

# Informal Financial Practices and Entrepreneurial Growth: A Qualitative Study of Small Business Owners in Makassar, Indonesia

Original Article

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## Abstract

This qualitative study investigates how informal financial practices shape the growth trajectories of micro and small enterprises in Makassar, Indonesia. Drawing on six months of ethnographic fieldwork, including participant observation and semi-structured interviews with 18 small business owners, the research examines three predominant forms of informal finance: rotating savings and credit associations (arisan), financing sourced from family and kinship networks, and the conduct of business through undocumented cash transactions. The Results reveal that these practices are not passive responses to exclusion from the formal financial sector but rather active, culturally grounded strategies that confer social agency, build economic resilience, and fulfill fundamental needs for belonging and security. Theoretically, the study contributes to the literature on the informal economy, behavioral finance, and social capital theory by demonstrating how trust, reciprocity, and community norms function as genuine economic infrastructure in contexts where formal institutions are either inaccessible or mistrusted. At the same time, the research identifies significant constraints embedded within these informal systems, particularly their tendency to limit business scalability, impede formalization, and reinforce existing social hierarchies. A comparative analysis situates Makassar within a broader Southeast Asian urban context alongside Jakarta, Manila, and Bangkok, revealing both shared drivers of informality and city-specific cultural adaptations. The study argues that effective financial inclusion strategies must engage with, rather than displace, existing social structures, and that policies designed to bridge formal and informal finance must be culturally sensitive and locally grounded.

**Keywords:** Informal Finance, Arisan, Social Capital, Small Business, Makassar, Qualitative Research, Indonesia, MSME.

## 1. Introduction

Micro, small, and medium-sized enterprises (MSMEs) constitute the economic foundation of most nations across South and Southeast Asia, accounting for between 94% and 99.9% of all formally registered businesses in the region (Asian Development Bank, 2021). Indonesia is no exception; MSMEs comprise an estimated 97% of officially registered enterprises, placing them at the center of national economic activity and employment generation (UNDP IRFF, 2025). Yet official statistics likely capture only a portion of a far more complex and expansive economic ecosystem. In many developing countries, including



Indonesia, a substantial share of economic activity occurs within the informal sector, which often remains undercounted and analytically underexplored (UN-Habitat, 2005). This is especially pronounced in rapidly urbanizing cities, where regulatory frameworks struggle to keep pace with economic dynamism and social transformation.

Makassar, the largest city in eastern Indonesia and a critical hub in the country's maritime trade network, exemplifies this condition. While city-specific data on the informal sector remain limited compared to Jakarta or other western Indonesian cities, broader regional evidence strongly suggests that informal financial practices are deeply embedded in the operational fabric of Makassar's small businesses (Zaenuddin, 2022). These practices encompass a diverse range of arrangements, from rotating savings and credit associations known locally as *arisan* to borrowing within family networks and conducting commerce entirely through undocumented cash exchanges. Understanding how these practices function, what social logic animates them, and what consequences they generate for business growth is indispensable for a comprehensive picture of entrepreneurship in contemporary Indonesia.

This study addresses a central research question: How do informal financial practices shape the growth trajectories of small businesses in Makassar, and what do these practices reveal about the relationship between culture, trust, and economic agency? The inquiry focuses on three primary informal financial arrangements. First, *arisan* or Rotating Savings and Credit Associations (ROSCAs); second, financing derived from family and kinship networks; and third, the management of business affairs through undocumented cash transactions. Each arrangement presents what the study terms a 'productive duality': on one hand, these practices extend flexibility, accessibility, and resilience; on the other, they introduce constraints related to scalability, transparency, and long-term strategic planning. The research argues that this duality is not simply a trade-off but a reflection of a distinct logic of value and risk, one that prioritizes social cohesion and immediate security over formal efficiency and growth-oriented accumulation.

The study employs an ethnographic methodology to capture the lived financial realities of small business owners, enabling a depth of insight that quantitative surveys are ill-equipped to provide. This approach allows for the examination of micro-level financial behavior and the revelation of how macro-level phenomena, including institutional distrust and economic inequality, manifest in everyday transactions (Bourdieu, 1986). A further contribution lies in the study's comparative dimension. While prior research has examined informal economies in regional megacities such as Jakarta, Manila, and Bangkok (Management of the Urban Environment, 2023), scholarly attention to eastern Indonesian cities remains comparatively sparse. Positioning Makassar within this regional framework allows the study to assess the extent to which universal theories of informality hold across diverse urban settings and to identify what is distinctively local about Makassarese financial culture.

## 2. Literature Review

### 2.1. Economics of the Informal Sector

The theoretical landscape for analyzing informal financial practices draws on three interconnected bodies of scholarship. The first, rooted in the economics of the informal sector, provides a macro-structural account of why informality persists alongside and often in tension with formal economic systems. A dominant strand of this literature understands informality as a rational response to market failures in the formal sector, particularly the chronic difficulty small and unregistered businesses face in accessing credit (Karlan & Morduch, 2009; Schneider & Enste, 2002). A central concept here is information asymmetry: banks and formal

lenders, unable to reliably assess the creditworthiness of businesses that lack formal records or collateral, either deny credit altogether or impose prohibitively high interest rates. This creates structural demand for alternative financial mechanisms.

Informal institutions such as rotating savings and credit associations emerge specifically to fill this void. Rather than relying on formal collateral or legally enforceable credit histories, ROSCAs leverage social ties, collective accountability, and community reputation to reduce perceived lending risk (Besley, Coate, & Loury, 1993; Bouman, 1995). Research across low-income countries has demonstrated that informal credit markets can account for a substantial proportion of total credit in some communities, suggesting that informality is not a passive by-product of exclusion but an active and adaptive economic strategy (World Bank, 2001). More recent scholarship draws attention to the role of digital platforms and fintech in reshaping these dynamics, complicating the boundary between formal and informal financial worlds (Sitorus et al., 2023).

## **2.2. Behavioral Finance in Non-Western Contexts**

The second theoretical pillar of behavioral finance shifts the analytical lens from structural constraint to the cognitive and cultural processes that shape financial decision-making. Conventional finance theory assumes that individuals are rational agents who consistently optimize their choices. Behavioral finance challenges this assumption, showing that decisions are regularly influenced by systematic biases, heuristics, and social pressures (Thaler & Sunstein, 2008). This critique carries particular weight in non-Western settings, where cultural norms exercise a powerful gravitational pull on economic behavior. The decision to borrow from a relative rather than a bank, for instance, cannot be explained by interest rate differentials alone; it must account for the psychological weight of filial obligation, the desire to preserve family harmony, and the social stigma attached to approaching formal institutions.

Concepts such as bounded rationality and present bias are especially illuminating in this context (Simon, 1955; Kahneman, 2003). For a small business owner facing relentless daily operational pressures, the immediate convenience and tangible clarity of cash-based transactions may far outweigh the abstract, deferred benefits of formal record-keeping, such as future creditworthiness or tax compliance. This reframes apparently suboptimal financial behaviors as locally rational within the specific cognitive and temporal context of the entrepreneur. The expansion of fintech products in Indonesia, including buy-now-pay-later services, introduces additional behavioral dynamics that are only beginning to be systematically studied (Hamid & Ahmad, 2025).

## **2.3. Social Capital Theory**

The third and most integrative theoretical pillar is social capital theory, associated most prominently with the work of Bourdieu (1986) and Putnam (1993, 2000). Social capital refers to the features of social organization networks, norms, and trust that facilitate cooperation and collective action. It is considered a form of capital because it generates tangible economic returns: it reduces transaction costs, diminishes information asymmetry, and substitutes for formal collateral and legal enforcement mechanisms (Coleman, 1988; Woolcock & Narayan, 2000).

In the context of informal finance, social capital is the mechanism through which arrangements like arisan and family lending are sustained and governed. Empirical research consistently finds a significant positive association between social capital and MSME access to finance (Andriani & Karyampas, 2010; Karlan, 2007). When an entrepreneur participates in an arisan, they are simultaneously drawing upon and reinvesting in a network of trust, social

obligation, and shared norms. The value of this reservoir is its capacity to govern behavior without legal recourse. Reputation, communal shame, and the prospect of exclusion from future reciprocity serve as effective enforcement mechanisms. Recent studies in Indonesia confirm this dynamic, finding that social trust and network embeddedness are significant predictors of financial well-being among micro-entrepreneurs (Nasution et al., 2025). The practice of gotong royong, cooperative communal labor, and mutual aid serves as a particularly vivid manifestation of social capital in the Makassarese context (Paramita et al., 2020).

### 3. Methods

It is essential to include comprehensive details to enable the replication of the work. When a reagent is utilized in the study, it is important to specify the supplier's information when applicable. Any methods that have been previously published should be cited appropriately, with only pertinent modifications being outlined. In the context of epidemiological studies, it is crucial to provide information regarding the setting, timing, and location of the research. (Please use Heading style -> Text | Malaqbipublisher.com)

#### 3.1. Ethnographic Approach

To achieve the research objective of generating a contextually grounded and analytically nuanced understanding of informal financial practices in Makassar, this study adopts a qualitative ethnographic methodology. Ethnography, as a research paradigm, prioritizes sustained immersion in the natural setting of participants to understand their behaviors, practices, and beliefs from their own vantage point (Atkinson et al., 2001). This approach is particularly well-suited to the study of informal finance, which is deeply embedded in cultural norms and social structures and whose logic is unlikely to be captured by pre-structured survey instruments. The flexible, emergent character of ethnographic research allows the investigator to follow the contours of a phenomenon as it actually presents itself, rather than as it is theoretically anticipated.

#### 3.2. Data Collection

Primary data were collected through participant observation conducted over a period of six months across commercial and residential neighborhoods in Makassar. The researcher spent extended periods in local markets, small workshops, and community gathering places, observing how financial transactions were conducted in naturalistic settings. This included attending arisan meetings, monitoring the use of cash versus digital payment instruments, and documenting the informal economic conversations that took place among traders and entrepreneurs. Observation was not passive; it involved active engagement with participants, the building of rapport, and sustained reflexivity on the part of the researcher.

Complementing fieldwork observation, semi-structured in-depth interviews were conducted with 18 small business owners purposively selected to reflect diversity in terms of business type, years of operation, and gender composition. The interview protocol addressed the following thematic areas: sources of start-up and working capital; strategies for surplus management; experiences with formal and informal credit; the role of family and community norms in financial decisions; and the perceived risks and benefits associated with different financial strategies. Interviews were conducted in a conversational register, audio-recorded with informed consent, and subsequently transcribed verbatim.

### 3.3. Profile of Research Participants

**Table 1. Profile of Research Participants (N=18)**

ID	Age	Gender	Business Type	Years	Informal Finance Source(s)
F1	45	Female	Food Stall	12	Family Savings, Arisan
F2	38	Female	Tailoring	8	Arisan
M1	52	Male	Small Retail Shop	20	Family Loans, Personal Savings
M2	41	Male	Auto Repair	15	Arisan, Peer Group Lending
F3	35	Female	Home-Based Bakery	5	Family Savings
M3	48	Male	Fishmonger	25	Peer Group Lending
F4	55	Female	Herbal Medicine	18	Arisan, Religious Group
M4	33	Male	Electronics Repair	7	Family Loans, Undocumented Cash Sales
F5	40	Female	Clothing Boutique	10	Arisan, Personal Savings
M5	50	Male	Construction Materials	22	Peer Group Lending, Undocumented Sales
F6	31	Female	Online Reseller	3	Family Savings, Arisan
M6	44	Male	Restaurant Owner	14	Family Loans, Undocumented Sales
F7	47	Female	Beauty Salon	16	Arisan, Personal Savings
M7	39	Male	Transport Services	11	Peer Group Lending
F8	51	Female	Grocery Store	24	Family Savings, Arisan
M8	43	Male	Furniture Maker	13	Peer Group Lending, Undocumented Sales
F9	37	Female	Catering Service	6	Arisan, Family Loans
M9	46	Male	Wholesale Distributor	19	Peer Group Lending, Undocumented Sales

### 3.4. Data Analysis

Data were analyzed through thematic analysis following the systematic procedures described by Braun and Clarke (2006). The coding process proceeded in two stages: initial open coding generated codes directly from the transcribed text; these codes were subsequently organized into candidate themes through an iterative process of comparison and abstraction. For example, codes capturing 'fear of bank bureaucracy,' 'social pressure to lend within family,' and 'enjoyment of the communal dimension of arisan' were clustered into the broader organizing theme of 'The Social Embeddedness of Financial Decisions.' The researcher maintained a reflexive journal throughout the analytical process to document assumptions, analytical decisions, and emerging interpretations.

Triangulation was employed as a core validity strategy. Interview data were cross-referenced with field observations: discrepancies between a participant's stated behavior and observed practice were noted and explored in subsequent conversations. Data from individual participants were also compared systematically across the sample to distinguish idiosyncratic cases from widely shared behavioral patterns. Finally, preliminary interpretations were reviewed with a local academic consultant familiar with the socio-economic context of Makassar to ensure that the results were adequately grounded in local reality (Lincoln & Guba, 1985).

## 4. Results and Discussion

### 4.1. Results and Discussion I: Arisan as Social Care and Economic Agency

The *arisan*, widely recognized as a Rotating Savings and Credit Association (ROSCA), functions not only as an informal financial mechanism but also as a social institution where economic agency, trust, and collective care intersect (Besley et al., 1993; Bouman, 1995; van den Brink & Chavas, 1997). For many entrepreneurs, especially women running small home-based businesses, the *arisan* provides accessible seed and working capital while fostering financial discipline (Johnson, 2004). As one informant explained, participation enabled her to purchase her first sewing machine and begin her tailoring business.

Beyond finance, participants emphasized the emotional and social value of *arisan* gatherings. These meetings created spaces for solidarity, emotional support, and knowledge exchange, reflecting an “economy of care” in which financial and social functions are inseparable (Blackwell, 2020). In this sense, *arisan* also operates as a form of social capital built on trust and reciprocity (Putnam, 2000).

However, while *arisan* strengthens resilience and micro-enterprise survival, its structure limits business scalability. Small cyclical contributions rarely generate sufficient capital for major expansion, and the emphasis on social harmony may discourage risk-oriented growth strategies. Thus, *arisan* simultaneously empowers entrepreneurs and reinforces forms of “safe” but limited economic mobility.

### 4.2. Results and Discussion II: Family Finance and Reciprocity

Family-based financing emerged as another dominant pillar of informal finance in Makassar, rooted in collectivism, reciprocity, and moral obligation rather than formal contracts. Entrepreneurs frequently relied on parents, siblings, or spouses for initial capital and operational support, reflecting a moral economy where financial assistance symbolizes familial trust and commitment (Scott, 1976).

Repayment was enforced not through legal mechanisms but through social sanctions such as shame, reputation, and community judgment (Fehr & Gächter, 2000; Herrmann et al., 2008). In tightly connected communities, preserving family honor often became a stronger incentive than contractual obligation itself (Coleman, 1988).

This system offers flexibility unavailable in formal finance, allowing repayment adjustments during hardship and functioning as informal social insurance (Morduch, 1995). Yet its informality also creates ambiguity, financial opacity, and what this study terms “benign stagnation,” where maintaining family harmony takes precedence over aggressive business growth (Chrisman et al., 2012). Moreover, family finance may reproduce gender inequalities, as women often depend on male relatives for access to capital.

### 4.3. Results and Discussion III: Undocumented Transactions and Informality

Undocumented cash transactions remain central to many small businesses in Makassar, driven by institutional distrust, bureaucratic complexity, and the perceived simplicity of cash-based operations (Portes & Haller, 2005). Entrepreneurs viewed cash as more transparent and manageable, avoiding the administrative burdens associated with banks, taxation, and accounting systems. This preference also reflects present bias, prioritizing immediate convenience over long-term formal benefits (Thaler & Sunstein, 2008).

However, the absence of financial records creates severe barriers to growth. Without documentation, entrepreneurs struggle to evaluate profitability, make strategic decisions, or

access formal credit. This “opacity problem” traps businesses in a paradox where economic activity is substantial yet institutionally invisible (Siddiqui & Bhatt, 2025).

Reliance on cash also increases exposure to theft, financial loss, and exclusion from digital commerce ecosystems increasingly shaping SME competitiveness (Prastyo & Sukmawati, 2025). Informality, therefore, becomes both a survival strategy and a long-term structural constraint on scalability and institutional legitimacy.

#### **4.4. Comparative Analysis: Makassar in Southeast Asian Context**

The Results position Makassar within a broader Southeast Asian landscape of informal finance shaped by urbanization, institutional gaps, and shared regional histories (OECD, 2018; ASEAN Sustainable Urbanisation Report, 2022). Yet Makassar differs from cities such as Jakarta, Manila, and Bangkok through its stronger emphasis on horizontal solidarity and *gotong royong*, rather than vertical patron-client relations (Paramita et al., 2020; Robison & Hadiz, 2004).

While digital financial transformation is accelerating across Southeast Asia, many businesses in Makassar remain deeply embedded in cash-based practices. This persistence highlights that barriers to formalization are not solely technological but also cultural, shaped by trust, habit, and digital readiness (Sitorus et al., 2023).

The study ultimately suggests that although the structural drivers of informality are regional, their manifestations remain highly context-dependent. Makassar’s informal financial ecosystem reflects a distinct blend of community solidarity, maritime culture, and institutional conditions, underscoring the need for locally grounded financial inclusion policies rather than universalized approaches.

## **5. Conclusion**

This ethnographic study of small business owners in Makassar offers a rich and analytically nuanced portrait of the city's informal financial landscape. The Results resist any simple characterization of informality as a deficit awaiting remediation. Instead, they reveal a complex, adaptive system deeply embedded in local culture, social relationships, and the practical exigencies of entrepreneurial life at the margins of the formal economy. The three primary practices examined, arisan participation, family-based financing, and cash-only business operations, are not stopgap arrangements born of desperation; they are active strategies that confer real social agency, build genuine resilience, and satisfy fundamental human needs for security, belonging, and mutual recognition.

The study's theoretical contributions are threefold. First, it provides robust empirical support for the centrality of social capital in explaining the functioning of informal finance. Arisan networks and family lending are engines of trust, reciprocity, and communal accountability that overcome the information asymmetry that plagues formal markets (Coleman, 1988; Woolcock & Narayan, 2000). Second, the research extends behavioral finance scholarship into a non-Western cultural context, demonstrating that the financial decisions of Makassarese entrepreneurs are systematically shaped by cultural scripts of collectivism, filial obligation, and the powerful motivation to avoid social shame (Kahneman, 2003). Third, the study illuminates the productive duality of informality: these practices simultaneously enable and constrain, providing essential capital access and risk buffering while creating significant barriers to formalization, transparency, and scalable growth.

For practitioners and policymakers, the implications are substantive. A top-down approach premised solely on filling a 'credit gap' is likely to fail because it misunderstands the nature and function of the informal financial systems already in place. These systems do not

simply provide credit; they provide psychosocial security, social belonging, and culturally recognized economic legitimacy. A more effective strategy must begin by recognizing informal users not as 'unbanked customers' awaiting financial products, but as sophisticated economic agents who have built their own resilient financial architectures. Products that incorporate the social, group-based dynamics of the arisan, or that are co-designed with community leaders, are more likely to build the trust necessary for adoption. Financial education programs must be culturally sensitive, framing formal accounting not as abstract bureaucratic compliance but as a tool for protecting family assets and ensuring intergenerational business continuity.

The study acknowledges important limitations. Ethnographic research generates exceptional analytical depth but inherently limits statistical generalizability. Future research could usefully employ longitudinal designs to track the evolution of businesses that utilize informal practices over time, or quantitative surveys to test the hypotheses generated here at scale. Expanding the comparative analysis to additional cities across eastern Indonesia and Southeast Asia more broadly would further enrich the understanding of regional variation in informal financial culture. A deeper and more systematic focus on gender dynamics could explore how informal financial practices differentially position women entrepreneurs within the intersection of family, community, and market. These are productive directions for continued scholarship, and pursuing them would move the academic and policy communities toward a more complete, compassionate, and practically useful understanding of informal enterprise.

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