

**Accessing Formal Credit: Social Capital versus ‘Social Position’
(Lesson from a Javanese Village)^{*)}**

Aloysius Gunadi Brata
(aloy.gb@mail.uajy.ac.id)

Research Institute
University of Atma Jaya Yogyakarta

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ABSTRACT

Low access to formal credit persists in most of developing economies also in Indonesia. Most of households especially in rural areas do not familiar with formal credit. Therefore, formal credit institution needs a mediation or substitution. Recent studies argue that social capital could to a better flow of information between creditors and borrowers and hence less adverse selection and moral hazard in the market for credit. The guarantee of groups and pressure by social network also are important techniques to improve credit performance. The relation between social capital and credit access is an interesting issue since the promotion of formal credit facilities in rural areas is argued as an important policy in reducing poverty level. The aim of this paper is to describe the connection between social capital and access to formal credit, especially from commercial banking in the case of a Javanese village. To describe the connection, this paper will seek what are the different characteristics between household that having access to commercial credit and the other group of households. However, since there is also an argument that social capital does not guarantee poor people to access formal credit, this paper also analyse other important variable namely ‘social position’ of the head of household in their rural community.

Key words: *social capital, rural credit, formal credit, ‘social position’,*

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INTRODUCTION

Poor households in rural areas do not familiar with formal credit, which deliver funds through formal financial institutions, such as commercial banks. Formal credit institution needs a mediation or substitution. Narayan and Prittchet (1997) argue that social capital could to a better flow of information between creditors and borrowers and hence less adverse selection and moral hazard in the market for credit. The guarantee of groups and pressure by social network credit are important techniques to improve credit performance (see: Rhyne and Otero 1994).

In the case of Tanzania, Narayan and Prittchett (1997) found that a larger fraction of households in villages with higher social capital report using credit for agricultural improvements. In the case of Indonesia, Grootaert (1999) concludes that households with higher social capital are better able to obtain credit. He found that members of financial associations more likely to obtain credit than non-members and the obtained credit amounts were much larger.

All local associations whatever its prime objectives are important to increase the access to credit (Grootaert, 1999). As argued by Van Bastelaer (2000), the social networks are important elements of most type of formal or informal programs that provide credit access to the poor. However, according to Tonkiss (2000), the forms of social capital are not simply or necessarily conducive to economic development, in two respects. The first has to do with inequality, the second with questions of capacity.

Where resources of social capital are unevenly distributed, social networks can be a basis for corruption, cronyism, or other forms of rent-seeking behavior. In village level, as suggested by Grootaert and van Bastelaer (2001), the role of specific village leader or other influential individual in the internal dynamic of community is acknowledged. In this situation, one may expect that social capital does not automatically increase the access to economic opportunities and resources such as formal credit. Social capital does not guarantee the poor people to access formal credit (see. Bastelaer 2000).

The second point of Tonkiss' critic on the effect of social capital is the questions of capacity. She suggests that social networks cannot simply create physical or financial capital where this does not already exist. Strong social ties become useless under domination of 'mainstream' economic and social networks. 'Network poverty' in this sense refers not to the absence or weakness of social network, but to the difficulty of accessing opportunities or resources through these networks. Therefore, to talk about 'social capital', here, can become a way of not talking about poverty. Grootaert (1999) argues that investing in social capital is a sensible strategy for poor

households in Indonesia, however he also suggests that the poor have to work their way into social capital while the rich ‘buy’ their way.

It is interesting to take a further investigation on the relation between social capital and a specific type of credit especially formal credit such as from commercial banking institution. Previous studies show that low access to formal credit persist in Indonesia. Van Diermen (1998) found that fewer respondents that have tried to access commercial (bank) credit and less who received loan although more than one-half of respondents have the bank accounts. In the case of small industrialists in Yogyakarta, Brata (1999) found less than 10 percents of small rural industrialists have access to credit from banking institutions although their bank accounts are sufficient for credit rating.

The aim of this paper is to describe the connection between social capital and access to formal credit, especially from commercial banking in the case of a Javanese village. To describe the connection, this paper will seek what are the different characteristics between household that having access to commercial credit and the other group of households. However, since there is also an argument that social capital does not guarantee the poor to access formal credit, this paper also analyze other important variable namely ‘social position’ of the head of household in their rural community.

A CASE OF A JAVANESE VILLAGE

Dukuh Senden in Prambanan, a sub-district in Sleman (DIY) was the location of field survey. Survey was conducted in August 2004. Total respondents in this survey are 70 head of households. These samples are about 37 percents of total households in *Dukuh* Sanden.

From 70 respondents only 22,9% (16) who has access to commercial loan from commercial banks. Most of them only got a credit from one credit source (75%). There are three respondents who received loan from two commercial banks. One of the respondents received formal credit from three loan sources (see TABLE 1). Therefore, total loan agreements of these 16 respondents are 21 agreements.

TABLE 1. Having access to bank loan

Bank loan	n	%
0 bank	54	77.1
1 bank	12	17.1
2 banks	3	4.3
3 banks	1	1.4

Average loan size is Rp 4,044 million while the range of loan size is from Rp 0,6 million up to Rp 10 million. There are 12 respondents received loan Rp 2 million or more (see TABLE 2).

TABLE 2. Size of bank loans

Loan Size (Rp million)	n	%
0,6	2	12.5
1,0	1	6.25
1,5	1	6.25
2,0	4	25
4,0	2	12.5
5,0	3	18.75
10,0	3	18.75
Total	16	100.00

Does social capital matter in accessing the formal credit?

This paper uses the density of membership of the respondents in local association as a simple indicator of social capital. Density of membership is one the dimensions of local association (Grootaert, 1999). Field survey found that more than 80 percents of head of households were member of local financial associations (such as *arisan* and *simpan pinjam*) and *pengajian* (a Moslem praying group). On average, each head of household joined in five local associations. TABLE 3 shows a comparison between two groups based on the density of membership in local association.

TABLE 3. Social capital: density of membership (mean)

Density of Membership	Having access to commercial credit?	
	Yes (=16)	No (=54)
All associations	5.7	5.1
Non-financial associations	4.1	3.7
Financial associations	1.2	1.4

TABLE 3 indicates that the density of membership of the “yes” group is larger than the “no” group, except in case of the financial associations. It is indicate the role of social capital in determine access of rural household to commercial credit. However, the table also shows that membership in non-financial associations was more valuable than in the financial associations in accessing the commercial banking loans. There are at least two reasons for this finding. First, most of local financial associations were related to informal credit. Second, local financial associations were not actually designed to access bank loans. In short, local financial associations do not mediate the formal financial association primarily banking institution.

The survey also found 75.9% of the respondents without access to bank loan have an interest to bank loan. There were 14 respondents have applied to bank loan however their proposals were rejected by the bank officers. If we combine TABLE 1 and TABLE 4 then there were 30 respondents which have applied to bank loan but almost half of the proposals were rejected. This finding confirms low access to formal credit still persists in rural areas.

TABLE 4. Having no access to bank loan

	n	% (of 54)
Having interest to bank loan	41	75.9
Having deposit in bank	14	30.0
Have applied to bank loan	14	30.0

Does ‘social position’ matter in accessing the formal credit?

The above findings raised a question about the role of social capital to increase access of rural household to bank loan. An interesting question in this context is about the relation of accessing bank loan and the social position of the head of household in the rural community. As found by Watterberg (2005), effects of different social ties vary by context and that an actor’s access to social ties and resources depends on her position in social space.

In order to address the social position of the respondents in the local community, I used an indirect question. The respondents were asked to determine the backgrounds of their involvement in contending local problems in their village. These backgrounds were assumed represents their social position in their community. ‘Official duty’ represents formal elite position while ‘self-initiative’ and ‘asked by community’ perhaps more represents informal elite position. Empirically rural elite could have both elite positions, therefore a respondent might give multiple answers.

TABLE 5. Reasons in involvement in contending local problems (multiple answers)

Reasons in involvement	<u>Having access to commercial credit?</u>			
	Yes (=16)		No (=54)	
	n	%	n	%
Official duty	4	25.0	9	16.7
Self initiative	15	93.8	45	83.3
Asked by community	12	75.0	22	40.7

TABLE 5 indicates there are 13 formal elites in the village. Most of them were not have access to bank loan. However, there is an interesting picture if we compare both groups (‘having access’ and ‘having no access’). Percentages of formal elites in the ‘yes’ group are larger than in the ‘no’ group. The same picture also found in the

‘asked by community’ reason which more represents the informal elite position. In the rural areas, the village officials have a superior position since they are also simultaneously as informal leaders. Involvement in contending local problems of the formal elites also stimulated by their self-initiative and by the community.

This finding confirms that rural elite, especially formal elites, have better position to access bank loan than ordinary community’s members. It is not surprisingly that the loan sizes of the village officials also were larger than the non-village officials. TABLE 6 shows a village official received bank loan Rp 5 million and three of them received loan Rp 10 million. This finding is supported by the income variable which indicates that the average income of the group with access to bank loan is larger than the other group. Average monthly income of the first group is Rp 1,087 million while the income of the second group only Rp 0,73 million.

TABLE 6. Size of bank loan and reasons in involvement

Loan size (Rp million)	Reasons in involvement in contending local problems					
	Official duty		Self-initiative		Asked by community	
	n	%	n	%	n	%
0,6	0	-	2	12.5	0	-
1,0	0	-	1	6.25	0	-
1,5	0	-	1	6.25	1	6.25
2,0	0	-	3	18.75	3	18.75
4,0	0	-	2	12.5	2	12.5
5,0	1	6.25	3	18.75	3	18.75
10,0	3	18.75	3	18.75	3	18.75
Total	4	25.00	15	93.75	12	75.00

The above discussion indicates that formal elites have superior position in accessing commercial loan. As local elite, they also have socially important role in local associations in their village. Therefore, their membership density in local association is larger than non-elite’s membership density (TABLE 7). This table also indicates that the non-financial associations are more important for formal elites than the financial associations which do not determine their access to bank loans.

TABLE 7. Social capital of rural formal elites (mean)

Density of Membership	Formal elites?	
	Yes (=13)	No (=57)
All associations	6.1	5.0
Non-financial associations	4.4	3.6
Financial associations	1.7	1.7

CONCLUSION

Low access to formal credit still persists in *Dukuh Senden*. Household who has higher social capital has better access to bank loan. Formal elites in the village have superior position to access bank loan. The findings perhaps also indicate that the formal elites in rural areas tend to have social capital higher than the non-elite. In other-words, level of social capital is actually linked to the social position of the rural household. The rural elites have more accessibility to economic opportunities such as formal credit than non-elites do.

The findings indicate there are equality and capacity problems in social capital in rural areas as argued by Tonkiss (2000). Therefore, the paper suggests that the implementation of formal credit schemes in rural areas should consider not only the existing social capital but also the social structure of the rural society. This approach perhaps bring improvement on the implementation of formal credit program as an anti-poverty program in rural areas.

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