

Microfinance Institution, Social Capital and Peace Building: Evidence from West Kalimantan, Indonesia

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Abstract

Microfinance institutions have been rapidly growing in Indonesia in recent years. The Fountain of Love Credit Union (FLCU) in West Kalimantan is an exceptional case. Relying on its own social capability, it scores an unparalleled financial performance. The success lies in the leadership's ability to create simultaneous macro, meso and micro social capital. In the context of past authoritarian regime and frequent ethnic violence, however, FLCU is still unsuccessful to build an extensive bridging social capital that allows other ethnicities to become its members. Only recently FLCU is able to create Reconciliation Credit Union, promoting and supervising new credit unions run by other ethnic groups.

Introduction

Indonesia has been undergoing the most dynamic development of microfinance institutions (hereafter referred to as MFIs) in comparison to other countries in recent years (Rosengard et al, 2007). A variety of financial technologies have been embraced by NGOs, banking and government-based MFIs. Currently, there are 53.228 outlets of microfinance, serving almost 16 million loanees and 38 million depositors (Ismawan dan Budiantoro (2005). So far, studies on Indonesian MFIs have been dominated by conventional economists focusing on government-based MFIs and applying technical measures to assess their performance. Although such studies are important in showing causes of success and failure of financial performance, they fail to uncover mechanisms of various social groups and their access to MFIs. Very few studies focusing on self-society management of MFIs have taken place in Indonesia.

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In line with the rapid growth of market of microfinance and in order to fill that void, this paper discusses a success story of the Fountain of Love Credit Union (hereafter refer to as FLCU) by showing, first, the capability creation of social capital and second, the challenges it faces in the contribution to peace building in an environment of inter-ethnic hostility. FLCU operates in the province of West Kalimantan, Indonesia as a type of self management of savings-led MFI, without any intervention of government and donor agencies but thickly embedded in ethnicity. FLCU was established in 1987 and nurtured by the Dayak ethnicity, one of five large ethnic populations in the province.

The primary concept being employed in the study is social capital. In general it is defined as social relations among individuals or groups who are able to develop norms of mutual trust and to form social networks in order to achieve certain social and economic purposes (Putnam, 2000). This definition seems to ignore social context because it assumes every individual or group to have an equal access to join in. In reality, however, such an assumption is difficult to verify. A high inequality of social stratification based on social class or ethnicity which is paramount in Southeast Asia matters in the contribution to the increase and decrease of social capital.

In order to make the concept of social capital more applicable, Szreter (2002) offers new dimensions, namely bonding, bridging and linking. Bonding and bridging social capital respectively refers to social relations based on homogeneity and heterogeneity of ethnic membership or social class. While linking social capital relates to power that pushes bridging of different social class or ethnicity more pronounced in a society. A society that possesses strong bonding and weak bridging social capital propels the sharpening of class and ethnic boundaries, while, strong bridging and weak bonding social capital supports the rise of rootless elite groups. Therefore, it is necessary to have a balanced development of bonding and bridging social capital in society. Another important aspect that should be taken into account is the idea of the outreach of social capital, something to do with coverage whether at micro, meso or macro level.

Two stages of research have been conducted in order to explore the causes of the successful institutional performance of FLCU and the challenges it faces in contributing to peace building. First, this paper reviews previous research findings on MFIs and, second, this paper discusses fieldwork interviews of 23 key informants.

Inter-ethnic relations in West Kalimantan

The province of West Kalimantan shares a border with the Malaysian State of Sarawak, to the north, and the province of Central Kalimantan to the east. It comprises eight districts and two municipalities. The provincial capital, Pontianak, is located at the mouth of the Kapuas River. West Kalimantan is one of the key resource-rich provinces that contribute significantly to the national economy. While it is known as having a richness of ethnic diversity, West Kalimantan becomes an arena of deadly ethnic contestation. The rise of Soeharto in power and his fall was accompanied respectively by the eruption of ethnic violence in 1967 and 1999 (Bertrand, 2004).

During the Soeharto administration, eleven deadly incidents of ethnic violence and innumerable numbers of ethnic crimes took place in the province. Although the triggering factors are very simple, i.e. small groups fighting at a music concert or in a public space, the underlying causes are not so simple and one may investigate the political and economic structures of both the province and of the country as whole to seek an understanding, which is beyond this study.

Based on the 2003 population census report of the provincial statistics agency, West Kalimantan's total population is 3,732,950 with an average population growth rate of 2.18% a year, which is much larger than the national average at 1.37%. The ethnic composition of the population in 2000 consisted of the West Kalimantan Malay (33.75%), the Dayak (33.75%), the Chinese (10.01%), the Javanese (9.41%), the Madurese (5.51%), the Bugisee (3.29%), the Sundanese (1.21%), the Malay Banjarese (0.66%), the Batak (0.56%) and Others (1.85%).

Historically, inter-ethnic relations were coloured by social tensions between the Chinese and others during the Soekarno

period and the Madurese, the Malays and the Dayaks during the Soeharto period. The two largest ethnicities (the Malays and the Dayaks) have never been involved in open ethnic war but they continue to engage in latent conflict. The Malays dominate the government bureaucracy while the Dayaks dominated the agriculture and forestry sectors (Achwan, et al. 2005). It is in the landscape of such inter-ethnic relations that FLCU was established and nurtured by the Dayaks.

Stock of social capital

Financial performance

There has been unanimous consensus among scholars on how to measure financial performance of MFIs. The measurement consists of three indicators (Seibel, Hans-Dieter, 2001). The first deals with outreach, indicating geographical coverage of operation and total members of MFI. Second refers to financial viability, indicating capability of MFIs to self-finance their business operations, and the third relates to the percentage of non-performing loans.

By employing those three indicators, our study shows that FLCU performs financially sound practice (Achwan, 2007). Its operation covers the whole province and the total members are more than 60,000. The total assets are continually growing from Rps 110 billion in 2004 to Rps 342 billion in 2007. Currently, FLCU manages an outstanding loan from Rps 92 billion in 2004 to Rps 301 billion in 2007. The non-performing loan is less than 1%. This financial operation has been carried out without any financial support from government or donor agencies. Under what circumstances can such financial performance be achieved? There are at least three different types of social capital that influence a successful financial performance of FLCU. Those three types have been consciously created by its leaders and did exist as an historical endowment. The following types are macro, meso and micro social capital.

Macro social capital

FLCU was established in 1987 by a group of young Dayak activists and intellectuals envisioning a big, healthy and eternal Dayak-based financial institution, inspired by values and principles of credit unions. The mission was to promote the social welfare of its members by means of education and training (Pola Kebijakan Pengurus Credit Union Pancur Kasih tahun 2006). According to its founder, FLCU is not merely a credit co-operative, but it is also a social movement of the people's economic empowerment. In contrast to conventional microfinance institutions which are based on market principles, FLCU relies on three pillars, namely self-reliance, education and social solidarity. These pillars have been a guideline for recruiting new members, disciplining savings and credit repayment, and developing specific management.

The establishment and development of FLCU were in tandem with the emergence of a social movement aimed at revitalising Dayak social identity by demanding the reinstatement of Dayak customary law in the management of natural resources. This was a long-term movement waged by the rural Dayaks against natural resource companies and local government during the Soeharto administration. The movement was led by a sister-NGO of FLCU. In order to achieve its purpose, the movement engaged in two key stages (Hadi Pramono et al). First, the counter-mapping resistance aimed at defining the boundaries of forestry lands according to Dayak customary law and empowering local community to resist the destroyers of natural resources. Up until 2004, the movement has been able to map forestry lands in 263 villages within 9 regencies, covering 7.58% out of total area of West Kalimantan.

It is interesting to examine the ways in which the movement conducted its activities. It gathered Dayak community members and leaders from various rural areas and trained them on how to map out *adat* forest lands occupied by logging and plantation companies. Moreover, the movement organised forums to discuss the impact of 'bad laws' upon the economic and cultural life of the Dayak rural people. It was no wonder that the first stage of the movement contributed to the rise of Dayak political consciousness and paved the way for the second stage of mass demonstration.

Such political consciousness and social solidarity made it possible for FLCU to recruit Dayak people to join in. Therefore, the establishment of MFI in West Kalimantan was consciously developed in line with the rise of the social movement. Macro social solidarity has to be created before creating financial institution. In the words of one of movement leaders:

Economic intervention has to be conducted through academic research and cultural works, especially in the Dayak dominated region in West Kalimantan. The objective is to promote self pride and social identity. Without such activities, the establishment of MFIs will be unsuccessful (interview on 19 October 2007).

Meso social capital

The analysis of meso social capital focuses on the capability of FLCU to develop internal and external networks with other institutions. Such networks are important in order to keep adjusting to external development. FLCU develops a minimalist approach focusing only on service savings and credit to its members. Internally, however, FLCU builds relations with an NGO which has experience in dealing with people's economic empowerment. This relationship has made possible to design a specific and integrated scheme. By this network, a combination of social movement and technocratic works has been developed. The NGO is responsible for organising a savings movement by educating local Dayak to change habits of managing the household economy. It is expected that by conducting this movement, local Dayak eventually became members of FLCU. Second, a programme of technical assistance has been developed to serve and help FLCU members to promote their businesses. A number of projects of income generation have been implemented by organising groups of FLCU members to promote rubber plantations and vegetable production. FLCU provides credit to this group and the NGO helps in innovating production and marketing.

Externally, FLCU develops cooperation with a local monthly magazine to publish a supplement, informing recent development of local and international credit union activities. The supplement is attached to this media in every monthly publication and is

distributed to every branch of FLCU so that the members can easily buy it. According to the editor, approximately 80% of monthly subscribers are members of the credit union. Members of credit unions are considered a strategic market and local media tend to ignore them:

At the beginning, we observe that credit union has entered the life of people across religion, ethnic and occupation backgrounds. We finally decide to publish and provide a rubric with title the fountain of credit union. And in the following development, we cooperate with all credit union institutions to publish the supplement (Interview with editor of Kalimantan Review on 17 October 2007)

Another external network initiated by FLCU was establishing an association of credit unions called the Regional Coordinating Body for Credit Co-operative (RCBCC). The establishment of this body was actually a response to the rapid growth of credit union institutions in West Kalimantan. There was no doubt that the social movement for reinstated Dayak customary law during Soeharto administration influenced the mushrooming of credit unions. According to data from RCBCC, currently, this body serves 32 credit union institutions in West Kalimantan, covering more than 300,000 members with asset more than Rps 1.5 trillion.

The prime responsibility of RCBCC is to change the management of credit unions from traditional to modern, emphasising the necessity to become more transparent and accountable. Another responsibility is to defend and promote the interests of its members. The legal position of credit unions in Indonesia is quite vulnerable. The law on co-operatives acknowledges that every co-operative can run businesses so far they are in line with the purposes of establishing co-operatives. The law on banking does not legally recognise the existence of credit unions or credit co-operatives. This latter law sometime is used by a judge within the corrupted legal system in the country to blackmail the management of credit unions.

At the beginning, there was an incident of criminal act by a member of the office of the credit union. The management reported this act to local police and the police reported to the local attorney. A judge who handled this case threatened and

blackmailed the management by saying that the credit union was an illegal banking organisation. Accordingly, this illegal banking case could be brought to the court (interview with executive director of the RCBCC, 11 October 2007).

Recently, there have been two alarming developments that would influence the fate of credit union in West Kalimantan. The first relates to regional autonomy in which the provincial government has authority to collect income from taxation. West Kalimantan provincial parliament has promulgated regional law on income tax of credit unions and on dividends received by their members in addition to an institutional tax previously implemented. This local law may bring about negative consequences for the financial health of credit unions. The interest rate for savings and credit may change at the expense of members of credit unions and in turn destroy their habits of saving that have already been developed.

The second development deals with the legal draft on microfinance institutions prepared by the central government. This legal draft forces the non-banking status of MFIs such as credit unions to become formal banking institutions under the supervision of the central bank. If this draft becomes law, credit unions in West Kalimantan will have to radically change their management. As evidence from Central Java shows, the changed legal status has made ordinary people who occupy the bottom ladder of social stratification no longer have access to MFIs because the new legal status has to follow mechanisms of the market and ignores dimensions of people-centred economic empowerment.

All in all, one of the challenges credit union institutions have to face in the future lies in the political sphere. In theory, regulations and laws should be drafted and implemented in order to make a high predictability of behaviour of MFIs. In reality, however, they become obstacles for the future development of these financial institutions. Following the argument by Szreter (2002), one can draw the conclusion that linking social capital destroys the possible bridging among members and between credit unions.

Micro social capital

Discussion on micro social capital focuses on internal organization, explaining how and why the organisation of FLCU is capable of achieving a successful financial performance. There are a number of elements of micro social capital that can be found. First is a credible leadership. The founder, who is still in his fifties and currently running for governor, has implanted the philosophy of the credit union by inventing the three pillars of co-partnering, self-reliance and education. These pillars have been the life blood of the day-to-day management activities of FLCU.

The second element, this relates to the pillars, refers to peer selection and enforcement. Community members who want to become members of FLCU have to get recommendations from the current members who live and work in a similar office or community. The latter also has to be responsible for disciplining the behaviour of savings and credit repayment by the former. This mechanism works because of the already existent social solidarity that was injected by leaders of the social movement.

Third refers to financial products. FLCU invents various financial products based on social habits of the Dayak community. *Saaleatn* deposit which became a primadona among FLCU members is developed based on the Dayak household tradition of saving the core income for future unpredicted spending. Another deposit is developed to provide members a chance to saving their income for festivity events. A variety of deposits and credits offered by FLCU has been made possible for every member to choose one of them. In his study on MFIs in various countries, Siebel (2000) concludes that the availability of variety of financial products tend to contribute to their successful performance.

Strong bonding and weak bridging social capital

From the above-mentioned analyses, one may draw the conclusion that FLCU considers the importance of non-economic factors in order to pursue financial purposes. Leaders of FLCU have successfully created social capital in different levels. However, there are weaknesses faced by FLCU. This financial institution has been heavily dominated by the Dayak and very few

other ethnic members have become members. The domination of the Dayak ranges from village, sub-district to provincial levels. Such evidence can be concluded that FLCU possesses strong bonding and weak bridging social capital. Such social capital is not healthy considering that it contributes to the sharpening of inter-ethnic boundaries.

Currently, in the post-Soeharto Indonesia, a new organisational innovation is invented by the RCBCC. The so-called Reconciliation Credit Union Programme has provided services to other ethnic groups to establish their own credit union. This programme seems to work because group of young Malay activists and young Madurese activists have established their own credit union under the supervision of RCBCC. If such inter-ethnic cooperation continues to develop, there is no doubt that credit union will be a strategic institution for peace building in West Kalimantan.

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