

## Can Islamic Microfinance Unleash the Coastal Community from the Loan Shark? : A Case Study of Indonesia

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### Abstract

Indonesia is an archipelago with two-thirds of its territory in the form of oceans and coastal areas which support about two million fishermen. Despite having an enormous potential of fisheries, but most of the fishermen are poor and have minimal access to basic social services, including the affordable of financial services. Likewise in Puger Sub-District, Jember Regency, East Java Province, Indonesia. Poverty in there is caused also by the injustice of market with the dominance of loan shark who has weakened the marketing network of fish, the destruction of social institutions, fish auction, and impartiality of government policy for the fishing community. As a qualitative approach, this study can be categorized as field research to capture the problem of the coastal communities by interviewing, doing observation, and also studying the literature or previous research. This study aims to recognize and understand the phenomenon experienced through a purposive sampling as non-probability sampling that is selected based on characteristics of a population and the objective of the study. Thus, this study is intended to: (1) Describe the socio-economic profile of community in Puget Coastal, Puger Sub-District, Jember Regency, East Java Province, Indonesia; (2) Capture the working model of the loan shark to trap the fishermen; (3) Find the opportunities of Islamic microfinance to help the coastal community to meet their needs in order to avoid them from the loan sharks.

**Keywords:** Coastal Community, Islamic Microfinance, Loan Shark.

### 1. Introduction

For millions around the world, especially for the world's poorest people, oceans mean jobs, foods, and life. Food and Agriculture Organization (FAO, 2014) also mentions that fisheries and aquaculture is a source not just of health, but also of wealth. Employment in the sector has grown faster than the world's population. The sector provides jobs to tens of millions and supports the livelihoods of hundreds of millions. It is especially important for developing countries, sometimes worth half the total value of their traded commodities.

World Bank (2016) notes that fisheries and aquaculture assure the livelihoods of 10-12% of the world's population with more than 90% of those employed by fisheries sector in small-scale operations in developing countries. Coastal areas within 100 kilometers of the ocean estimated to have support 61% of the world's total Gross National Product (GNP).

As an archipelago country, the length of the coast of Indonesia reaches 95,181 km and the sea area of 5.4 million km<sup>2</sup> which dominates total of territorial area 7.1 million km<sup>2</sup>. Geographically, the fishermen also exist in all region of Indonesia. Harmadi (2014) mentions 2.2% of households in Indonesia which has the head of the household work as fishermen or around 1.4 million heads of households of fishermen. If the average number of household members in Indonesia about four people, then there are approximately 5.6 million people in Indonesia

are dependent on the head of household who work as fishermen. Referring to Wekke & Cahaya (2015), Indonesia has vast coastal areas which are inhabited by about two million fishermen. It is estimated that 60% of the fishermen in villages still have an average income below the minimum requirements for living. Tietze & Villareal (2003) also describe that most parts of the world, fishing communities are often poor, geographically isolated and have little access to basic social services, including the affordable of financial services.

The magnitude of economic opportunities and utilization of marine resources should contribute greater to improving the nation's economy, even should also be a dominant driver sector for the national economy. Ironic with great potential, there are still many coastal villagers who have relatively low living standards. The ability of fishermen to meet the minimum basic needs of daily life is very limited. Cahaya (2015) believes that strengthening of civil society values is required within a poor fishermen community so that the community becomes the central point of the development process in the seashore and marine areas to uplift the living standard of fishermen so that traditional coastal resource management remains valued and cared.

Likewise, the culture of poverty also exists in the village of fishing families at Puger Sub District, Jember Regency, **East Java Province**<sup>1</sup>, Indonesia. Ratnawati & Sutopo (2014) mention that coastal and marine resources have contributed substantially to economic growth in East Java. In 2009, capture fisheries production in East Java province in was 390,251.56 tons. Fisheries export volume reached 188,979.76 tons worth USD 503,979.07 thousand.

Nevertheless, in the socio-economic life of fishing communities that most of them, especially the fishermen belonging to labor or small fishermen, living in the poverty puddle. As one of the potential area of marine fisheries, according to Badan Pusat Statistik (BPS/Statistics Indonesia, 2011), the number of marine fisheries production in Puget Sub District amounted to 5,700,000 quintals. Pradana (2014) reminds that a large number of marine fisheries production in Puger can't escape the role of fishermen who reside in coastal areas. Such as the coastal fishing community in general, a coastal fishing community in the Puget area in their life is still in poverty. Although coastal areas having much economic potential, this area wasn't able to guarantee good welfare to fishermen there.

Cahaya (2015) claims the characteristics of fishermen are identical with limited assets, weak capital structure, lack of bargaining position to access the values of justice and economic resources, weaknesses in the market access and the ability to master science and technology. Another cause of poverty is an imbalance in the market with the domination of middlemen have weakened fish marketing network and this fact is compounded by the malfunction of social institutions like fishermen cooperative, the fish auction place, and impartiality of government policy for the fishing community. The dominance of the poverty problems in the lives of fishermen is exposed to coastal areas that have the potential richness and diversity of natural resources. In Puget Sub District, the study of Widagdo & Handayani (2015) find the most of fishermen have the interest to come to nonformal finance institution to get a loan. Study of Santoso (2013) also find the trap of loan system has increased the fishermen in debt bondage.

As a qualitative approach, this study can be categorized as field research to capture the problem of the coastal communities by interviewing, doing observation, and also studying the literature or previous research. This study aims to recognize and understand the phenomenon experienced by the subject of research. Through a purposive sampling as non-probability sampling that is selected based on characteristics of a population and the objective of the study, this study is intended to: (1) Describe the socio-economic profile of community in Puget Coastal, Puger Sub-District, Jember Regency, East Java Province, Indonesia; (2) Capture the working model of the loan shark to trap the fishermen; (3) Find the opportunities of Islamic microfinance to help the coastal community to meet their needs in order to avoid them from the loan sharks.

## 2. The Social Economic Profile of Coastal Community

The coastal community is the people who live and conduct socio-economic activities related to the resources of coastal zones and oceans. In general, coastal communities have a high dependency on the potency and condition of coastal marine resources. Their main livelihood mostly as fishermen, aquaculture, and fish traders who live together inhabit coastal areas and then have a distinctive culture that is associated with its reliance on the use of coastal resources.

According to Nair, Bharat, and Nair (2012), presently 21 percent of the world population lives within 30 km of the coastal areas. Coastal zones are therefore of great importance as zones of settlement and play a vital role in the economic well-being of many nations. But in fact, in Indonesia, Ambarwati (2014), Paongan (2014), Wasak (2012) mention the fisheries sector and national marine still not used optimally. It is shown on the condition of coastal communities as the closest society to the coastal and marine resources which generally still classified as poor or categorized as a people with a level of low welfare. In the big cities in Indonesia, ranging from the marine in Jakarta, Surabaya, Makassar and others which are not seen beautiful, but instead shows damaged boats of poor fishermen, piles of garbage everywhere, and slums thereby reflecting that sea is not the forefront of nation's life and does not reflect the great maritime nation. Sitorus (2016) notes the number of poor fishermen in Indonesia more than 7 million people, or nearly a quarter of the total of the national poor population which contained around 10,600 fishing villages in coastal areas of the country.

Utomo and Hutaeruk (2008) describe that the general picture of rural and coastal regions shows a unique phenomenon. On the one hand, they are traditionally thriving of natural resources. On the other hand, they are typically characterized as a less-developed, isolated and marginalized community. Economic and social development indicators indicate that they have been lacking basic service facilities as well as far from being well-informed society. Cahaya (2015) mentions the characteristics of fishermen is identical with limited assets, weak capital structure, lack of bargaining position to access the values of justice and economic resources, weaknesses in the market access and the ability to master science and technology. In such position, the life of the poor fisherman in poverty becomes more complex and multidimensional. The structural poverty of fishing communities in social groups due to their dependence on the structure of the fishing season and potential fishery resources that are shared; and the nature of open access to the sea.

In Indonesia, the study of Wekke and Cahaya (2015) in Bone find that kinship, mutual help, cooperation, mutual trust among the poor families become social capital to survive with their family members. Utilization of local institutions that grow and thrive in the life of rural communities has helped many poor households in order to survive. Therefore, it is suggested that the government should pay attention to local institutions by providing reinforcement to those institutions to be able to serve as a forum for the fishermen in the villages in order to empower them without having to bring in outside agencies because, in principle, institutions that grow and thrive in society have helped fishermen in rural life; and it is a social capital. In Surabaya, the study of Gai, Lusyanawati, and Soemarno (2014) find a development of the coastal area is directly influenced by the five assets in sustainable livelihood approaches such as human asset, social asset, natural asset, financial asset, and physical asset. The better the five sustainable livelihood assets, so the better development of Surabaya coastal area. In North Halmahera, Sipahelut (2010) reports that the local government has conducted various community development programs to alleviate the poverty of coastal communities. One of them is the Coastal Community Economic Empowerment (PEMP) which aims to improve the welfare of coastal communities through economic and social institutional approach. This program has been implemented since 2004. In 2010, the results show that the PEMP has triggered changes in a social, cultural, technological, economic and institutional community for the community. An important change in the socio-cultural aspect is the revival of local values like honesty,

openness, and mutual cooperation that realized with the establishment of joint ventures and cooperative groups. In the economic aspect, the PEMP has a positive impact on increased revenue coastal community. In the institutional aspect, the PEMP has spurred the formation of cooperative solidarity and collectivity. However, these institutions still limited role, just working in fund management and has not been an optimal role in alleviating poverty fishermen because of lack of mentoring and monitoring, has not been able to open access to markets and capital is a major problem of coastal communities.

Likewise in Semarang, Indarti and Wardana (2013) find that the coastal community establishes cooperative because belief will get the economic benefits greater than the work by themselves. When a group of fishermen joined together to form a cooperative partnership, then they can benefit from economies of scale and strengthen the bargaining power at the input and output markets. The benefits from the economies of scale gained through economies of materials, economies of machinery, economies of highly organized buying and selling and economies of skill. In North Minahasa, a study of Wasak (2012) recommends that social-economics organization will be useful to increase the life quality. In Cirebon, Mardjoeki (2012) also recommends for the coastal community through participative approach involving local communities and governments to manage the natural resources in order to endeavor the increase of welfare the community thru the expansion of employment besides the sustainable development of marine resources.

### 3. The Profile of Puger Sub-District

One of the coastal communities in Indonesia is Puger community in Puget Sub-District, Jember Regency, East Java Province, Indonesia. Jember Regency has 31 sub-districts and 245 villages. The total area is 3,092.34 km<sup>2</sup> with total population 2,451,081 people. The northern boundary of Jember Regency is Bondowoso and Probolinggo Regency, the southern boundary is the Indian Ocean, western boundary is Lumajang Regency and the eastern boundary is Banyuwangi Regency.

Through the existing of Puger, Jember Regency has abundance resources for marine and fisheries products. Puger is popular for these resources. Puger Sub-District has 12 villages and the fishermen are scattered in two villages located in the coastal area of Puget beach, Puger Kulon Village and Puger Wetan Village. There are traditional port and fish auction around of Puger Beach. The fishermen have an important role to produce how much volume and variety of marine fisheries production. In addition to fresh fish, there is some kind of fish products, such as dried fish, preserved fish, fogged fish, tears, chips, and fish powder. Although the fishery area of Puget is in third-ranked among the sub-districts in Jember, according to Statistics of Jember Regency (BPS, 2011), the production of the marine fishery in Puget Sub-District is the biggest in the Jember Regency. The production of 5.7 million quintals and 3.18 million quintals is produced by the Puget Wetan Village. Meanwhile, in another village, Ratnawati & Sutopo (2014) mention the fish farmers of the Mojomulyo also do aquaculture farming in the form of catfish farming. Even with an area of approximately 100 acres that farmers are able to work on 20 acres can produce 3-6 tons of catfish per day that is likely to be able to produce even greater.

Further, according to Statistics of Jember Regency (BPS, 2009), the number of fishermen in Puget has predicted approximately more than 13 thousand people that it's among consist 6 thousand fishermen families. Most of them use the motorboat as the vehicle and parade, trample net, paying, and gill net as the equipment for fishing. As other coastal communities in Indonesia, the fishermen here seem also to occupy the socio-economic structures of society at the grassroots level. One of the big problems in Puget community is the weakness in the capital and relies on loan shark.

Study of Santosa (2013), Pradana (2014), Widagdo & Handayani (2015), also Fitriyah & Widodo (2016) reinforce that the fishermen families in Puger coastal can be categorized as a poor household. Although this region is rich in the potential of fishery natural resources, this area is not able to provide a good welfare

guarantee to the existing fishermen. The growth of the national economy has not had a sustainable impact on the welfare of this community. Some of them still face inadequate family health, child education, and sanitation facilities as a part of their daily lives. They also face the limited of clean water, some stay in the boat, some of them have no private latrine, and the fishy smell is everywhere.

Pradana (2014) finds the amount of family dependent, working hours, sailing distance, and season have significance influence to the income of fishermen families in Puger. In order to improve the productivity of fishermen, Ratnawati & Sutopo (2014) claim that Government of Jember Regency through the relevant department seeking breakthroughs, such as developing marine fish commodities, increase knowledge and skills through education and training of fishermen catching fish, as well as maternity empower fishermen to use the cool box to maintain the quality of marine fish. Commodities developed sea fish include tuna fish, Pomfret, mackerel, grouper, small shrimp, and lobster.

#### 4. Discussion & Analysis

##### 4.1 The Working Model of Loan Shark

According to the result of field study, the fisherman as owners of the boats and means of production in Puget is mentioned as juragan (boat owner). The labor fishermen are Sandhya. The middlemen are pregame'. Most of the pregame' also being a jargon. There is pregame' who also being a sandhya. The pregame' and juragan can be categorized as the loan shark. The working relationship between juragan, Sandhya, and pregame' is bound by a very strong debt relationship. For going to the sea, when the jargon has no money, he will borrow Pengambe'. If Madhya would like to go to the sea, he will borrow also to jargon. The debt flow between pregame', juragan, and pan high is very close and exist for years to years. Overall, the flow of debts that are created by the pregame' and jargon as the loan shark is shown in Figure 1.

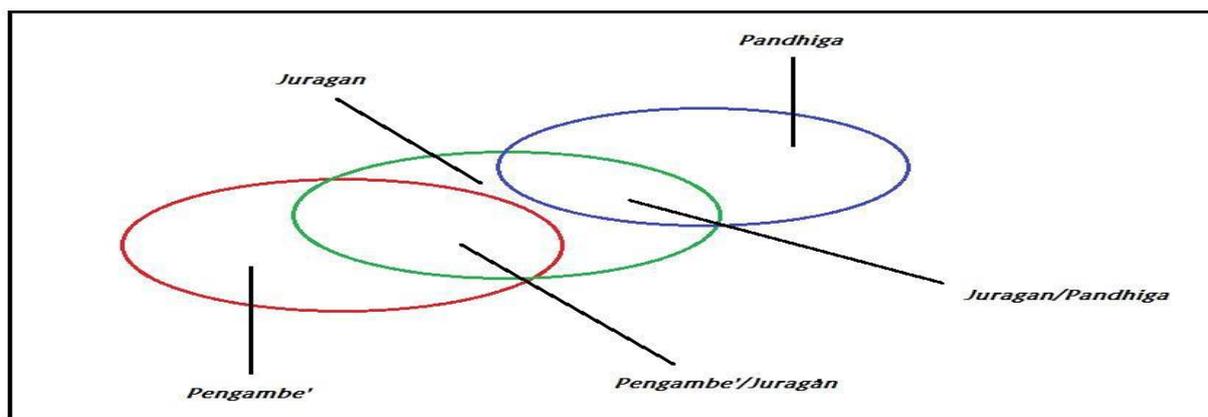


Figure1. Working Model of Loan Shark to Trap the Small-Scale Fishermen

The reason of *jargon* come to *pregame'* or *sandhya* come to *juragan* is easily and quickly proceeded to get loans. One day do confirm and tomorrow will get the cash. The tricky administration makes them reluctant to come to the financial institution. Even though they come to the financial institution, it does not mean the money will be liquid. This is the main reason why *juragan* always come to *pregame'* and *pan high* come to *jargon*. *Pen game'* does not force the *jargon* to return their loan. *Juragan* does not force the *pan high* also to return their loan. There is no obligation for *Sandhya* to return the loan to the *jargon*. There is no obligation also for *Juragan* to return the loan to the *pregame'*. The only requirement, *juragan* must sell the fishing catch to the *pregame'* and *pan high* must sell the fishing catch to the *jargon*. The price will be determined by *pregame'* and not depend on the market price which is created at available fish auction. The fish auction does not function as the hub of the meeting of

supply and demand. The function of fish auction tends to be the place of selling the fish. The finding of this study is shown in Figure 2. Figure 2 illustrates the scheme of marine product transaction in Puger coastal between fair and unfair transaction. The outside people of these groups are fish traders, home industry, and another buyer who has access to affect the local economic activity.

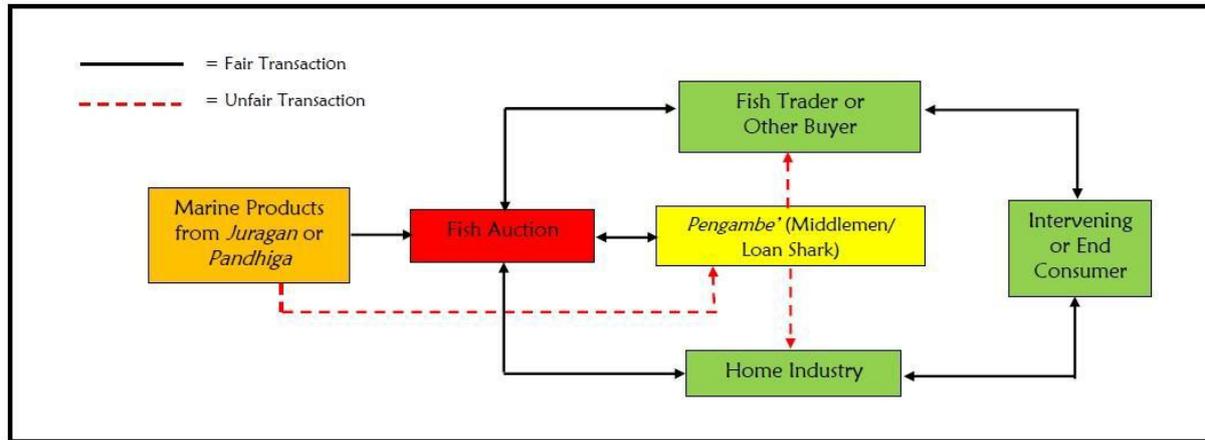


Figure2. The Scheme of Marine Product Transaction

The impact of debt trap by *pregame'* for *juragan* and *pan high* is shown by the unfair transaction. The loan from *pregame'* causes the *juragan* have no choice to sell the fish catching. The existing prices are determined by *pregame'* after doing communication with trader or buyer. Through the buy price information from the trader or buyer, *pregame'* determines the buy price to the *jargon*. The *pregame'* will buy *juragan* with a lower price and sell to the fish trader, another buyer, or home industry with a higher price. By this mechanism, the *pregame'* will get profit.

#### 4.2 What Islamic Microfinance Can Do?

Tietze & Villareal (2003) don't see much has been written about specific microfinance programmes for fisheries because they are usually subsumed in the overall discussion of microfinance for the rural poor. But while the concepts and principles of microfinance have a general applicability, there are particular considerations that are unique to fishing communities that may require special attention. ADB (2005) asserts the poor and poorest households are in need of credit for their livelihood activities. At present, there is hardly any microfinance organization working among the floating fishing communities. The clients will be poor households with incomes below the poverty line, with food shortages every year and women heads.

Naceur, Barajas & Massara (2015), Muazir & Musari (2016) believe that financial inclusion for all is the key to creating the distributive justice. At the micro level, several studies show evidence that access to savings accounts at the local level produces benefits to the directly affected population by increasing savings, investment, consumption, or income. Several case studies have documented how increased access to credit has led to increases in entrepreneurship and reductions in poverty, as a result of a relaxation of financing constraints that are especially binding on smaller and younger firms in developing countries.

Tietze, Siar, Marmulla & Anrooy (2007) claim microfinance is needed in inland capture fisheries, particularly by poor households in fishing communities. Experiences of microfinance institutions have shown that there is a demand for savings and credit services among the poor that is rarely met because they do not have access. Experiences show that when the poor do get access to credit and microfinance services, they are able to save and repay their loans. Microfinance should help these households increase their income from fisheries activities and their general income-earning capacity through the promotion of other Income-generating activities and micro-enterprises, both inside and outside the fishery sector, to be undertaken by household members.

Microfinance support to inland fishing households should further support urgent consumer and other social needs related to their quality of life and smoothen consumption patterns, particularly during lean and off-seasons when little or no income or food is generated. Microfinance should help in managing risks better and reducing economic and social vulnerability by promoting mutual insurance, assistance mechanisms, and other means.

In Puget context, according to the result of the interview, many funds were delivered to the fishermen from the government, banks (also Islamic banks), microfinance institutions/MFIs (also Islamic MFIs), public figure, politician, and also non-government organization (NGO). Unfortunately, the assistance in the form of grants and financing does not yield any results. In Islamic economic perspective, the analysis of this study believes it is caused by the unblessed several factors:

- Usury becomes a center of economic activities for the fishermen. Usury is a spring that flows to most economic activities of coastal communities. The movement and velocity of the economy are derived from usury activities.
- Financial illiteracy that causes them to be incapable of managing the liquidity. They should not spend all their funds for consumptive activities or goods, but also have to do saving and investment activities.
- The culture of coastal communities from the fishermen family tends to be consumptive. There is a habit of envy when seeing a neighbor has something. There was a time when they were getting huge profit from fish catches, but they were used to splurge. When the catch was empty, they would sell or mortgage their goods. Low education level. The education level of coastal communities from the fishermen family generally is only up to junior high school. This is different from coastal communities who work not as fishermen tend to study until high education.
- Adultery. Puger Sub-District has the highest HIV infection rate in Jember Regency. It is believed the existence of localization of prostitution around there become a trigger. The kids who have already *baligh* often be teased adults to visit the localization. Adultery is not considered to be something of a sin, but it is considered to be a game. The fishermen who go to the sea for several weeks are also suspected to often visit the localization of prostitution that generally always exist in the coastal areas everywhere are.

So, the question 'can Islamic microfinance unleash the coastal community from the loan shark?' cannot be answered with a scheme of Islamic microfinance, but with an improvement of institutional economic through an institutional arrangement for changing the behavioral economics of the fishermen at the coastal community. Why? Musari (2017) argues the practice of loan shark is categorized as social ills. One of the causes, why loan shark thrives, is due to microfinance has not been able to address the financial problems of the very poor. As well as Islamic microfinance. Why? Because the loan shark has turned out most prevalent in countries that are predominantly Muslim.

According to Chapra (1979), the concept of welfare in Islam provides a spiritual orientation to all material effort and creates a harmony between the innate spiritual and material urges of individuals and groups. Islam has so firmly and exquisitely dovetailed the spiritual and material aspects of life that they may serve as a source of mutual strength and together serve as the foundation of true human welfare and happiness. According to Islam, negligence of either of the two aspects of life will prevent mankind from achieving true welfare. In fact, there is no division between material and spiritual aspects of life in Islam.

So, for creating the sustainable livelihood for Puger communities, particularly to the fishermen, needs new institutional economics (NIE)<sup>2</sup> to cope the behavioral economic problems in Puget by means of the approach of culture, institutions, organizations, and markets/transactions. To do the transformation, absolutely it needs the mentoring through an institutional arrangement that involves central government, local government, Islamic scholars, higher education institutions, and financial services authority (FSA). Each institution has a domain and

institutional networks which can jointly improve the institutional **socio-economic**<sup>3</sup> of the Puget community which brings no blessing for their livelihood.

Further, the exchange rate of fishermen (NTN) in general is lower than the exchange rate of farmers (NTP). However, seeing the condition of coastal communities in Puget sub-district working as fishermen, they cannot be categorized as poor. This is reflected from some reasons:

- There are no densely populated settlements with communities occupying wooden buildings on the beach. This assessment is also strengthened by the study results of Fitriyah & Widodo (2016) that find also the residence of fishermen in Puget Wetan Village generally in form of habitable and permanent house that is already made of walls, floors of ceramics and roofs of tile. In that village, most of the residents are also already aware of the importance of the clean environment for the health. This is evidenced by the environmental conditions of the residence that is clean and no garbage strewn around the neighborhood around them.
- There are always seasons (certain months) in a year for fishermen, including fisherman laborers, to buy various goods because of the abundant fish catch or the price of the soaring fish or crowded buyers. There are always seasons also for them to sell back or pawn the various good because of the very few fish catch or the declining price of the fish or quiet buyers.
- For many years the Puget communities have received much grant aid, loans, and community empowerment programs. Many institutions are interested in providing assistance because coastal communities are synonymous with poverty. However, in Puger, all the assistance is not sustainable. It indicates the problem is not the financing or loan or financial aid, but the main problem is the financial management. There is a problem on behavior in managing the fund. The problem is not in financial inclusion but on financial literacy.

## 5. Conclusion

Puger Sub-Districts in Jember Regency has huge resources for marine and fisheries products. As other coastal communities in Indonesia, the fishermen in Puget coastal seem also to occupy the socio-economic structures of society at the grassroots level. Although the NTN, in general, is lower than the NTP, the fishermen in Puget sub-district cannot be categorized as poor. The residence of fishermen in form of habitable and permanent house that is already made of walls and floors of ceramics and roofs of tile. There are always seasons (certain months) in a year for fishermen to buy various goods because of the abundant fish catch or the price of the soaring fish or crowded buyers. For many years the fishermen in Puget coastal have received much grant aid, loans, and community empowerment programs. Unfortunately, most of the funds does not yield any results. All the assistance is not sustainable. This study believes it is caused by the several factors to bring no blessing: (1) Usury; (2) Financial illiteracy; (3) The consumptive culture; (4) Low education level. (5) Adultery.

However, one of the big problems in Puget fishermen communities is the weakness in the capital and rely on loan shark. This study found the problem actually is not in financial inclusion, but on financial literacy. There is a problem on behavior in managing the fund so as the *pan high* as the labor fishermen or *jargon* as the boat owner borrow the cash to the *pregame'* as the big loan shark. The impact of debt trap by *pregame'* for *juragan* and *pan high* through unfair transaction causes the *jargon* and/or *sandhya* have no choice to sell the fish catching. The existing prices are determined by *pregame'* after doing communication with trader or buyer. Through the buy price information from the trader or buyer, *pregame'* determines the buy price to the *jargon*. The *pregame'* will buy *juragan* with a lower price and sell to the fish trader, another buyer, or home industry with a higher price. By this mechanism, the *pregame'* will get profit.

So, the important result of this study to help the coastal community to avoid the loan shark and improve their behavioral economics is doing the improvement of institutional economic through an institutional arrangement for changing the behavioral economics of the fishermen at a coastal community. Then, this study also recommends for further research that investigates in depth the behavior of coastal communities who work as fishermen in managing the liquidity. Moreover, it should also be studied how the policymakers to break the bonds of the *pregame*' or *jargon* as the loan shark to the *pan high* as the small fishermen.

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## Notes

<sup>1</sup>Harmadi (2014) notes the province with the most number of fishermen in Indonesia is East Java Province (reaching more than 334,000 fishermen), followed by Central Java (more than 203,000 fishermen) and West Java (around 183,000 fishermen). South Sulawesi, North Sumatra, and Aceh to be the province with the highest number of fishermen to the 4th, 5th, and 6th in Indonesia. The fewest number of fishermen in Yogyakarta and North Maluku.

<sup>2</sup>Muazir & Musari (2015) mention NIE is a growing paradigm which provides an alternate framework for economic analysis that combines many social disciplines in order to understand the institutions operating in society and their influence on economic behavior and outcome of the behavior. NIE is concerning about how the institutions can be reformed to bring a desired change in the individual and society behavior. Ahmed (Ed.) (2002, 2015) mention that NIE takes a comprehensive view of economies. It studies the structure and evolution of economies and uses four levels of analysis: culture, institutions, organizations, markets/transactions.

<sup>3</sup>In the past decade, more intensive discourse come on about the importance of institutional factor as variable that drive the national economy growth. According to Yustika (2008, 2012), Acemoglu and Robinson (2012), Rachbini (2002), Ahmed (Ed.) (2002), Ikhsan (2000), the institutional factor may also explain the phenomenon of achievement differences of the economy progress beside the education, natural resources, population, and technology factor. The institution actually can not be separated from social reality and determine the economy of country. This is an important area that may be missing link between theory and practice. The institutional has a prominent contribution to economy development considering the market failures that appear as asymmetry information and limited capacity. The institution must be present to ensure the running of market with clear signs so that all economic actors have equal access and certainty in the business. Because of that, the institutional is being a necessary part of economics that play an important role in the development of social sciences, humanities, economic, cultural and especially political economy.

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