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“Memberdayakan Masyarakat Melalui Inklusi dan Literasi Keuangan untuk Pembangunan”

Culture-Oriented Credit Management in Rural Bank as the Driving Factor in Creating Financial Inclusion (Survey in Rural Banks in West Sumatera Province)

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Abstrak

Artikel ini menunjukkan bukti empiris tentang penerapan budaya lokal dalam pengelolaan kredit di BPR. Makalah ini merupakan hasil survei di tiga kabupaten di Provinsi Sumatera Barat yang dipilih secara purposif. Area pengambilan sampel meliputi Kabupaten Agam, Kabupaten Lima Puluh Kota dan kabupaten Tanah Datar. Alasan memilih ketiga kabupaten tersebut sebagai daerah penelitian adalah karena kesamaan kondisi sosio-demografi dan sebagian besar BPR berada di wilayah ini. Ada 38 BPR yang dijadikan unit analisis dalam penelitian ini. Studi ini menunjukkan bahwa keluasan jangkauan bervariasi sesuai dengan jenis budaya lokal yang diterapkan dalam manajemen kredit. Beberapa kebijakan meliputi 1) produk berbasis budaya lokal dan layanan berbasis budaya lokal, 2) Keterlibatan pemimpin adat atau agama, 3) Jaminan Non-Tradisional, 4) Memprioritaskan masyarakat lokal sebagai tenaga pemasaran dan 5) Layanan Pendampingan Kredit. Selanjutnya, studi ini merekomendasikan beberapa kebijakan yang telah terbukti mampu memperluas jangkauan dan menciptakan inklusi keuangan di daerah pedesaan, mencakup keterlibatan tokoh adat / agama sebagai mediator, memprioritaskan masyarakat lokal sebagai tenaga pemasaran dan Layanan Pendampingan kredit.

Kata Kunci: budaya; BPR; keuangan inklusif.

Abstract

This paper shows the empirical evidence about the implementation of local culture in credit management in Rural Banks. This paper is the result of a survey in three districts in West Sumatera Province which were chosen purposively. Sampling areas include Agam district, Lima Puluh Kota district and Tanah Datar district. The reason for choosing these three districts as a research area is because of the similarity of socio-demographic conditions and most of the Rural Banks are in this region. There were 38 Rural Banks taken as the unit of analysis in this research. This study reveals that the breadth of outreach varies according to the type of local cultured applied in credit management. Some of the policies include 1) Local cultured-based products and local culture-based services, 2) Involvement of customary or religious leaders, 3) Non-Traditional Collateral, 4) Prioritizing local people as marketing personnel and 5) Credit Assistance Services. Furthermore, this study recommends several policies which have proven to be able to expand the outreach and creating financial inclusion in rural areas, its covering involvement of customary / religious figures as mediator, prioritizing local people as personnel marketing and credit assistance services.

Keywords: culture; rural bank; financial inclusion

INTRODUCTION

Rural Bank, known in Indonesia as “*Bank Perkreditan Rakyat*”, is a kind of the formal Micro Finance Institutions which always committed to provide the access of capital for the micro and small enterprises. Regulatively, Rural bank is a microfinance which is categorized as a bank, but recommended

by the government to serve the micro and small real sectors. Act No.7/1992 about Banking which amended by Act No.10/1998 stated a Rural Bank as a business entity that collecting funds from the public in the form of fundings and distributes it to the community in the form of credit or others, in order to improve the standard of living of many people. Rural Bank is a bank conducting business in a conventional or Islamic-based in which its activities do not provide services in the payment traffic. Some literature classifies Rural Banks as a Microfinance Institution's Bank. Rural Banks's development policies and strategies are directed at providing financial services for small and medium enterprises and local communities, especially in rural areas. The explanatory clause of Law No.7/1992 about Banking in article 14 stated that the business activities of Rural Banks are primarily intended to serve small businesses and communities in rural areas.

Realizing the discourse of financial inclusion through rural bank means reaching out to the excluded sectors without any limitation. The concept of financial inclusion is related to the breadth of outreach in to the community, which a kind of moralist theme that wants banking as a financial institution that serves all levels of society. In simply way, the concept of financial inclusion means "banking for all". World Bank (2008) defined financial inclusion as an overall activity that aims to eliminate all forms of barriers, in the form of price or non-price, for publicaccessment in using or utilizing financial services. There is an interrelated concept between the realization of financial inclusion with the social responsibility of microfinance institutions to the community. The social responsibility in the intent is a good social performance, which is able to reach the public with the products and services offered in the banking system. Some researchers offer a measurement that is capable of assessing social performance, one of indicator is "outreach". The outreach reflects the extent to which an microfinance's impact on economic development, or the extent to which an microfinance has achieved its objectives in providing social benefits to the poor (Schreiner, 1999; Yaron, 1994; Yaron et al., 1997). Woller (2006) also offers some relevant indicators for measuring social performance with the concept of the breadth of outreach, which can be seen from the number of credit clients. Thus, it can be seen that the ability of rural banks to extend their coverage into the micro real sectors and excluded community is an embodiment of the financial inclusion targets themselves.

Although laws and regulations recommend the rural bank to serve small micro enterprises, this target is quitedifficult for rural bank. This is due to several obstacles such as limited capital ability, limited of good governance, competition and low competitiveness (Financial Services Authority, 2016). It is not an easy step for rural bank to support the discourse of financial inclusion recommended by governments and financial authorities. As a commercial microfinance institutions, rural bank has two performance targets, namely financial performance and social performance. Financial performance is related to profitability and sustainability, while social performance is related to the mission of social responsibility to the community. Millson (2013) revealed that microfinances are designed not only to reach the poor but also to be financially viable. Although rural bank is categorized as microfinance institution, essentially this institution is a commercial bank, which puts financial performance as the main achievement. Rural bank is not a social institution by prioritizing charity, so that the social performance targets will only be done by rural bank as far as supporting the achievement of financial performance. As microfinance institutions which are not subsidized by the government, rural bank grows and develops with their own financial capabilities. The condition of financial sustainability is a major requirement that must exist if the social function, serving exluded segment, will be done.

Some studies show that both financial and social performance in this Microfinance Institution can be achieved simultaneously (Zerai& Rani, 2012; Zhang &Kipesha, 2013; Millson, 2013; Gakhar, 2015). Rural bank has long been known as a kind of microfinance institution which grows and develops in

excluded community especially in rural area, traditional business district or the other local communities. Market share management strategy by relying on local culture of communities is a marketing strategy that has become a mainstay in Rural bank. The facts show that some Rural Bank come up with good social performance with depth and wide outreach, while others do not. The application of cultural factors in credit management becomes one of the driving factors that indirectly can increase financial inclusion. Arsyad (2008) identified the existence of several Village Credit Institutions (known as *LPD*) in Bali that have a good outreach due to the policy of microfinance institutions based on socio-cultural factors. These socio-cultural factors referred to as informal institutions, which play an important role for microfinance's success in reaching the micro sector. Further, Erdmann (2012) said that culture affects in to the existence of Micro Finance Institutions, through what he called social cohesion. The depth of the outreach of financial institutions is determined by the cultured-based operations of financial institutions. The special feature of the microfinance institution is in products that are local cultured-oriented (Woller et al., 2002). A study conducted by Deubeul (2003) and Phlong (2009) revealed that cultural factors, including local culture, are important aspects that should be considered in the implementation of microfinance including in Islamic microfinance institutions. Seibeul (2008) even claimed that the stagnant development of Islamic microfinance in Indonesia is due to a lack of attention to aspects of culture.

The facts show that Indonesia is a country made up of many diverse local cultures and characterizes a very strong regional aspect. Studies aimed at investigating the impact of cultural aspects of microfinance are still needed to enrich every aspect of a viable culture to expand the outreach of financial services. Put the Rural bank in West Sumatra Province as the unit of analysis provides a unique perspective in this study, since socio-economic-cultural values are very strong in influencing rural bank in this province. West Sumatera Province is a representation of the long history of the development of various microfinance institutions. Starting from the embryo of the creation of village banks until later become *LPN (Lumbung Pitih Nagari)* and then changed to a formal microfinance institution under the name of Rural Bank. The development of dual banking system then gave a wider space for the formation of Islamic Rural Bank (known as *Bank Pembiayaan Rakyat Syariah*) and then some Rural bank convert in to Islamic Rural Bank. In its development, several obstacles such as limitations of regulation, competition with commercial banks and limited financial capability make rural banks a quite difficult to achieve optimal financial performance and social performance. Indonesian Banking Statistics in various editions (Financial Services Authority, RI) shows that during 2007-2016 there was a decrease in the number of rural banks in West Sumatra Province, from 106 unit to 91 unit. Although the number of bank decreased but the expansion of rural bank through the addition of branch offices and cash representative offices are exist. There are 40 branch offices and 100 cash offices in 2016. The development of Islamic Rural Banks also growth slowly in over the last ten years. Until 2016, the number of Islamic Rural Bank are only 7 units (Statistics Report of Sharia Banking in various editions, Indonesia's Financial Services Authority).

This study aims to analyze the empirical findings on how local-based credit management strategies affect the variation in the achievements of the breadth of outreach and financial inclusion in West Sumatera Province. This study tries to describe how local culture-based policies are adopted in credit management. Local culturally oriented credit management policies which are intended include Local culture-based product and service policies, Involvement of customary leaders or religious leaders, Non Traditional collaterals, Prioritize Local Communities as Marketing Lending and Credit Assistance Services.

RESEARCH METHOD

This research is a survey in Rural Banks located in West Sumatera Province conducted in 2016. The unit of analysis in this research is Rural Bank and Islamic Rural Bank in West Sumatera Province.

The research population consists of 92 Rural Banks and 7 Islamic Rural Banks in West Sumatra (Data from Bank Central of Indonesia on July 2016, <http://www.bi.go.id>). The sampling area was chosen purposively in three districts consisting of *Agam, Tanah Datar* and *Lima Puluh Kota*. The selection of this area is based on the consideration that in these three districts the majority of Rural Banks and Islamic Rural Banks are distributed, the type of Rural Banks is quite varied compared to other areas, these areas are an ethnic area of Minangkabau. There is a similar socio-demographic conditions in these area so then making possible for analyzing the cultural factors in credit management. The census technique was applied by taking 34 Rural Banks and 4 Islamic Rural Banks as the unit of analysis.

The data in this study is the primary data obtained through questionnaires to marketing personnel in Rural banks. Information is obtained from people who really know about the problem under study, ie people directly involved in credit or financing. The method used in this research is quantitative approach by using descriptive analytical and apply non parametric statistics by using independent sample t test. This study will analyze the differences in the variations in the achievements of the breadth of outreach and financial inclusion due to cultural orientation in credit policy.

RESULT AND DISCUSSION

In relation to the discourse of the Indonesian Central Bank to place the informal sector (such as small farmers in rural areas, traders in traditional markets, cigarette sellers and grocer) at the forefront of the financial inclusion policy of Bank Indonesia, the role of Rural bank as a provider of financing for the sector informal becomes very important. Rural banks are regarded as the most appropriate financial institutions for the community and the micro sector. Rural bank is a financial institution that makes the micro sector as the main market share. The breadth of Rural bank's products and services is strongly influenced by the adopted local cultured-oriented management policy, as the microfinance's flowering background is strongly affected by the local socio-economic and cultural conditions of local communities.

There are several local cultured-oriented credit management policies that can be applied in microfinance institutions. Based on the ideas of Leonard (2010), Hofstede (1984), Misbach (2009), Lewis (1998) and Robbins & Coulter (2012), identification of several influential cultural aspects in creating micro finance institutions based on the culture model are: 1) The internal culture, called the organizational culture. This internal culture includes a shared system of meaning shared by members that distinguishes this organization from other organizations. Rana (2008) has tried to analyze the application of organizational culture dimensions with this cultural orientation in managing microfinance in Bangladesh by evaluating some institutional culture dimensions by Hofstede (1984), which includes power distance, uncertainty avoidance, individualism versus collectivism and Masculinity versus Femininity. 2) The external culture or culture of society, which is a culture that deals with people in relation to their daily values. Some of the external cultural dimensions include such as Gender sensitivities and approaches, MFI's Products and Services, Client groups (large groups, small groups, individuals), Client ethnicities (migrant / origin, ethnicities), c) Client profession (farmers, fisherman, trader, services), d) Geographical culture (highland / lowland, rural, urban, semi-urban) and e) Business environment (regulation and rule of law, government intervention, availability of resources).

Findings research in rural banks in West Sumatera province show some local culture-oriented credit management policies. The table 1.1 below shows the evaluation of the frequency distribution of each local cultured-oriented credit management policy in Rural Banks in West Sumatera.

Table 1.1 Distribution Frequency of Dimensions Local-Cultured Oriented Credit Management In Rural Bank In West Sumatra Province

Local Cultural Dimensions	Percentage (%) n=38				
	Tp	Jr	Kd	Sr	Sl
Local culture-based product and service policies					
1. There are unique/ distinctive/typical of region product	36,8	15,8	39,5	5,3	2,6
2. There are unique/ distinctive/typical of services	2,6	2,6	10,5	52,6	31,6
Involvement of customary leaders or religious leaders					
1. In lending / financing disbursements, rural banks involve customary or religious figures for information on feasibility analysis for credit	26,3	34,2	23,7	13,2	2,6
2. In dealing problem of financing, rural bank involves the assistance of traditional figures or religious leaders as mediators	21,1	28,9	42,1	7,9	0,0
Non Traditional collateral					
1. There are credit clients with non-traditional collateral such as: Personal guarantee by customary figures / religious figures, third party guarantee, group solidarity guarantee	50,0	31,6	18,4	0,0	0,0
Prioritize Local Communities as Marketing Lending					
1. Prioritize the use of credit marketing officers (account officers) who come from local communities around rural bank	5,3	5,3	28,9	36,8	23,7
Credit Assistance Services					
1. There are credit assistance services for clients such as business coaching, creativity support, marketing channel assistance	18,4	28,9	39,5	13,2	0,0
Source	: Primary Data Processed, 2016				
Description	: Tp = Never, Jr = Rare, Kd = Sometimes, Sr = Frequently, Sl = Always				

First, the policy of local culture-based products and services. This policy focuses on strategies to expand the outreach of loan by channeling products and services that are unique/ distinctive and actually different from other rural bank. Product specificity is usually found in features, names and services attached to the product. Sometimes rural bank give the brands for the products according to the target of the clients or based on the purpose of the product. There are several local culture-oriented products in rural bank such as poultry working capital products intended for poultryman, *walimah* finance intended for marriage purposes or educational finance products for school fees. This specificity is intended to implement product strategies that are relevant to the needs of the people who became their main segment. As a financial institution in particular to serve the credit needs of rural and micro-enterprises, rural bank's segment is informal sectors such as traditional traders in markets and small-scale stalls. The brands of products is more aimed as promotion strategy in communities. Although the brands of financing products contains the elements of regionalism, but in general credit facilities in the rural bank can be grouped into working capital credit, investment credit and consumption credit.

The Implementation of local cultural values is also observed in credit services in rural bank. Some rural banks in the research areas such as *Lima Puluh Kota District*, are familiar with banking services called "*pinjaman baja puik* ", a kind of service where installment of credit are picked up to client's location. In principle, this service is a kind of the implementation of promotional mix strategy, known as personal selling. This service aims to increase the accessibility to the customers and reduce the risk of uncollected credit. The credit repayment service will only be effective if: (1) There is a strict supervision by supervisor to marketing officer who pick up the installment, (2) There is a honesty of marketing personnel who pick up the installment (3) Collector officers regularly and consistently pick up the installments. If all of these terms unfulfilled it can lead to increased the bad loans. To anticipate fraud, most of rural bank implement a high control system for marketing personnel, eg do mutation routine for

marketing officers, guidance of marketing officer characters and increasing supervision for marketing personnel by area managers.

Table 1.1 shows that 36.8% of rural bank do not have products with unique features. Around 39.5% of them, sometimes show unique features in their products and only 8.9% of them that often or always include unique features in their products offered. However, for the service category, a larger percentage is seen in its implementation. Amount of 52.6% rural bank in the research area claimed often apply the local culture- oriented banking services and amount 31.6% of them is always do this policy. Observed in some rural banks in West Sumatera province especially in *Lima Puluh Kota* District, there is a service called "*pinjamanbajapuik*". This is a kind of service term in the local language which means that the loan repayment routinely in pick up service to the client's location. This service system is actually part of the marketing activities, where as the account officers pick up the credit installment, and while picking up they also try to reach new client. Thus it can be concluded that only a small percentage of rural bank have unique products, but almost all the rural bank adopt local culture for the financing services.

Second, the involvement of traditional leaders or religious leaders. The policy about involving customary or religious leaders in credit management are usually conducted in the early stages of the credit analysis process, with the aim of obtaining information on the character of a prospective client from several figures who are considered capable of providing honest information about the character of a prospective client. This policy is very helpful for account officers in analyzing the client's character, so it is expected to minimize the credit problem in the future. Involving traditional or religious leaders are also conducted when dealing the bad credit. In this case, sometimes traditional or religious leaders are involved as a mediator between the clints and rural bank. Some rural banks chose this approach with the aim of minimizing costs in the settlement of problem loans. Rural bank considers that the settlement by involving customary/religious leaders before taking the settlement on the legal path. This policy also aims to accelerate the settlement of non-performing loans in the problem of *fraud*, a condition in which the customer breaks the agreement in the loan agreement.

The evaluation of the involvement of customary or religious figures in table 1.1 shows that only a small percentage of rural banks implement this local-cultured oriented policy. Amount 26.3% of rural banks never implemented this policy and around 34.2% of others claimed rarely involving the traditional or religious figures for information on credit analysis. Cumulatively, around 39.5% of rural banks that have involved customary/religious figures in the initial process of credit. However, observed by 42.1% of rural banks in the research area sometimes involves the assistance of traditional/ religious leaders as mediators at the time non-performing loan's problem appear. Only 7.9% of rural banks that often implement this policy. Further, findings suggest that there is some concern for rural bank that using of customary or religious figures in credit management will increase the operational costs. Unexpected costs often arise if rural banks attempt to solve bad financing by relying on third-party assistance. Another reason that also raised by managers is a policy is considered unprofessional. However some rural banks whose owners are local community leaders or marketing lending come from local residents, still rely on this policy because it is quite easy and there is familial bonding factor. Increasing in operational costs for the settlement of non-performing loans through legal channels and the difficulties withdrawing collateral are the reasons why negotiations involving customary or religious figures become an alternative choice. Furthermore some large scale rural bank with a good financial performance and has many client do not rely on this approach. Financial sustainability conditions have placed this rural bank in the category as professional financial institutions. Rural banks are generally regarded as commercial banks, so there is no need for local culture-based policies in credit management. Policies involving traditional or religious leaders also appear to be more effective if applied in overcoming bad financing.

Third, Non Traditional Collateral. Nontraditional Collateral is one of the local culture that is expected to simplify the process of credit submission and creating better risk management in rural bank. If the usual form of collateral received by a financial institution is property, the non-traditional collateral refers to personal guarantee. This personal guarantee sometimes is provided by customary religious leaders, group solidarity, or other personal customer guarantees legalized by the bank. Although some microfinance institutions implement its policy, the fact show that the non traditional collateral is rarely applied by formal microfinance institutions such as rural banks. The difficulties in assessing personal character and the high risk of non-performing loans in the future cause rural bank reluctant to legitimize these personal collateral. Amount 50% of rural banks in the research area ensured that this instrument was never performed. Around 18.4% of rural banks implementing this policy, it is reasonable to assume that placement of traditional collateral is only an additional guarantee. If in the future the client is deemed high risk of fraud, disagree with the credit agreement, then the guarantor is economically responsible for the receivable. Some rural banka that apply this credit policies with non-traditional collateral usually also limit for the loyal customers who have applied for some credits before. This ease is expected to bind the clients so that they do not move to other financial institutions. The purpose of its application is not to serve poor people, but as part of risk management strategy. The commercial aspect remains a key consideration for rural banks in implementing any high-risk strategies. Table 1.1 shows the results of evaluation of the application of non-traditional collateral.

Fourth, Prioritizing local people as marketing personnel. Prioritizing marketing personnel from local communities is considered part of local culture-oriented credit management. Through marketing personnel from local communities, it is expected to facilitate market penetration so it will be easier for rural bank to introduce its products and services. The main segment of rural banks is the people around the bank and the communities that are categorized as small micro entrepreneurs. It would be more beneficial for rural bank using the local people as a marketing personnel because the public knows about them and the employees are familiar with the community too. Marketing personnel from local people are also considered to be more familiar with the socio-economic and cultural aspects of the local community. There is a trust that makes it easier to attract customers. It could be a prospective customer is considered not financially feasible, but if account officer believes that the customers have good business conditions and character, then the decision to channel credit to customers can be done.

The changes in client behavior in the micro segment is very vulnerable to be influenced by others. The attitude of client to decide for transaction in a bank, the motivation of prospective customers, as well as the competency of the credit marketing personnel are very influential on preferences of choosing financial institutions. A customer-oriented marketing personnel, can only be obtained from competent marketing personnel, ie marketing personnel who know well the character of the prospective customer and fully understand the needs of prospective customers. This category is expected will comes from the people in local communities. The policy of prioritizing local people as marketing personnel is motivated by the belief of rural bank's leaders that the ability of marketing personnel from local communities is better in terms of understanding the characteristics of the local community so as to facilitate the process of credit worthiness analysis. The use of local marketing personnel is also considered easier in terms of recurrence, cheaper in payroll standards and is considered more familiar with the socio-demography, socio-economic and cultural conditions of local communities.

Most of rural banks in the research area prioritize potential local communities to manage credit marketing in their work areas. Cumulatively, amount 94.7% of rural banks in the research area have relied on local communities as marketing personnel. Even as much as 23.7% of them admits always use the marketing personnel of the local community. It only 5.5% of rural banks admitted that they had

never used local communities as marketing personnel. The considerations for not using them just because a subjective assumption that these people are unprofessional for marketing personnel.

Fifth, Credit Assistance Services. Rural Banks as microfinance institutions have actually different characteristics than commercial banks that also have microfinance services. As a financial institution that grows and develops in the "grassroots community", credit assistance services become a part of risk management strategy. The goal of this policy is to minimize risk, due to the high risk of bad loans in the rural bank. The credit assistance service which applied by rural bank is not in the form of organized guidance but rather a kind of credit monitoring activities. To ensure the absence of side streaming (the transfer of credit disbursed from the original credit objective agreement), sometimes the rural bank conducts credit assistance services through coaching in line with the billing activity by the account officer. This activity is done by marketing personnel or by account officer to its clients through regular visiting when picking up credit installment. This activity was initially limited to monitoring, whether the customer used the credits granted in accordance with the original purpose, but then coaching and credit collection became a corresponding activity conducted by account officer (AO). Eventhough then AO provide other services such as creativity choaching or recommending the client for marketing channel, this is done by AO as a form of client's motivation effort in trying and committed to maintain good relationship with the client. Mostof rural banks provide rewards for AO with a good achievements in their work. Rural Banks's strategies that foster communication with clients through AO, will have an impact on decreasing in the level of Non Performing Loans (NPL).

Some Islamic Rural Banks in this research area sometimes make religious activities as a forum of creativity and entrepreneurship. Indirectly, this strategy becomes a socialization activity for Rural Bank, to capture new clients or to maintain the loyal client. Implementing this policy in line with marketing lending activities will have an effect to extend the outreach to the communities. A complete evaluation about this Credit Assistance Services is shown in table 1.1. Only 13.2% of rural bank are admitted "often" for using this policy. Around 39.5% occasionally apply this policy. Precisely most other 18.4% admitted "never" and 28.9% of them rarely apply this policy.

Synchronization Between Cultured-Oriented Credit Management, The Breadth of Outreach And Financial Inclusion

The main debate in financial inclusion studies is the difficulty of creating regulatory demands that are in line with the financial objectives in the financial institutions. Financial inclusion demand wants a condition where everyone has access to financial institutions. Financial institutions are required to extend banking services to all communities. The regulation wants "banking for all", while banking is a business institution that reaches out to the community for profitability considerations. Bresnahan & Reiss (1987, 1990, 1991) stated that a bank's decision to enter a particular market segment is driven by expected profitability from that market segment. If a financial institution predicts the profit from the market to be entered, then the financial institution will decide to enter the target market and thereby expand its outreach.

Theoretically, this phenomenon is related to "trade-off" between financial performance and social performance in microfinance institution. It is difficult to harmonize the financial objectives and social objectives in microfinance institution. Rural bank is a commercial institutionalist microfinance institution. As a business institution, rural bank aims to maximize profitability. The goal of maximizing this profit will only be achieved if the difference between total revenue and total cost reaches the highest value (Freixas&Rochet, 2008). Lending with small ceilings extensively to the community is synonymous with increasing in operational costs, thereby reducing the rate of profit if not followed by increasing the

lending rates. It would be more advantageous for the financial institution to channel the loans at a certain level that is not too small for profitable segments. On the other hand, the social function of banking will be achieved if the financial institution distributes a small average loan extensively to the communities. In this case, target financial inclusion will only be achieved if the financial institution has a commitment to channel the loans to every level of society. Financial targets can be achieved if financial institutions including rural banks have the ability to continue to increase their customers without causing trade-off effects on financial sustainability. Social function becomes a burden for financial institutions as well as contradictory with financial goals. Consequently, this social function will only be done by the financial institution if it supports their financial objectives. One of the reasons why lending rates in rural banks are so high is because of their high operational costs. Rural banks conduct personal selling strategies especially for fund disbursement products. The rural bank's challenges were further complicated by the "KUR Program", a kind of People's Business Credit launched by monetary authorities since 2007, thus reducing the segment of the rural bank.

Table 1.2 Independent Sample T-Test

Dimensions	Grouping	Mean	T	Significance
Rural banks products are unique / show typical of the region	1	744	-.293	.771
	0	807		
Rural banks services are unique / show typical of the region	1	776	-.043	.966
	0	793		
Involvement of customary / religious leaders during credit analysis	1	768	-.069	.945
	0	783		
The involvement of traditional / religious leaders as mediators	1	853	.709	.483
	0	701		
Non-Traditional Collateral	1	597	-.936	.356
	0	833		
Prioritize local people as marketing personnel	1	780	.073	.942
	0	754		
Credit Assistance Services	1	841	.624	.537
	0	706		

Note : ***, **, * significant at the significance level of 10%, 5%, 1%.

Group 1 = Rural Bank always, often or occasionally adopt the cultural dimension

Group 0 = Rural Bank never or seldom adopt cultural dimensions

Previous studies have tried to analyze several dimensions of local culture in credit management that are considered capable of lowering the operational costs of credit. The implementation of local culture-oriented policies is believed to be able to extend Rural bank's outreach and realizing financial inclusion in rural areas. Although faced with many limitations, rural banks can still be expected to perform social functions by extending outreach to all sectors, since rural banks are self-supporting microfinance institutions that have existed for so long in excluded segments. The findings revealed that the application of several dimensions of local culture gave different achievements in the outreach of rural banks. Table 1.2 shows the difference of the outreach measured by the number of credit client. It can be seen that the result of *Independent Sample T-Test* in two groups of rural banks.

Based on the presence of local culture-based products and services, there are differences of average clients between these two groups of rural banks. For rural banks that do not or rarely have unique products, they have the average number of credit client is 807, while for rural banks with unique

products, the average number of credit client is 744. It appears the rural banks which implement this policy simply do not have the wider outreach. A total of 92.10% of rural banks in the research area have unique local service, with an average number of credit clients is 776. While the group of rural banks that do not or rarely do local culture-oriented services have an average client is 793 clients. Although there are differences in the number of clients served for both group of rural banks, statistically there is no significant difference in outreach for these two groups. There is no difference in the outreach between rural bank with unique services and rural banks with no unique services statistically.

The policies involving customary or religious figures for information when the credit feasibility process or as a mediator at the time of non performing loans, are expected to extend the outreach. The group of rural banks which involving customary/religious leaders in credit management are expected to benefit in the form of ease of process when credit feasibility analysis and reduce operational costs. Similarly, for rural banks that engage customary/ religious figures as mediators in the event of non-performing loans, it is expected to be able to expand the outreach. The research findings revealed that rural banks that involving customary or religious figures as informan when credit worthiness, have an average clients of 768 clients. While rural banks that do not implement this policy, have an average clients of 783 clients.

Some rural banks involving customary or religious figures as mediators at the time of bad loan problems arise, have an average client number of 853 people. While other groups that do not involving customary figures / religious leaders have an average number of clients of 701 clients. Although there was a difference in the number of clients on average, the independent sample t-test showed no significant difference. Statistically , there is no different in the outreach between rural banks involving customary or religious figures in credit management with the group of rural banks which do not adopt this policy. Nevertheless, this policy appears to be quite effective in terms of increasing the number of clients if be done in the event of non-performing loans by placing customary or religious figures as mediators.

The non-traditional collateral policy that exists on 9 rural banks in the research area, revealed the fact that rural banks that often or always implement this policy have an average number of clients is 597 clients. This amount is much less than the rural banks that do not or rarely implement the policy, which amounted to 833 clients. There is no difference due to the implementation of this policy in expanding outreach. The independent sample t-test results also show no significant difference for the two groups of rural banks. This policy is not a priority policy in rural banks in an effort to increase the number of clients, but only as an ease to maintain loyal customers.

Furthermore, there are 34 rural banks in the research area that implements a policy of prioritizing local people as marketing personnel in credit management. The result of independent sample t-test shows that the rural bank's group that prioritizes local people as marketing personnel, has the average number of credit clients of 780 clients, while the other group that does not apply this policy has the average number of clients of credit is 754 clients. Although the average number of clients in the rural bank's group that implements this policy is more, the independent sample t test shows that this difference is not significant. The results of this different test conclude that policies that prioritize local communities as marketing personnel do not make a difference in the outreach.

The Credit Assistance Services, applied in 20 rural banks, and the result shows the average number of credit clients of 841 clients. This amount is much more than the rural banks that do not or rarely implement this policy of 706 clients. Although it appears that a rural bank that implements this mentoring policy is able to foster more credit clients, it does not mean that its outreach is wider. The independent sample t-test showed no significant difference for the two rural banks categories. The main

purpose of this policy is to ensure the smooth rate of return on credit and control of non-performing loans rather than to provide business training.

The finding also shows that there is a link between the implementation of local culture in credit management with the breadth of outreach in rural banks. Although the results of the independent sample t-test used to measure the average difference between the two rural banks do not indicate significant results, it does not mean that the policy does not make a difference in the variation of the breadth of outreach and contribute to the realization of financial inclusion. Several local culture-oriented credit management policies in rural banks show that the implementation of this policy has an average number of higher credit clients. Some of the policies referred to such as the involvement of traditional / religious leaders as mediators, prioritizing local communities as personnel marketing and credit assistance services.

Many other determinants that cause local culture effects are not as expected at the beginning of this study. Previous research has more to analyze the application of a culture-based policy to a microfinance institution (microfinance institution subsidized by government or donor agencies and prioritizes the empowerment of the poor). Further research is needed with larger samples to analyze the implementation of local cultural values in credit management in rural banks. As an institutionalist micro financial institution (not subsidized by the government or donor agencies and prioritizes financial independence), there is an erosion of local cultural values in management. Professionalism in rural bank management, which adopts the operational system of commercial banks, has placed rural banks as a more modernist microfinance institution with a modern organizational culture.

The erosion of local cultural values in society is also a barrier to the ineffectiveness of this policy in attracting new prospective clients. By implementing local cultural values, the rural bank managers hope that the management of microfinance institutions will be more culturally sensitive, so that the services offered by the bank will bring the community's habits into consideration in the rural bank operations. But the fact shows that the local culture of *Minangkabau* no longer strongly affects the operations of financial institutions. Rural banks have been transformed into formal and commercial microfinance institutions like commercial banks whose management is strongly tied to regulation.

Competitive factors are another factor that is also suspected as the cause of the increasingly difficult rural banks in expanding outreach, even though it has implemented a local culture in credit management. The rural bank challenges ahead are further complicated by the "*KUR program*", a kind of government program that disbursed very low interest rate loans launched in 2007. The rural market segment of the bank is further undermined by policies imposed by the monetary authorities.

CONCLUSION AND RECOMMENDATION

Rural Banks' contribution in creating financial inclusion is related to the Rural Bank's ability to expand outreach to the community, especially the loan outreach to productive sectors. The more clients in the productive sector that can be financed by rural banks, the wider the outreach and the greater the contribution of rural banks in creating financial inclusion. the breadth of outreach of rural banks reflects the extent of its influence and its contribution to economic development and the ability to provide social benefits to the community.

Implementation of local culture-oriented credit management policy is one of the efforts implemented by rural bank to expand the outreach to the community. The application of cultural factors in credit management is expected to be one of the driving factors that can indirectly increase financial inclusion. This is due to the long history of rural banks that are already accustomed to grow and flourish

in societies that have unique socio-economic-cultural values and indirectly affect the operations of these microfinance institutions. Some of the local culture-oriented policies referred to in this study include: local cultural-oriented product and service policies, the involvement of customary or religious leaders in credit management, non-traditional collateral, prioritizing local people as a personnel marketing and credit assistance services.

This study reveals that there is a variation in the average achievement of the number of credit clients in some local culture credit management. However, there is no significant difference in the breadth of outreach between the two rural banks, the rural bank's group that implements culture-oriented credit management and rural bank groups that do not implement it. This conclusion is obtained by evaluating the results of the two-difference test with the independent sample t-test. Although nonparametric statistical tests show no difference between the breadth of outreach between the two rural bank's groups, this study recommends some culture-oriented credit management that needs to be considered in expanding outreach and realizing the discourse of financial inclusion in rural areas, which includes the involvement of customary/religious figures as mediator, prioritizing local people as personnel marketing and credit assistance services.

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