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Enforcement of Informal Contracts in Clove Trading in Bangun Village, Trenggalek

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ABSTRACT

The clove farming sector in Trenggalek Regency makes a considerable contribution to the local economy; however, this has not been matched by a proportional improvement in farmers' welfare due to informal transaction mechanisms dominated by intermediary traders. This study aims to examine the function of trust as a mechanism for enforcing informal contracts as well as a form of economic capital in clove trading in Bangun Village, Munjungan District, Trenggalek Regency. This study employs a qualitative approach, with informants consisting of clove farmers and intermediary traders. Data were analysed using the Miles and Huberman interactive analysis model, with data validity assessed through source triangulation. The results show that informal contracts are implemented through verbal agreements, relational contracts, pre-harvest purchasing arrangements, and the handover of goods with deferred payment, which are maintained through social relationships, reputation, and repeated transaction experiences. Trust functions as a contract enforcement mechanism through informal monitoring and economic sanctions in the form of loss of access to financing and trading relationships in subsequent transactions. It also functions as economic capital by providing farmers with access to pre-harvest financing, market certainty, and payment flexibility. However, these benefits may create economic dependence on particular traders, while informal mechanisms have limitations in high-value and long-term transactions because they do not provide adequate guarantees in cases of fraud. This study recommends maintaining trust-based trading relationships while complementing them with simple records of transaction values, prices, and payment schedules to reduce the risk of disputes without eliminating the flexibility of informal relationships.

1. Introduction

Agriculture remains a major pillar of the economy in many rural areas of Indonesia, including Trenggalek Regency, East Java. Based on the Gross Regional Domestic Product (GRDP) at current prices in 2024, the agriculture, forestry, and fisheries sectors accounted for 24.86% of the regency's total GRDP (BPS Kabupaten Trenggalek, 2025). One of the leading agricultural commodities supporting this contribution is clove. Trenggalek Regency has approximately 4,748 hectares of clove plantations, with production increasing across successive harvest seasons (Pemerintah Kabupaten Trenggalek, 2025).

As illustrated in Figure 1, clove production increased from 601.64 tonnes in 2020 to 1,434.53 tonnes in 2024, exceeding the government's production target for that year by 233.73% (Dinas Pertanian dan Pangan Kabupaten Trenggalek, 2024). A substantial proportion of this production originates from smallholder farming areas, including Munjungan District, where farmers typically own approximately 20–50 clove trees per household (Patmawati et al., 2023). However, increased production does not necessarily translate into proportional improvements in farmers' welfare. Persistent challenges include low profit margins, production risks, and dependence on traders or intermediaries for market access (Bengkari et al., 2024; Syarifah et al., 2025). Farmers' incomes may remain disproportionately low relative to final selling prices, while production costs and price fluctuations are largely borne by farmers themselves (Tarmizi et al., 2025). These conditions suggest that the central issue extends beyond production capacity to the transaction mechanisms and economic relationships governing interactions between farmers and market

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participants.

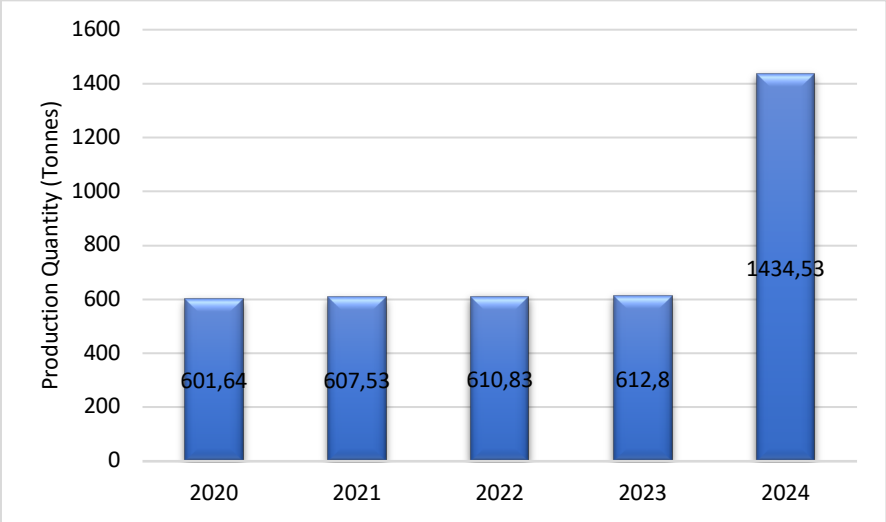


Fig. 1. Clove Commodity Production in Trenggalek Regency, 2020–2024 (Tonnes)
Source: Dinas Pertanian dan Pangan Kabupaten Trenggalek (2024).

In smallholder agricultural markets, trading arrangements frequently operate informally, without written contracts, and rely heavily on social relationships between farmers and traders. Such arrangements should not automatically be interpreted as institutional deficiencies, as trust can facilitate coordination in supply chains where formal contractual mechanisms are absent. A systematic review of agri-food value chains identifies trust as an essential element in coordinating relationships among supply chain participants (de Vries et al., 2022). Similarly, evidence from South Africa demonstrates that smallholder farmers may persist in informal markets because these arrangements provide meaningful relational and exchange benefits (Gwelo, 2026). Research examining sustainability-oriented agri-food value chains in Germany also highlights the importance of governance and trust in maintaining economic coordination among supply chain actors (Grohmann et al., 2023).

From a relational contracting perspective, informal trading relationships can persist through trust, reputation, and expectations of continuity rather than reliance exclusively on formal legal agreements. Macchiavello and Morjaria (2022) demonstrate the relevance of empirical approaches to understanding trust and relational contracts. Such relationships may also facilitate farmers' access to financing and strengthen the continuity of agricultural transactions. Nevertheless, these arrangements can generate economic dependence and constrain farmers' bargaining power. Research on contract farming and formal credit markets illustrates the relationship between agricultural trading arrangements and the provision of in-kind credit (Ruml & Parlasca, 2021). Accordingly, trust in informal agricultural transactions should be examined not only as a social prerequisite for exchange but also as a potential economic mechanism shaping financing access, price determination, and payment certainty.

Despite growing attention to trust in agricultural value chains, important questions remain regarding how trust operates within informal trading arrangements. de Vries et al. (2022) identify fragmentation in the literature on trust in agri-food value chains, indicating the need for more coherent theoretical and empirical development. Existing studies provide valuable insights into trust, relational contracting, and agricultural financing; however, the specific mechanisms through which trust enforces verbal agreements while simultaneously generating economic benefits for smallholder farmers remain insufficiently understood in the context of Indonesian clove trading. In particular, the relationship between trust-based enforcement and farmers' economic outcomes requires closer examination at the local level.

To address this gap, this study examines clove trading relationships between farmers and intermediary traders in Bangun Village, Munjungan District, Trenggalek Regency. The setting is

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particularly relevant because transactions frequently occur without written contracts and are maintained through patronage relationships, pre-harvest capital loans, advance purchasing arrangements (*ijon*), and deferred payments. These arrangements are generally agreed upon verbally and sustained through trust and reputation. The central research problem concerns how trust operates as a mechanism for enforcing informal agreements and how this mechanism influences farmers' access to financing, price determination, and payment certainty. Accordingly, this study aims to analyze the role of trust in enforcing informal contracts and examine its economic implications for smallholder clove farmers.

The study contributes theoretically by extending the application of relational contracting and embeddedness perspectives to informal agricultural transactions, particularly by examining trust as both an enforcement mechanism and a form of economic capital. Practically, the findings are expected to inform farmers, intermediary traders, agricultural institutions, and policymakers about the benefits and potential limitations of trust-based trading arrangements. By identifying how informal agreements shape transaction security and farmers' economic positions, the study may support the development of more equitable trading relationships and locally appropriate mechanisms for strengthening smallholder farmers' bargaining positions. Its novelty lies in integrating the enforcement function of trust with its economic implications within the specific context of smallholder clove trading in rural Indonesia.

2. Literature Review

2.1. Conceptual and Theoretical Foundations

2.1.1. Trust and Informal Contract Enforcement

Trust is a fundamental mechanism in informal economic exchanges, particularly when transactions are conducted without written contracts. In agricultural value chains, trust facilitates coordination, reduces uncertainty, and supports continuity in relationships between farmers and traders (de Vries et al., 2022). In this context, trust is not merely an interpersonal attitude but also a mechanism through which transaction participants develop expectations regarding the fulfillment of verbal agreements, payment obligations, and trading commitments. Macchiavello and Morjaria (2022) highlight the importance of trust in understanding relational contracts, particularly when formal contractual enforcement is limited.

Trust-based transactions are also relevant to agricultural communities in which social relationships and reputational considerations influence economic decisions. Research on the principles of good faith in agricultural transactions emphasizes the importance of maintaining honest and reliable conduct in exchanges involving agricultural products (Swandewi et al., 2022). Similarly, studies of profit-sharing arrangements in agricultural cooperation highlight trust as an important foundation for maintaining contractual relationships (Rahmadona & Arianti, 2024). These perspectives provide a conceptual basis for understanding how verbal agreements can remain effective through repeated interactions, mutual expectations, and reputational accountability.

2.1.2. Relational Contracting and Embeddedness

Relational contracting explains how economic agreements can be sustained through continuing relationships rather than relying exclusively on formal legal arrangements. Such contracts are supported by repeated interactions, reputation, reciprocal expectations, and the anticipated benefits of maintaining long-term relationships (Macchiavello & Morjaria, 2022). In agricultural markets, these mechanisms may be particularly important when farmers depend on intermediary traders for market access, production financing, or advance payments.

The institutional perspective further explains that economic behavior is shaped by the rules, norms, and social arrangements governing transactions. Yustika (2012) provides a foundational institutional economics perspective for understanding how institutional arrangements influence economic relationships and transaction behavior. In informal agricultural markets, these arrangements can substitute for certain functions of formal contracts, although their effectiveness depends on the reliability of the parties involved. Research integrating transaction cost theory with trust and commitment in agricultural supply chains also emphasizes the relevance of relational factors in coordinating exchanges (Yusof et al., 2024).

Embeddedness complements relational contracting by explaining how economic transactions are situated within broader social

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relationships. Trust, reputation, and reciprocal obligations may influence who participates in transactions, the terms under which exchanges occur, and the willingness of participants to continue their relationships. Accordingly, relational contracting and embeddedness provide complementary perspectives for analyzing informal clove trading: the former explains how verbal agreements are maintained, while the latter explains how social relationships shape the economic conditions under which those agreements operate.

2.2. Review of Empirical Studies

Empirical studies demonstrate that trust plays an important role in agricultural value chains, although its implications vary according to market conditions and institutional arrangements. de Vries et al. (2022), through a systematic review, identify trust as a central element of coordination in agri-food value chains while highlighting the need for further theoretical development. Grohmann et al. (2023) similarly demonstrate the relevance of governance and trust in sustainability-oriented agricultural value chains. These studies establish that trust is important for coordinating economic relationships, but they do not fully explain how trust enforces verbal agreements in localized smallholder clove markets.

Research on informal markets provides additional insights into why farmers maintain non-formal trading relationships. Gwelo (2026) examines smallholder farmers' persistence in informal markets in South Africa, demonstrating the importance of understanding farmers' continued participation through their motivations and experiences. In agricultural supply chains, Yusof et al. (2024) integrate transaction cost theory with trust and commitment, providing a basis for understanding the relational mechanisms that support coordination. Meanwhile, Ruml and Parlasca (2021) examine in-kind credit provision through contract farming and formal credit markets, illustrating the relevance of financing arrangements to agricultural exchange relationships.

Other studies indicate that informal trading arrangements may simultaneously provide economic opportunities and create dependency. Tarmizi et al. (2025) examine issues surrounding clove productivity and sustainability in Indonesia, providing commodity-specific context for understanding the challenges facing clove production. Bengkari et al. (2024) analyze clove marketing margins in Alor Regency, highlighting the relevance of marketing structures to the economic position of participants in the clove trade. Patmawati et al. (2023) examine clove leaf essential oil distillation businesses, providing additional context on the economic activities associated with clove commodities. However, these commodity-related studies do not, on the information available, establish how trust operates as an enforcement mechanism in verbal trading agreements between clove farmers and intermediary traders.

Research on social capital further suggests that informal economic relationships should be examined through the social structures in which transactions occur. Salman et al. (2026) investigate relational, cognitive, and structural social capital in livelihood resilience within informal agri-food systems. Hasna and Mayvani (2023) examine the economic functions of social capital among traditional market traders, while Baso et al. (2021) discuss good-faith principles in oral agreements concerning brick production. Although these studies concern different commodities and contexts, they offer relevant perspectives on the roles of social relationships, trust, and verbal agreements in economic exchanges.

Taken together, the literature indicates that trust, relational contracting, and social capital are relevant to informal agricultural transactions. Nevertheless, the relationship between trust-based contract enforcement and specific economic outcomes—particularly access to financing, price determination, and payment certainty—requires further contextual investigation in smallholder clove trading.

2.3. Identification of the Research Gap

Three interconnected gaps emerge from the reviewed literature. First, although trust has been widely discussed as a coordination mechanism in agricultural value chains, its specific function in enforcing verbal agreements between smallholder farmers and intermediary traders remains insufficiently explained in the context of Indonesian clove trading (de Vries et al., 2022; Grohmann et al., 2023). Second, studies on agricultural financing and relational contracting provide insights into the importance of trust and credit arrangements, but further investigation is needed to understand how these mechanisms operate together in informal

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transactions involving pre-harvest loans, advance purchasing arrangements (*ijon*), and deferred payments (Macchiavello & Morjaria, 2022; Ruml & Parlasca, 2021; Yusof et al., 2024). Third, existing research on clove marketing and production provides relevant commodity-level evidence, but the available studies do not adequately explain how trust-based relationships influence farmers' bargaining positions and economic security in localized clove markets (Bengkari et al., 2024; Patmawati et al., 2023; Tarmizi et al., 2025).

To address these gaps, the present study investigates clove trading relationships in Bangun Village, Munjungan District, Trenggalek Regency. Its originality lies in examining trust simultaneously as a mechanism for enforcing informal agreements and as a relational resource associated with financing access, price determination, and payment certainty. Rather than assuming that trust necessarily benefits all parties equally, the study also considers the possibility that trust-based arrangements may create dependencies or unequal bargaining positions.

2.4. Development of the Conceptual Framework

The conceptual framework integrates relational contracting, institutional economics, and embeddedness to explain informal clove trading between farmers and intermediary traders. Trust is the central analytical concept, operating through reputation, repeated interactions, reciprocal expectations, and confidence in the fulfillment of verbal agreements. These mechanisms are examined in relation to three economic dimensions: access to financing, price determination, and payment certainty.

Access to financing concerns the role of trust in enabling pre-harvest loans or advance payments. Price determination concerns how relational arrangements and farmers' dependence on particular traders shape the negotiation and acceptance of selling prices. Payment certainty concerns the extent to which trust and reputational accountability support the fulfillment of agreed payment obligations. These dimensions are analytical categories for qualitative investigation rather than statistically measured variables.

The framework also recognizes that trust-based relationships may generate both advantages and limitations. Although they may facilitate transactions in the absence of formal contracts, they may also reinforce dependency when farmers have limited access to alternative buyers or financing sources. The framework therefore directs attention to the processes through which trust operates, the economic consequences perceived by transaction participants, and the contextual conditions shaping these outcomes.

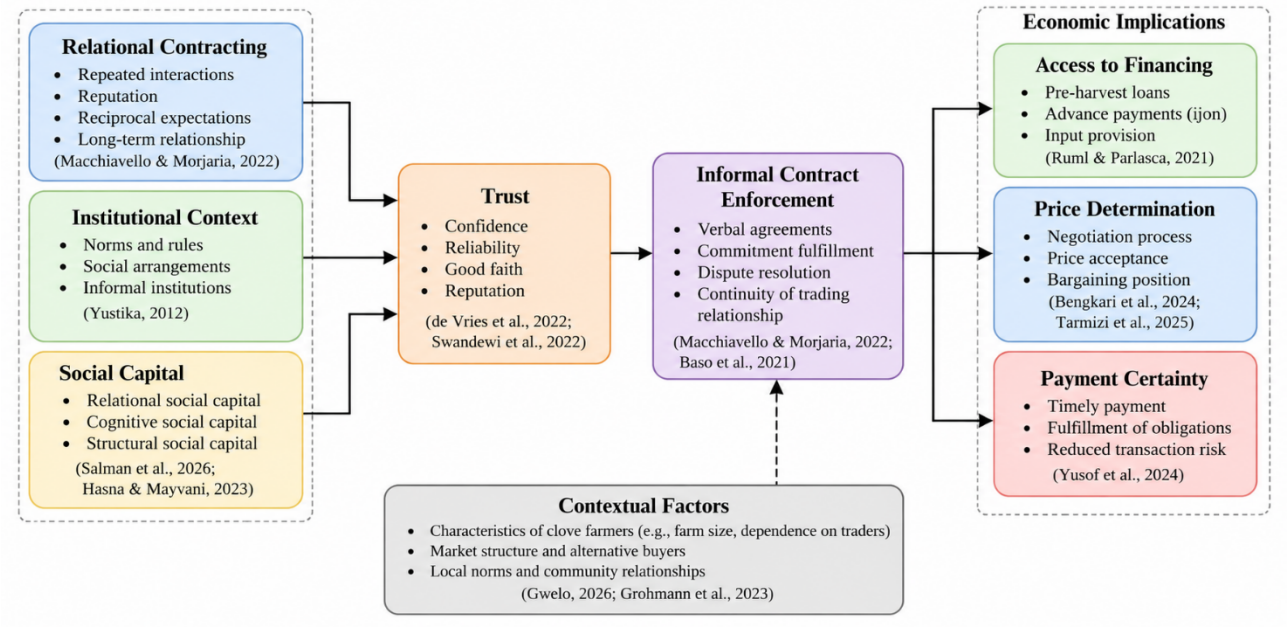


Fig. 2. Conceptual Framework of the Study

The framework is informed by relational contracting and trust research (Macchiavello &

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Morjaria, 2022; de Vries et al., 2022), agricultural financing research (Ruml & Parlasca, 2021), and studies of trust and commitment in agricultural supply chains (Yusof et al., 2024).

2.5. Research Propositions

Given the qualitative orientation of this study, research propositions guide the investigation without presupposing statistically testable causal relationships.

Proposition 1: Trust, reputation, and repeated interactions function as mechanisms for maintaining and enforcing verbal agreements between clove farmers and intermediary traders. This proposition draws on relational contracting and research on trust in agricultural value chains, which emphasize the role of relational mechanisms in sustaining economic exchanges (de Vries et al., 2022; Macchiavello & Morjaria, 2022).

Proposition 2: Trust-based trading relationships shape farmers' access to financing, price determination, and payment certainty. This proposition is informed by research on agricultural credit arrangements and the integration of trust and commitment in agricultural supply chains (Ruml & Parlasca, 2021; Yusof et al., 2024).

Proposition 3: The economic implications of trust-based informal contracts depend on the balance between relational benefits and farmers' bargaining positions. This proposition recognizes that trust may facilitate market participation while potentially reinforcing economic dependency. It is informed by research on smallholder participation in informal markets and social capital in informal agri-food systems (Gwelo, 2026; Salman et al., 2026).

These propositions guide the analysis of how trust is established, maintained, and experienced by farmers and intermediary traders in Bangun Village. They also provide a basis for interpreting whether informal relationships improve transaction security, reproduce economic asymmetries, or produce both outcomes simultaneously.

3. Research Methods

3.1. Research Design

This study employed a qualitative approach with a case study design to examine the formation, implementation, and continuity of informal contracts between clove farmers and intermediary traders. The qualitative approach was appropriate for exploring how trust, reputation, and reciprocal expectations shape verbal agreements and influence trading relationships. The case study design enabled an in-depth examination of these processes within their specific social and economic context. Data were analyzed using the interactive model developed by Miles and Huberman (1994), which consists of data collection, data reduction, data display, and conclusion drawing and verification.

3.2. Research Context and Setting

The research was conducted in Bangun Village, Munjungan District, Trenggalek Regency, East Java, Indonesia. This setting was selected because clove trading relationships between farmers and intermediary traders involve informal agreements that are generally established verbally rather than through written contracts. These arrangements provide a relevant context for examining how trust supports contractual commitments, access to financing, price determination, and payment certainty within smallholder agricultural markets.

3.3. Population and Sample / Research Participants

The research participants consisted of clove farmers and local intermediary traders selected through purposive sampling based on their direct experience with informal clove trading. Farmer participants were required to be active clove producers with at least ten years of production experience, to have engaged in current or previous transactions with intermediary traders, to have experience with informally agreed trading arrangements, and to be willing to provide information openly. Intermediary traders were selected based on their active and regular involvement in clove purchasing, repeated trading relationships with farmers, and direct participation in establishing and implementing informal agreements. The number of informants was not specified in the available research description.

3.4. Data Sources and Data Collection

The study relied on primary data obtained through interviews and observations, supplemented by relevant documentation. Interviews were conducted with clove farmers and intermediary traders to explore their experiences, understandings,

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and practices concerning verbal agreements, trust, reputation, financing arrangements, price negotiations, and payment obligations. Observation was used to examine relevant activities and interactions within the research setting, while documentation provided supporting information for contextual interpretation. Combining these sources enabled the researcher to compare participants' accounts with observed practices and available documentary evidence.

3.5. Measurement of Variables and Research Instruments

Because this study employed a qualitative case study design, the research did not use statistical variables, standardized measurement scales, or quantitative measurement instruments. Instead, the investigation was guided by analytical concepts derived from the research objectives and theoretical framework. These concepts included trust and reputation, informal contract enforcement, reciprocal expectations, access to financing, price determination, and payment certainty. Interviews, observations, and document analysis were used to explore how these concepts emerged and interacted in actual trading relationships. The analytical concepts served as flexible guides for data collection and interpretation rather than as predetermined quantitative indicators.

3.6. Data Analysis Techniques

Data were analyzed using the interactive model of qualitative data analysis proposed by Miles and Huberman (1994). The analysis comprised four interconnected activities. First, data collection involved gathering information through interviews, observations, and documentation. Second, data reduction involved selecting, organizing, and focusing the information relevant to the research objectives. Third, data display involved organizing the reduced information into a structured form to identify recurring patterns, relationships, and differences between farmers' and intermediary traders' accounts. Fourth, conclusion drawing and verification involved interpreting the findings and examining their consistency with the collected evidence. These activities were treated as an iterative process, allowing emerging interpretations to be reconsidered against the available data.

3.7. Validity, Reliability, and Trustworthiness

Research trustworthiness was strengthened through source triangulation by comparing information obtained from clove farmers and intermediary traders. This comparison was intended to identify areas of agreement, differences in perspectives, and inconsistencies in participants' accounts of informal trading arrangements. The comparison also supported the assessment of how verbal agreements were established, maintained, and fulfilled. By examining information from both parties involved in the transactions, the study sought to strengthen the credibility of its interpretations. Other procedures, such as member checking, peer debriefing, or an independent audit, were not specified in the available methodological information and therefore cannot be reported as procedures that were implemented.

3.8. Ethical Considerations

The study involved interviews and observations concerning participants' experiences and trading relationships. Accordingly, ethical conduct required respect for participants' voluntary involvement, informed consent, confidentiality, and the responsible handling of research information. Participants' identities and commercially sensitive information should be protected when presenting the findings. However, the available research description does not specify whether formal ethical approval was obtained, how consent was documented, or what particular data protection procedures were implemented. These details should be added based on the procedures actually followed during fieldwork.

3.9. Research Procedure

The research procedure consisted of several connected stages. First, the researcher identified Bangun Village as the research setting and established participant selection criteria relevant to informal clove trading. Second, clove farmers and intermediary traders who met the specified criteria were selected purposively. Third, data were collected through interviews, observations, and documentation. Fourth, the collected information was organized and analyzed through data reduction and data display. Fifth, findings from farmers and intermediary traders were compared through source triangulation. Finally, conclusions were drawn and

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verified by examining the consistency of the interpretations with the available evidence. The procedure was intended to maintain alignment between the research objectives, data collection activities, and qualitative analysis.

3.10. Methodological Limitations

This study has methodological limitations associated with its qualitative case study design and localized research setting. The findings are context-specific to informal clove trading relationships in Bangun Village and are not intended to provide statistical generalizations to all clove-producing regions. The use of purposive sampling means that the participants were selected for their relevant experience rather than through probability-based sampling. In addition, the analysis relies partly on participants' accounts of trading practices, which may be influenced by individual perspectives or differences in recollection. Source triangulation was used to compare farmers' and intermediary traders' accounts, but the available methodological information does not establish whether additional validation procedures were implemented. Future studies could examine other clove-producing regions or compare informal and formal trading arrangements to assess the transferability of the findings across different agricultural market contexts.

4. Results and Discussion

4.1. Research Results

4.1.1. Sample Description and Descriptive Overview

The study involved nine informants from Bangun Village, Munjungan District, Trenggalek Regency, consisting of five clove farmers and four intermediary traders. The informants were selected based on their direct involvement in clove trading relationships and their experience with informal contractual arrangements. Source triangulation revealed a relatively consistent pattern of trading relationships characterized by repeated interactions, social proximity, transaction experience, and interdependent economic needs. Because this study employed a qualitative approach, the findings are presented thematically rather than through statistical measures such as means, standard deviations, or percentages.

4.1.2. Data Quality and Preliminary Analysis

Data credibility was examined through source triangulation by comparing information obtained from clove farmers and intermediary traders. This process identified consistent patterns concerning verbal agreements, capital provision, pricing arrangements, payment practices, and responses to contractual non-compliance. The comparison also revealed that trust supported trading continuity but did not guarantee complete compliance with every agreement. These findings provided the basis for the subsequent thematic analysis.

4.1.3. Main Analytical Results

a. Forms of Informal Contracts in Clove Trading

The findings indicate that clove-trading mechanisms in Bangun Village were predominantly characterised by informal contractual practices conducted without written agreements and relying more heavily on social relationships among the parties involved in the transactions. This condition does not necessarily indicate that transactions occurred without rules, as the parties nevertheless possessed a shared understanding of their respective rights and obligations, delivery schedules, prices, and payment arrangements. These rules developed through repeated trading relationships and were supported by social proximity, transaction experience, and the reputation of each party. Accordingly, contractual informality in Bangun Village is more appropriately understood as a form of transaction governance that relies upon relationships among the parties rather than formal legal documentation.

Three principal forms of informal contracts were identified in the trading relationships, namely the regular customer system, pre-harvest capital loans through *ijon*, and deferred payment. Under the regular customer system, farmers repeatedly sold their harvests to particular traders. Such choices were not determined solely by price but were also influenced by social proximity, family relationships, transaction experience, and farmers' assessment of the services provided by traders. One informant explained that an established customer relationship was maintained not only because of favourable weighing practices and prices but also because of a family relationship between the farmer and the intermediary trader. This finding demonstrates that the selection of trading partners resulted from the

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simultaneous consideration of economic and social factors.

Under the *ijon* system, the relationship developed further because traders provided capital to farmers before the harvest period. As a consequence, the harvested cloves were subsequently delivered to the trader who had provided the capital, with a price deduction of Rp250–Rp500 per kilogram. Meanwhile, under the deferred-payment scheme, farmers delivered their cloves first and received payment several months later at a price higher than the prevailing market price. Informants confirmed that these various arrangements were established solely through oral agreements and mutual trust. This finding supports the argument of de Vries et al. (2022) that trust constitutes an important element enabling coordination among actors in agricultural supply chains despite the absence of formal contracts.

These three forms demonstrate that trust did not emerge independently from the structure of trade but developed through repeated interactions. Social relationships and transaction experience generated knowledge concerning the characteristics and reliability of trading partners, while positive experiences strengthened reputation and expectations that agreements would be fulfilled in subsequent transactions (Yusof et al., 2024). This finding is consistent with the integration of transaction cost theory with trust and commitment theory in agricultural supply chains, in which trust functions as a governance mechanism that reduces uncertainty and transaction costs. Thus, the emergence of informal contracts in Bangun Village was not merely a consequence of the absence of legal documentation but was associated with social relationships that had generated trust and reputation. Such trust subsequently enabled the parties to accept oral agreements as the basis for their transactions.

b. Trust as an Informal Contract Enforcement Mechanism

The absence of written contracts means that compliance with trading agreements does not depend exclusively on legal sanctions but also on social mechanisms, particularly trust and reputation developed through repeated transactional relationships (Yusof et al., 2024; Yustika, 2012). This mechanism was evident in the reciprocal knowledge and understanding between farmers and traders concerning each other's circumstances and harvesting cycles. As explained by an intermediary-trader informant, repeated interactions had enabled farmers and traders to "know each other" regarding their respective harvesting cycles. This became a basis for developing trust and helped maintain compliance with agreements even though they were not documented in written contracts. Furthermore, repeated interactions generated expectations that each party would honour the agreement because experience from one transaction could influence the relationship in subsequent transactions.

The provision of initial capital loans to farmers was conducted through oral agreements established under the *ijon* system. One intermediary-trader informant explained that extending debt to farmers involved risks when farmers failed to fulfil previously established agreements because the arrangements were based solely on discussion and mutual trust. This finding demonstrates that trust constituted the foundation of the agreement despite the absence of written documentation that could serve as a formal binding instrument. Accordingly, trust enabled such transactions to continue under arrangements based solely on oral communication (Baso et al., 2021).

The findings further demonstrate that trust did not invariably produce complete compliance. There were instances in which farmers failed to fulfil previously established agreements, which subsequently became a learning experience for intermediary traders in determining future transactional decisions. Intermediary traders generally refrained from accepting subsequent applications for capital loans or credit when a farmer had previously violated an agreement. This indicates that past transaction experiences became a consideration in determining the continuation of economic relationships. Non-compliance was not necessarily addressed through legal mechanisms but instead prompted intermediary traders to modify their decisions by restricting or discontinuing the provision of capital within the framework of *relational contracting* (Bulte et al., 2023). Under these circumstances, previous transaction experiences served as a basis for intermediary traders to assess risk and adjust the form of subsequent relationships (Salman et al., 2026).

These findings demonstrate that informal contract enforcement in clove trading operates

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through repeated relationships and has consequences for the continuity of transactions. Trust constitutes the initial basis upon which parties become willing to enter into oral agreements, whereas experiences of compliance and non-compliance influence decisions concerning the continuation of economic relationships under the same transactional arrangements (Rahmadona & Arianti, 2024; Safitri et al., 2026). Thus, informal contract enforcement cannot be understood as a mechanism that completely guarantees compliance; rather, it constitutes a process through which parties adjust their relationships based on previous transactional experiences. The relational-contract perspective explains that the continuity of contractual relationships is determined not only by formal provisions but also by expectations concerning future relationships and previous interactional experiences (Macchiavello & Morjaria, 2022). In clove trading in Bangun Village, this mechanism was reflected in the use of trust as the foundation of agreements and in the adjustment of transactional decisions in response to previous experiences of non-compliance.

c. Trust as Economic Capital

The capacity of trust to sustain informal contracts subsequently generates economic consequences for farmers. When both parties trust that the trading relationship will continue and that agreements will be fulfilled, traders become more willing to provide transactional facilities requiring a higher degree of trust, such as deferred payment or capital provision before harvest. Thus, trust can be converted into economic benefits through established trading relationships (Bulte et al., 2023).

The most apparent benefit concerns access to financing before the harvest period. Through the *ijon* system, farmers obtain capital before their clove harvest becomes available for sale. Such capital is provided without written contracts or formal collateral and is based solely on the trader's confidence that the farmer will deliver the harvest according to the agreement. Under these circumstances, trust functions as a source of credibility that enables relationship-based financing (Hasna & Mayvani, 2023). For farmers, the economic benefit consists not only of additional capital but also of the capacity to maintain production activities before harvest income is received.

Trust is also associated with market certainty. The regular customer system provides farmers with trading partners whom they know closely and who are expected to repurchase their harvest in the subsequent season. This continuity reduces the need for farmers to search continuously for new buyers during each harvest season. Accordingly, established relationships based on trust can provide the benefit of reducing uncertainty in the marketing process. At the same time, such relationships enable transactions to be conducted with lower search and information costs than would be incurred if farmers had to establish new trading relationships during every clove harvest season.

Under the deferred-payment scheme, trust also enables payment flexibility. One farmer informant described an experience involving deferred payment in which the farmer received an increase in price from Rp70,000 to Rp90,000 per kilogram for the sale of one ton of dried cloves, with payment postponed for seven months. This finding demonstrates that trusted relationships enable the parties to comply with payment arrangements that differ from ordinary cash transactions. However, this price increase should be interpreted cautiously as a characteristic of the deferred-payment scheme rather than solely as evidence that trust directly improves the farmer's bargaining position.

Accordingly, trust can be regarded as economic capital because it provides farmers with the capacity to obtain resources and transactional facilities through established trading relationships. Trust enables capital to be provided before harvest, maintains continued access to buyers, and creates room for more flexible payment arrangements. Based on these findings, the economic value of trust emerges through its capacity to reduce uncertainty and enable other parties to provide facilities that may not be available within newly established or entirely impersonal transactions.

Nevertheless, these benefits entail consequences. Farmers who obtain capital from particular intermediary traders may feel a moral obligation to sell their harvest to those traders. Thus, a mechanism that initially provides economic access may also create economic attachment. Trust generates benefits by strengthening relationships; however, the stronger the relationship becomes, the greater the possibility that farmers will depend upon the same trading partner. This situation demonstrates

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that economic capital derived from trust is ambivalent: on the one hand, it reduces uncertainty and expands economic access, while on the other hand, it may constrain farmers' choice of trading partners.

d. Limitations and Economic Consequences of Trust-Based Informal Contracts

The findings demonstrate that informal contracts in Bangun Village cannot be understood merely as transactions without rules. These contracts possess their own institutional mechanisms derived from social relationships, reputation, trust, and interests in maintaining ongoing relationships. *Embeddedness* within kinship networks, social proximity, and repeated transactional experiences creates the conditions under which trust can develop. Trust is subsequently employed to maintain compliance, while such compliance can generate economic benefits for both farmers and traders.

From the perspective of relational contracting, these mechanisms demonstrate that contractual continuity does not necessarily require formal provisions when farmers and traders share an interest in maintaining their relationship in the future. Trust, reputation, and economic sanctions can perform some of the functions normally provided by formal contracts. Meanwhile, the perspective of *embeddedness* explains why farmers' economic decisions are not determined solely by price but are also influenced by social networks and their previous relationships with traders. Accordingly, the decision to maintain a particular trading partner results from the interaction between economic considerations and social relationships.

However, the findings also demonstrate that *embeddedness* and trust do not automatically create balanced relationships. Trust may generate benefits in the form of access to capital, market certainty, and transactional flexibility, but these benefits may be accompanied by attachment to particular traders. Under the *ijon* system, for example, access to capital before harvest is accompanied by an obligation to deliver the harvest to the trader providing the capital. The same relationship that provides a solution to capital constraints may therefore restrict farmers' freedom to select buyers. Thus, the economic benefits derived from trust may also become a source of dependency.

4.1.4. Hypothesis Testing Results / Key Findings

The empirical findings address four central questions. First, informal clove trading is organized through regular customer relationships, *ijon*, and deferred-payment arrangements. Second, trust and reputation support contractual enforcement through repeated interactions and expectations of future cooperation. Third, trust provides economic benefits through financing access, market continuity, and payment flexibility. Fourth, these benefits may be accompanied by dependency and reduced freedom to select trading partners. Accordingly, trust functions simultaneously as an enabling mechanism for informal contracts and as a potential source of economic vulnerability.

4.2. Research Discussion

4.2.1. Interpretation of Key Findings

a. Informal Contracts and Relational Governance

The three forms of informal contracts demonstrate that trading relationships in Bangun Village operate through established social and economic arrangements rather than written documentation. Regular customer relationships depend on repeated exchanges and familiarity, while *ijon* and deferred-payment arrangements involve greater financial commitments between farmers and traders. These practices indicate that contractual governance is embedded in continuing relationships, shared expectations, and reputational considerations. Trust is therefore central to understanding why verbal agreements remain viable despite the absence of formal contracts.

b. Trust as a Mechanism of Contract Enforcement

Trust facilitates the establishment of agreements, but its enforcement function depends on previous transaction experiences. When agreements are fulfilled, the relationship can continue under similar arrangements. When agreements are breached, intermediary traders may restrict future credit or discontinue financing. This pattern indicates that enforcement occurs through relational consequences rather than exclusively through formal legal sanctions. Trust consequently provides a flexible but incomplete mechanism for maintaining contractual compliance.

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c. Trust as Economic Capital

The findings show that trust can provide access to resources and transaction facilities that may otherwise be difficult for farmers to obtain. Pre-harvest financing supports farmers before harvest income becomes available, regular customer relationships provide continuity in market access, and deferred payment allows alternative payment arrangements. Nevertheless, these benefits must be interpreted alongside the possibility of economic dependency. Farmers who rely on particular traders for financing may have fewer practical alternatives when deciding where to sell their produce.

4.2.2. Comparison with Previous Studies

The findings are consistent with de Vries et al. (2022), who identify trust as an important coordination mechanism in agri-food value chains where formal contracts may be absent. They also align with Yusof et al. (2024), whose integration of transaction cost theory with trust and commitment provides a basis for understanding relational coordination in agricultural supply chains. The present study extends these perspectives by illustrating how trust operates in three specific contractual arrangements within smallholder clove trading.

The role of repeated interactions and reputational accountability is also consistent with Macchiavello and Morjaria (2022), who examine trust and relational contracts. In Bangun Village, these mechanisms influence not only whether agreements are fulfilled but also whether future financing and trading relationships continue. The findings further relate to Ruml and Parlasca (2021), whose research examines in-kind credit provision through contract farming and formal credit markets. In the present case, pre-harvest financing is embedded in informal trading relationships and may generate an obligation to deliver the harvest to the financing trader.

Research on social capital and informal markets also provides a relevant comparative perspective. Salman et al. (2026) examine social capital in informal agri-food systems, while Hasna and Mayvani (2023) discuss the economic functions of social capital among traditional market traders. The findings from Bangun Village similarly indicate that social relationships influence economic decisions. However, the present study highlights the dual implications of these relationships: they facilitate access to financing and market continuity but may also constrain farmers' choice of buyers.

4.2.3. Theoretical Contributions

The study contributes to relational contracting theory by demonstrating that informal contract enforcement involves both the maintenance of trust and the adjustment of relationships following non-compliance. Previous transaction experiences influence subsequent decisions, including whether traders continue to provide capital or credit. This extends the analytical understanding of relational contracting by highlighting how relational sanctions operate within smallholder agricultural trading.

The findings also contribute to the institutional and embeddedness perspectives. Consistent with the institutional approach discussed by Yustika (2012), informal trading is governed by shared expectations and established practices. Economic decisions are embedded in social relationships rather than determined exclusively by prices. Trust can therefore be interpreted as a form of economic capital that facilitates access to resources while potentially reinforcing dependency. The contribution lies in demonstrating that the economic value of trust is conditional rather than uniformly beneficial.

4.2.4. Practical and Policy Implications

The findings suggest that farmers and intermediary traders can preserve the flexibility of informal trading relationships while reducing the risks associated with verbal agreements. Simple transaction records documenting the quantity of produce, agreed price, financing amount, delivery obligations, and payment schedule could improve clarity without requiring the parties to abandon established relationships. Farmers could also benefit from improved access to alternative buyers and financing sources, reducing the possibility that pre-harvest loans restrict their marketing choices. Agricultural institutions and local policymakers could support these efforts through financial literacy initiatives, accessible financing arrangements, and practical guidance on documenting agricultural transactions.

4.2.5. Integration with the Research Gap

The study addresses the identified research gap by examining trust as both an enforcement

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mechanism and a source of economic benefits in informal clove trading. Rather than treating trust solely as a condition for coordination, the findings demonstrate how it affects contractual continuity, access to financing, market certainty, and payment flexibility. The findings also identify an important qualification: the same relationships that facilitate economic exchange may create dependency when farmers rely heavily on particular traders. This provides a more contextual understanding of trust in smallholder agricultural markets.

4.2.6. Acknowledgement of Study Limitations

The findings are based on nine informants from one village and therefore reflect a specific local trading context. The study identifies mechanisms and experiences rather than estimating the prevalence of particular practices across a wider population of clove farmers. In addition, the reported price difference under deferred payment represents an individual informant's experience and should not be interpreted as a general market pattern. Comparisons with other locations and additional transaction records would help clarify the extent to which the identified mechanisms apply to other agricultural trading contexts.

5. Conclusion

5.1. Summary of Key Findings

This study demonstrates that clove trading in Bangun Village operates through three principal forms of informal contracts: regular customer relationships, pre-harvest capital loans through *ijon*, and deferred-payment arrangements. Trust develops through repeated interactions, social proximity, reputation, and previous transaction experiences. It supports the establishment and enforcement of verbal agreements, while non-compliance may lead traders to restrict future financing or discontinue trading relationships. Trust also provides economic benefits through access to capital, continuity of market access, and payment flexibility. However, these benefits may be accompanied by economic dependency and reduced freedom to choose buyers.

5.2. Theoretical Contributions

The study extends the application of relational contracting and embeddedness perspectives by demonstrating that trust functions both as a mechanism for maintaining informal agreements and as a form of economic capital. Its contribution lies in identifying the dual nature of trust: it facilitates transactions and reduces uncertainty, yet may also reinforce dependency when economic relationships are concentrated around particular traders. The findings therefore suggest that trust-based informal governance should be understood in relation to both its benefits and its limitations.

5.3. Practical and Policy Implications

Farmers and intermediary traders should maintain the relational practices that facilitate transactions while strengthening the clarity of their agreements. Simple written or digital transaction records specifying produce quantities, prices, financing obligations, delivery schedules, and payment dates could reduce misunderstandings without eliminating the flexibility of informal relationships. Agricultural institutions and policymakers should also promote access to alternative buyers and financing sources to help farmers reduce excessive dependence on individual traders.

5.4. Limitations of the Study

The study focuses on nine informants in Bangun Village, limiting the transferability of its findings to other agricultural settings. The reported experiences reflect participants' accounts of local trading practices and do not establish the frequency or magnitude of these mechanisms across the wider clove sector. In particular, the observed price difference under deferred payment cannot independently establish a general economic advantage attributable to trust.

5.5. Directions for Future Research

Future research could examine informal clove trading in multiple producing regions to determine how local institutions, market structures, and social relationships influence trust-based contractual arrangements. Comparative studies of informal and written contracts could also investigate differences in financing access, price negotiation, payment security, and dispute resolution. In addition, research incorporating transaction records and perspectives from a wider range of market participants could clarify how trust-related benefits and dependency vary according to farmers' access to alternative buyers and financing opportunities.

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