a spirit of togetherness and support of all members of society Panampuang especially public figures such as village chiefs, traditional leaders, religious leaders, and youth, institutions can be formed in accordance with the government's desire. Purpose of establishing the institutions to improve the local economy is relatively weak, by providing credit.

When linked to the values of social capital, in the establishment of this institute initiated by the government in order to improve the livelihoods of farmers as a form of spur agricultural development in rural areas. When viewed from the establishment of this institution not include local agencies, as established by the government, but in its operation handed over to the local community. Although copper is formed with the concepts and institutional system was introduced the government, but the process of realizing the institution also depends on the support and determination of citizens not only farmers, but also by the community leaders / religious, village, density of indigenous villages (KAN).

Strong determination underlying spirit of unity, cooperation and collective agreements establish the economic organization of society for the common interest. The spirit of togetherness is reflected in the form of a real participation of citizens attending meetings in mosques, offices and agencies village hall. The role of public participation is manifested in his involvement in any decision-making.

Management of savings and loan institutions operationally is the duty and responsibility of the board and supervised by an advisor, protector and overseer. Similarly, in determining policy and making decisions regarding the rights and obligations of members conducted by the officials and members were excluded.

The rights and obligations of members include (1) shall form farmer groups of at least the 10 (ten) people, (2) shall attend the meeting of the members of each month, (3) shall participate in capital formation in the form of compulsory savings, principal savings, voluntary savings and loan services, (4) is obliged to return the loan in installments every month, (5) entitled to apply for and obtain a loan for considered feasible by the board.

b) Finalization of the Board and Management of the Institute. In LKMA Panampuang Prima, in accordance with the wishes of the government, officials from among their Panampuang Nagari which consists of various elements of society. Selection committee held at the head of the village through community meetings attended by officials from the office PNPM and the head of the ellipse, KAN chairman, religious leaders and youth, through consultation with the spirit of togetherness.

Board which is chosen from the elements of society and provided training in the management of savings and loans by the government through the Agam district PNPM program. Board consists of 2 Advisory Board, Trustee Protector Jorong and 3 Supervisors and Administrators who gterdiri Chairman, Wail Chairman, Secretary, Deputy Secretary, and Treasurer.

When linked to the values of social capital, the role of shared values and the participation of members only in the board election process. Board selected through village meetings in the spirit of togetherness, cooperation and mutual agreement. Board elected a form of trust board member with the hope can bring members to a better life. While in the management of the institution both operationally and in determining any decision is the duty and responsibility of the board without involving the participation of members. The role of member participation only reflected in his involvement in the consultation meetings both attendance and participation in decision-making regarding the selection board.

c) Capital Formation. Capital formation, the role of social capital values are common to both Semi-formal financial institutions. In LKMA Panampuang values of social capital in the form of shared values, member participation, trust, and financial contribution. While on KSPP Lundang only in the form of shared values, beliefs, and financial contributions.

LKMA Panampuang is an institution established by the government in which each of the funding must go through LKMA Puad, so that the authorized capital of these institutions comes from government assistance aimed at helping meet the needs of capital farmer groups with a membership of 266 people with the amount of wealth at the end of 2012 amounted to USD 551 394 293 , - capital this institution comes from government aid coupled with principal savings, mandatory simapanan and time deposits, as well as the efforts of capital formation through the members' contributions in the form of deposits.

The shape and size of deposits was decided to involve the participation of members in the board deliberations and members of the RAT. Besides fertilizing done through a capital loan service payments amounting to 1 percent of the loans received.

When linked to the value of social capital in capital formation, it appears that the formation of collective capital resources on LKMA Panampuang guided by shared values, participation and trust and every member. This is reflected by their determination, spirit, and cooperation to establish a joint capital resources.

Determination and spirit is applied in the form of real action that is the willingness of each member placing funds in savings and time deposits and a portion of net income (25 percent) retained as additional capital based on trust and a sense of community among members and pegurus. In addition, the board involve the participation of members in deciding the amount of savings and loan services.

In the implementation of collective capital formation have demonstrated their shared values in the form of a spirit of togetherness, trust in management, and financial contributions of members of the institution. The spirit of togetherness reflected by mutual agreement and cooperation of members to provide a source of capital together. The willingness of these members also indicate the existence of a trust value to board members as well as financial contributions, in the form of principal savings, simwapin and loan services.

d) Loan Loan Process. In the process of credit lending, the values of social capital is relatively bigger role in LKMA Panampuang encountered. In LKMA, the values of the social capital in the form of shared values, member participation, trust, and financial contributions.

The process of credit lending in LKMA Panampuang a collective agreement and board members. Although it is a credit service operations carried out by the board, but the rules of procedure and the requirements a joint decision involving members through member meetings and board meetings. Thus the members had no difficulty because the process is very simple and easy. Members who want to borrow loans just fill out the form and submitted to the board / officer. Members are not required to provide collateral and if the business owned by a decent, credit can be availed.

When linked to the values of social capital, then there is a role shared values, member participation and confidence in the process of credit lending. The role of common values reflected in the spirit of togetherness and cooperation in determining the procedure and terms of borrowing. The provision is a joint decision is discussed in the meeting of members. Participation of members materialized in the form of the willingness of members present at the meeting and was directly involved in formulating and issue a decision. While the role of trust is reflected in the absence of collateral requirements for members who borrow loans This is to educate members in trying to be honest.

e) Monitoring and Evaluation. In the monitoring and evaluation activities, the role of social capital values found in the institution (LKMA Panampuang) in the form of shared values and member participation. In LKMA Panampuang, monitoring and evaluation carried out by the regulatory body are appointed jointly by the board and members.

The regulatory body is basically just tasked with monitoring and evaluating the implementation of the activities particularly the management of funds by the board. Besides, monitoring and evaluation in general is also done by the members through a RAT. Monitoring is done is about the course of events over the past year and plan activities for the next year, while the evaluation is about financial accountability by the board. While monitoring and evaluation of the administrative accounting and reporting by the supervisor.

When linked to the values of social capital, in LKMA Panampuang there are shared values and the participation of members that play a role in monitoring and evaluation. Shared values that play a role is in the form of a spirit of togetherness and cooperation for the mutual benefit to oversight. Although the monitoring is done by the regulatory body, but every problem can not be separated from monitoring or supervision and contribution of some members.

The role of member participation is evident from the willingness of members attending each meeting. Each member is required to attend the meeting to discuss and find solutions to the problems facing the institution. The role of social capital in LKMA shown in Table 3.4.

Table 3.4. Role of Social Capital in the Institution

Social Capital	LKPMA Penampuang
A. Trust Kinship	Between members and administrators already know each other and find common ground daily (farmers)
Participation of members / Community	Participate jointly determine the decision in order to advance the institution
Financial Contribution	Of services and interest on loans and member dues
Value Religion	Emphasizing a sense of honesty fellow members and administrators
b. Network formation	Fellow members participate in providing information to the board about the feasibility member
c. Adherence to norms	Members with quote and ninik mamak, jointly support the dignity and the dignity of the family

3.4 The Role of Government Policy on Financial Institutions and Capital Strengthening Small Farms

a) Regulatory Aspects. Although LKMA development program is part of the county government, but the agency has no legal basis and operational in carrying out its activities. The only operational base is AD / ART created by governments and society.

b) Aspect Capital Assistance. To support the operations of the institution LKMA never received capital assistance from the district administration at the time of establishment of the institution. In an effort to boost the economy of poor rural communities through the provision of capital by the government. LKMA obtain financial aid from the government amounting to Rp 100 million as initial capital Agam operational agencies in 2008. The initial capital is first used as loans to members.

Help initial capital received by LKMA a positive impact on the provision of loans to its members. However, recently the number of members feel the credit is inadequate because of the limited availability of capital. The provision of capital amounting to Rp. 100.000.000, - financially can not mengembangkan effort by farmers. This assistance is more prominent than the political elements of the economic element.

c) Aspects of Development. From the aspect of coaching support, obtain guidance from the government in the form of training. The board LKMA provided training in the management of financial institutions held by the government of Agam district at the time of establishment of the institution. The training aims to provide the knowledge and skills regarding the management of the institution, especially regarding credit services to members. Therefore, a program of the government agency, then this training is very useful for administrators in managing the institution.

4. Conclusion

Based on the results of research and analysis, we can conclude that there are three important factors that cause LKMA can survive and play an effective role in a rural airport FOR namely:

1). Elements of Faith. The nature of trust between members with members and between members of the board resulted in the formation of a network that enables the formation of mutually beneficial cooperation between members in achieving common goals. These conditions affect the suitability of the characteristics of the institution with the characteristics of the nature and dynamics of UTK, this condition causes LKMA easily accessible by UTK. Characteristics of institutions characterized by UTK as the main target of credit services, procedures and administrative requirements are relatively simple, does not require collateral, repayment system is relatively lightweight and flexible, and easy to reach location. While the nature and dynamics of UTK is characterized by a limited area, there are still peasants, and the business is seasonal. While the dynamics of UTK include reliance on credit loans, no collateral, and just being able to access credit that do not bloom / low interest rate and easy to obtain.

Ease of access of farmers to financial institutions causing farmers to succeed in the implementation of agricultural activities. Such a condition indicates that the character of financial institutions in accordance with the characteristics of farmers, led to the development of agriculture and increase farmers kesejahteraan better. Mutual trust between the manager and members by making mutually beneficial working system between managers and members. Mutual benefit will arise if the results of the activities carried out benefit the two sides. This situation will lead to mutual trust, sympathy, mutual participation and sense of belonging to the institution. This was evident at LKMAPanampuang Prima, effectively serving the needs of capital.

2) Network Elements. Empirical facts stated that credits earned UTK mainly benefit the credit needs to sustain its agricultural business capital. This situation as a result of involvement of financial institutions to serve the needs of capital for UTK are our customers. The success in the management of the institution has LKMA main source of capital (initial capital payment and savings), so as to empower UTK in fulfilling the capital although still DSLAM limited quantities without relying on external capital mobilization, especially from the government.

3). Elements Norma. From the aspect of the rules / policy of the government, the upfront analysis showed that LKMA after being given initial capital, as it does not have a dependency on the government, so it is able to exist and contribute to UTK. This condition is seen on the level of compliance with the provisions, the rules they created together. This indication is reflected in the low tingkat loans (2%).

5. Suggestions

Sisitem Operating Procedure (SOP) is formulated based on an element of trust that has been shown to create an independent local agencies and beneficial in meeting the capital of the farmers. To mengarangi operating costs, the establishment of a network system also proved to make the system more effective cooperation and norms / rules are made jointly make the members abide by the rules according to the agreement, it also makes a collective capital formation was effective.

Therefore, it is suggested that microfinance can be entrusted management / delivered to local bodies under the supervision of their pemerintrah brackish areas. Specific regulations on microfinance / informal financial institutions such as LKMA can be set by local governments either provincial or local government or city government, as has been done in the Barn Pitih Nagari (LPN) West Sumatra Governor governed by district head of West Sumatra province in 1976.

References:

- Acharya. M, Shrestha.B, and Seibel.H.D. 1992 Self Help Groups in Nepal, in the Self Help as informal intermediaries. B.R. Quinones Jr.Ed. 1992. Bangkok, Thailand: APRACA Publication.
Mughtar Ahmad 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 Sociologist's Approach to Sustainable Development. *Financial & 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 Truly 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 and T.K. Ahn. 2003 *Foundation of Social Capital*. Massachusetts: Edward Elgar Publishing Limited
- Gemmel, N, 1994, *Science Development Economics; Multiple Survey* Jakarta: Pustaka 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: BPFE.
- Hayami, Y. and Vernon W. Ruttan, 1971. *Disequilibrium 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: Obor Indonesia Foundation.
- Korpp, Erhard. Et al, 1989 *Linking Self-Help Groups and Banks in Developing Countries*, APRACA GTZ, Eschborn.
- Lenggono P.S 2004, *Social Capital In Pond Management, Case Study On Community Farmers in the Village of Muara Pantuan, District Anggana, Kutai Regency* (thesis), Bogor Agricultural University Graduate School of Bogor.
- Lesser, E., 2000, *Knowledge and Social Capital: Foundation and Application*, Boston: Butterworth-Heinemann,
- Martowijoyo, S., 2005. *The Future of Microfinance Institutions in Indonesia: Overview of Aspects of Regulation and Control*.
- 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 On 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 of Grameen Bank Replication Concepts For: Microcredit Institution*. 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 Bruce F. Johnston, Ed.). 1973, Perss Corneli University, Ithaca and London. P.125-126.
- World Bank, 2003. *Social Capital*. Download of <http://www.worldbank.org/proverty/scapital>.