

# Social Capital Based: Case Study on The Teacher Cooperative North Payakumbuh, West Sumatera, Indonesia

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## 1. Introduction

The perpetrators of farming in rural areas 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). 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 weaknesses of keberlangsungan life has consequences for financial institutions that have been established after the program is completed. As a result, program participants generally will again experience a shortage of capital.

One of the financial institutions that can be exploited and encouraged to finance micro segment is a cooperative that included one of the Formal Financial Institutions (LKF). One of the cooperative who have been helped are poor is the official cooperation of the Republic of Indonesia-North Payakumbuh Teachers (KPRI-GPU). The cooperative was founded by the union of North Payakumbuh teachers based on trust (social capital), and the presence KPRI-GPU proved to be welfare for teachers in particular and other small farming communities.

Fukuyama (2002) argues that social capital, focused on the importance of relationships 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 (mutually respectful) and the relationship of trust (trusting relationship) between citizens.

Putnam (1993), also showed 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 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.

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

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

KPRI-GPU has been beneficial in increasing its contribution to the welfare of teachers in Payakumbuh West Sumatra, but is still small relative to the small farming communities (2%) of total loans. Based on the above phenomenon can be formulated research problem as follows:

1. Why KPRI-GPU can survive and thrive in the long term and play an effective role in serving the needs of its members in the area Payakumbuh?.
2. How KPRI-GPU apply the principle of social capital in enhancing the role of cooperatives to serve the needs of its members?

## 3. Review of Literature

### 3.1 Concept of Financial Institutions

Microfinance Institutions MFIs) is a program of lending small amounts to the poorest of the poor to finance projects that do own in order to generate income so as to enable 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.

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.

### 3.2 Definition of 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. If trust comes up then the community will share a set of moral values, as a way to create a common hope and honesty. Fukuyama also stated that, associations and local networks really have 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.

Simple and general conclusion that can be drawn 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.

Referring to Fukuyana (1995) there are two parameters ie social capital:

- a. 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. 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.

### 3.3 Role of Social Capital

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".

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.

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.

#### 4. Results Analysis

As a cooperative institution, KPRI-GPU has demonstrated its role in helping to meet the capital requirements, both permanent members and associate members to finance farming (2%), for business or other needs (needs of the household (33%), education (25%), construction / trades (34%) and the purchase of vehicles (6%).

The small amount of credit that can be channeled to the business sector (only 2%) associated with problem assets became collateral. However, the members KPRI-GPU background as teachers, there is a convenience for them to get credit facilities because they have collateral SK (decree) as civil servants. Even to members of non-teachers who obtain credit for farming only 2 percent can also be realized if they could obtain a recommendation from a teacher who is a permanent member KPRI-GPU.

The portion of lending to the trade sector (12%) household (42%), education (37%), and for buyers of vehicles (7%). Information for KPRI-GPU can be seen in Table 1.

Table 1. Distribution Distribution of Credit by Type of Business In KPRI-GPU. 2015

NO	TYPE OF BUSINESS	NUMBER OF CREDIT (000)	OBJECTIVES (%)
1	SMALL BUSINESS FARMER	12.850	2
2	TRADING	77.098	12
3	HOUSEHOLD	269.842	42
4	EDUCATION	237.718	37
5	KENDARAAN	44.974	7
	TOTAL	642.482	100

From Table 4.1. it can be concluded that the KPRI-GPU has been instrumental in helping improve the welfare of teachers. It looks to have 98 percent of the total loans disbursed to improve the welfare of teachers. Although the portion of credit for farmers occupy the smallest portion ((2%). These conditions reflect that cooperative efforts is still a priority to meet the needs and improve the welfare of permanent members (Employee / Teachers at North Payakumbuh).

##### a. Establishment of the Institute of Philosophy

KPRI-GPU established on May 2, 1974 (National Education Day) by PGRI formed Branch Payakumbuh four subsidiaries namely North, South, East and West Payakumbuh, supported by teachers in the Payakumbuh city who are determined to improve the economy together. Through a special member meeting, which was attended by teachers of the national education environment Payakumbuh decided to form a cooperative and finally succeeded in establishing KPRI-GPU. Furthermore, a special meeting of members to authorize several teachers representing teachers throughout the city Payakumbuh to sign the deed and take care of the legal entity of the government's approval.

On May 2, 1974, BH. No. 976 / BH / XVII-12-12-1974 ended the legal entity is acquired and KPRI-GPPU official operates. The involvement of members in the establishment of the institution driven by a determination to change the members of a better standard of living, especially in the economic recovery.

At the beginning of the founding members is limited to the national teacher education environment that specifically serves the needs of teachers Payakumbuh Education Office environment, so that is not a teacher or a farmer can not access this institution. But in its development of the board and members agreed to amend the articles of association in 1996 by decree of the Minister of Cooperatives and SMEs by Decree No. 390 / PAD / KWK.3 / XII / 1996 dated December 17, 1996 which aims to open up the opportunity for candidates who are not teachers can a member with extraordinary member status, so that the cooperative can serve regular members and associate members to earn credits for both members including to finance the farm.

Credit can be accessed by all permanent members and associate members. This policy is an opportunity for people who are not able to access background of teachers to utilize credit for purposes including financing of farming members.

b. Accessibility

KPRI-GPU is a formal financial institution in the form of cooperatives, the activity relies on the strength member, so the level is dependent upon its membership aksessibilites.

KPRI-GPU is built based on the nature of the family, which in implementing operational procedures and requirements are relatively easily accessed by members are not covered for the purpose of procuring housing, including to finance trade and farming.

In KPRI-GPU requirements of credit applications, (1) is listed as a permanent member as well as exceptional and is still active, (2) domiciled in Payakumbuh and the District Fifty State, (3) completing the form, (4) have a mortgage, (SK PNS ) (5) letters of recommendation from the permanent members and or managers / head unit (in lieu of collateral), (6) photocopy of ID card / family / SK first and last and Taspen for members with the status of teachers or employees.

From the aspect of the location, KPRI-GPU is located in the city Payakumbuh

The process of loan application to be approved and disbursed loans require relatively quickly (1-2 days) for members who have become active members.

Their collateral requirements only in the form of a letter stating that his property would be confiscated if the loan is not repaid as electronic items, home, land, vehicles, household furniture and so forth.

Loan repayment system on KPRI-GPU installments over 10 months (10 times) and bear interest at 1 % per month.

In KPRI-GPU so that repayment can run smoothly every month, the board set a rule that (1) loans disbursed every 6th after the 5th of every month requirement has been met (2) delay in depositing of the 5th of the month subject to a fine of 0.5 percent per day of the deposit amount (3), for members in arrears subject to suspension for subsequent loans for two (2) times the period of arrears and a large loan maximum is equal to the loan amount of time, (3) the head unit (the principal) liable (jointly and severally) to repayments members.

Based on the foregoing, the position of credit loans given to customers farmer has a condition that is quite varied as shown in Table 4.2.

Table 4.2. Credit Position By Category and Number Debetur KPRI-GPU 2015

Category	Number of Debtor	Total Credit (000)	NPL (%)
Current	13	452.029	99.50
Bad Debt	0	0	0
Bad Debt	0	0	0
Not Perform	1	32.124	0,05
Total	14	484.53	100%

Source: KPRI-GPU 2015.

Their administrative procedures are simple, the requirement of collateral is not absolute, rapid time loan disbursement, the location is relatively close, and the interest is not very high (12%) on KPRI-GPU, an attraction for members including those in the agricultural sector to access credit. Conditions such as these that cause KPRI-GPU thrive with assets in 2015 reached 44 billion more, although the agricultural sector is still found bad credit customers one of 14 borrowers (0.05%) with the amount of arrears amounting to Rp 32.124 million, -, Arrears member of a dependent member of endorsement (jointly and severally).

Based on the above circumstances so on KPRI-GPU is a cooperative of teachers / employees of the cooperative effort is to the field of household, construction and education.

a) Justice of Distribution

KPRI-GPU more lending earmarked for capital purposes farming (2%), trade (12%), followed by household (42%) education (37%), for vehicle buyers (7%), (see table 4.1.). The low share of loans agricultural shows still low chance of farmers to use loans from KPRI-GPU compared to the teachers / civil servants.

b) credit Worthiness

KPRI-GPU circumstances as described above, has not been found or has been accessible to small farmers as the main services of this institute were civil servants, while for small farmers only about 2 percent of the total loans disbursed, it was borrowing the teacher as a credit guarantee for loan installment repayments in accordance with the rules KPRI-GPU.

c) The role of the Board in the Capital Mobilization

KPRI-GPU boards and regulatory bodies have the Annual Meeting of Members (RAT) in accordance with the articles of association of cooperatives. Each member has one vote on membership. Furthermore, every election and dismissal of the board and supervisory bodies through the annual members' meeting (RAT). RAT can be carried out if attended by at least 2/3 of the total members.

Board of KPRI-GPU consists of a chairman, secretary and treasurer. While the regulatory body consists of a chairman and two members. All officers and employees of the institutions selected through a selection of special and high school education background above. Meanwhile, to support the work, managers and employees are specifically given some management training.

KPRI-GPU, capital mobilization depends on the role of the board and members.

The formation of the authorized capital as the main support comes from the activity of participation of members, both in the form of savings, compulsory savings, as well as special savings. Principal only paid once when become a member, while the deposit must be paid every month. Moreover, if the member has excess income, it is recommended to store it in the form of special savings. Decisions about the form and amount of savings set out jointly by the RAT, the shape and size of the deposits can be seen in Table 4.3. following:

Table 4.3. Funding in the Capital Mobilization Collective on KPRI-GPU Year 2012

No	Source of funds	Years 2012	
		Amount (Rp 000)	%
1	Mandatory Deposits	11.973.981.458	45,97
2	Principal Deposits	36.900.000	0,15
3	Special Savings	9.451.290.915	36,30
4	Capital Reserve	4.578.591.918	17,58
	Total	26.917.542.427	100,00

The provisions concerning capital resources in accordance with the provisions of the articles of association. Cooperative each member charged Rp 15,000 principal savings, mandatory savings amounting to Rp 75,000 is paid every month, a special mandatory savings of Rp 414,000, Rp 150,000 administrative costs and fund life risk Rp.21.000 1 year and for the next year paid by the cooperative. Besides, the board received funds participation in the form of donations from both government and private community. Then to add capital, KPRI-GPU board for the creation of a capital reserve of 25 per cent is deducted from net income (SHU) each year.

In Table 4.3 shows that the largest contribution to the formation of cooperative collective capital is derived from compulsory savings (45.97%), principal (0.15%) and specialty stores (36.30%) and capital reserves (17.58). The amount of the financial contribution of members in the gathering of collective capital (82.42%) indicated that the participation of members as evidence of confidence in the board members is quite high in collective capital formation.

It can be concluded that the dominant role of the board relative to the mortgage-GPU in capital mobilization, especially in the mobilization of internal capital that comes from members' savings.

### Conclusion.

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 KPRI-GPU from formal financial institutions group effectively serve the needs of capital are poor.

From the aspect of the rules / policy of the government, the analysis upfront showed that KPRI-GPU merupakan formal financial institutions, but in the process of institutional management incorporates elements of social capital such as trust, participation of members, and adherence member to the rules / norms fixed by the members themselves , Thereby increasing the confidence of researchers that, nor is it necessarily true that government regulation will menghambat development of institutions. But in KPRI-GPU, because this center was built (initiate) and built by the local government so that the initial capital and operational management of the institution is the duty of the local government, so that the impact on the progress and independence of the institution in serving the needs of capital member was not optimal and will ultimately result in lack beneficial to community development financial institutions weak economy.

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