

Effect of Social Capital, Community Participation, and Performance of Indigenous Community Financial Institutions for Rural Development in the Province of Bali

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Abstract

Strategies to build the village can not be separated from efforts to address the underlying problems experienced by rural communities including poverty and lack of access to capital. To that end, the importance of the role of financial institutions raise indigenous communities in rural areas such as Village Credit Institutions (LPD) in the province of Bali. Anchored theory and empirical facts, this study aims to answer how the direct effect of social capital on Public Participation, the direct influence of Social Capital on the Performance of the LPD, the direct influence of Social Capital on Rural Development, the direct effect of Community Participation on the Performance of LPD and the direct influence of Performance LPD against Rural development. The study also reveals how Performance LPD role in mediating the Social Capital and Community Participation to realize the success of Rural Development and Public Participation in mediating the Social Capital to increase LPD performance. By surveying 229 credit customers LPD in 113 villages, as well as with data analysis techniques guided by software Smart PLS 3.0, find: direct Social Capital a significant effect on Public Participation, directly Social Capital and Participation communities significant effect on performance LPD, directly Social capital is not a significant effect on Rural Development, and live performance LPD significant effect on Rural Development. Mediated by Community participation, social capital LPD significant effect on performance. With Performance mediated by LPD, Public Participation significant effect on Rural Development. Mediated by LPD Performance and Participation, Social Capital significant effect on Rural Development. In this case, the LPD Performance and Participation perfectly capable of mediating the effect of social capital on rural development, so the LPD performance is recognized as a key mediator in realizing the success of Rural Development in Bali Province.

Keywords: performance, social capital, community participation, rural development

1. Introduction

Rural development is a concept of development based rural (rural), having regard to the social and cultural characteristic of the people living in rural areas (Bappenas, 2014). There are two interesting things related to rural development. First, a village development program implemented by the government are huge numbers, but some programs are considered incompatible with the needs of rural communities. Second, the current rural development conducted in all villages in Indonesia have not been based on a standard reference Minimum Service Standards Desa (Village SPM).

The main problems are felt by rural communities including poverty, lack of accessibility and lack of human resources potential due to urbanization (Wrigley, 1973; Chamber, 1983). Rural areas in third world countries described as the abode of the poor people who utilize agricultural land (Dixon, 1990). Since the beginning until now, rural development has always been an important issue in Indonesia. There are two things that become the central issue: First, the vast majority of Indonesia's population reside in rural areas. Currently, an estimated 60 percent of the population still live in the village; Second, the welfare of the population in villages far behind compared to residents of the city. Most villagers work in agriculture or the informal sector with low incomes, and about 63 percent of the total poor population in rural silence (Yustika, 2015).

Model of economic dualism that is initiated by Boeke a strategic issue of rural development in developing countries (Ellis and Biggs, 2001). One of the thorny issue of rural development by building institutional financial sector (financial sector) as an instrument to overcome the scarcity of capital (lack of capital) in rural areas. In fact, limited access to capital (credit) is identified as one of the causes of poverty (Akpalu et al, 2012). To answer these problems, raised the importance of the role of financial institutions based in rural indigenous communities. One of them is growing and developing in the province of Bali is the Village Credit Institutions (LPD). LPD was established in order to improve the welfare of rural communities by creating and providing services in the field of finance. LPD is one of the local wisdom of Bali run of, by, and for rural communities.

This study raises the issue: 1) How does the Social Capital Community Participation?; 2) How does the Social Capital on Performance LPD?; 3) How does the Social Capital on Rural Development?; 4) How does the Public Participation LPD performance?; 5) How can the influence of the People's Participation in Rural

Development?; 6) How does the performance of the Rural Development LPD?; 7) How does social capital to LPD Performance with Public Participation mediation, 8) How does social capital with the mediation of the Rural Development and Public Participation LPD performance?; and 9) How will the Rural Development Society Participation in mediation LPD performance?. The final result of this research is in the form of a clear relationship model on the effect of social capital, community participation, performance LPD to the success of rural development that has not been widely studied. In addition, this study is expected to be used as input in coaching LPD in Bali, where the LPD's success is not only measured by the profits to be obtained but also its impact on the success of rural development.

2. Literature Review

2.1. Development Theory

Development theory be used as the main theory (Grand Theory) in this study. Goulet and other figures say that there are at least three basic components or core which should form the basis of conceptual and practical guidance to understand the development of the most essential. These three core values are 1) the development of the ability of people to meet their basic needs (sustenance), 2) the rise in self-esteem (self esteem) society as a human being, and 3) increasing the ability of people to choose (freedom from servitude), which is one of the human rights.

One approach to rural development paradigm that bottom-up known as endogenous development for rural areas (rural endogenous development approach). This approach appears initially in Europe, North America and Japan in the mid-1970s (Yamamoto, 2007). Sociologists and economists introduce the approach to create community-based economic growth model (community-based economic growth) are expected to maintain and accelerate the development of resources and local industries.

Massey (1984) defines endogenous development as a territorial approach (territorial approach) in the process of economic growth and structural changes initiated by local communities and utilize the potential of local development to improve the lives of local residents. Muhlighaus and Walty (2001) defines endogenous development as defined development strategy (self-determined) participatory based on local needs and use of endogenous potential. ITP (2007) defines endogenous development as development that primarily are based, entirely on local resources, local knowledge and local leadership with openness to integrate traditional knowledge and that comes from outside. Although the strategy of endogenous development is defined differently by experts, but the essence remains the same ie development strategy that relies primarily on the needs, all the potential, and local actors of a certain area (locality).

2.2 Theory of Performance

Microfinance performance assessment should be based on the purpose of its founding. The main purpose of micro finance most dalah improve the welfare of poor people. Two approaches are used to achieve this goal: 1) a welfare approach (welfarist), measuring success primarily on the ability of institutions to meet the needs of the poorest people in a short time, or the reduction of poverty, and 2) the institutional approach, measuring success by sustanabilitas microfinance assuming that microfinance has sustanabilitas will be able to help raise incomes and reduce poverty.

2.3. Social Capital Theory

Social capital theory first triggered by the writings of Bourdieu published in the late 1970s (Fine and Lapavitsas, 2004). Such publications are conducted in Francis made not many social scientists (especially sociology and economics) concerned. After Coleman publish the same topic in 1993, then the intellectuals to download this theme as one of the 'fine dining' that bring together interdisciplinary important.

Coleman (1988) mentions at least three forms of social capital. First, expectations (expectations), and confidence (trustworthiness). In this context, forms of social capital depends on two key elements: the trust of the social environment and the actual expansion of the obligations have been fulfilled (obligation held). From this perspective, people who live in the social structure of mutual trust with high social capital that is better than the opposite situation. Second, the network information (information channels). The information is important as a basis for acting. However, it should be realized that the information was expensive, not free. Minimum the lowest level, this needs to be addressed, information is always limited. Of course, individuals who have a wider network will be easier (and cheaper) to obtain information that can be said of high social capital; similarly seabaiiknya. Third, norms and effective sanctions (norms and effective sanctions). Norms in a community that supports individuals to obtain achievement (achievement) can certainly be classified as a form of social capital is very important. As another example, norm robust and effective in a community that can affect young people, have the potential to educate the younger generation take advantage of the best time (having a good time).

2.4 Theory of Participation

Keith Davis (1992) states that the word participation is etymologically derived from the English "participation", the which means taking part, meant as a participator who take part or are Often Referred to in common parlance as participation. Tosun (1999), participation Allows people to do a variety of activities at different levels from, whether local, regional, and national levels. Arnstein (1971), citizen participation is a redistribution of power that enables people who are not Able to Participate can slowly and prudently on an ongoing basis. This means that they encourage changes that allow them to enjoy an advantage in a rich society. In the definition of this participation, one very important thing is the level of distribution of powers. The approach taken by Arnstein's participation in the discussion is based on the typology of the population consisting of eight levels, the which is then divided into three categories. The Lowest level of participation is manipulative participation, while the highest level of participation shows the level of public authority (degrees of citizen's power).

A study of the definition of participation Mentioned Earlier, it can be concluded that the participation or participation, is primarily a form of involvement and active participation and voluntary, both for reasons of (intrinsic) and external (extrinsic) in the whole process activities concerned, the which include: decision-making in the planning, execution, control (monitoring, evaluation, supervision), as well as the utilization of the results of activities Achieved. Therefore, Yadav (1980), Suggests the existence of four kinds of activities that demonstrate community participation in development activities; 1) Participation in decision making, 2) participation in the implementation of activities, 3) Participation in the monitoring and evaluation of development, and 4) Participation in the utilization of development.

2.5. Relations between Latent Variables

In this study, conceptualized effect on the Social Capital Community Participation, Performance LPD and Rural Development. Likewise, Public Participation LPD affect the performance and Rural Development. LPD performance also conceptualized effect on Rural Development. Furthermore, mediated by LPD Performance, Social Capital and Community Participation effect on Rural Development. As well as mediated by the Public Participation, Social Capital LPD effect on performance. Causal relationships between variables as a conceptual framework in this study, presented in Figure 1.

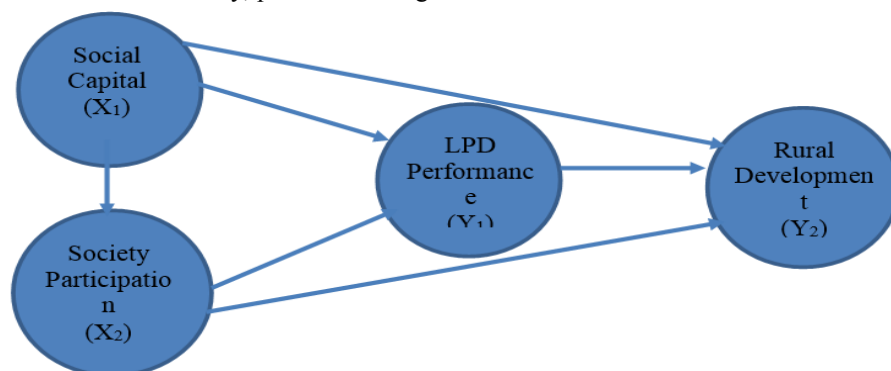


Figure 1: Framework Research Concepts

3. Research Methodology

3.1. Location and Time Research

This study took place in three districts in the province of Bali. The unit of analysis in this study is the village. The study was conducted from 2016 to April 2 to May 10, 2016.

3.2. Population and Sample Research

The study population was the whole village in the province of Bali. Sampling is done through purposive sampling method. Based on defined criteria, then the sample is determined as many as 229 customers in 113 villages LPD

3.3. Research Variables

The variables in this study included: Social Capital as an exogenous variable (X1), Public Participation (X2), Performance LPD (Y1), and Rural Development (Y2).

3.4. The operational definition of variables

- Social capital is a form of capital resources that is reflected from the interaction of social trust (trust), network (network), norm (norm) and groups.
- Community participation is the involvement and participation of indigenous peoples in the utilization of

the existence of LPD. Indicators of this varabel reflected on the amount of savings per capita, the number of deposits per capita, the percentage of the number of customers, and the observance of installment payments.

- c) LPD performance is the ability to achieve better results, is reflected in the per capita income, per capita assets, loans per capita and health index LPD.
- d) Rural development is a condition that reflects their economic improvement and advancement of social conditions of the rural population, is reflected in the decrease in the percentage of poor households, increasing the average length of the school, and increasing life expectancy

3.5. Data Analysis Techniques

The data analysis technique used is Structural Equation Modeling (SEM) with variance approach based or component based the analysis Partial Least Square (PLS). The steps of the analysis using PLS poured into 7 (seven) step analysis (Solimun, 2015) are as follows: 1) Designing structural models (inner model), 2) Designing a measurement model (outer model), 3) Constructing diagram lane, 4) Conversion path diagram into a system of equations, 5) Estimation: weight, path coefficients and loading, 6) Evaluation of the goodness of fit and 7) Testing the hypothesis (bootstrapping resampling).

4. Results Analysis

4.1. Descriptive Analysis

The average age of respondents (from 229) is 39.38 years, whereas respondents in the age group 31-40 years was recorded as a group with the highest percentage of 37.12 percent. Judging from the number of average loan amount of loan (credit) amounting to Rp 29,624,236. where the number of respondents in the group of loans 1-10 million was recorded as a group with the highest percentage of 39.74 percent. Judging from the credit lending purposes, it can be seen that for both venture capital and livestock trading business were the highest with a percentage of 68.56 percent. Next row for the purpose of education of children (16.16 per cent), for a religious ceremony (7.42 percent), to make the house (5.68 percent) and the last to buy vehicles (2.18 percent).

4.2. Analysis Inferential

4.2.1. Hypothesis testing

Based on Table 1 can be explained that the variable positive effect on the Social Capital Community Participation. Variable Social Capital and Community Participation positive and significant impact on the Performance of LPD. Variables of Participation and Performance LPD positive and significant impact on Rural Development, Social Capital variables but no significant effect on Rural Development. On the other hand, it is known that the Public Participation variables mediate the effect of social capital on the Performance of LPD. Variables of Participation and Performance LPD mediating influence Social Capital on Rural Development. Therefore, Social Capital directly no significant effect on rural development, while indirectly there is the influence of Social Capital on Rural Development through the variable of Participation and Performance LPD, then the Public Participation and Performance LPD belonging to mediate the full (complete mediated) influence Social Capital on Development Rural. Variable LPD performance mediates the effect of variable Society Participation to Rural Development.

Table 1
 Final Result Path Coefficients Social Capital, Community Participation,
 Performance LPD and Rural Development in The Province of Bali.

Direct Impact

Variable Correlation	Coefficient	Sample Mean	Standard Error	T Statistic	P Values	Decision Hypothesis Testing
MS <- PM	0.333	0.335	0.103	3.240	0.001	Significant
MS <- KL	0.162	0.168	0.044	3.677	0.000	Significant
MS <- PP	0.109	0.117	0.079	1.379	0.169	Not Signiicant
PM <- KL	0.467	0.500	0.132	3.542	0.000	Significant
PM <- PP	0.378	0.375	0.121	3.123	0.002	Significant
KL <- PP	0.389	0.391	0.149	2.608	0.009	Significant

Indirect Influence

Variable Correlation	Coefficient	Sample Mean	Standard Error	T Statistic	P values	Decision Hypothesis Testing
MS <- KL	0.156	0.167	0.067	2.328	0.020	Significant
MS <- PP	0.250	0.252	0.055	4.510	0.000	Significant
PM <- PP	0.182	0.188	0.091	2.001	0.046	Significant

Effect of Total

Variable Correlation	Coefficient	Sample Mean	Standard Error	T Statistic	P Values	Decision Hypothesis Testing
MS <- PM	0.333	0.335	0.103	3.240	0.001	Significant
MS <- KL	0.318	0.334	0.073	4.358	0.000	Significant
MS <- PP	0.359	0.369	0.092	3.900	0.000	Significant
PM <- KL	0.467	0.500	0.132	3.542	0.000	Significant
PM <- PP	0.560	0.564	0.076	7.338	0.000	Significant
KL <- PP	0.389	0.391	0.149	2.608	0.009	Significant

Source: Primary Data Analysis, 2016

Relationships between constructs complete study is also presented in Figure 2. Based on these images, it can be observed that the variables that have the greatest impact on performance LPD (Y1) is a Public Participation (X2) with a path coefficient of 0.467, while the variables of Social Capital (X1) has path coefficient of 0.162. On the other hand, variable Rural Development (Y2) most affected by LPD Performance (Y1) of 0.389, followed by the variable Public Participation (X2) is 0.378, and the last Social Capital (X1) of 0.109. Based on this information can be made estimates of the structural equation as follows:

- $X_2 = 0,333 X_1$
- $\hat{Y}_1 = 0,162 X_1 + 0,467 X_2$
- $\hat{Y}_2 = 0,109 X_1 + 0,378 X_2 + 0,389 Y_1$

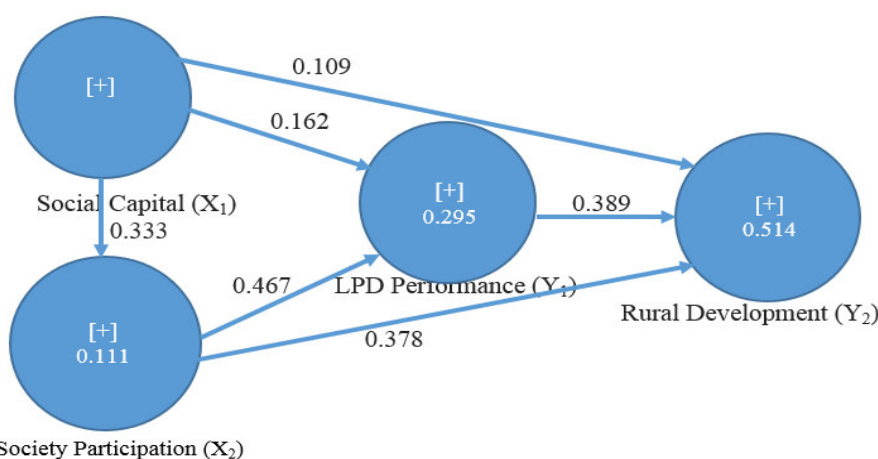


Figure 2: Model Inner-Structural Model

4.3. Analysis and Discussion

The results of hypothesis testing research shows that Social Capital and significant positive effect on Public Participation. These findings indicate that the operation of Social Capital as well will be able to increase participation of rural communities in the province of Bali. In this regard, it is understood how much it meant mutual trust, the importance of networking, understanding of the norms and loyalty to the group on rural communities. The creation of trust based on the norms and values that thrive in society led to community members willing to participate actively in the activities in rural areas.

Hypothesis testing also found that Social Capital and significant positive effect on the Performance of LPD. The results of this analysis indicate that social capital in the community are directly able to provide a significant effect on performance improvement LPD in Bali Province. Social Capital which in this case is measured by indicators of groups, networks, trust and norms can give rise convincing against LPD performance as measured by an indicator of increased profits, total assets and credit.

Hypothesis test results of this study indicate that social capital has positive effect but not significant to Rural Development. That is, the Social Capital does not provide a meaningful impact on Rural Development. These findings justify that social capital in rural communities have not been able to directly realize Rural Development. This positive relationship between Social Capital and Rural Development, indicating a relationship of mutual support between the measurable indicators of social capital with measurable indicators of Rural Development. The better the perception given to assess indicators of social capital the better the assessment of Rural Development.

Other hypothesis testing to prove that the Community Participation positive and significant effect on the Performance of LPD. The results of this analysis indicate that the Community participation is directly able to give a significant impact on performance improvement LPD in Bali Province. Community participation is reflected in an increasing number of savings, the amount of deposits and increasing the number of credit customers are able to give rise convincing against LPD performance as measured by an indicator of increased profits, total assets and credit.

This study proves that the Community Participation positive and significant impact on Rural Development. The results of this analysis indicate that the Community participation is directly able to provide significant impact on the success of rural development in the province of Bali. Community participation is reflected in an increasing number of savings, the amount of deposits and increasing the number of credit customers are able to be a determining factor in the success of rural development, as measured by indicators of impairment percentage of poor households, the increase in the average length of school and increase life expectancy.

Hypothesis testing results prove that the LPD performance has a positive and significant influence on Rural Development. These findings indicate that the LPD good performance achievement would facilitate or accelerate the achievement of success of Rural Development in Bali Province. In this connection it is understood that how much it meant an increase in the amount of profit, asset number and amount of loans disbursed by LPD to the rural communities. Increasing the number of credits earned rural community will certainly have an impact on the increase in society's ability to finance its business.

5. Conclusions and Recommendations

5.1. Conclusions

- 1) Social Capital direct and significant positive effect on Public Participation. This means that the perceptual Social Capital is able to improve the quality of participation of rural communities in the province of Bali.
- 2) Social Capital direct and significant positive effect on the Performance of LPD. This means that the perceptual Social Capital is able to improve the performance LPD in Bali Province.
- 3) Social Capital directly no significant effect on Rural Development. That is, the actualization of Social Capital was not enough to realize the success of rural development in the province of Bali.
- 4) Public Participation direct and significant positive effect on the Performance of LPD. That is, the Public Participation able to contribute in improving the performance LPD.
- 5) Public Participation direct and significant positive effect on Rural Development. That is, the Public Participation in determining and realizing the success of Rural Development in Bali Province.
- 6) Performance LPD direct and significant positive effect on Rural Development. That is, the success of the LPDs will also determine the success of rural development in the province of Bali.
- 7) With mediated by Citizen Participation, Social Capital LPD significant effect on performance. Public Participation may be partially mediate the effect of social capital and thus significantly improve the performance LPD in Bali Province.
- 8) Mediated by LPD Performance and Participation, Social Capital significant effect on Rural Development. In this case the LPD Performance and Participation as empirical facts that justify their

role and strategic importance of performance in successful LPD Rural Development in Bali Province.

- 9) With Performance mediated by LPD, Public Participation significant effect on Rural Development. In this case, the LPD performance capable of partially mediate the effect of the Community Participation and thus significantly to realize the success of rural development in the province of Bali.

5.2. Recommendations

- 1) To the rural community, it is advisable to keep the unity and cohesiveness of the group in society, obey the rules and norms prevailing in society, expanding the network of social relationships and maintaining mutual trust among fellow citizens. Evident from the research that these attitudes as forming the Social Capital LPD able to improve performance and impact on the success of rural development in the province of Bali.
- 2) To the board of LPD in Bali Province, suggested that maintaining public confidence by showing a professional attitude that uphold the values of honesty. Trust the people will move and be decisive engagement / public participation in the programs that run in rural areas, such as the active participation of the community in supporting the LPD performance improvement and realize the success of Rural Development.
- 3) To government agencies that are directly related to development efforts in rural areas, it is advisable to give serious attention to the existence of LPD as financial institutions grow and develop in rural areas. Provision of training and coaching in stages and sustainable to pengurus and parties involved in the management of LPD as Bendesa customary, is necessary to maintain the existence of LPD.

6. Research limitations

- 1) The study was conducted on a financial institution based community customs and culture, so that research results can generalize and can be implemented on the management of other microfinance institutions, research must be done the same in many other areas of social cultural different, because of these differences will affect the role of social capital and community participation in the management and development of microfinance institutions and rural development success.
- 2) This study was conducted in a relatively short time and at a relatively stable economic situation. This condition will affect the levels of generalization and prediction capabilities. The implication, if our model is implemented on time and under different conditions possible will obtain different results.

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