

Conference Paper

# Poverty Reduction through Community Economic Empowerment Program in Jakarta: A Study of Factors Influencing the Repayment of Revolving Fund

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## Abstract

Poverty in Jakarta is the highest in the past years. The Sub-district Community Economic Empowerment Program (Program Pemberdayaan Ekonomi Masyarakat Kelurahan/PEMK) as one of the ways to reduce poverty. It is one of the poverty reduction program for low-income people who have micro and small enterprise in Jakarta. It is carried out by the Revolving Fund Management Unit (Unit Pengelola Dana Bergulir/UPDB) in partnership with the Cooperative Financial Services (Koperasi jasa Keuangan/KJK) in each sub-district. However, the implementation of the program is not without challenges. One of the most significant challenges are the maintenance of the revolving fund. This study examines the factors influencing the regular or irregularity of repayment of revolving fund in KJK to UPDB. Using the Green and Haines framework of Asset-Based Community Development, three factors emerge as most significant in this study. They are social capital, financial capital and human capital. Based on this, I would like to argue that economic development has to be paired with social development before successful poverty reduction can take place.

**Keywords:** poverty reduction, community development, empowerment, cooperative, Microfinance

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## 1. Introduction

In spite of the rapid economic development, poverty remains a serious problem to be resolved in DKI Jakarta. In September 2014 it was 4.09% of the total population of DKI Jakarta. This was the highest poverty rate in the past 5 years. (Central Bureau of Statistics, 2015: 15 September). One of the attempts to alleviate poverty is empowerment. According to Ife (2006: 65) empowerment is intended to leverage the power

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of the disadvantaged. Ife (2006: 75) classified poor community into Primary Structural Disadvantaged Groups.

Micro credit and micro finance have been recognized as a good strategy to alleviate poverty and empowerment [18, 19, 22, 23]. Roxin et.al (2010) found that micro credit has significant effect on economic empowerment of women in Sierra Leone, and have initial effect on social empowerment. Uddin (2011) similarly found that micro credit plays an important role in social and economic development in Hakaluki, particularly in household income increase, diversification of means of livelihood, creation of entrepreneurship, alleviation of poverty and empowerment of women in Hakaluki Haor. Alam et. al in the study in Pakistan (2010) found that micro credit has been proven to improve income of the poor. Micro credit and micro finance are good strategies to alleviate poverty, create employment, and improve welfare of poor community [14, 16, 17].

One of the Poverty Alleviation Program in DKI Jakarta is Program Pemberdayaan Ekonomi Masyarakat Kelurahan (PEMK) or Sub-district Community Economic Empowerment Program [29]. The goal of PEMK is to provide easy access to capital for communities of kelurahan while the objectives are to: (1) Improve entrepreneurship capacity of community in kelurahan; (2) Improve economic capacity of community in kelurahan; (3) Create new employment. (Pocket Book of Implementation of Revolving Fund, 2013: 14) PEMK is intended to help low-income micro-and-small enterprise owners in DKI Jakarta Province. The Revolving Fund Management Unit (UPDB) under the Agency of Cooperative, Micro-Small-Enterprise, and Commerce was assigned to implement the program. As partners of UPDB in the implementation of this program, in every subdistrict,

Financial Service Cooperatives (KJK) was established. Initially UPDB distributed fund of Rp 540 million to every KJK. The fund is distributed to the debtors by the administrator/manager of KJK.

Data obtained from UPDB per August 2014 showed that 253 KJK have received revolving fund from UPDB. Of the 253 KJK 217 or 85.8% of KJK had delinquent payment. This raised a concern since only 36 KJK (14.2%) smoothly repay the revolving fund to UPDB. The data is presented in the following table:

The table indicates the importance of study of why KJK have either regular or irregular repayment of revolving fund?

According to Green and Haines, in community development programs must pay attention to the assets that exist in the community, which consists of seven assets or capital: physical, human, social, financial, environmental, political, and cultural. But in

TABLE 1: Mapping of KJK in DKI Jakarta.

Region	Regular	Irregular	Total
South Jakarta	11	48	59
Central Jakarta	-	44	44
East Jakarta	12	50	62
West Jakarta	6	50	56
North Jakarta and Kepulauan Seribu	7	25	32
Total	36 (14.2%)	217 (85.8%)	253 (100%)

Source: Data from UPDB DKI Jakarta August 2014

this study only three assets affect PEMK as community development program human capital, social capital, and financial capital.

Among the KJK with irregular repayment, KJK Lagoa sub-district in North Jakarta has the most frequent irregular repayment (108 months) with the largest total delinquent repayment of Rp 1.026.599.551,- or 67% of the received revolving fund. This is interesting to be studied. Since this study compared KJK with regular and irregular repayment of revolving fund, they are compared to KJK in North Jakarta but with largest credit yet most regular repayment of revolving fund. Therefore, KJK Kelapa Gading Barat was chosen to be compared.

The paper consists of introduction, methodology, theoretical framework, finding, outcomes, and implication of study.

## 2. Methodology

To obtain comprehensive data, the study used qualitative approach. Berg in Minichiello (1995: 9) suggested that qualitative study attempts to capture meaning, definition, and description of a particular event. The study employed explanatory case study that is the case study that answers such questions as "why" or "how" (Yin, 2009: 8). The study is classified as comparative case method type, since it compares 2 different cases (Yin, 2009: 17). The study was conducted at KJK Lagoa with irregular repayment of revolving fund and at KJK Kelapa Gading Barat with regular repayment of revolving fund.

Informants were collected by purposive sampling or judgmental sampling that is a non-randomized sampling method used in a particular situation. Neuman (2006: 222)

revealed that purposive sampling is suitable for unique cases. As many as 36 informants took part in the study. They were: (1) Unit Pengelolaan Dana Bergulir (UPDB) of Cooperatives, Commerce, and Small-Micro Enterprises Agency DKI Jakarta Province; (2) regional coordinator /Person in charge of KJK PEMK North Jakarta; (3) Cooperative Counselor; (4) Legal Consultant in KJK PEMK; (4) Administrator and Manager of KJK PEMK Lagoa and Kelapa Gading Barat; (5) Governments of Kelurahan Lagoa and Kelapa Gading Barat; (6) Debtors of each KJK PEMK.

Data was collected through literature review, documentary study, interview, and observation. Data analysis techniques used in this study using the steps as proposed by Grinnell (2005:404-418):

1. *Preparing your data in transcript form*
2. *Establishing a plan for data analysis*
3. *First-level coding*
4. *Second-level coding*
5. *Interpreting data and theory building*

To improve the quality of this study, used triangulation (data sources and data collection techniques). Lincoln and Guba in Bryman (2008: 376) argue that the triangulation requires you to use more than one method or data source in the study of social phenomena.

### 3. Theoretical Framework

KJK PEMK, according to article 1 of DKI Jakarta Province Governor's Regulation of 32 / 2013 concerning The Amendment of Governor's Regulation of 96 / 2008 concerning Management of Revolving Fund for Economic Empowerment of Community in subdistrict is a microfinance institution.

UN in Rahman and Qiang Nie (2011: 207) defined microfinance as loan, deposit, insurance, transfer and other financial products for low-income clients. Microfinance helps individuals marginalized by formal banking sector. Microfinance institutions have commitment to alleviate poverty by providing financial services to low-income individuals and households. (Weil, 2013: 620).

Microfinance institutions have such dilemma as sustainability and outreach. (Torre and Vento, 2006: 55) In microfinance, sustainability refers to repeated loan at any

time (substantial financial sustainability), without considering the achievement of the institution's financial stability. Substantial financial sustainability describes ability to meet the management cost of *microfinance* activities whether service-based profit or soft loans. Analyzing the sustainability is therefore important for microfinance because of 2 reasons. First, microfinance works with marginal clients who are at risk and unprofitable. It is logical to assume that any institution deciding to work with such clients will suffer from a serious problem of covering operational cost in medium-term and long term. Second, operational cost is needed to select reliable individuals and small-scale enterprises, and to monitor the debtors. (Torre and Vento, 2006: 56).

Equally important in microfinance is outreach, which is how to select the debtors in attempt to maximize social impact of microfinance. Beside repayment capability, it is important for microfinance to understand general characteristics of debtors to significantly increase the social impact of microfinance.

Timothy W. Guinnane in Pickering and Mushinski (2001: 460) revealed the importance of social factors when implanting credit cooperatives. Considering the failure of credit group of Grameen Bank in Pine Ridge, it is important to identify the influence of familial bond, behavioral rules, and social organization s the serious challenges for credit group intentionally established across familial lineage. (Pickering and Mushinski, 2001: 460) Grameen Bank requires the establishment of groups of non-family members, while traditional family concept in Lakota in Pine Ridge making groups consisting family members or relative is more effective in revolving fund through the groups. Because they want to have economic business, they prefer collaboration with family members, since it is difficult for them to trust other people but their own family members (Pickering and Mushinski, 2001: 463).

Gunawan Sumodiningrat in Ismawan (2000: 132) revealed that in order that community is able to develop their financial resource, three preparations are needed. They are first, preparing the available access or opportunity to obtain credit; second, preparing grass-root community to utilize the credit to be effective capital for business activities; third, stressing the awareness of credit repayment with the surplus resulting from the use of the received credit.

Meanwhile to ensure financial institution growth in long-run, four requirements have to be met. They are, first, the institution has to reflect the need and ability of community in order that its existence is recognized; second, the financial institution has to be easily monitored and managed; third, the institution has to be profitable for the community served and for the institution; fourth, the institution has to provide

financial services accessible by community based on the condition, need, and ability of the community. (Ismawan, 2000: 132)

PEMK is a community development program that provides revolving fund credit through establishment of KJK. Green saw community development as a planned attempt to develop asset that increase local community capacity to improve their life (Green, 2012: 9) revealed that "community development is planned effort to build assets that increase the capacity of residents to improve their quality of life". Asset is fundamental in community development. Kretzmann and McKnight (1993) in Green (2012: 9) define assets as prize, skill, and capacity of individuals, association and institution in community.

The objective of asset-based community development is to identify the sources and mobilize community to use the loan for meeting their needs. Green called these forms of asset as *community capital* (Green, 2012: 13). Community assets comprise seven assets: physical, human, social, financial, environmental, political, and cultural. (Green, 2012: 13)

- Human Capital: includes among others education background, work experience, health, expertise, and other experiences (Green, 2012: 117). Schuller in Lawang (2005:13) define human capital as 'knowledge, skill, capability, and equivalent attributes in individuals relevant for economic activities'
- Social Capital: Community development worker has long recognized the importance of social relation in organizing and mobilizing local people in contribution to the success of project. Social capital is defined in different ways, but generally emphasized on aspects of social structure (trust, norm and social network) facilitating collective action (Green, 2012: 144). According to Halpern (2005: 10) social capital consists of three fundamental components of social network, social norms, and sanctions.
- Physical Capital: in the contexts of community development, physical capital refers to buildings (house, plant), and infrastructure (roads, canals, irrigation). (Green, 2012: 159)
- Financial Capital: refers to monetary asset; where the asset indirectly produces goods and services, but can be used to buy production factors. (Halpern, 2005: 4) Referring to Bourdieu in Lawang (2005: 20) that economic capital refers to the capital 'immediately and directly exchanged to money and may be institutionalized in the form of proprietary right.

- Environmental Capital: includes some aspects of natural resources in community such as water, air, soil, plants, animals (Green, 2012: 213).
- Political Capital: is defined as access to decision making (Green, 2012: 239).
- Cultural Capital: Bourdieu filtered cultural capital into 3 forms: embodied, objectified and institutionalized (Green, 2012: 256-257).

Cultural capital is closely associated to Bourdieu's habitus concept. According to Bourdieu, habitus is "mental or cognitive structure" with which people have relation with social world (Ritzer and Goodman, 2012:581). Habitus in a particular time represents the creation of collective life that lasts relatively long over historical periods. Habitus results in, and results from social life. It is the action that intermediate habitus and social life. According to Bourdieu, habitus merely "proposes" what people should think and what they should prefer to do. In addition, habitus is also defined as mental or cognitive structure used by actors to face up the social life. Habitus can be imagined as an internalized social structure, manifested in attitude and behavior (Ritzer and Goodman, 2012:523-524).

## 4. Findings

PEMK is intended to help low-income micro-and-small enterprise owners in DKI Jakarta. Initially UPDB distributed fund of Rp 540 million to every KJK. The fund is distributed to the debtors by the administrator/manager of KJK. In Lagoa sub-district, revolving fund distributed to the members of KJK ranges from 1-3 million rupiah. In Kelapa Gading Barat sub-district, initially the revolving fund received by the members was 1 million rupiah. Currently, the loan is approximately 5 million rupiah. Even a number of members of KJK in Kelapa Gading Barat sub-district received 10 million rupiah. Unfortunately, nearly all members of KJK Lagoa sub-district fail to repay the loan. Meanwhile, in Kelapa Gading Barat sub-district, approximately only 10% failed to repay the loan. Since KJK Kelapa Gading Barat has reserved fund of members' saving, the KJK can cover it and can repay the revolving fund to UPDB. The factors influencing the regular or irregularity of repayment of revolving fund in KJK to UPDB can be described as follow:

## A. The factors influencing the regularity of repayment of revolving fund in KJK PEMK to UPDB are:

The Factors influencing regularity of KJK PEMK in repayment of revolving fund to UPDB include economic and human interaction factors.

### A.1. Economic factors

There are a number of economic factors that contribute to the regularity of KJK PEMK in repayment of revolving fund to UPDB.

1. Debtors' business run smoothly

Smooth running of debtors' business is one of the contributing factors that cause smooth repayment of revolving fund from KJK PEMK to UPDB. Debtors' smooth business has enabled them to repay their loan to KJK, which in turn will smoothly repay the revolving fund to UPDB. This was clearly stated by the Head of Public Economic Empowerment and Welfare Section of Kelurahan Kelapa Gading Barat: "so, when they borrow, then ... they will have to repay it every month...since they business run smoothly ..." (Djm, 08/04/15)

2. Debtors have multiple sources of income

Multiple sources of income have contributed to the smooth repayment of revolving fund from KJK to UPDB. With multiple sources of income debtors will be able to smoothly repay the loan to KJK. Consequently, KJK will be able to smoothly repay the revolving fund to UPDB. For example, Mrs. Nrm is a debtor of KJK PEMK Kelapa Gading Barat with multiple sources of income. She is a retired teacher with the last employment grade of IV b. currently, she manages a boarding house and frequently she also provides cake catering service. she revealed that she always has enough money to repay the loan to KJK, since she has multiple sources of income.

### A.2. Non-economic factors

It was found that there are a number of non-economic factors that contribute to the regularity of KJK PEMK in repayment of revolving fund to UPDB.

1. Administrator/manager is experienced in cooperative/finance management



The experience of the head and manager of KJK PEMK Kelapa Gading Barat is an important factor in enhancing and sustaining the operation of KJK PEMK Kelapa Gading Barat. With such experience of the head and manager, KJK PEMK Kelapa Gading Barat has had successful repayment of revolving fund to UPDB.

The Navy-retired head of KJK PEMK Kelapa Gading Barat was previously the manager of cooperative in the Navy for 6 years before he retired. In addition to the formal certificate from the Cooperative Department, the manager of KJK PEMK Kelapa Gading Barat is experienced in financial management. When her husband was still active in the Navy, he was active in organizations as treasurer.

## 2. Administrator/manager can accurately distribute fund to debtors

The administrator and manager of KJK PEMK Kelapa Gading Barat can accurately distribute the fund to debtors. They distribute the fund selectively. The selection of debtors of KJK PEMK Kelapa Gading Barat also involves the Tim Pelaksana Kegiatan (Activity Implementation Team) or Koordinator RW (Coordinator at RW).

It was revealed by Mrs. Nrm, the Coordinator in RW 05:

“I take part in the selection since I am held responsible ... to decide if a new potential member deserves the loan....I send them KJK... just to know... When they want to borrow, application ... I help her ... and although she has been selected ... ‘bu haji... this person is not feasible ... leave her...’ As an administrator... we hold the right for selection” (Nrm, 29/01/15)

With the involvement of the RW coordinator in the selection of potential debtors, the repayment of loan from members is more likely to be regular. RW coordinator know much about the members of KJK PEMK in their residential area.

## 3. Administrator/manager is diligent and disciplined

Administrator and manager of KJK PEMK Kelapa Gading Barat that consists of head, treasurer, manager, accounting, and cashier are always present to work at the office of KJK PEMK Kelapa Gading Barat every day at the work hour. Usually KJK PEMK Kelapa Gading Barat is open from 08.30 am to 03.00 pm. They are also disciplined in implementing the policy. These contribute much to the success, enhancement, and sustainability of KJK.

The coordinator of KJK in North Jakarta revealed that administrator and manager of KJK PEMK Kelapa Gading Barat have consistently implemented their respective task. Therefore, the monthly balancing of book is always consistently arranged.

The coordinator of KJK in North Jakarta said: "they consistently carry out their own tasks... with their own policies... for example policy of monthly balancing of book at the end of the month... they do it consistently..." (Dnd, 17/10/14).

4. Debtors firmly hold the principle of "compulsory repayment of loan.

When the debtors firmly hold the principle of 'compulsory repayment of loan' they will be motivated to repay the loan regularly. This is a positive value. With that view, debtors always repay the loan since regularly. As stated by MH a debtor of KJK PEMK Kelapa Gading Barat. Mr. MH, a seller of cigarette and snacks said: "... well, we are obliged to repay ..." (MH, 28/01/15)

5. Good collaboration among the administrator, manager and supervisor

The success of KJK PEMK Kelapa Gading Barat in repayment of revolving fund to UPDB also derive from the good cooperation among the administrator, manager and supervisor. As stated by Manager of KJK PEMK Kelapa Gading Barat: "so far the collaboration of administrator, manager and supervisor runs well...sometimes we have a weekly meeting to discuss what we have done, we are doing, and we will do ... .." (AS, 07/10/14)

6. Good cooperation of members

The successful repayment of revolving fund from KJK PEMK Kelapa Gading Barat to UPDB partially derives from the good cooperation of members of KJK. Members of KJK realize that they have to repay the loan as it has been regulated. As the Head of Public Economic Empowerment and Welfare Section of Kelurahan Kelapa Gading Barat: "Well...smoothly since there is good cooperation between the administrator and the debtors... They have good cooperation ... so, when they borrow, well... they repay it every month..." (Djm, 08/04/15)

7. 'Loan installment pick-up for late repayment

When debtors have late repayment of loan installment, the manager either calls them or pick-up the loan installment. They call it 'jemput bola' (pick-up service). As stated by Manager of KJK PEMK Kelapa Gading Barat: "And we also pick-up the loan installment ... for example when the loan is due and the debtor has not repaid yet...we call him...no response, well... we fetch him..." (AS, 07/10/14)

8. Administrator/manager firmly hold the ethos of "do now what we can do now"  
Administrator and manager of KJK PEMK Kelapa Gading Barat hold the ethos of "do today what we can do today". As stated by Manager of KJK PEMK Kelapa

Gading Barat: "That's just it, that's our ethos ...Do now what we can do now ... don't wait until tomorrow ..." (AS, 07/10/14)

Thus, the administrator and manager always work hard to accomplish the work on the day. For example, in accomplishing a transaction, the manager takes the necessary efforts to book the accomplished transaction. Beside the cashier and the book keeper, the treasurer and even the manager also book the transaction. As stated by the Manager of KJK PEMK Kelapa Gading Barat: "...since we have accomplished the transaction, it has to be keep in book soon..." (AS, 07/10/14)

9. Debtors keep the trust of administrator/manager of KJK

The received loan of revolving fund from KJK implies trust of the administrator/manager of KJK to debtors that they will repay the loan. As stated by a debtor of KJK PEMK Kelapa Gading Barat: "We need trust when we work ... People come to me because of trust ... Therefore, I firmly hold that trust ... I do that too ...I want to keep the trust given by the administrator of KJK to me..." (Dw, 12/03/15)

## B. Factors influencing irregularity of KJK PEMK in repayment of revolving fund to UPDB

The factors influencing irregularity of KJK PEMK in repayment of revolving fund to UPDB include economic factors and human interaction factors.

### B.1. Economic factors

It was found that a number of economic factors have contributed to the irregularity of KJK PEMK in repayment of revolving fund to UPDB.

1. Large operational cost

KJK PEMK Lagoa has spent quite large operational cost since the establishment of KJK. The operational costs include (1) notarial document for establishment of cooperative; (2) honor of administrator/manager and office boy; and (3) Annual Meeting of Members cost and such stationery costs as receipt and report printing and photocopy. The operational cost is spent by the fund of KJK PEMK, rather than the profit-sharing fund. Consequently, it spends up the fund of KJK PEMK.

2. Bankruptcy of debtors' business

One of factors that contribute to the irregular repayment of loan is debtors' bankruptcy or business decrease. As stated by a debtor of KJK PEMK Lago, she

initially had business in bed cover, and then shifted to grilled banana, pop ice, and others.

3. The money is used for urgent consumption

Debtors' irregular repayment of loan installment may be due to the fact that they do not have any money. The allocated money for loan installment has been shifted to urgent consumption such as meals and education fee. As stated by Mrs. Nun: "Indeed I want to pay ... but my child in Grade 3 of Vocational High School needs some money to pay the test fee, so I use the money to pay the need of my child ... 'His father is unemployed now ...'" (Nun, 02/02/15)

## B.2. Non-economic factors

The non-economic factors that contribute to irregularity of KJK PEMK in repayment of revolving fund to UPDB are presented in the following.

1. Administrator/manager's poor capability in management of KJK PEMK

Skill in cooperative management is required for the administrator and manager to successfully run the KJK PEMK. When the administrator and manager of KJK PEMK lack of such skills, they will fail to successfully manage KJK PEMK. Consequently, KJK PEMK will suffer from irregularity of repayment of revolving fund to UPDB. According to the counselor, one of factor influencing irregularity of KJK Lagoa in repayment of revolving fund to UPDB is lack of management skills among the administrator of KJK PEMK Lagoa. Accordingly, the administrator/manager has failed to make the required activities such as comprehensive assessment to debtors before approval is granted. Without careful and thorough assessment to debtors, the administrator/manager has granted the loan to debtors. The administrator/manager of KJK has failed to prepare periodical financial report, while it should have been prepared every month and submitted to UPDB. KJK PEMK Lagoa has failed making such financial report for a long time. The administrator/manager has also failed to analyze the financial situation of KJK. When many debtors fail to repay the loan, they consistently pay the pay for the administrator/manager. They also spend large sum of money for annual meeting of members. Consequently, KJK suffer from irregular repayment of revolving fund to UPDB.

2. Administrator/manager' lack of selectiveness in loan distribution

The Administrator/manager of KJK PEMK Lagoa has lack of selectiveness in loan distribution to members. They ignore the feasibility of repayment. As stated by Chairman of KJK PEMK Lagoa:

*"... when we were requested to manage this ...we were asked to find as many members as possible... Lagoa is densely populated ... mostly unskilled workers, lay persons... then...that's just it.... they eagerly asked to become the members... Finally, we accelerated the process that eventually we have more than 600 members... Well, yes...we are not selective at all ..." (Hs, 13/11/14)*

The statement of Chairman of KJK PEMK Lagoa, it was admitted that they have not been selective in loan distribution. This has resulted from the request to recruit as many members of KJK as possible by UPDB.

The lack of selectiveness among the administrator/manager of KJK in loan distribution to debtors without adequate salesmen of feasibility has resulted in the problem. Consequently, nearly all debtors have irregularly repaid the loan. This certainly has impact on the financial condition of KJK, where KJK fails to have irregular repayment of fund to UPDB.

3. Members will only pay when the collectors pick up the loan installment

When it was initially established KJK PEMK Lagoa had marketing and collection staff. When the marketing staff resigned, the collection stopped. Meanwhile according to the Manager of KJK PEMK Lagoa, debtors of KJK PEMK Lagoa are lazy to have direct repayment to the office of KJK. They prefer their loan installment picked up by the staff. It was stated "...our debtors are indulged; usually we collect the loan installment door to door... When we stop practicing that ... one month... two months... they ignore their obligation ..." (RR, 20/10/2014).

4. Loan installment from members used for personal purpose and not deposit by the group head to KJK

Another factor that contributes to irregular repayment of loan to KJK is the abuse practiced by the group head. They spend the money collected from members for personal use instead of depositing it to KJK. Di Lagoa, loan was initially distributed in groups. Each group consisted of 5 individuals, where one of which appointed the head. Such this group is expected to be ideal by UPDB. Unfortunately, this group system has resulted in irregular repayment of loan installment. Such is the case for the debtors of KJK PEMK Lagoa. members have repaid the loan

installment of loan to the group head, but the group head retained the money for personal use. As stated by a member of a group who has repaid the loan through the group head yet who did not in turn repay it to the administrator of KJK: "I have ... I have routinely paid to bu Wrn... together with bu BR, we have paid up the loan ... I was said to have borrowed 2 million? Swear....I just borrowed 1 million... I have paid up all ..." (Sht, 02/02/15)

#### 5. Low repayment awareness among members

Still another factor that contribute to irregular repayment of revolving fund from KJK PEMK Lagoa to UPDB is the fact that members of KJK PEMK unwilling to repay the loan. As stated by the Chairman of KJK PEMK Lagoa: "well, that's it ... when they are asked to repay ... they always say ... other members haven't repaid either ..." (Hs, 15/03/15). Even worse, a number of members have not repaid even once. They borrowed Rp 2 million, the loan balance is Rp 2 million, no repayment at all.

## 5. Outcomes

In analyzing the factors contributing to the regularity or irregularity of KJK PEMK in repayment of revolving fund to UPDB, this paper adopts Green and Haines' opinion concerning the assets to be carefully considered in community empowerment program. Mainly related to social capital, the need for trust between management and members of the Cooperative Financial Services

KJK Kelapa Gading Barat has been successful in repayment of revolving fund to UPDB. It was found that a number of factors have contributed to the irregular repayment of revolving fund from KJK Kelapa Gading Barat to UPDB. Those factors are classified into economic factors and non-economic factors. Green and Haines's view on Asset-based community development suggests that community development program has to take into account the assets available in community, which Green calls community capital, or Community assets that cover seven forms of asset: physical, human, social, financial, environmental, political, and cultural. (Green, 2012: 13).

Based on Green and Haines's view KJK Kelapa Gading Barat had good financial capital, human capital and social capital for KJK sustainability. Referring to Bourdieu in Lawang (2005: 20), it was stated that economic capital can be in the form of money or proprietary right. The money will have to be allocated for productive purposes to result in financial capital of KJK Kelapa Gading Barat. Debtors' business smoothness and multiple sources of income have contributed to the regularity of repayment of

revolving fund from KJK to UPDB. Some of the members of KJK Kelapa Gading Barat also have, though incidentally, deposited the compulsory saving. Rp. 250.000 is deducted from the loan by the administrator/manager of KJK Kelapa Gading Barat for 10-month compulsory savings.

With regard to human capital, Schuller in Lawang (2005:13) defined human capital as 'knowledge, skill, capability and equivalent attribute in an individual relevant to economic activities'. KJK Kelapa Gading Barat has good human capital that contributes much to the success of PEMK program. The administrator and manager of TPK RW are equally capable of managing KJK. They accurately distribute the fund to debtors. They distribute the fund debtors selectively. Potential debtors will have to be screened to assure the feasibility and capability of loan repayment.

In addition to financial capital and human capital, regularity of KJK Kelapa Gading Barat in repayment of revolving fund to UPDB also derives from social capital. According to Halpern (2005: 10) social capital consists of three fundamental components of social network, social norms, and sanctions. Good collaboration among administrator, manager and supervisor as well as good cooperation of members of KJK has indicated good social network in KJK Kelapa Gading Barat. Social network according to Halpern (2005: 10) is the relationship established among family members or among community members that involves emotional and material support exchanges. The good collaboration is manifested in case the chairman or manager are having a meeting in UPDB while relevant data is required, they may alternatively request the data to such other staff members as treasurer, book keeper, or cashier in the office. Likewise, when the staff of KJK has problems, they usually contact the chairman or manager to ask for advice. emotional and material supports have been exchanged among them.

Debtors' awareness of 'compulsory loan repayment' and the ethos of "do now what we can do now" firmly held by the administrator and manager of KJK Kelapa Gading Barat indicates that administrator/manager and members of KJK Kelapa Gading Barat hold positive social norms that accordingly has positive impact on KJK. Social norms according to Halpern (2005: 10) is a set of norm, value, and expectation socialized to community members to become their unique characteristics. This has been reflected in the willingness of debtors to keep the trust of the administrator/manager of KJK. It indicates value internalization in members of KJK Kelapa Gading Barat to consistently keep the trust from others, including the trust from the administrator/manager of KJK.

Likewise, the diligence and discipline of the administrator/manager who are always present from Monday to Friday at work hours indicates that in KJK Kelapa Gading Barat they hold a bonding norm firmly held by the administrator/manager KJK.

In KJK Kelapa Gading Barat, it is regulated that in case the debtors' repayment is overdue, the administrator/manager of KJK will call to remind them. In case no telephone contact is possible, the staff will collect the repayment at home. They call it 'pick-up service'. This is a bonding norm. The norm is firmly held and obeyed by the administrator/manager. The norm has positive impact. It was found that when the debtors were called for repayment of overdue loan by the administrator/manager of KJK, the debtors soon repay the loan.

On the other hand, KJK Lagoa has suffered from irregular repayment of revolving fund to UPDB. It was found that a number of factors have contributed to the irregular repayment of Revolving fund to UPDB. Those factors include economic and human interaction factors. According to Green and Haines's view on Asset-based community development, KJK Lagoa has no financial capital, human capital or social capital. This has resulted in poor performance of PEMK as community empowerment program. The fund supposedly allocated to the debtors for business development has been spent mostly for operational cost, notarial document fee, administrator/manager honor, and annual meeting of members. This implies that the administrator/manager KJK Lagoa is not efficient. According to Torre and Vento (2006: 62-63) in order that program micro-finance be sustainable efficiency is required and operational cost has to be minimized.

The economic factors that contribute to the irregularity of repayment in KJK are the bankruptcy of debtors' business that they fail to repay the revolving fund. Bankruptcy of the members of KJK is inseparable from the macro structure where large capital owners invest their money to rural areas. Minimarkets of Indomaret and Alfamart are found in radius of hundreds of meters. They sell various goods at lower price and provide more convenient shopping environment. Thus, small vendors collapse. Dye (1984:111) call it 'capitalistic exploitation'.

KJK Lagoa has weak human capital. The management of KJK is not optimal. Indeed, the education level of the administrator/manager of KJK Lagoa is quite high. The manager and the chairman are college graduates. Unfortunately, both the administrator/manager are less capable of managing the KJK. The administrator has not had the supposedly arranged activities. The administrator is not capable of making the financial report. The administrator is not capable of analyzing the financial situation in KJK. While a number of debtors fail to repay the loan, the administrator kept spending the fund for the salary of administrator/manager until early 2013.

Administrator KJK Lagoa had not selective in loan distribution. Consequently, nearly all debtors had not repaid the loan. They did not make adequate salesmen to debtors to qualify debtors' feasibility and to identify their business, characters, capability of



repayment, and so on. According to Torre and Vento (2006: 62-63) what is important in microfinance is outreach, that is the selection of debtors to maximize the social impact of microfinance.

Assessment of personal quality has to be performed by administrator/manager of KJK. In KJK Kelapa Gading Barat, TPK RW was capable of doing that. Although no written report was prepared, orally TPK RW can explain to the administrator/manager of KJK about the personal quality of the potential members. Based on the report of TPK RW, the administrator/manager of KJK can identify the potential members to decide if they were feasible to get the loan. Such is not the case for KJK Lagoa. The administrator/manager of KJK Lagoa had not accurately assessed the personal qualification of the potential members, they hastily and abruptly distributed the loan.

KJK Lagoa also lacked of social capital. Members will repay only when the staff collected the money. The absence of collection staff has resulted in irregular repayment of loan. They were unwilling to repay at the office of KJK in kelurahan Lagoa. They prefer waiting for the staff to collect the money. Only when the staff collect it, they will repay the loan.

Unfortunately, there was a kind of 'contagious disease' among the members of KJK Lagoa. They are unwilling to repay the loan to KJK unless other members have paid up the loan to KJK. The members had low awareness of loan repayment. Consequently, nearly all debtors failed to repay. It can be said that debtors of KJK Lagoa had adopted the wrong value. To them, repayment of loan is not compulsory. The *Social network* among the members of KJK Lagoa had strengthened negative interaction. When a member of KJK failed to repay the loan other members of KJK would refuse to repay the loan, then she would not repay the loan. This is what by Oscar Lewis in Suparlan (1995:5) called poverty culture. According to Dye (1984:111) the "way of life" was learned by poor people and was inherited over generations. Bourdieu calls it habitus concept, which derives from collective life over a long historical period (Ritzer and Goodman, 2012:581). Among the poor people, habitus is an internalized social structure, manifested in the attitude and behavior. (Ritzer and Goodman, 2012:523-524). Among the people of Lagoa, it has been internalized that they are poor people and they need help. Therefore, when they borrow revolving fund from UPDB, they find it easy and has no intention to repay.

Poor attitude was also found in the group head who had abused the trust from members where they spent the members' money for personal use. This indicates weak social capital. Such a behavior will diminish trust among the members.

Timothy W. Guinnane in Pickering and Mushinski (2001: 460) emphasized the importance of social factors when implanting a credit cooperative. The groups established by KJK Lagoa had been beyond familial lineage. The groups were established by region where a group consist of neighboring members living in one RT, instead of one familial group. Although they lived in the same neighborhood, they were unwilling to repay their neighbors' loan in the group. For urban areas like Jakarta with heterogeneous population, it is difficult to have collective responsibility. Choudary (2009:6) suggested that peer monitoring, a model of group-based credit distribution depend on trust and solidarity among the members of a community. Unless there is a trust among the group members, collective responsibility will not be possible.

The revolving fund for KJK should have been ideally carried out in groups. As specified in Pocket Book of Pemantapan Pelaksanaan Penyaluran Dana Bergulir of UPDB the debtors of revolving fund have to be group members of KJK and be recommended by the group. KJK Lagoa indeed had established group lending system, but it failed since the head groups abused the collected money for personal use. KJK Kelapa Gading Barat, on the other hand, had successfully adopted individual loan system. This implies that social capital in Lagoa was weak. Group head failed to keep *trust*. They abuse the norm and obligation of submitting the collected money to KJK.

Based on above it seems important to pay attention to non-economic factors in the implementation of the Sub-district Community Economic Empowerment Program. Mainly related to social capital, the need for trust between management and members of Cooperative Financial Services. With the trust between them, members will meet its obligation pays a compulsory savings and voluntary savings to Cooperative Financial Services. Thus KJK also be fluent in repayment of revolving funds for revolving fund management unit.

## 6. Implication of Study

In implementing the Mainly related to social capital, the need for trust between management and members of Cooperative Financial Services. Community Economic Empowerment Programs should not only focus on economic aspects, but must pay attention to non-economic aspects. Mainly related to social capital, the need for trust between management and members of Cooperative Financial Services. How to cultivate trust is part of social development effort. Because of that economic development has to be paired with social development before successfully poverty reduction can take place.

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