LINKING SOCIAL CAPITAL IN EXISTENCE OF INTERACTION BETWEEN MONEYLENDER AND MERCHANTS

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Abstract. The existence of moneylender (loan shark) is getting stronger inside traditional market. The loss of merchants that is caused by interaction with a moneylender makes dependence on these services. This study aims to reveal deeply social capital linking for the existence of merchants and moneylender interaction. This study exerts qualitative phenomenology method. The result shows that linking social capital through the element of social capital (trust, network, and norm) becomes lubrication in existence of an interaction between moneylender and merchants. Moreover, the camouflage of moneylender can be chosen by merchants according to the need. In another hand, external factors include the complicated requirements and procedures in formal financial institutions for applying for credit.

Keywords: Linking Social Capital, Moneylender, Merchant, Credit.

Introduction. The existence of moneylender often found in Indonesia, especially in the traditional market. World Bank (1) data shows that access to formal financial institutions is only 52 % of total population. In another hand, 31 % of Indonesian people access informal financial institution, and 17 % of Indonesian people is in exclusive financial condition (cannot access of formal financial institution). Also, the problem of supply-side is information gap and formalization gap. The information gap is procedures of banks that are considered too complex to be fulfilled by merchants. Formalization gap is the requirements which are determined by bank such as business licenses, collateral in the form of certificates, etc. Problem on demand side is the level of education and low of knowledge. (2)

Mallick (3) states that “The poor do not have access to formal financial institutions mainly because of lack of collateral and are forced to resort to informal credit markets such as loan sharks, who then charge exorbitantly higher interest rates on loans.” The other reason for difficulty access due to the lack of collaterals or guarantors. (4)

In Indonesia case, moneylender had to charge a 240 % annual interest rate (20% flat per month). (5) In a developed country like Japan, moneylending has become more restrictive over time. About 20 years ago, the Japanese microcredit interest rate was over 100 percent; about ten years ago, it was reduced to 29 percent; and since 2008, the government has reduced it to 20 percent. (6). The moneylender procedures are flexible and only use instruments of social capital, make the more exist of a moneylender in traditional markets. Social capital is defined as the resources – for example, the exchange of favors, the maintenance of group norms, the presence of trust, and the exercise of sanctions – available to members of social groups. (7) Moreover, the demand for credit to moneylenders increase more. The other reason for moneylender existence is government regulations on the formal credit market that have result in the resurgence of an informal credit sector. The case study in Japan, becoming an authorized moneylender in Japan is more difficult now (incomplete comparison) Moneylender now requires a minimum amount of capital and has to pass an examination. (8) Specifically, this study will reveal the role of linking social capital between moneylenders and merchants. The linking social capital is referring to the relationship between individual and or group indifference level (vertical social capital). Babaei et al. (9) explain that the group with the higher position will get the more advantage. Also, the usage of trust, networks, and norms of moneylender can realize credit contract fluently. The three aspects are summarized in the corridors of social capital. Linking relationship is reflecting the interaction between the merchant and moneylender. Moreover, moneylender also utilizes linking social capital in reducing transaction costs such as monitoring fees. Moneylender often lobbied as this action is called “rent seeking”. The rent seeking is someone greater increase profits by lobbying.

Method. The study was carried out in area Blimbing traditional market, Malang Regency, East Java Province, Indonesia. The traditional market is the crowded place that small merchant is selling their product. The small-scale merchant identical with less capital and low profit.

This study uses a qualitative and phenomenological approach for exposing deeply and thoroughly the interaction between merchants and moneylender. The collection data by observation and interviews. In a qualitative approach, there is no the rule of the respondent minimum that has to require. However, the key informants include moneylender and merchants who have had the loan contract with moneylender. The supporters informant are merchants who have not the loan contract with

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moneymongers and merchants who had a credit contract with formal financial institutions, as well as cooperative and banking institutions.

**Key Information interview:** this interview with the merchant that has the contract with moneylender. The list questions that are what is the reason take a credit by the moneymonger, how long the merchant has credit contract with the moneylender, and how is the social capital (trust, network, and norm) can maintenance of credit contract. The questions from moneylenders side are how the way to get the merchant and how long they operate of the credit. The important fact is how they use social capital for the existence of the contracting credit.

**Supporters information interview:** the supporters like cooperative and banking that operation in the near Blimbing traditional market. The information about credit requirement, collateral, interest rate, payment system, and etc. All information above will be compared with moneylender system. Research Conducting Method. The analytical method process is first, the examining of the deep interview with key informant and supporters informant. Second, the process of assigning a code to for classification or identification. Third, presenting with the table and graphic and the last is concluding. As for the validity of the data using triangulation four modes, among which uses multiple sources, using multiple methods, researchers double (a reference to empirical studies), as well as different theories.

**Findings.** The moneylender exists until now because most of the merchants still maintain its presence. It can be reflected by their credit request to the moneylender.

1. **The element of social capital as lubrication in transaction.** Credit contract cannot be separated from the element of trust. When collateral is not required, trust can substitute it. Here is the statement of one moneylender actor, Ms.Wiwin, about the requirements and guarantees:

   “No requirements to apply for credit, just trust.”

   The flexible rule of moneylender also become a special value in the heart of merchant. Here is a statement from Mrs. Tika (moneylender) that gives the compensation for the merchant when they postpone paying:

   “The payment is up to him; traditional market sometimes is crowded and sometimes is lonely. This merchant, he told me that no payment today, it is no problem”.  

   The value of “compensation of postponement” which is owned by the moneylender, make moneylender gain impression in the hearts of merchants. A moneylender who has a high tolerance to the merchants has a purpose to protect them from the negative stigma (greedy). The implied that social capital enables the collective to effectively maintain social norms. The other element of social capital is the network. The network will give information based on Olives, and Kawachi says that social capital includes the exchange of valued resources such as information or instrumental support between members of a network. Furthermore, embeddedness is created by economic action socially and attached in the personal social networks that are being developed among the actors.

2. **High-risk, high return by moneylender.** The absence of collateral on the Moneylender credit contract makes risk increment. Mookherjee and Motta explains that “Cream-skimming” is a formal financial institution which can design a scheme borrower as low risk. Then the formal financial institution less the high-risk borrowers to be served by informal lenders (moneylender).

   The risk of bad debts is often experienced by the moneylender. Here is the statement of Mrs.Tika about failure in moneylender business:

   “There are many failure credits among merchants. There is a new loan, and they ran away. We do not like a bank which requires the guarantee. The risk always exists, one of them borrowed 60 million and then fled. I've gone to his house, but the house has already sealed by police.”

   The problem above is asymmetric information. Togba explains that problems of asymmetries of information consist of adverse selection and moral hazard. Adverse selection is replicated by a creditor who mistake on the selection of credible debtor. The moral hazard occurs when debtor often commits fraud. The other literature from informational perspective, social capital improves economic efficiency and enhances coordination thereby reducing information asymmetry.

   The high of a risk in line with high return. The Moneylender. Based on the Bithal et al., in the research about the small farmers, thus, resort to borrowings from the informal sources, viz. moneylenders, traders and input dealers, who often charge high rates of interest.

3. **Existence moneylender that is maintained by merchants.** The ease of getting credit at moneylender makes people to often apply for loans on moneylender in a long period. The existence of moneylender is believed by merchants as a helper and as the fastest way when they need funds urgently.

   a. The continuous credit demand

   The existence of moneylender is explored further through some merchants who apply for a loan to moneylender whether increase or decrease. Here is a statement of Mrs. Tika as Moneylender actor:

   “Not certainty, sometimes they say that they do not borrow temporarily. There are the increasing amount and decreasing one, that is the market.”

   The statement above cannot be concluded whether some merchants who apply for loan increase or decrease. But the most important for the moneylender actors that business activities can be continued on a daily economics activity in those markets.

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b. Free entry and exit moneylender actors in traditional market

This section analyzes the presence of moneylender actors in Blimbing Traditional Market from year to year. The following statements of moneylender existence number are explained by Mrs. Sariyem. This is the statement of Mrs. Sariyem:

"There was only few loan shark, but nowadays, there are many moneylenders."

Increasing number of actors who enter moneylender economic activity in Blimbing Market shows that the existence of moneylender increase. Meanwhile, Mr. Sutrisno stopped as moneylender because many debtors run away.

Trade-off between low-interest rate on cooperatives and easy access on moneylender. The merchants do not only apply the credit to the moneylender but also on cooperative. Here is a statement from Mrs. Purwati who is borrowed by moneylender also from the cooperative:

"I also borrowed from the cooperative because of low-interest rate."

In another hand, the merchants would like to choose moneylender than cooperative. The reason of Mrs. Sariyem is follow:

"No, because cooperative is complicated and intricate. The collateral requirement is a certificate of motors, certificate of the house, or gold. While the moneylender is direct credit."

The statement above shows that the process of the cooperative is complicated and takes a long time. Mookherjee and Motta explain that “crowding in” is inflexibility and loan repayment system by formal financial institutions. Therefore, the trade-off between low-interest rate and cumbersome process of formal financial institutions exists. The other literature mentions that the financial institutions are reluctant to lend small scale farmer because of the high transaction costs and high loan risks. 13

Type of moneylender camouflage. Various type of moneylender is an effort to meet the demand by the conditions and needs of merchants. In this study, various forms of moneylender are found in three types, which are rotating saving club “aris" (Indonesian language) is merchants deposit someone who coordinates the rotating saving club system. “Bank Perkakas" (term of credit is good), and motor credit. The moneylender or loan shark system responded positively by the merchant. The interesting of merchants to participate in rotating saving club quite a lot. The other type is credit of motor. The system used a credit motor is little differences with moneylender system. Motor credit system required money down payment. The amount of down payment is flexible between 500,000 Rupiah until 1,000,000 Rupiah. The last type is “Bank Perkakas." Traders can utilize the loan resources in the form of goods, known as the "Bank Perkakas." Goods are credited like kitchen utensils, glassware to electronics, etc. The procedure of borrowing is almost same with moneylender.

The explanation about installment payment, period and interest rate is shown in Table 1. Based on Table 1, The calculation of interest rate using following equation:

\[ I = P \times R \times T \]  

Based on the equation 1 will explain I is the interest rate created in ruhiph. P is the “Principal” starting amount of money. \( R = \) The interest rate per year and \( T \) is the time invested or borrowed.

Table 1. The Calculation of Interest Rate by Moneylender.

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of moneylender</th>
<th>Debt (Rp)</th>
<th>Installment payment (Rp)</th>
<th>Period</th>
<th>Interest rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Moneylender</td>
<td>1,000,000</td>
<td>a. 20,000/ day b. 40,000/day</td>
<td>60 days 30 days</td>
<td>a. 20 b. 20</td>
</tr>
<tr>
<td>2</td>
<td>Rotating Saving Club</td>
<td>14,000,000</td>
<td>50,000/day</td>
<td>1 year</td>
<td>2.4-2.5</td>
</tr>
<tr>
<td>3</td>
<td>“Bank Perkakas”</td>
<td>1,000,000</td>
<td>20,000/day</td>
<td>60 days</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>Credit of Motor</td>
<td>12,700,000</td>
<td>a. 1,100,000/month b. 40,000/day</td>
<td>1 year</td>
<td>a. 10 b. 20</td>
</tr>
</tbody>
</table>

Rent-Seeking Behaviour in Maintain of Moneylender Existence. The rent-seeking adopts random selection of some persons and income extraction from them. Another interpretation of it are just like a shopkeeper who exploits uninformed customers by selling the inferior goods quality; one might think of opportunistic behaviour in general. 14 In economic activity is inseparable from opportunistic behavior to increase revenues or profits. This opportunistic behaviour reflected by the actions of rent-seeking is applied to the act of ignorance related information of interest imposed by the perpetrator's moneylender. Moreover, differences in the system applied moneylender in attracting merchants and keep the loyalty of its merchants. Also, there is reciprocity, which also provides a stimulus to the contract that exists between merchant and moneylender. The act of reciprocity in this study is shown in action moneylender actor that every morning to buy rice for breakfast in her debt. These interrelationships will provide an indirect impact on the existence of moneylender.

The concept and result of this research show in Figure 1. In this figure can be explained that several factors influence the interaction between merchants and moneylender. The factors are derived from external factors and internal factors. External factors are derived from formal financial institutions. The information gap is multi-bank procedures which need long-time to be fulfilled. Then, formalization gap consists of complex and difficult requirements which must be fulfilled such as collateral, business licenses, etc to cover of risk. The research from Kumar et al., 15 propose that social capital has a positive effect on corporate risk-taking for several reasons. First, social capital alters risk-tolerance of socially connected individuals because it offers a way to pool individual risks.

Meanwhile, internal factors are social capital, rent-seeking, and camouflage of moneylender. Social capital is described by the elements that are trust, network, and norm. Trust becomes the basis for the credit contract run, the network is lubricant in the transaction, and norm maintains it.

Figure 1. Factors affecting to linking social capital between merchants and moneylender.

Figure 2 shows the hierarchy among the actors in linking social interaction.
A hierarchical relationship is illustrated by black line color. The green line color describes the interaction between merchant. The purple line color describes the interaction between cooperatives. The blue line color describes the interaction between Banks. Then, the red line color describes the interaction between Moneylender. The orange line explains bonding social capital. The bonding social capital is connecting for each that has the same position on social, economic and characteristics of demographics.

**Conclusions.** The role of linking social capital through trust, network, and norm makes interaction existance between merchants and moneylenders increase and sustainable. Trust becomes the basis for the credit contract run, the network is as a lubricant in the transaction, and norm maintains it. The various types of moneylender have the aim to preserve the existence of moneylender. There are several suggestions given for this research. The formal financial institution can adopt the system implemented by the moneylender. The requirements can be minimized such as the removal of the requirement (a business letter). Keeping the relation relationship is one of a solution to the removal the requirement. Moreover, collateral is needed only for the loan more than Rp.1,000,000. - As substitution of these guarantees, the merchants can regularly be monitored, and the daily instalments system is applied.

**References**