

**Credit to Indonesian
Entrepreneurs:**

**An Assessment of
the Badan Kredit
Kecamatan Program**

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with the assistance of
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ANNUAL INFLATION AND EXCHANGE RATES

Year	Inflation Rate	Rupiah Exchange Rate per U.S. Dollar
1968	85.11%	N.A.
1969	9.89%	N.A.
1970	8.88%	Rp 382.00
1971	2.47%	Rp 420.00
1972	25.84%	Rp 420.00
1973	27.30%	Rp 420.52
1974	33.32%	Rp 423.22
1975	19.69%	Rp 420.88
1976	14.20%	Rp 421.00
1977	11.82%	Rp 421.00
1978	6.69%	Rp 633.88
1979	21.77%	Rp 632.12
1980	15.90%	Rp 633.70
1981	7.09%	Rp 643.05
1982	8.64% (to October)	Rp 670.00 (to August)

Sources: -Berita Pajak No. 628 tanggal 18 Februari 1980

-Laporan Mingguan Bank Indonesia

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PREFACE

This evaluation of the Badan Kredit Kecamatan (BKK) program is the third of four field studies to test methodologies to evaluate the impact of small-scale enterprise development projects. Development Alternatives, Inc. (DAI) has been contracted by the Office of Multisectoral Development of the Agency for International Development to conduct these evaluations and write a manual of operational guidelines to assist future small-scale enterprise project evaluations.

Field work for this study was conducted during six weeks in Indonesia in November-December 1982. Susan Goldmark and Jay Rosengard were responsible for designing and implementing the evaluation. Bank Pembangunan Daerah Jawa Tengah (BPD) and BKK staff administered questionnaires, and coded and summarized results. Nancy Straughan provided background research on credit programs in Indonesia and on the BKK. She also helped train evaluation personnel and provided translation assistance during her four weeks on this assignment.

Ms. Goldmark and Mr. Rosengard wrote a draft report in January-February 1983. Although all sections were carefully outlined and reviewed by both authors, Ms. Goldmark concentrated on financial analysis and the program's impact on clients, while Mr. Rosengard analyzed BKK administration, community impact, and Class V BKK. Both wrote portions of the sections on project background and future development.

This draft was then sent to Indonesia for BPD review. Mr. Richard Patten, the rural credit adviser for the Provincial Area Development Project, interrupted his home leave vacation to discuss the BPD's comments with the DAI team in Washington during several days in late April. The authors subsequently revised the text to incorporate suggestions made by the BPD and other reviewers.

Although primary funding came from the Office of Multisectoral Development, the evaluation also benefited from the generous financial, technical, and personnel support provided by the BPD, the Badan Perencanaan Pembangunan Daerah, the Jakarta office of AID, the Central Java Enterprise Development Project (CJEDP) planning team, and BKK throughout Central Java. Our special thanks go to Mr. Abdulrahman Afandi, President-Director of the BPD, who spared no efforts to make staff and resources available to assist the evaluation.

The evaluation could not have been accomplished without the assistance of Mr. Bambang Subyakto, head of the BPD's BKK technical supervision unit, who trained the interviewers to administer and analyze the questionnaire, accompanied the

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evaluation team on field visits, and reviewed a draft of the evaluation. His participation, coupled with that of Mr. Kamsuri, head of the BPD's supervision bureau, made this evaluation truly a joint effort between the evaluation team and those supervising the BKK program.

Mr. Patten was also instrumental in designing, implementing, and reviewing the evaluation. Much of the data found in this report are derived from his reports; his lengthy briefings throughout the evaluation allowed us to understand the program much better than otherwise would have been possible.

The evaluation also benefited greatly from suggestions provided by Gary Kilmer, CJEDP project director, and Jean-Jacques Deschamps, a DAI financial analyst presently working with the Bureau de Credit Agricole in Haiti.

Finally, our thanks to Michael Farbman, Chief of the Employment and Small Enterprise Division, whose support has made this evaluation possible.

Susan Goldmark
Team Leader
May 1983

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EXECUTIVE SUMMARY

EVALUATION OBJECTIVES

During the last two months of 1982, Development Alternatives, Inc. (DAI), together with Bank Pembangunan Daerah Jawa Tengah, (BPD, the Central Java Provincial Development Bank), conducted an impact evaluation of the Badan Kredit Kecamatan (BKK, the Sub-District Credit Body) program. The BKK is a 12-year-old Central Javanese credit program whose objective is to provide small, short-term loans primarily to rural families for off-farm productive purposes. Since 1972, the BKK program has provided 2.7 million loans, totaling over \$55 million.

The BPD, the Badan Perencanaan Pembangunan Daerah (BAPPEDA, the Regional Development Planning Body), the Agency for International Development (Jakarta and Washington offices), and the Central Java Enterprise Development Project planning team all participated in planning, implementing, and funding the evaluation. Its objectives were to analyze the administrative and financial operations of the program and to assess its income, employment, and social impact on BKK clients and their communities. The participants in this effort also requested that the evaluation team offer recommendations for future program development. DAI participated in the evaluation as part of an AID Office of Multisectoral Development contract to develop and field test alternative methodologies to assess the impact of small-scale enterprise development projects.

BKK MODEL

The motto of the BKK is "fast, cheap, and productive credit," and its primary objective is to supply capital conveniently to the rural poor in Central Java for off-farm income-generating activities.

The BKK is a single program only in that it operates under the auspices of the provincial government, and receives technical supervision from the BPD. The program is composed of 486 BKK, however, each of which is an independent sub-district credit institution that is locally administered and financially autonomous. BKK are subject to instructions and guidelines from the provincial government.

The key components of the BKK program are to:

- Rely on character references from local officials for loan eligibility, rather than on the availability of collateral or lengthy staff analyses of a proposed enterprise's feasibility;
- Reduce risk by making small initial loans to a new borrower, and then gradually raising that client's credit ceiling as his or her repayment record warrants;
- Use repeat loans as the borrower's primary incentive for full and timely repayment;
- Charge interest rates high enough to cover operating expenses, including the cost of funds; and
- Blend local autonomy with overall program quality control, by stressing a highly decentralized organizational structure with villages as the focus of operations, together with central program supervision by the provincial government. The BPD provides technical supervision on behalf of the provincial government.

The Provincial Area Development Project (PDP) has contributed to the development of this successful model. PDP districts in Central Java have served as a valuable testing ground for new BKK procedures and initiatives, the most successful of which are now being transferred to non-PDP districts. Moreover, PDP technical assistance has served as a catalyst between the BKK, the BPD, and the Government of Indonesia.

FINANCIAL VIABILITY

The BKK program is one of the few publicly funded and administered credit programs in the world that makes money from providing loans to small enterprises. The interest rates of BKK, high in comparison with other programs but low by most informal sector standards, can cover their cost of funds, administrative expenses, capital erosion due to inflation, and any reasonable bad debt losses. They can also allow substantial reinvestment of retained earnings. The BKK program has blended the speed and convenience of traditional moneylenders with the operating philosophy and profit margin of a commercial bank.

Indicators of BKK financial structure and viability are:

- Productive use of assets, with over 90 percent held in outstanding loans;
- A 2.6 average loan portfolio turnover in 1981;
- A 6 percent delinquency rate if loans delinquent more than six months were written off;
- Profits of Rp 693 million (\$1.08 million) in 1981, a 24 percent return on the average 1981 loan portfolio;
- Estimated profits of Rp 214 million (\$333,000) in 1981 if all subsidies were removed, which would be a 7 percent overall return on the portfolio;
- Current monthly effective interest rates of between 5.6 and 10.8 percent;
- A 55 percent compounded annual equity growth rate; and
- A 0.56 debt to equity ratio.

The above figures indicate that the BKK program, as a whole, is on a sound financial footing. However, they are based on an aggregation of all 486 BKK, and thus obscure the fact that approximately one-third of all BKK are either operating at very low levels or have closed (Class V).

Loans more than six months overdue, often dating back to the early 1970s, presently make up about 14 percent of total loans outstanding. These loans should be written off or included in a provision for bad debts, so that the true financial status of loan portfolios is reflected.

ADMINISTRATIVE PROCEDURES AND VIABILITY

Organizationally, the BKK program is composed of three arteries of provincially based, locally executed administration: operations, supervision, and coordination. The balanced mixture primarily of the first two administrative components has been critical to the success of the BKK program, because it has coupled political accountability with financial competence.

The BKK program has built-in political accountability because it is incorporated into the structure of local government in Central Java. It has the visible support of the governor of the province, who presides over the program, while administrative authority is delegated to the district and sub-district levels, and most BKK lending is done through village posts.

At the same time, the program's financial integrity has been well maintained through close provincial government and BPD supervision of BKK program operations. At the program's outset, the BPD designed a unified system of BKK bookkeeping formats and procedures; the provincial government, assisted by BPD staff, has been responsible for all BKK staff training.

The effective execution of the BPD's technical supervision mandate is the cornerstone upon which the professionalism and financial resiliency of the BKK program has been built: the BPD, being a development bank, has brought its expertise in using money both productively and profitably to the BKK program.

Most local BKK staff appear to be well trained and efficient. In 1981, for example, they made an average of over 200 loans per employee, at a cost of about 13 percent of the value of these loans. Specifically, 1,200 BKK employees disbursed approximately 270,000 loans, totaling Rp 7.7 billion (\$12 million), at an operating cost of about Rp 1 billion (\$1.6 million).

Procedures for BKK lending to individual borrowers are designed to maximize speed and simplicity, while minimizing cost and risk. The BKK lending model outlined above has been closely and successfully adhered to, except for the special (Khusus) loan programs in the mid-1970s. Under the special programs, BKK acted more as collection agencies for the provincial government's departments of animal husbandry and industries, and other technical agencies, than as development banks.

The only major current discrepancy between the policy and the procedures of the BKK exists in its savings program. Although borrowers theoretically have full access to their savings once their loan has been repaid, some BKK obstruct withdrawals to maintain higher lending levels. Since recent capital infusions to the program ensure that sufficient funds are now available, the forced retention of savings should be terminated. This practice must end before any voluntary savings program is attempted.

BKK units supply BPD headquarters with sufficient financial and administrative data for tracking individual BKK performance and the overall progress of the program. However, these data are highly underutilized because their volume and format outstrip the BPD's present data-processing capacity.

Management information systems for individual BKK units are composed primarily of traditional administrative and financial record keeping. Although these records are sometimes cumbersome and redundant, and are not differentiated by degree of importance, they are replete with cross-checks and internal

controls, and are designed so that staff with a primary education can use them after a one-month training course. All BKK staff have graduated from primary school, and about half have received some secondary school education.

PROGRAM IMPACT ON BKK CLIENTS

The impact of the BKK program was evaluated by a two-stage, purposive sample survey of 662 BKK clients at 20 BKK units throughout Central Java. The sample of BKK units is fairly representative of the population, although it is slightly biased toward Class I BKK and against Class IV BKK. (BKK are divided into five classes semi-annually on the basis of performance.) Class V BKK were examined on a case study basis and excluded from the survey. Borrowers at each BKK were randomly chosen from those repaying their loans, and were interviewed primarily at the BKK offices. Since the sample under-represents those who have defaulted on their BKK loans, survey results cannot be extrapolated to the BKK client population as a whole. They should, however, provide a representative profile of most BKK clients, since relatively few have defaulted.

The BKK client profile that emerges from the survey sample indicates that:

- Petty trading is the primary economic activity for over half of BKK borrowers, and farming the secondary activity for over half;
- 60 percent are women;
- The average age of borrowers is 40, with most in their prime earning period between 25 and 49 years;
- The average loan recipient family has five members currently living at home, and each family member earning an income supports an additional 2.6 people;
- About half of BKK borrowers own land, averaging 0.8 ha;
- Over 60 percent of rural clients and about 45 percent of urban borrowers either have received no schooling or have not completed primary school;
- Most borrowers live in the same village where their BKK office is located;
- More than one-third of BKK borrowers have received credit from other sources;

- The average BKK loan is about Rp 60,000 (\$90) for the sample, and Rp 34,000 (\$50) for the entire program, including Class V BKK;
- Average borrowers quadrupled their loan size (in real terms) within four years and received over 13 loans; and
- Over 40 percent of BKK borrowers have savings accounts outside their BKK, in addition to their BKK savings.

Survey results show that BKK loans have promoted the expansion of most borrowers' businesses. In addition to improving ongoing activities, about one-fourth of BKK clients have begun new economic activities since receiving their first BKK loan. Almost all BKK clients use their loans as working capital to buy raw materials for production, or goods for resale. Client responses are confirmed by high BKK loan repayment rates, which indicate that most borrowers must be using their loans for productive purposes that generate a cash flow sufficient to cover the high interest charges. Most BKK borrowers reinvest their profits into their business and withdraw their forced savings for family needs and holiday celebrations.

BKK loans have had a positive, although moderate, effect on employment. Underemployment has been reduced, as over 60 percent of BKK borrowers now spend more time on their business since receiving their first BKK loan. Moreover, 17 percent of BKK borrowers have hired new full- and/or part-time workers. The average sampled BKK client created 0.3 new full-time jobs and 0.4 new part-time jobs.

PROGRAM IMPACT ON BKK COMMUNITIES

The BKK program has contributed significantly to village and area development in Central Java, but is still a long way from fully servicing the province's demand for rural off-farm credit. BKK client success has rippled through local economies via backward linkages and income multipliers, whereas the effects of forward linkages and consumer surplus have been minimal.

The primary BKK backward linkage has been through suppliers: about 90 percent of surveyed BKK borrowers have increased the volume of materials they purchase since receiving BKK credit, and almost half have also increased the number of suppliers from whom they buy. Traders purchase their supplies both from within and outside their community.

In contrast to backward linkages, forward linkages have not been important contributors to the BKK program's community impact. Most BKK clients are petty traders and handicraft workers, so they produce or market end products rather than serve as intermediate suppliers for other businesses. Moreover, survey results indicate that BKK traders' cost-savings derived from new buying patterns usually have not been passed on to consumers.

BKK clients have, however, contributed to the economic growth of their communities by spending more on personal consumption through their increased purchasing power. About one-third have used business profits, and roughly 40 percent have used accumulated savings for family needs and housing improvements. An additional 18 percent have used their savings for the Lebaran and Slamatan holiday celebrations. BKK staff also assume, although it was not confirmed by survey results, that surplus funds from non-agricultural endeavors are also used for agricultural production, since farming is the major secondary economic activity of BKK borrowers.

In terms of community coverage, the BKK program is large when compared with similar credit programs. It now operates in 486 of Central Java's 492 sub-districts, and should have made over 300,000 loans totaling approximately Rp 11 billion (\$16.4 million) in 1982, based on projections from figures through July 1982. However, there is still a large unmet demand for credit in rural Central Java. The BKK's short-term target is to establish one post for every two villages; under this assumption the existing 1,300 BKK village posts now cover 2,600 villages. This represents only 30 percent coverage of the 8,500 villages in Central Java. The unmet credit demand exists not only in the province's villages not yet covered by the BKK program, but also in those villages where there are currently active BKK. Furthermore, survey results indicate that each village may require its own BKK post to deliver the effective service and convenience desired by BKK borrowers. Coverage demands would thus be even greater.

The BKK program has had its most significant community impact in areas where the district commissioner views the program as a vehicle for district-wide development, rather than simply as a collection of sub-district credit organizations. Lack of consistent financial and administrative district support has damaged several BKK.

CLASS V BKK

Class V BKK, the 33 percent of BKK that are barely functioning or have ceased to operate, present a special set of problems for the development of the BKK program. They pose a critical constraint to BKK client coverage, while greatly decreasing BKK interest payments to the BPD. The rehabilitation of a Class V BKK is a very slow, administrative-intensive process, so the majority of failed or failing BKK are still awaiting financial and technical revitalization assistance. However, PDP has demonstrated that Class V BKK can indeed be rehabilitated. The number of Class V BKK in the PDP area dropped from 26 to 7 due to rehabilitation procedures developed by the provincial government, the BPD, and the PDP rural credit adviser.

FUTURE BKK DEVELOPMENT

Insufficient working capital is no longer a constraint to BKK program development due to the infusion of funds from the provincial government and PDP, as well as a loan from the central government. The task now at hand is to apply this money to the expansion, diversification, and institutionalization of a well-functioning but still nascent off-farm rural credit program.

Although the program is strong enough financially and administratively to be self-sustaining without further outside help, it should continue to receive external technical assistance through PDP or a subsequent AID project. This assistance will increase the speed of BKK rehabilitation and the implementation of new policy initiatives. Specific areas where technical assistance would be most helpful are:

- Improving overall program administration of the BKK, particularly by upgrading its management information system through the use of microcomputers;
- Designing, implementing, and assessing a small-industry loan window; and
- Developing the BKK voluntary savings program.

Additional problems that government officials will need to address for further development and institutionalization of the BKK program are:

- Revival of Class V BKK;
- Addition of new village posts to Class I through Class IV BKK;
- Diversification and expansion of the BKK loan portfolio; and
- Attraction, training, and retention of high caliber personnel.

Although the BKK program as a whole still has several problems, many individual BKK units are now operating smoothly, generating large profits, and expanding quickly. Ultimately, the growth and sustainability of the BKK program can be achieved only by maintaining the health of these successful units, and slowly enlarging their ranks to include BKK previously in the lower classes.

Finally, a word of caution to those who might be enticed to transplant the BKK program elsewhere in Indonesia, or abroad. The program's success is the result of a complementary blend of political support and accountability, decentralized operations and control, skilled external financial and administrative supervision, lending terms and procedures that offer the convenience of moneylenders at much lower cost, a socially cohesive and homogeneous setting, and a moderately expanding economy. The absence of one of these factors without a replacement performing the same function could doom programs based on the BKK model before they are ever established.

**CHAPTER ONE
BACKGROUND****CREDIT IN CENTRAL JAVA****Institutional Credit Programs**

Unlike most developing countries, Indonesia has a variety of credit programs designed to aid petty traders and small-scale entrepreneurs. The political instability of the mid-1960s prompted the Government of Indonesia (GOI) in the early 1970s to use a portion of the massive oil revenues pouring into its coffers to establish credit programs that would channel funds to rural entrepreneurs. The GOI used the banking system as the fiscal mechanism to lessen the economy's dependence upon agriculture by promoting small industry, to shift economic resources to different ethnic groups, and to promote the economic activities of the poor. The priority was to disburse funds; abundant fiscal resources lessened the pressure to create financially self-sustaining credit institutions.

The current world recession and oil glut have cut Indonesia's externally generated revenues. Consequently, the GOI and donor agencies are now devoting more attention to methods by which domestic resources can be raised for economically productive activities. Financial institutions are being carefully scrutinized for the degree to which they allocate such resources efficiently, and are financially self-sustaining. Relatively

unsubsidized credit institutions with growing revolving loan funds, such as Central Java's Badan Kredit Kecamatan (BKK), are being examined as models for the increasingly austere 1980s.

Central Java is a key target for such rural credit programs. Since population growth threatens to outstrip the land's carrying capacity, traditional means of livelihood must be diversified and modernized. Central Java's densely packed 26 million inhabitants thus provide a vibrant market for the credit programs shown in Table 1.

Loans through these programs range from Rp 3,500 (\$5) for itinerant traders and farmers to Rp 500 million (\$750,000) for medium-scale industries. The nominal interest rate for all but the BKK program is about 1 percent per month. Since the average annual inflation rate between 1972 and 1980 was 20 percent, this low interest rate caused the decapitalization of these credit programs. The BKK, which charges the highest interest rates, also has very high repayment rates, thereby enabling the program to grow.

The BIMAS/INMAS program has the distinction of having the largest number of outstanding loans in Central Java; although comparable repayment rate figures are not available, this agricultural program also has the reputation of having the worst repayment rates of the credit programs. Over 60 percent of its total outstanding loans were thought to be unrecoverable in 1980/81, as a result of poor harvests and a lack of incentives provided to farmers for timely repayment.

The Kredit Modal Kerja Permanen (KMKP) has the largest portfolio of loans (in rupiah) for small enterprises. But fewer individuals participate in this program, which has Rp 117 billion (\$176 million) of outstanding loans, than in programs with fewer resources. Three programs provide extremely small loans to the trader-entrepreneur group: the Kredit Candak Kulak (KCK), the Kredit Mini, and the BKK.

Although their client groups, loan purposes, and loan sizes seem to overlap, the BKK is the only program that actually reaches small-scale village traders. While other programs' staff operate out of their sub-district offices, BKK require their staff to travel to weekly posts in villages. As the BKK units expand their village operations, other credit programs such as the Kredit Mini seem to be cutting back on the number of locations at which they operate.

The Kredit Midi, the Kredit Investasi Kecil (KIK), Kredit Kelayakan, and Kredit Investasi Biasa (KIB) programs were established to assist those who had graduated from those credit institutions that offered primarily short-term working capital loans. These four credit programs provide investment capital for those who require funds beyond the ceilings imposed by the smaller credit programs.

Bank Indonesia, the central government budget, and the Central Java provincial government finance the programs cited in Table 1. Central Java's five state banks, private commercial banks, and the Bank Pembangunan Daerah Jawa Tengah (BPD, the

Credit Program	Funding Source	Client Group	Loan Purpose	Loan Size
Bimas/Inmas (mass guidance/ mass intensification)	Bank Indonesia	Farmers	Purchase agricultural inputs	Specific package determines loan size; average loan size is \$50 ⁺
KIK (petty trading credit)	Central government budget	Small traders	Working capital	Rp 3,500- 15,000
BPK (subdistrict) credit body)	Provincial government	Traders	Working capital	Rp 5,000- 200,000
Kredit Mini (small-scale credit)	Central government budget	Small- scale enterprises	Working capital and investment credit	Rp 10,000- Rp 200,000
Kredit Midi (medium-scale credit)	Bank Indonesia	Small- scale enterprise	Working capital and investment credit	Rp 200,000- 500,000
KSP (small permanent working capital credit)	Bank Indonesia	Small- scale enterprise	Working capital	Maximum Rp 10 million (second loan max.=Rp 15 million)
KIK (small investment credit)	Bank Indonesia	Small- scale enterprises	Investment credit	Maximum Rp 10 million (second loan max.= Rp 15 million)
Kredit Kelayakan (feasibility credit)	Bank Indonesia	Small- and medium-scale enterprises chiefly in urban areas	Investment credit	Up to Rp 75 million
KIB (normal investment credit)	Bank Indonesia	Agriculture, communica- tions, tourism, and industrial sectors	Investment credit	Over Rp 500 million (no official limit)

Maximum Maturity	Nominal Interest Rate	Collateral	\$ of Loans Outstanding in Central Java *2 (as of 3/82)	Amount of Loans Outstanding in Central Java *3, (as of 3/82; thousands of rupiah)	Average Loan Size
Crop cycle of seven months	18 per month	No collateral; recommendation from village head and extension worker required	627,047	23,539,620	37,540
3 months	1 per month	No collateral; recommendation from village head required	N.A.	N.A.	N.A.
3 months	3.44-4.86 per month (not including forced savings)	No collateral; recommendation from village head required	275,787	3,577,167	12,971
12 months for working capital; 36 months for investment credit	12% per annum	Goods purchased with the credit	204,844	19,701,576	96,178
3 years for working capital; 5 years for investment credit (interest for only 2 years)	10.5% per annum	Goods purchased with the credit	N.A.	N.A.	N.A.
3 years (one-year grace)	12% per annum	Assets financed by loan; additional collateral up to 50% of loan amount may be secured if available	172,551	117,626,311	887,404
10 years (interest only for 4 years)	10.5% per annum	Assets financed by loan; additional collateral up to 50% of loan amount may be secured if available	14,750	39,266,265	2,662,120
10 years	10.5% per annum	Project financed or goods procured with credit; maximum assets of Rp 100 million (industrial and construction) and Rp 40 million (other sectors)	795	5,788,662	7,281,336
10 years for state and national private banks (max. 4 years grace) 15 years for BPPINDO (max. 6 years grace)	10.5% per annum for loans < Rp 5 million; 12% per annum for loans Rp 75-200 million; 13.5% per annum for loans Rp 200-500 million; 13.5% per annum for loans > Rp 500 million	150% of loan amount	N.A.	N.A.	N.A.

Central Java Regional Development Bank) administer one or more of these programs. All have branch offices in urban areas throughout Central Java.

Important additional sources of credit stem from secondary banks and non-bank financial institutions. The Bank Rakyat Indonesia (BRI), the state bank that is the main source of rural credit in Indonesia, supervises and finances the estimated 6,000 secondary banks in the country. Those prevalent in Central Java include village banks, market banks, and paddy rice banks. Frequent sources of non-bank finance are pawnshops, which are Indonesia's oldest credit source, and village cooperatives. Government pawnshops provided an estimated Rp 37.5 billion (about \$60 million) in loans as of June 1981, or twice the amount of BIMAS/INMAS loans outstanding at that time. The pawnshops' loan turnover is high, and their loan repayment record is estimated to be about 99 percent. However, they provide liquidity rather than additional capital. Their high loan collateral requirements (the maximum is 125 percent of the loan amount) and district-level offices (none is located in villages) prevent many of the rural poor from benefiting from this service.

Informal Credit

Despite the resources available through formal credit institutions, most rural people still depend heavily on informal sources of credit. Although their interest rates are sometimes much higher, the transaction costs are often far lower than in

subsidized institutional credit programs. In addition, an informal credit source usually is more accessible to village dwellers since it is located in the village, does not require complicated forms, and makes funds quickly available.

Some of the most common traditional credit sources are:

- **Arisan (savings association):** Village members contribute savings at regular intervals to a fund; this pooled amount is distributed to one of the members chosen by lottery, bidding, or according to a predetermined order. Female arisan traditionally are organized to purchase household items, while males use this savings method to purchase productive inputs. Contributions are in cash or kind, and sometimes interest is charged.
- **Simpan-Pinjam (savings and loan association):** An arisan that provides loans at specified interest rates set according to demand. It is often organized around village economic activities (such as trading or a cottage industry) and also provides loans to those who have not contributed to the fund. Loans are approved by a council of elders rather than the government-appointed village headman (lurah), who helps to administer some of the formal sector small credit programs. Interest rates usually hover around 3-5 percent per month. Simpan-Pinjam are not found in most villages, since they require a fairly high degree of organization.
- **Usaha Bersama (savings and loan association):** A savings and loans group that promotes joint production, processing, and marketing activities. A credit limit is set according to the amount of each member's savings; interest rates on these one-week to six-month loans are usually 5 percent per month.
- **Koperasi Simpan Pinjam - KOSIPA (veterans loan fund):** A savings and loan fund established by army veterans to provide rural loans. Interest rates may exceed 60 percent per month for loans whose maturity ranges from 4 to 30 days. This group was outlawed in Central Java in 1980 because of its high interest rates.
- **Moneylenders:** Persons who provide credit at the village level in cash or kind, independent of land, labor, or production marketing arrangements. Interest rates range from 3 percent to 40 percent per month, depending on the client, loan purpose, and availability of funds; daily loans may cost as much as 10 percent per day.

- **Tengkulak/Bakul (moneylender/middleman):** Traders and suppliers who sell production inputs on credit and make advance purchases of outputs. Interest rates usually range between 10-15 percent per month, although higher rates of 50-300 percent per month have been reported.
- **Sewa/Gadai (land-related credit systems):** These two credit systems involve renting (sewa) or pawning (gadai) land to receive cash. In the sewa system, the interest rate is determined in advance; in the gadai system the agricultural output continues to cover interest charges until the principal is repaid. A government agrarian law includes provisions to eliminate these systems.
- **Tebasan/Ijon (in kind credit):** The tebasan system involves selling a standing crop to a marketing agent before harvest; the ijon system enables a farmer to borrow cash, usually using a green crop as collateral, with repayment in kind. An agrarian law has officially prohibited the ijon system.

Rural borrowers have switched from the traditional to the modern credit sector primarily when the latter can provide the same quality services. Formal sector credit systems with low transaction costs, such as the BKK, have effectively competed against the more onerous traditional systems. Villagers still retain a strong link with informal sources, however, because if the new system should fail or run short of funds then the villagers must return to their lenders of last resort.

BKK EVOLUTION

Historical Context

In designing a new rural credit program for Central Java, government planners wanted to avoid the shortcomings characteristic of similar credit schemes by combining the speed, ease, convenience, and reliability of traditional moneylenders with the

profitability and lower interest rates of commercial banks. Most rural credit programs that had been attempted previously in Central Java, elsewhere in Indonesia, and abroad either failed or were mixed successes at best because:

- Fixed, subsidized interest rates, coupled with inflation, led to credit portfolio decapitalization;
- Cumbersome but ineffective screening procedures resulted in expensive, inefficient loan processing;
- Credit disbursed in single, large loans rather than in progressively larger repeat loans raised the lender's financial risk considerably;
- Lack of the lending institution's financial viability because of the first two deficiencies provided borrowers with a disincentive to repay their loans, as they had no assurance they would be able to borrow again when they needed additional capital; and
- Centralized operations made effective financial and administrative supervision infeasible.

Thus when the governor of Central Java launched the BKK program in 1970, he gave it the mandate to:

- Charge interest rates high enough to cover operating expenses, including the cost of funds;
- Rely on character references from local officials for loan eligibility, rather than on the availability of collateral or lengthy staff analyses of a proposed enterprise's feasibility;
- Reduce risk by making small initial loans to a new borrower, and then gradually raising that client's credit ceiling as his or her repayment record warrants;
- Use repeat loans as the borrower's primary incentive for full and timely repayment; and
- Blend local autonomy with overall program quality control, by stressing a highly decentralized organizational structure with villages as the focus of operations, together with central program technical supervision by the BPD.

Objective

The BKK's objective is to provide small, short-term loans to rural families, primarily for off-farm productive purposes. Hence, its motto, "fast, cheap, and productive credit."

The program is designed to service Central Java's rural poor, for whom credit is both limited and expensive. However, it is now based on the assumption that although the province's primary economic base is agricultural, most rural Javanese do not spend the majority of their time on agriculture, nor do they derive the bulk of their income from farming. Instead, the rural poor support themselves through a diverse set of economic activities that complement and supplement agriculture, such as food processing and preparation, petty trading, and handicrafts.

The primary goal of the BKK program is thus to supply capital through a convenient mechanism that charges a reasonable interest rate but still earns a profit. A financially viable, self-sustaining credit institution provides good long-term assurance that the rural poor in Central Java will continue to have access to its services to develop off-farm income-generating activities.

Chronology

Phase I: Creation of BKK Units

Phase I of the BKK program was devoted to planning and establishing BKK units at the sub-district level throughout

Central Java. By 1975 the program had almost achieved its goal of universal coverage of the province, expanding to 486 units, one in each but six of Central Java's 492 sub-districts.

The BKK program was capitalized in 1972 with a Rp 200 million (\$476,190) loan from the Central Java Provincial Government, through the BPD, to the BKK. The three-year disbursement of these funds began with 200 BKK and grew to 486 BKK. Each BKK received a three-year, Rp 1 million loan (\$2,381) at 1 percent per month, with a one-year grace period on principal repayment. This 1 percent interest charge was to be used to cover BPD administrative and supervisory expenses, while the principal was to revert to the provincial development budget. Thus after the three-year provincial government loans were repaid, the BPD would collect no further interest income to cover its technical supervision costs.

Each BKK could in turn lend the money to individual clients according to one of six repayment plans, at a monthly nominal rate of 2-5 percent (see Table 2). The loans would be for 22 days to six months, with interest due and "forced savings" repaid before any principal installments. All payments would be in equal amounts, both to simplify bookkeeping and to minimize borrower confusion.

The forced savings component of the BKK program was introduced not only to mobilize rural capital and thereby expand and diversify BKK working capital resources, but also to serve as a rural education campaign regarding commercial banking. In

Table 2: Types of BKK Loans

Loan Type	Payback Period	Monthly Loan Interest (%)	Total Loan Interest (%)	Savings Rate (%)	Interest + Savings (%)
1. Harian (daily)	22 Days	4.8	3.5	6.5	10.0
2. Pasaran (every 5 days)	12 Pasar (60 days)	4.0	8.0	12.0	20.0
3. Mingguan (weekly)	12 Weeks	3.6	10.0	10.0	20.0
4. Bulanan (monthly)	3 Months	3.3	10.0	10.0	20.0
5. Lapanan (every 35 days)	5 Lapan (175 days)	3.4	20.0	20.0	40.0
6. Musiman (seasonal)	6 Months	2.0	12.0	10.0	22.0

Source: Bank Pembangunan Daerah Jawa Tengah

theory, clients have access to their savings after full loan repayment. In practice, however, many BKK do not allow or encourage such withdrawals.

The initial 200 BKK lent Rp 442 million (\$1.1 million) in 1972. By 1975 they had grown to their current 486 units, and had lent a cumulative total of Rp 8.8 billion (\$20.9 million). As of July 1982, the BKK had made over 2.7 million loans, totaling Rp 36.9 billion (\$55.1 million), and had accumulated Rp 792 million (\$1.2 million) in borrower savings (see Table 3). The speed and magnitude of BKK growth are vividly demonstrated by the fact that BKK are now lending monthly almost twice the total amount they lent annually one decade ago.

The program evolved consistent with the concepts outlined above, except for the introduction of a Khusus (special) loan window in 1974. Pleased with the development of the BKK program, the governor of Central Java decided that all of the credit programs from the province's dinas (technical services) should be transferred to the BKK as well. Thus the BKK lent approximately Rp 245 million (\$580,000) in Khusus funds for activities such as upland crop production, animal husbandry, fish fingerling production, fish marketing, kapok processing manufacturing, rural industries, rubberization of bullock cart tires, rural electrification, and women's social and economic development.

This was not a fruitful realignment of responsibility, for the BKK units were placed in the position of acting as collection agencies, rather than performing the banking functions for which

Table 3: Growth of the BKK Program

Year	No. of Units	Amount Loaned During Year (in rupiah)	No. of Loans During Year	Cumulative Amount Loaned (in rupiah)	Cumulative Number of Loans	Cumulative Savings (in rupiah)
1972	200	442,575,807	119,870	442,575,807	119,870	38,389,318
1973	350	1,178,534,388	277,860	1,621,110,195	397,730	110,699,534
1	432	2,032,464,607	377,059	3,653,574,802	774,789	220,101,512
1975		2,479,701,994	360,352	6,132,276,796	1,135,141	285,392,121
1976		2,632,008,377	304,909	8,765,285,173	1,440,050	338,358,749
1977		2,726,110,000	232,044	11,491,395,173	1,672,094	356,273,056
1978		2,994,337,223	212,988	14,485,732,396	1,885,082	385,466,791
1979		3,597,075,546	213,746	18,082,807,942	2,098,828	435,743,355
1980	485	5,436,751,135	212,391	23,519,559,077	2,311,219	565,943,347
1981	486	7,705,186,656	267,933	31,224,745,733	2,579,152	733,837,997
7 mo. thru July 1982	486	2,636,608,444	168,768	36,861,354,177	2,747,920	791,552,369

Source: Bank Pembangunan Daerah Jawa Tengah

they were designed. Khusus clients were selected by their respective dinas instead of by the BKK character reference system, so BKK units could not screen out potentially high risk clients. Moreover, dinas were interested primarily in the one-time disbursement of previously allocated funds, whereas BKK were equally concerned with loan repayment so that these funds would stay in circulation as part of the program's capital base, and clients would be encouraged to repay their loans in the hope of receiving future loans. Finally, BKK were allowed to charge only 1 percent per month on Khusus loans, although these loans were often for much higher risk activities than were the standard loans.

As a result of this confusion over Khusus objectives and lending procedures, BKK performance on their Khusus portfolio is poor. Repayment is lower than the general BKK loans (Umum), although co-mingling of Khusus and general loan funds makes it difficult to determine precise repayment rates.

Phase II: Survival of the Fittest

Phase II was devoted to improving the effectiveness and efficiency of BKK operations without little injection of new working capital into the program. Phase II overlapped with Phase I, as those BKK units created early in the program's evolution gradually were forced to finance themselves with funds generated from their ongoing operations to repay their provincial government loans; the only exceptions were 10 BKK units that each received an additional loan of Rp 1 million in recognition of

especially good performance. Phase II ended in 1979 for the 65 BKK that received technical assistance and additional capital under the auspices of the GOI/AID Indonesia Provincial Area Development Project (PDP) (see "Phase III" below), but it continued until 1982 for the rest of the BKK in Central Java.

During Phase II, BKK units tried both to stabilize and expand their operations, and thus demonstrate that they were financially viable, developmentally sound rural credit institutions. However, the cost to the program of trying to foster sustainability in this manner was high: 33 percent of the BKK units either closed or continued at very low operating levels.

Phase III: Rehabilitation and Expansion

Phase III is primarily a period of rehabilitation for BKK that have collapsed, as well as rapid expansion for relatively healthy BKK. This phase is characterized by a combination of significant capital injections and the application of lessons learned during the initial decade of BKK operations. Phase III began in a limited area with the introduction of PDP in 1979, but has now spread to the remainder of Central Java.

Foreign technical assistance and capital injections to the BKK program are still being applied as part of PDP. This project's objective is to increase the capability of provincial, district, and sub-district planning units to identify, design, and implement rural-based income-generating projects through the provision of a combination of rural development advisory services and rural credit.

PDP is currently operating in eight provinces throughout Indonesia, although its efforts are focused on subgroupings of poorer districts within these provinces. In Central Java, for example, PDP assistance is for only Demak, Kudus, Jepara, Rembang, and Pati, which are among the poorest districts in Central Java. Thus PDP assistance to the BKK program has been devoted to these five districts, and has helped the 30 remaining districts and municipalities only through indirect program support.

The PDP districts in Central Java have served as a valuable testing ground for new BKK procedures and initiatives, the most successful of which are now being transferred to non-PDP districts. Moreover, PDP technical assistance has served as a catalyst between the BKK, the BPD, and the GOI.

For example, PDP has granted approximately Rp 327 million (\$500,000) to establish a revolving fund within the BPD for the 65 BKK in the PDP area. As in the case of the loan that established the BKK program, BKK units pay a 1 percent monthly interest charge to support BPD technical supervision and program development activities. However, unlike the initial provincial government loan, the PDP grant enables the BPD to relend BKK principal repayments, thereby allowing BKK to grow faster and provide a continuous source of income to cover BPD costs. This innovation was introduced when the BPD could no longer cover its BKK technical supervision costs with the interest income it received on the provincial government loan. Thus, the PDP grant

helped to sustain and revitalize the BPD technical supervision of the program, which has been critical to BKK success. Other financing subsequently made available to the BKK program also has used this revolving fund model.

In addition, PDP technical assistance has helped to develop a classification system to stratify BKK by the overall magnitude and viability of their lending operations. This has allowed the BPD to assign credit ceilings based upon a BKK's economic soundness. The classification system is now applied to the entire BKK program.

PDP has also provided technical and financial assistance to assist in the rehabilitation of failed or weak BKK, and the expansion and diversification of successful BKK. This process has taught the BPD the steps by which to rehabilitate those BKK that are barely functioning or have ceased to operate (Class V BKK). Such technical assistance and capital infusions were responsible for decreasing the number of Class V in the PDP area, from 26 to 7 within three years.

In 1981 the central government demonstrated its strong support of the BKK program by having the Ministry of Finance extend a Rp 3 billion (\$4.7 million) BKK program loan to the provincial government. This loan is being channeled through the BPD, as are all BKK monies, for the purpose of rehabilitating and upgrading BKK. The loan is provided interest free to the BPD, and has a 20-year payback with a three-year grace period. BKK,

in turn, pay the BPD 1 percent per month for these funds; the interest charge is divided into 0.6 percent for BPD operating expenses and 0.4 percent for a BKK program development fund.

The provincial government also committed Rp 150 million (\$235,000) in 1981/82 and Rp 200 million (\$300,000) in 1982/83 as new capital, particularly emphasizing assistance to the weakest BKK. The BKK would like to use the first grant to purchase safes, fireproof filing cabinets, and motorbikes. In addition, the provincial government has allocated Rp 100 million (\$150,000) to retrain all BKK staff and Rp 20 million (\$30,000) to cover the administrative costs of the classification surveys and program implementation tasks required to precede disbursement of the Rp 3 billion central government loan.

As for the healthy (sehat) BKK, the BPD has agreed to furnish additional capital by granting them direct loans on terms similar to those under which they were initially capitalized. The commitment of the BPD's own funds indicates the bank's confidence in the healthiest BKK, as it implies they are comparable to other institutions credit worthy enough to receive interbank loans.

The BKK program now has considerable accumulated working capital, significant new funds upon which to draw, a cadre of trained and committed personnel, and an operating system that is functioning efficiently and effectively. For the future, its principal task is to expand, diversify, and institutionalize BKK lending activities.

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CHAPTER TWO BKK ADMINISTRATION

PROGRAM ORGANIZATIONAL STRUCTURE

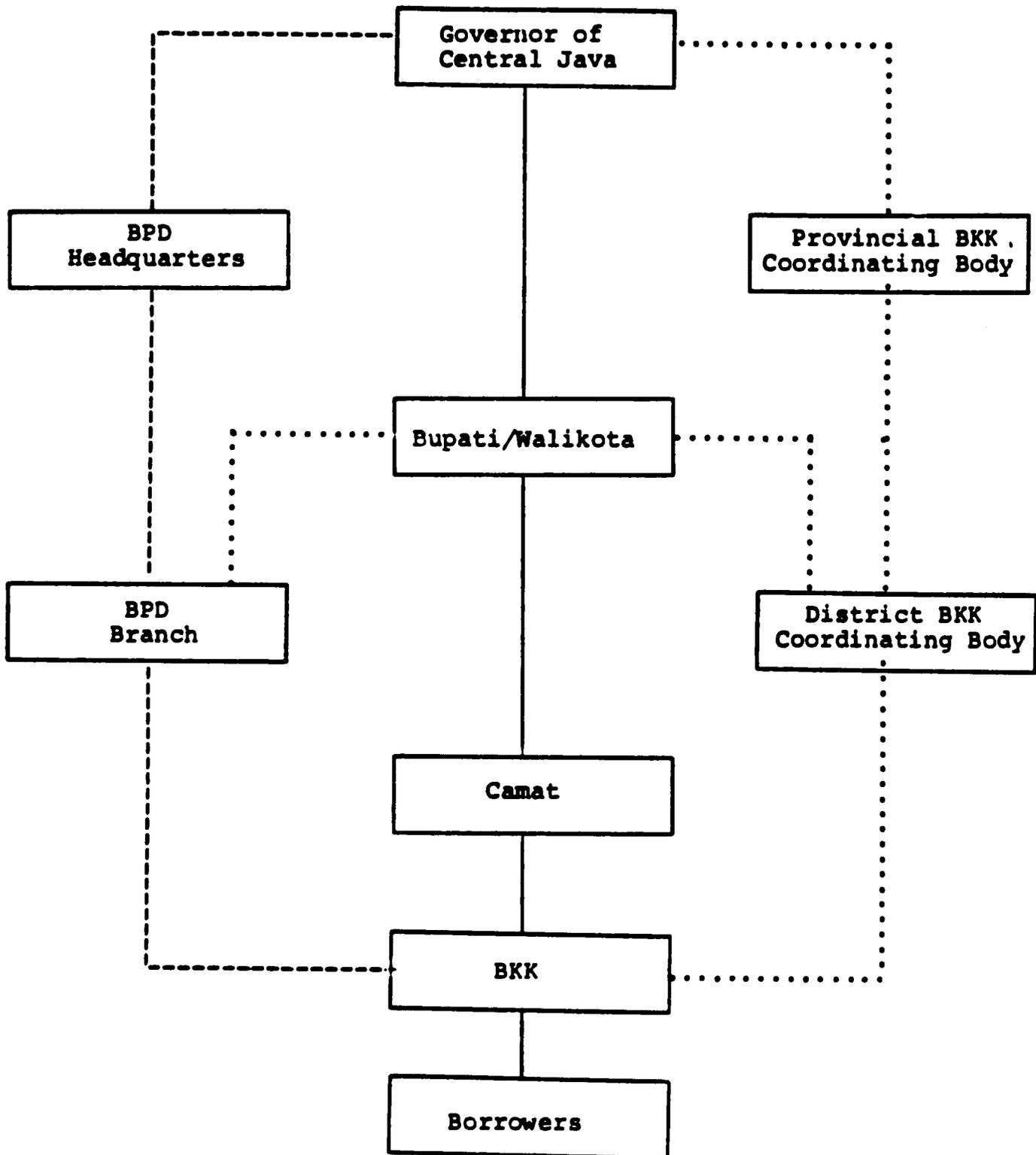
The BKK is a single program only in that it operates under the auspices of the provincial government and is supervised by the provincial development bank. Each of the 486 BKK, however, is an independent sub-district credit body that is locally administered and financially autonomous. Thus, although all BKK operate under one legal mandate, and are capitalized as a single item in the provincial development budget, program statistics often obscure the range and diversity of individual BKK characteristics and performance.

Figure 1 depicts an organizational overview of the BKK program, and shows three arteries of provincially based, locally executed administration: operations, technical supervision, and coordination. The balanced mixture of these three administrative components is critical to the success of the BKK program, as it couples political accountability with financial competence.

Operations

The BKK program has built-in political accountability because it is incorporated into the structure of local government in Central Java. Although this situation has occasionally led to BKK units compromising their financial integrity by being over-responsive to political concerns, this tendency has usually been balanced by the BPD's financial controls and administrative supervision.

Figure 1: BKK Organization



Key:

- = Operations
- - - - = Technical Supervision
- = Coordination

The governor of Central Java presides over the BKK program, but operational responsibilities are delegated, through district commissioners (bupati) in rural areas or mayors (walikota) in municipalities, to sub-district chiefs (camat). BKK administrative authority is therefore at the sub-district (kecamatan) level. BKK are staffed with employees from the sub-district in which they operate, and may lend only to sub-district residents. The sub-district chiefs have final loan approval authority for amounts over Rp 5,000 (\$7.50).

The client focus of the BKK program, however, is at the village level, as most lending is done through village posts to increase client coverage by reducing borrower transaction costs. Each BKK operates with a minimum staff of two, a bookkeeper and a cashier, usually out of the sub-district government office and rotating village posts. If the BKK generates enough income to support additional staff, it then tries to increase its coverage of the sub-district by expanding the number of its village posts, and perhaps increasing the frequency of these posts. The goal of the BKK program is to have at least one village post for every two villages in Central Java, or approximately 4,200 posts; as of December 1982, there were about 1,300 BKK village posts.

Supervision

The BKK program's financial integrity has been well maintained through close BPD supervision of BKK program operations. BPD supervision is of technical matters; only the provincial

government has administrative authority over the BKK. At the program's outset, the BPD designed a unified system of BKK book-keeping formats and procedures; the provincial government, assisted by BPD staff, has been responsible for all BKK staff training.

The BPD's effective execution of its technical supervision mandate is the cornerstone upon which the professionalism and financial resilience of the BKK program has been built. The BPD, being a development bank, has brought its expertise in using money both productively and profitably to the BKK program.

The BPD has assigned its supervision function to a five-person BKK unit in the Supervision Bureau at its Semarang headquarters, together with 29 district supervisors who work out of the BPD's 16 branches throughout Central Java. These BPD district supervisors also coordinate their activities closely with those of BKK program monitors from the district commissioner's office.

BPD supervision is financed by a part of the 1 percent monthly interest the BPD charges BKK units for their working capital. Additional expenses are met through supplemental income. For example, extra training or equipment is usually financed by provincial government budgetary allocations, and special supplies, such as BPD-designed and -required BKK accounts ledgers, are sold to the BKK.

The BPD divides BKK supervision into two categories: passive and active. Passive supervision consists of regular BKK

reports: monthly financial statements, quarterly balance sheets and profit and loss statements, and semi-annual classification questionnaires. Active supervision includes site visits by BPD field supervisors to approximately 15 BKK per month, monthly coordination meetings of BPD branch managers and BKK staff, and quarterly supervisor meetings in Semarang with BPD central office staff. In addition, the BPD is also responsible for designing and modifying the BKK financial systems, training BKK staff in the use of these systems, and spot auditing individual BKK units.

BPD supervision of the BKK program, although well executed, has two shortcomings whose importance will increase as the program grows. The BKK unit at BPD headquarters is very thinly staffed for a multibillion rupiah, widely dispersed credit program. This leaves the program vulnerable to the performance and availability of a few individuals, rather than reliant on more sustainable institutional capacity. BPD personnel, particularly the BKK unit chief, are overworked, compromising both staff effectiveness and program development.

Moreover, the BPD itself is highly centralized and is reticent to delegate significant authority to its BKK supervision unit, which in turn is reluctant to delegate authority to its field supervisors. Overcentralization has sometimes impaired the speed and relevance of BPD responses to BKK program needs, and contributes to the underutilization of highly qualified personnel.

Coordination

BKK policy coordination takes place at the provincial and district levels, by the provincial BKK coordinating body and the district BKK coordinating bodies, respectively. These units are largely advisory committees, and thus are not involved in daily BKK operations. Instead, they provide guidance, as needed, for both BKK policy formulation and follow-up.

The provincial coordinating body provides advice to the governor, who issues the detailed policy guidelines and administrative procedures for the BKK program. The role of the district-level coordinating body has been less clear and is only now beginning to be emphasized as the size of the program grows and the need for local government supervision becomes more obvious.

PERSONNEL

Most BKK staff members appear to be well trained and efficient. In 1981, for example, they disbursed an average of over 200 loans per employee at a cost of about 13 percent of the value of these loans. Specifically, 1,200 BKK employees made approximately 270,000 loans, totaling Rp 7.7 billion (\$12 million), at an operating cost of about Rp 1 billion (\$1.6 million).

BKK staff members are usually from the sub-district in which they work; all have graduated from primary school, and half have some secondary school education. They are nominated by the sub-

district chief and appointed by the district commissioner, after which they are sent to Semarang for provincial government and BPD training. This training lasts for about one month, and covers the following areas:

- The GOI's development philosophy;
- The development of Central Java, and the role of the BKK program in achieving province-wide development;
- Opportunities for development at the village level;
- The structure and functioning of local government;
- Basic concepts in rural credit; and
- Special BKK bookkeeping.

The provincial government also holds 10-day refresher courses periodically to review, update, and upgrade basic staff training. Three such courses have been held to date.

Except for those employees who are government civil servants, which is about one-third of all BKK workers, the BKK staff are paid from income generated by interest on the BKK's outstanding loans. BKK compensation is generally lower than that of comparatively ranked civil servants and does not include the government pension plan; it is, however, supplemented with a quarterly bonus based on the BKK's performance: 10 percent of the quarter's profits are distributed among BKK employees on the basis of salary grade, with downward adjustments for the already better-paid government workers. Thus if a BKK does well, its staff share in the distribution of these profits. Conversely, if a BKK does poorly and its employees are not on the government payroll, then its staff are paid very little, if anything at all, from BKK resources.

LENDING PROCEDURES

BPD Lending to BKK Units

BPD lending to individual BKK units is based on a BKK's performance classification and corresponding credit ceiling. This enables the BPD to maintain a financial exposure proportionate to a client's credit risk, and at the same time rewards a successful BKK by allowing it to draw progressively larger capital amounts. Unprofitable BKK are penalized by having lower credit ceilings.

BKK are divided into five classes semi-annually on the basis of six factors:

- Total equity;
- Ratio of villages to village posts;
- Number of new borrowers;
- Portfolio quality;
- Total savings; and
- Capital circulation.

Equity consists of cash on hand plus total loans outstanding, less loans overdue more than six months, loans to the BKK, and borrower savings. Half the total weight of the BKK's overall classification is given to the unit's equity rating, as this rating is the best overall indicator of the BKK's total performance to date. Moreover, since all BKK units started with an initial Rp 1 million (\$2,381) BPD loan, accumulated equity is also a good indicator of comparative performance over time.

The other five factors are each weighted equally. The ratio of villages to village posts is an indicator of BKK client coverage, as is number of new borrowers.

Portfolio quality, calculated as the ratio of number of payments made to number of payments due, is used more as a measure of client discipline and BKK administrative finesse than as a sign of financial health, which is better demonstrated by the equity equation. Also, the level of effort required to report a more revealing indicator of portfolio quality, for example, the value of payments made to the value of payments due, is much higher than warranted by the resulting data's value and reliability -- BPD officials wanted BKK staff to be able to complete the classification questionnaire within one day.

Borrower savings is included both to ensure that the program's forced savings program is being followed and to offer another indicator of the BKK's current liquidity.

Circulation of working capital is an important indicator of a BKK's dynamism, as it reveals whether the BKK's accumulated equity is primarily stockpiled cash, or whether it is outstanding loans generating income and servicing clients.

The BPD classifies each BKK on the basis of a weighted average of these six factors, as indicated in Table 4. A classification determines the capacity of each BKK to absorb new working capital profitably, and thus its BPD credit ceiling. A BKK then draws on this line of credit through the sub-district chief, who signs for all funds lent to the BKK. Despite a BKK's

Table 4: BKX Classification Criteria

Class	I	II	III	IV	V
Criterion					
1. Equity (millions of rupiah)	10,000	5,000 - 9,999	1,000 - 4,999	0 - 999	0
2. Ratio of village to village posts	2	2 - 3	3 - 4	4 - 8	8
3. Number of new borrowers (monthly average)	20	15 - 19	10 - 14	5 - 9	0 - 4
4. Portfolio quality (percentage)	90	89 - 80	79 - 70	69 - 50	50
5. Savings (millions of rupiah)	2,000	1,000 - 1,999	500 - 999	200 - 499	0 - 199
6. Circulation (millions of rupiah)	5,000	2,000 - 4,999	1,000 - 1,999	100 - 999	99
7. Overall classification	1.0 - 1.5	1.6 - 2.5	2.6 - 3.5	3.6 - 4.5	4.5

Source: Bank Pembangunan Daerah Jawa Tengah

overall credit ceiling, however, the BPD releases funds only in tranches, not to exceed Rp 500,000 (\$746) for Class I through Class IV BKK, and Rp 200,000 (\$299) for Class V BKK. The current distribution of BKK units by class, together with each class's present credit ceiling, is shown in Table 5. This table reveals two important differences between BKK in PDP and non-PDP districts:

- Only 22 percent of the PDP BKK are currently in the lower two classes, while 63 percent of the non-PDP BKK are in Classes IV and V; and
- The credit ceiling is Rp 2 million higher (\$2,985) per class in PDP districts, due to the extra infusion of capital from area development project funds.

This classification system has special operational provisions at either end of the scale to enhance its utility as a management tool. A Class V BKK is not allowed to continue borrowing until the BPD has conducted an administrative and financial audit of that unit, so that the bank can determine what went wrong and attempt to remedy the situation before the unit resumes lending. As of June 1982, 73 percent of PDP Class V BKK (19 BKK) had been rehabilitated with outside assistance, while 10 percent of non-PDP Class V BKK (16 BKK) had risen above Class V status through independently implemented improvements.

For the most successful BKK, the BPD has established a super-class -- "healthy" (sehat) BKK -- to which it has agreed to lend its own funds. The BPD has thus far classified 11 BKK as healthy, but has yet to lend bank funds to any of these units. A BKK qualifies as healthy if it meets the criteria outlined in Table 6.

Table 5: BKK Distribution By Class and Credit Ceiling

Class	Nov. 1979	Sept. 1980	August 1981	June 1982	Current Credit Ceiling
<u>PDP</u>					
	(number of BKK units)				(millions of rupiah)
I	0	2	7	10	7.0
II	7	11	12	19	6.0
III	15	24	28	22	5.0
IV	17	15	2	7	4.0
V	26	13	16	7	3.0
All Classes	65	65	65	65	
<u>Non-PDP*</u>					
I	-	-	11	20	5.0
II	-	-	37	53	4.0
III	-	-	85	82	3.0
IV	-	-	120	114	2.0
V	-	-	168	152	1.0
All Classes	421	421	421	421	

* Non-PDP BKK were not classified until August 1981.

Source: Bank Pembangunan Daerah Jawa Tengah

Table 6: Calculation of Healthy BKK Units

Criterion*		Standard
Ratio of current assets (at 80% of the actual figure) to current liabilities	>	1.50
Ratio of debt to equity	<	0.75
Ratio of savings to equity	<	0.70
Ratio of debt plus savings to equity	<	1.25
Six months' profit	>	10%
Number of trained staff	>	4

Calculation

The new loan ceiling is calculated so that if the savings to equity ratio is greater than 0.50, it will bring the debt plus savings to equity ratio to 1.25, and if the ratio of savings to equity is less than 0.50, it will bring the debt to equity ratio to 0.75.

*The conservative estimate of current assets from criterion number one is used throughout these calculations.

Source: Bank Pembangunan Daerah Jawa Tengah

BKK Lending to Clients

Procedures for BKK lending to individual borrowers are designed to maximize speed and simplicity, while minimizing cost and risk. Consequently, the main features of BKK lending policy are:

- Reliance on a character reference from the village headman rather than on client collateral or a BKK feasibility study;
- Little subsequent screening other than to try to ensure that the loan is borrowed for productive purposes and not consumption;
- BKK approval authority for loans less than Rp 5,000 (\$7.50), and sub-district chief approval for all other loans;
- Client ceilings based on a borrower's BKK repayment record, beginning with a small loan and slowly increasing over time if the client proves to be a good risk; and
- Lending from either a sub-district office or a village post, whichever is more convenient for the borrower.

If a prospective client is granted a loan, he or she will have to repay it according to one of the first five plans depicted in Table 2. All payments are equal amounts, with loan interest and forced savings repaid before the amortization of principal begins. A client's primary incentive for timely and full repayment is future BKK credit; there is no financial penalty for late or missed payments.

These BKK lending procedures have been followed since the program's inception, except for the special (Khusus) loan program in the mid-1970s. At that time, BKK acted more as collection agencies than banks:

- Provincial government special technical service agencies selected clients, instead of the BKK;
- This special credit was a one-time disbursement, instead of a revolving fund; and
- Interest rate schedules from the technical service agencies were used, instead of BKK interest rates.

Thus this program was not successful because the character reference system was not used to screen clients, selected borrowers had no expectations of further BKK credit, and interest rates were not commensurate with the BKK's assumed risk.

SAVINGS PROCEDURES

Borrowers theoretically have full access to their savings once their loans has been paid off, but some BKK are reluctant to release these savings because it would reduce the BKK's liquidity. They therefore obstruct withdrawals by creating unauthorized restrictions, such as claiming that the savings must be used for productive purposes, and not for holidays, feasts, family emergencies, or household consumption.

This practice started during the early years of the BKK program, when there was insufficient capital available to support high default rates or to expand rapidly if a BKK was successful. Many BKK do not realize that sufficient capital is now available and that they, therefore, have no real need to forcibly retain borrower savings. The new "healthy" classification system (see Table 6), which determines which BKK will be eligible for the

BPD's own funds, penalizes BKK whose savings levels are too high. This is one of the many efforts that have begun to discourage the forced retention of borrower savings so that BKK policy and practice are reconciled.

Although the forced savings charge on loans may no longer be a necessary source of BKK funds, this policy is expected to continue since it does provide some collateral for future loans. However, the BKK are now investigating the possibility of broadening their savings function by beginning a voluntary savings program. Such a program cannot succeed, however, unless savers are confident that they will be able to withdraw their funds upon demand. Thus the practice of forced retention of savings after loan repayment must stop before any voluntary savings program can begin.

Savings accounts theoretically earn 0.5 percent interest per month; however, it is unclear whether this policy has been actually followed until recently, especially among lower-class BKK units. BKK must begin to pay interest accrued by clients' savings accounts, and even consider increasing the savings interest rate, if they wish to stimulate voluntary savings (see Chapter Six).

MANAGEMENT INFORMATION SYSTEM

BPD Headquarters

BKK units supply BPD headquarters with sufficient financial and administrative data for tracking individual BKK performance

and the overall progress of the program. However, these data are highly underutilized because their volume and format outstrip BPD's present data-processing capacity.

The BPD receives four reports from most active BKK units:

- A monthly financial summary;
- A quarterly balance sheet;
- A quarterly profit and loss statement; and
- A semi-annual classification questionnaire.

The financial summary is an activities status report that charts the month's operations, and is the most timely information the BPD has on individual BKK units. This summary does not indicate cash on hand, however, so the BPD cannot determine if BKK are accumulating rather than circulating their cash. The balance sheet and profit and loss statement follow standard accounting formats, except that neither adjusts for bad debts because the provincial government has not allowed BKK to write off these loans. The classification questionnaire is the most detailed report, and is most valuable in assessing BKK performance in terms of profitability and client coverage.

Despite this relatively selective inflow of field data, the BPD has yet to convert successfully these data into information that increases the timeliness and effectiveness of management decision making. The BPD uses the first three reports to assess overall program trends and to highlight any unusual occurrences. The fourth report allows the BPD to set credit ceilings for each BKK, based on the unit's classification by the BPD. However,

these reports are not analyzed systematically, often contain transcription and arithmetic errors, and are cumbersome to compile and access. Thus they are rarely acted upon until well after their relevance has passed.

The BPD began aggregating individual BKK balance sheets in 1975, and profit and loss statements in 1981; the other two reports are not currently aggregated. Each of these documents is composed primarily of large figures, often in the millions, and the difficulty of processing and using these data is compounded by the hundreds of BKK units that report to the BPD. This problem will only grow as successful BKK continue to expand, and failed BKK are rehabilitated.

BKK Units

Management information systems for individual BKK units are composed primarily of traditional administrative and financial record keeping. All BKK use BPD-designed standardized formats, called "models," of which there are currently 18. Although these models are sometimes cumbersome and redundant, and are not differentiated by degree of importance, they are replete with cross-checks and internal controls, and are designed so that staff with a primary school education can use them after a one-month training course at provincial headquarters.

Table 7 presents a brief description of the BKK models. Theoretically, all 18 models are mandatory, but in practice, all but the largest BKK have neither the need nor the staff to maintain the entire set. Thus in most cases, the most critical

Table 7: BKK Bookkeeping Models

Model Number	Description	Frequency of Use
1	Client request/approval list	Daily
2A	Loan repayment record	} Daily, per village post and type of loans
2B	Delinquent clients register	
3	Cash book/running balance	Daily
4	Savings book	Daily
5	Client register by number	Per new borrower
6	Client register by name	Per new borrower
7	Contract book/cash on hand	Daily
8	Customer's loan repayment record (receipt)	Per transaction
9	Composite register	Annually
10	Commission register (fixed assets inventor?)	Per transaction
11	Cash estimation	Daily
12	Cash book	Daily
13	Bank deposit form	Per transaction
14	Customer's savings book	Per transaction
15	BKK village supervision report	Per trip to village
16	BPD supervisory report	Per BPD inspection of BKK
17	BKK budget	Annually
18	Supervision card	Per village post and type of loan

Source: Compiled by authors

books, those necessary to complete the BPD-required financial reports, are updated daily, whereas the less important models are used at the discretion of each BKK.

For example, all BKK must use the models that perform the following essential functions:

- Compile a register of BKK clients by name (Model 6) and borrower number (Model 5);
- Provide these clients with a receipt of all loan transactions (Model 8) and savings transactions (Model 14);
- Keep track of loan repayment (Model 2A) and delinquent clients (Model 2B);
- Monitor the BKK's overall financial status (Model 3) and cash on hand (Model 12); and
- Inventory the BKK's fixed assets (Model 10).

If special problems arise, however, other models are available to address them. For example, if a BKK unit is having difficulty in managing its cash flow, it can use Model 11, or if a BKK would like to have written records of delinquent clients' renewed promises to pay, it can use Model 15. The problem with most of these models is that although they are conceptually sound, some are tangential to daily BKK operations, and therefore tend to detract from the quality of record keeping that is critical for effective BKK management.

Nonetheless, the BPD has been able to use its combination of overlapping, redundant, core, and peripheral models to build many cross-checks and internal controls into the BKK bookkeeping system. For example, the BKK cashier is responsible for keeping

the cash book (Model 12), while the bookkeeper is responsible for maintaining a combination cash book and running balance (Model 3). Moreover, many critical documents, such as the client's loan repayment receipt (Model 8) and savings book (Model 14), require the signatures of both the BKK cashier and the bookkeeper. This in turn requires concurrent transaction entries into two different BKK accounts, one the responsibility of the cashier and the other of the bookkeeper.

Such financial controls are important BPD passive auditing tools for supervising hundreds of credit bodies whose very mandate is also the aspect of the BKK program most open to abuse: many BKK have only two employees, always dangerous in cash-oriented operations, and all BKK are locally run institutions, which both distances them from BPD observation and leaves them susceptible to pressure from local interests. This passive auditing system combined with active supervision has helped to identify instances in which local authorities have allowed BKK funds to be used for welfare rather than productive purposes, or misused funds in more nefarious ways.

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CHAPTER THREE FINANCIAL OVERVIEW

The BKK program is one of the few publicly funded and administered credit programs in the world that make money from providing loans to small enterprises. Interest rates of BKK, high in comparison with other programs but low by most informal sector standards, can cover their cost of funds, administrative expenses, capital erosion due to inflation, any reasonable bad debt losses, and allow substantial reinvestment of retained earnings. The BKK program has copied the positive aspects of traditional moneylenders, who have known for centuries how to provide a valuable service to the community as well as enrich themselves.

The program, as a whole, is on a sound financial footing. Although this section combines the figures of all 486 BKK into one financial statement, it should be remembered that they are separate entities. Thus some have over Rp 94 million (\$140,000) in equity, while 35 percent are either operating at very low levels or have closed.[1] Unlike many public sector loan programs, the BPD does not inject new capital into BKK that have not handled previous funds correctly. Instead, supervisors analyze why the BKK failed and insist on its making corrections before recapitalization begins. Resources thereby flow to BKK in proportion to their administrative capacity and financial strength.

LOAN REPAYMENT RATES

Financial institutions usually are reluctant to provide loans to small-scale entrepreneurs and traders because these clients are regarded as bad risks. They have no collateral or formal sector borrowing history, and they exact high administrative costs. The BKK program indicates that a combination of personal references from a respected community leader, the expectation of receiving future loans, and the channeling of credit to off-farm productive activities does spur high repayment rates in Central Java.

PORTFOLIO QUALITY

Overall Quality

The quality of the BKK portfolio is excellent; if all loans more than six months overdue are excluded, then only 6 percent of outstanding loans were delinquent in June 1982. This ratio (loans fewer than six months delinquent to total loans outstanding minus those more than six months overdue) is consistent throughout all types of regions: PDP, non-PDP, rural areas, and modern and traditional cities. The loan repayment statistics found in Table 8 were calculated by the evaluation team, based upon results of the June 30, 1982, BKK classification survey results. [2]

Approximately 14 percent of current outstanding loans are more than six months overdue and should be considered unrecoverable. The short-term nature of BKK loans means that there is

Table 8: Loan Delinquency Rates by Region (June 30, 1982)

	Total Loans Outstanding		Total Loans Delinquent		Total Loans Delinquent Over 6 mo.	C/A	E/A	E/C	C-E A-E	D/B
	(A) 000's of rupiah	(B) Number of loans	(C) 000's of rupiah	(D) Number of loans	(E) 000's of rupiah					
Rural FDP										
Average	16,785.49	1,127.08	2,607.05	434.69	1,701.38	0.16	0.10	0.64	0.06	0.39
Sum	1,091,057	73,260	169,458	28,255	108,888					
Count	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)
Rural Non-FDP										
Average	6,797.38	589.32	1,414.81	230.73	1,069.54	0.21	0.16	0.75	0.06	0.45
Sum	2,752,908	205,254	571,584	92,753	431,023					
Count	(405)	(403)	(404)	(402)	(403)	(405)	(405)	(405)	(403)	(404)
Urban Traditional										
Average	15,351.88	549.88	1,547.88	113.88	852.25	0.10	0.04	0.44	0.06	0.21
Sum	76,755	2,749	7,739	569	3,409					
Count	(5)	(5)	(5)	(5)	(5)	(4)	(5)	(5)	(5)	(5)
Urban Modern										
Average	3,265.88	317.88	1,565.73	252.55	1,469.82	0.48	0.45	0.94	0.05	0.88
Sum	35,915	3,488	17,223	2,778	16,168					
Count	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
Rural										
Average	8,178.65	595.12	1,588.05	259.12	1,153.66	0.19	0.14	0.73	0.06	0.43
Sum	3,843,965	278,514	74,1842	121,008	539,911					
Count	(470)	(468)	(469)	(467)	(468)	(470)	(470)	(470)	(468)	(469)
Urban										
Average	7,841.88	389.81	1,568.13	289.19	1,223.56	0.22	0.17	0.78	0.06	0.54
Sum	112,670	6,237	24,962	3,347	19,577					
Count	(16)	(16)	(16)	(16)	(16)	(15)	(16)	(16)	(16)	(16)
Total										
Average	8,141.22	588.33	1,579.39	257.46	1,155.97	0.19	0.14	0.73	0.06	0.44
Sum	3,956,635	284,751	766,004	124,355	559,488					
Count	(486)	(484)	(485)	(483)	(484)	(485)	(486)	(486)	(484)	(485)

Source: Compiled and calculated by authors

little chance that most of these long-overdue loans will be repaid. This default rate is deceptively high, since it combines over 10 years of loans delinquent over six months; the rate would be much lower if a write-off policy had been applied throughout the program's history. BKK have resisted writing off these loans because they fear that this would eliminate any possibility of loan recovery and perhaps reduce incentives for repayment. However, a write-off policy would provide a more accurate reflection of portfolio quality and be useful for management decision making. This policy would not have to be announced publicly so that BKK agents could still attempt to claim these debts whenever possible. At a minimum, BKK should include a provision for bad debts in their financial statements.

Urban versus Rural Portfolio Quality

Urban centers have both the highest and the lowest default rates. The modern urban centers of Semarang and Tegal have the worst default rates of the program. Forty-five percent of their outstanding loans are more than six months overdue. Explanations for why this situation has occurred stress that social cohesion is not as strong in these modern cities as in rural areas, or in traditional urban centers that have still retained the characteristics of rural areas. Semarang and Tegal attract large numbers of transients who can easily disappear if they do not wish to repay their loans; the village headman approves loans for those he does not know, often for a fee; and the subdistrict

chief is too busy to supervise the program or to chastise delinquent clients. The main incentive for repayment in rural areas -- the expectation for receiving another BKK loan -- is also weaker in urban areas where alternative formal sector credit programs are available on more favorable terms. The fact that 10 out of 11 BKK are no longer operating in modern urban centers suggests that a new strategy must be developed in those urban areas before any attempts at recapitalization are made.

The five traditional urban area BKK (located in Pekalongan, Purwokerto, and Magelang) have the lowest default rate of the program: only 4 percent of outstanding loans are more than six months overdue. This good performance has been maintained by utilizing characteristics of these traditional urban centers in BKK program management. These cities retain the close social cohesion prevalent throughout rural Central Java, cover a much smaller geographic area than rural BKK, and serve as the seat of BPD branch offices. Thus BKK have prospered through close supervision by the BPD branch and field officers, and high-caliber BKK agents strongly supported by local officials.

PDP versus Non-PDP Portfolio Quality

Capital infusions and technical assistance that stressed rehabilitation of Class IV and V BKK have resulted in a fairly low (10 percent) default rate in PDP-supported areas.[3] Techniques used to tighten procedures and recover delinquent loans were first tested in the PDP area and then spread throughout the region.

Non-PDP rural areas, in contrast, have a 16 percent default rate. Most of these loans were lost during the early experimental years of the BKK program, when seasonal loans were provided for agricultural production or for consumption by agricultural laborers. Such loans were particularly needed in areas where the BIMAS/INMAS agricultural credit program had not yet begun. However, when harvests were poor, as they were in many areas, farmers often had no lucrative secondary activity upon which to rely and thus could not repay their loans. Traders, in contrast, could use their agricultural production as a cushion, rather than depend upon it as the sole source of support. Khusus loans also contributed to high delinquency rates, although the comingling of funds makes it impossible to determine what percentage of defaults is due to the Khusus programs.

To survive, the BKK program had to move out of the agricultural credit business. It takes only about three years for a BKK capitalized with 1 million rupiah to go bankrupt when seasonal loans are provided at the 2 percent seasonal loan rate. Policy makers had intended to promote agriculture by providing farmers low-interest loans; however, because these interest rates could not cover the risks of such loans, this policy almost caused the BKK program to become bankrupt.

The decision therefore was made to service off-farm activities that produced a steady cash income. Since clients could reinvest their BKK loan activity profits into their agricultural activities, agricultural production was still

expected to indirectly benefit from the BKK program. The BKK system of client referrals and gradually increasing short-term loans, bypassed in the Khusus programs, was established as one that should not be tampered with if repayment rates were to remain high.

BKK Reported Loan Repayment Rates

Alternative measures of loan repayment status used by the BPD provide a different perspective of the program. The BKK classification survey uses the number of payments missed to payments due to derive a sense of client punctuality. Overall, about 32 percent of payments due were actually missed by clients. Since no penalties are levied on late payments, this practice has substantial costs for the BKK program.

Other repayment formulas used by the BPD compare cumulative payments overdue to cumulative loans made (in value and number) throughout the program's history. Since loans outstanding have grown far more rapidly than delinquent loans, this percentage has steadily declined over time, as shown in Table 9. Only 2 percent of cumulative loans by value and 5 percent by number are overdue when divided by the cumulative amounts of loans disbursed since the beginning of the program. This indicates substantial improvement in the quality of loans since the program's inception. However, since none of these delinquent loans was ever written off, they constituted about 20-25 percent of each year's

Table 9: BKK-- Cumulative Delinquency Rates

Year	No. of BKK Units	Cumulative Amount of Payments Overdue Cumulative Amount Loaned	Cumulative Number of Overdue Loans Cumulative Number of Loans Disbursed	Amount of Overdue Loans Amount of Loans Outstanding at End of Year
(in percentages)				
1972	200	7.00	16.0	15
1973	350	6.00	12.0	18
1974	432	5.00	10.0	21
1975	465	4.00	9.0	22
1976	486	4.00	8.0	25
1977	486	3.10	7.0	25
1978	486	2.60	5.5	24
1979	485	2.50	5.4	24
1980	485	2.40	5.1	22
1981	486	2.20	4.7	20
7 mo thru July 1982	486	2.04	4.6	18

Source: Compiled and calculated from Bank Pembangunan Daerah Jawa Tengah statistics

outstanding loans throughout 1972-1982 and, as previously mentioned, presently make up about 18 percent of total loans outstanding.

LOAN INTEREST RATES

The BKK program's effective interest charge on loans is higher than its nominal rate, since interest is charged on the original loan amount rather than on a declining balance. Loan interest and forced savings payments are made prior to any amortization of loan principal. In addition, 1 percent of the loan principal is subtracted from each BKK loan as a borrower commitment fee.

Table 10 compares the monthly nominal and effective interest rates for the six different types of BKK loans (see Table 2 for a more complete description of these plans). These effective rates do not include the interest charge that is used to generate forced savings, since this cannot be considered a source of BKK revenue. Although some BKK make it difficult for clients to withdraw these savings to increase the amount of BKK loanable funds, nevertheless they do legally belong to clients. If forced savings were included as an interest charge to clients, then the BKK effective interest rates shown in Table 10 would double.

These effective interest rates outstrip any inflationary pressures to decapitalize the fund and, given high repayment rates, promote rapid growth of the loan portfolio. The highest rate of almost 11 percent per month is for the shortest-term

Table 10: Nominal and Effective Monthly Interest Rates

Type of Loan	Payback Period	Nominal Monthly Interest Rate (excluding savings)	Effective Monthly Interest Rate[1] (excluding savings)
Harian[2]	22 days	4.8	10.8
Pasaran	60 days	4.0	6.9
Mingguan	12 weeks	3.6	6.9
Bulanan	3 months	3.3	5.3
Lapanan	175 days	3.4	5.6
Musiman[3]	6 months	2.0	2.2

1 Effective interest rates were calculated by assuming that interest and commitment fee were repaid before savings and principal according to the formula.

- P = loan principal
 I = amount of interest plus 1% fee
 n_1 = amount of first loan payment (interest, fee, principal)
 n_2 = amount of last loan payment (principal)
 d^z = number of days for loan repayment
 w = number of payments made (only for loan interest, fee, principal; not including any payments solely for savings)

$$(P+I) \left(\frac{I}{99p} \right) 30$$

$$\frac{[(n_1 \times 1) + (n_2 \times 2) + \dots + (n_z \times z)] d}{w}$$

2 Only one BKK currently disburses harian loans.

3 Musiman loans are rarely disbursed.

Source: Bank Pembangunan Daerah Jawa Tengah and authors' calculations

loan, whose daily repayments also increase administrative costs. Only one BKK currently provides harian loans, the few other BKK that used to offer this type of loan have discontinued it since staff are not available to cover each post every day. The musiman loan, whose effective rate is only slightly higher than the nominal rate due to discounting, is also rarely offered, since its low interest rate cannot cover the higher risks associated with seasonal loans.

The most popular loans -- mingguan and bulanan -- have effective monthly interest rates of 6.9 percent and 5.3 percent respectively. Since loan repayment rates are generally good, this indicates that small additions to traders' working capital must generate impressive returns. Indeed, of those surveyed, few complained seriously that interest rates were too high. Clients were willing to pay a premium for the convenience of having a BKK post in their own village, and easy loan approval procedures. The BKK clients' transport costs and time losses thereby were considerably less than if they had attempted to receive credit from other lower interest credit programs. Indeed, it may be cheaper to borrow at an unsubsidized rate in the village than at a subsidized rate in the sub-district headquarters.

Since no penalties are levied on missed payments or delinquent loans, however, the effective interest rate for many clients is much lower. Many clients make the first few payments on time and then repay the remainder in a lump sum at the end of the loan period. In such cases the effective interest rate

closely approximates the nominal rate. Those who repay loans after the set repayment period are receiving even lower effective interest rates. Over two-thirds of the clients surveyed said they had missed payments, and 32 percent of payments were late, according to the July 1982 classification survey.

The sole incentive for clients to make payments on time is that their chances for receiving another loan are almost guaranteed. Chronically delinquent clients are less likely to receive additional loans. Given the high percentage of payments missed, it should be appropriate to investigate the possibility of setting penalties for late payment, perhaps in exchange for lower interest rates for good customers. However, if clients believe that the BKK is not strong financially and will not have the funds to disburse future loans, then few incentives can spur loan repayment.

CAPITAL ACCUMULATION

Table 11 shows the growth of the BKK program since its inception. Borrowed capital increased between 1972 and 1975, and then declined until the infusion of PDP funds in 1980. Borrowed capital grew at an average annual rate of 18.7 percent. Outstanding loans minus payments overdue, as well as savings, both grew at more than twice the average yearly inflation rate of 16.8 percent. Although the amount of loans outstanding minus payments overdue grew by a compounded annual rate of 35.8 percent, the number of loans grew by only 8.8 percent, indicating

Table 11: Capital Accumulation of the BKK Program, 1972-1982

Year	No. of BKK	Loans Out- standing	Overdue payments	Borrowed Capital	Savings	Equity
(in millions of rupiah)						
1972	200	213.4	31.5	152.3	38.4	(-8.7)
1973	350	498.3	89.8	306.0	110.7	(-8.2)
1974	432	857.9	181.3	446.1	220.1	10.5
1975	465	1,096.3	245.3	463.6	285.4	101.9
1976	486	1,305.8	326.5	462.2	338.4	178.7
1977	486	1,420.1	361.6	422.0	356.3	280.2
1978	486	1,581.2	475.0	394.3	385.5	426.4
1979	485	1,886.2	454.9	397.6	435.7	598.8
1980	485	2,507.7	561.0	500.3	565.9	880.5
1981	485	3,319.5	675.7	572.2	733.8	1,337.9
July 1982	485	4,083.9	752.3	780.8	791.6	1,759.2

Note: Equity does not include cash on hand

Source: Bank Pembangunan Daerah Jawa Tengah

that real loan amounts increased for steady borrowers. High profits have enabled equity to grow at a 55 percent compounded annual rate.

Table 12 compares the BKK balance sheets for 1975, 1978, and 1981. Some discrepancies exist when items from these financial statements are compared with other BPD data on capital accumulation. Over 90 percent of assets are in outstanding loans, less than 3 percent of funds are in cash, and fixed assets are minimal. BKK cash on hand could cover about 14 percent of member savings. The BKK's low level of idle resources and overhead costs has contributed to the program's financial success.

The BKK program increased its reliance on internally generated profits as a source of funds during this period. Borrowed capital has declined from 36 percent to only 16 percent of liabilities, while equity has increased from 34 percent to 63 percent. Thus BKK debt to equity ratio is a conservative 0.56.

In September 1982, client savings accounted for almost one-fifth of the sources of BKK funds. The importance of savings as a source of loan capital should increase if new incentives are provided to tap voluntary savings.

Profits of 693 million rupiah (\$1.08 million) were earned during the year ending in December 1981 (see Table 13). Unfortunately, the BKK program's income statements cannot be compared over time since statements from only one year are available. One year's profits are higher than all outstanding BPD debt; these debts could be fully repaid after only nine months of operations

Table 12: BKK Comparative Balance Sheets

Assets and Liabilities	December 31, 1975 (343 BKK)	December 31, 1978 (397 BKK)	September 30, 1981 (486 BKK)
	(millions of rupiah)		
<u>Assets</u>			
Cash	33.3	65.9	85.8
Loan portfolio	894.4	1,463.6	3,024.7
Savings deposits with BPD	6.1	16.2	44.3
Materials building and equipment	22.6	78.0	144.7
Other	7.3	7.8	17.4
TOTAL	963.7	1,631.6	3,317.0
<u>Liabilities</u>			
Provincial govern- ment/BPD	349.8	311.0	520.8
Kas desa	18.1	24.9	19.5
Dinas deposits	22.8	11.6	24.0
Member savings	247.3	359.7	631.1
Accumulated equity	199.3	669.4	1,625.6
Net profits from preceding year	126.4	254.9	496.0
TOTAL	963.7	1,631.6	3,317.0

Source: Bank Pembangunan Daerah Jawa Tengah

Table 13: BKK-- Profit and Loss Statement January 1-December 31, 1981

(in thousands of rupiah)

Income

Weekly	447,440	
Monthly	492,052	
Seasonal	<u>32,742</u>	
Total Interest Income		972,233

Administrative Fees		44,835
Other		33,510
Residual		<u>725</u>
Total Income		Rp 1,051,303

Expenses

Interest paid to BPD	25,030	
Salaries	152,409	
Payment to kabupaten	48,101	
Supplies, gas	38,593	
Other	78,369	
Depreciation	<u>15,729</u>	
Total Expenses		Rp 358,230

Net Profit		Rp 693,073
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Note: Discrepancies due to rounding

Source: Bank Pembangunan Daerah Jawa Tengah

at current levels. These profits constitute a 24 percent return on the average 1981 loan portfolio; although this percentage much higher than for banks operating in Western nations, it is equivalent to profit rates earned by private commercial banks in Indonesia. [4]

LOAN TURNOVER

The BKK average loan portfolio turned over 2.6 times during 1981. This turnover rate jumps to over three times if loans more than six months overdue are excluded from the average loan portfolio of 1981. Excellent loan turnover reflects the maximum use of loan capital. The average loan was four months long, if defaults are again excluded. Average loans are longer than the longest BKK loan, as a result of delinquencies and the fact that loan activity drops sharply before the Lebaran celebration so that savings can be released.

Table 14 shows the loan turnover rate since the beginning of the program. Loan turnover was highest during the early years when loans were smaller and the portfolio had just been capitalized. Poor repayment rates then caused loan turnover to drop until additional capital was injected from the PDP program, and the rehabilitation process began in 1979. Had defaults been subtracted from loans outstanding, then the loan turnover rates would be higher throughout this period. As the Rp 3 billion loan

Table 14: Loan Turnover 1972-1981

	Amount of Loans Disbursed Throughout the Year	Loans Out- standing at End of Year	Average Amount of Loan Portfolio	Loan Turnover (a/c)
	(A)	(B)	(C)	(D)
	(in rupiah)			
1972	442,575,807	213,428,597		
1973	1,178,534,388	498,256,179	355,842,388	3.31
1974	2,032,464,607	857,929,870	678,093,025	3.00
1975	2,479,701,994	1,096,294,184	977,112,027	2.54
1976	2,632,008,377	1,305,824,896	1,201,059,540	2.19
1977	2,726,110,000	1,420,097,129	1,362,961,013	2.00
1978	2,994,337,223	1,581,211,393	1,500,654,261	2.00
1979	3,597,075,546	1,886,175,896	1,733,693,645	2.07
1980	5,436,751,135	2,507,736,077	2,196,955,987	2.47
1981	7,705,186,656	3,319,535,051	2,913,635,564	2.64

Source: Bank Pembangunan Daerah Jawa Tengah and DAI calculations

(\$4.5 million) from the central government's Ministry of Finance is injected into the BKK program and repayment performance continues to improve, then loan turnover is expected to increase greatly.

FINANCIAL VIABILITY OF THE BKK PROGRAM

The financial statements cited in this section do not include the subsidies and costs that determine whether the program actually is viable and self-sustaining. First, the BKK program, like the system of the World Bank, has no provision for bad debts on its balance sheet. Although the World Bank might be justified in believing that no country would ever default on a loan, the BKK program has less reason for such optimism. A more accurate reflection of the balance sheet is found in Table 15, where all debts more than six months over due and 50 percent of those under six months overdue have been subtracted from outstanding loans.[5]

Inflation is another hidden cost that erodes the value of the BKK resources. The true cost of the BKK program's sources of funds (the BPD loan, savings, equity, and retained earnings), assuming a 12 percent annual inflation rate, is 10.7 percent of liabilities.[6] The government also subsidizes the program by paying for about one-third of BKK staff salaries.

If all these costs were added as expenses, then the revised profit and loss statement found in Table 16 would be derived. The program would still have been profitable in 1981, with earnings

Table 15: Reconstructed Balance Sheet (September 30, 1981)

Assets		Liabilities	
(in thousands of rupiah)			
Cash	85,821	BPD Loan	520,846
Outstanding loans	3,024,653	Kas desa	19,484
Less:		Dinas deposits	23,959
Provision for bad debts:		Savings deposits	631,064
Loans over 6 mo. overdue ¹	423,451	Accumulated net earnings	1,625,587
Loans 0-180 days overdue ²	<u>75,616</u>	Earnings	496,014
	499,067	Provision for bad debts	<u>(499,067)</u>
Net outstanding loans	2,525,586	Total Liabilities and Equity	<u>2,817,885</u>
Savings deposits with BPD	44,313		
Materials, buildings, and equipment	144,717		
Other	<u>17,448</u>		
Total Assets	<u>2,817,885</u>		

Assumptions 1: 14% of outstanding loans are more than 6 months overdue and will not be recovered
 2: 5% of outstanding loans are 1-180 days overdue: assume that 50% will not be recovered

Discrepancies due to rounding

Source: Reconstructed from Bank Pembangunan Daerah Jawa Tengah statistics

Table 16: Reconstructed Profit and Loss Statement (January 1-December 31, 1981)

(in thousands of rupiah)

Income

Interest	972,233
Administrative fees	44,835
Other	33,510
Residual	<u>725</u>

Total Income **1,051,303**

Expenses

Salaries ¹	228,614
Payment to kabupaten	48,101
Supplies, gas	38,593
Other	78,369
Depreciation	15,729
Bad debts (1981) ²	72,841
Cost of funds ³	<u>354,957</u>

Total Expenses **837,204**

Net Profit **214,099**

-
- Assumption 1:** Currently one-third of salaries are paid by the government directly; if this subsidy were removed salary expenses would rise by 50%
- Assumption 2:** Bad debts are 2.5% of the average loans outstanding in 1981
- Assumption 3:** Cost of funds=10.7% of liabilities

Discrepancies due to rounding.

Source: Reconstructed based upon information and statistics from the Bank Pembangunan Daerah Jawa Tengah

of Rp 214 million (\$333,000) if all subsidies were removed. This amount still represents a remarkably high 7 percent return on the average portfolio in 1981.

Although the program as a whole would have been profitable, these figures reflect the strength of the operating BKK since 33 percent are in Class V. The BPD estimates that a BKK must be capitalized with a minimum of Rp 2 million (\$3,000) for revenues to cover the costs of two full-time staff members and other expenses. This extremely low break-even point is possible by hiring primary and secondary school graduates who command lower wages than those with higher degrees, keeping overhead costs to the minimum, and maintaining good repayment and high interest rates.

NOTES

- 1 Equity = (total loans outstanding) + (cash on hand) - [(loans more than six months overdue) + (borrower savings) + (BPD and other loans to the BKK)].
- 2 The best measure of repayment rates, that is, amount repaid/amount due, could not be derived from BKK records. However, loans outstanding should closely approximate loans due because of the short-term nature of BKK loans. The BKK considers loans delinquent only when the last payment is missed.
- 3 All PDP BKK are located in rural areas.
- 4 The return on outstanding loans increases to 25 percent when compared with loans outstanding in 1981 minus loans over six months overdue and half of other delinquent loans.
- 5 This estimate of unrecoverable loans is based upon findings discussed under loan repayment.

- 6 This figure is derived by calculating the effect of a 12 percent interest payment on the BPD loan, the application of a 12 percent inflation erosion factor on capital funds (equity and retained earnings), and 6 percent interest paid on savings and dividing the sum by total liabilities. The average annual inflation rate was 12 percent from 1975 to 1981. The expected inflation rate for 1982 was also 12 percent.

CHAPTER FOUR PROGRAM IMPACT

SURVEY METHODOLOGY

The survey methodology was designed with the active participation of BPD, BKK, BAPPEDA, and CJEDP staff.[1] The objective was to interview, within one week, a large, geographically and economically diverse sample of BKK clients. Interviews, therefore, had to be short and simple and yet meet the most pressing information needs of those who had requested the evaluation.

The sample of BKK is fairly representative of the population, although it is slightly biased toward Class I BKK and against Class IV BKK. Class V BKK, units that were either operating at very low levels or have closed, were examined on a case study basis and excluded from the survey.

After pre-testing the Javanese questionnaire[2] and training 12 local BKK staff members and 6 BPD field supervisors, the evaluation team directed a survey of 662 BKK clients throughout Central Java. Borrowers were randomly chosen from those repaying their loans, and were usually interviewed at their BKK office; occasionally, clients were interviewed at their place of business. Since the sample under-represents those who have defaulted on their BKK loans, survey results cannot be extrapolated to the BKK client population as a whole. They should, however, provide a fairly representative profile of most BKK clients, since relatively few have defaulted on their loans.

CLIENT PROFILE

Economic Activities

Although agriculture is still the backbone of Central Java's economic activities, a long history of subdivision of plots has forced the rural poor to diversify into modest off-farm activities. Poor families must have a keen awareness of market opportunities to survive in this intensely competitive environment. Families allocate their labor and capital resources to those activities that yield the greatest returns. By rotating in and out according to seasonal and market demands, families avoid the risk attached to depending solely upon any one activity. Profits earned from trading activities, therefore, are used to purchase agricultural inputs; a good harvest, however, can foster the expansion of other household economic activities or the start of new activities with extremely modest amounts of capital.

Yet bad harvests cause the entire economy to contract. Since most of the petty traders cater to the needs of the rural poor, their market declines with decreases in their neighbors' purchasing power. Many BKK sharply reduce their loan disbursements because they fear that their clients' activities will not yield a cash flow sufficient to repay loans, or that the credit will be used for consumption. Previous experience has taught them that credit loosely extended during hard times is the surest way to cause a BKK collapse. Clients retreat to the informal credit sector, whose collection methods are more effective than those of the formal sector.

A typical family has each of its members involved in a variety of income-producing activities. Women dominate the petty trading, food production, and handicrafts fields. During planting and harvest time, they work with other family members on their own or rented land. Men often find unskilled labor jobs during the off-season, or also engage in marketing. They dominate more the physically demanding occupations such as blacksmithing, brickmaking, metal working, and construction.

BKK borrowers are fairly representative of Central Java's population. Women receive 60 percent of loans, however, since they dominate the petty trading sector, which receives the largest share of loans. The percentage of loans actually used for female economic activities may indeed be higher than survey results indicate, since men in urban areas often apply for loans on behalf of their wives. Almost all those surveyed said that they owned their own business.

Trading was the primary economic activity for over half of the sampled group. Most did not specialize in a specific item but instead marketed a variety of goods that they picked up according to given opportunities. As shown in Table 17, although only 15 percent were involved in agricultural production as their primary economic activity, a majority of those with secondary activities were farmers. Twelve percent were in the services-repair sector as their primary activity; about 70 percent of these people (9 percent of the sample) were civil servants.

Table 17: Economic Activities of BKK Clients

	Primary Economic Activity (n=662)	Secondary Economic Activity (n=449)
(in percentages)		
Commerce (miscellaneous trading)	53	29
Agricultural production (farming)	15	54
Services/repair (govt. employees)	12	4
Handicrafts/ manufacturing (bamboo weaving)	11	7
Agricultural processing (tahu, tempe)	7	6

Some of the sampled villages were renowned for a single economic activity, such as bamboo weaving or the preparation of tahu and tempe. Thus it is not surprising that a majority of the 11 percent manufacturing handicrafts or the 7 percent processing agricultural products were involved in these fields. Indeed, the most surprising finding was that there is not a greater diversity in the type of economic activities practiced by BKK borrowers.

Age and Family Size

Clients were older than expected. Over one quarter were over 49 years old, pulling the mean age up to 40 years. Most were in their prime earning period, 25-49 years, while only 5 percent were under 25 years.[3] Only 3 percent of the women were not married. The average loan recipient family had five members currently living at home; each family member earning an income supported an additional 2.6 people.

Land Ownership and Education

Proxies for clients' socio-economic status were used, since it would have been too time consuming to try to collect accurate household income data. Because interviews were conducted in the BKK office, common proxies derived through observation, such as housing quality and quantity of household items, could not be used. Instead, an imperfect measure of land ownership and the amount of schooling received were used to give a general impression of the client group.

The BKK program was expected to attract a large percentage of landless farmers who depended on off-farm activities to support their families. However, about 53 percent of those interviewed did own land; this number approximates the percentage of landowners in Central Java.[4] The land ownership status of BKK borrowers broken down by urban and rural areas is shown in Table 18. Sixty percent of rural clients owned land; 6 percent did not own their own land but instead rented land for cultivation. Surprisingly, almost one quarter of urban clients owned land.

The amount of land owned was greater than average for Central Java. The average land-owning client owned approximately 0.8 ha; 72 percent of provincial landholdings, in contrast, are less than 0.5 ha. However, these comparisons are not particularly meaningful, since the quantity of land owned is less important than its quality. A small amount of irrigated rice land that yields several harvests per year is far more valuable than dry land whose one harvest depends upon the rains.

The education received by clients reflects that of Central Java's population. But as shown in Table 19, urban clients have received more formal education than rural ones. Over 60 percent of rural clients but only 45 percent of urban borrowers had received no schooling or had not completed primary school. Thus thumbprints instead of signatures are required to secure a BKK loan. About the same percentage of clients in urban and rural

Table 18: Land Ownership and Rental

	Rural (n=529)	Urban (n=123)	Combined (n=662)
(in percentages)			
Own land and rent land from others	14	2	12
Own land but do not rent land from others	46	20	41
Do not own land but do rent land	6	3	5
Do not own or rent land	34	75	42

Source: Survey results

Table 19: Educational Level of BKK Surveyed Clients Compared to Central Java Population

	Rural (n=539)	Urban (n=123)	Total (n=662)	Central Java (n=12,736,947)
(in percentages)				
No Schooling	25	20	23	60
Primary school not completed	37	25	35	
Primary school completed	28	32	29	28
Junior high school completed	6	17	8	7
Senior high school completed	3	6	3	4
<hr/> Source: Survey results and 1980 census of Indonesia <hr/>				

areas have completed primary school, but almost three times as many go on to complete junior and senior high school in urban centers.

Location of Borrowers

All borrowers in the PDP area and 90 percent of those interviewed in non-PDP areas lived in the same village as the BKK office. Most of these clients, particularly in urban areas, had always received their loans from the same BKK office. Nevertheless, all of these urban clients and three quarters of the rural clients said that they would have traveled to a nearby BKK if one had not been available in their village. One explanation for this discrepancy is that urban dwellers have greater access to cheap transportation than rural borrowers. However, the establishment of posts throughout Central Java has reduced the distance to the nearest BKK office for both rural and urban residents, thereby accounting for their willingness to travel.

Experience with Alternative Credit Sources

More than one-third of BKK borrowers said that they had also received credit from other sources (see Table 20). This may understate the true number of those receiving alternative credit, particularly from informal sources, since some might have forgotten about loans from family members or may not wish to admit having received loans from illegal organizations such as KOSIPA.

Table 20: Alternative Credit Sources For BKK Clients

Source	% of Loans (n=266 loans)	% of Clients (n=662 clients)	Nominal Monthly Interest Rate (approx.)
Arisan	32	13	0
Kosipa	14	6	21
Sewa, Gadai, Ijon or Tebasan	13	5	NA
Kredit Mini	11	4	1
Bimas/Inmas	8	3	1
Neighbor, family	5	2	0
Moneylender	5	2	15
Simpan-Pinjam	5	2	3
KCK	2	1	1
Badan Kredit Desa	2	1	5
Bank Pasar	1	-	4
Private bank	1	-	4
Raw material suppliers	1	-	0
Other	1	-	0
No loans received	-	66	-

The largest alternative source of credit is arisan savings associations. Sometimes these organizations resemble a lottery by awarding a pooled amount to one of its members; most of the arisan described by BKK borrowers, however, provided small loans whose interest charges were used for group activities and to increase the amount of loanable funds. Although borrowers repaid more than they had borrowed, they did not regard this difference as an interest charge since these funds, directly or indirectly, were returned to them.

Despite its average 21 percent nominal monthly interest charges, KOSIPA was the second most popular alternative source of credit.[5] This does not necessarily mean that people are still borrowing from this illegal source, but rather that they had previously used it.

Land-related credit systems (sewa, gadai, ijon, or tebasan) provided loans to 5 percent of BKK borrowers overall, but to 10 percent of those who owned land. As shown in Table 20, other widely used credit systems, in descending order of popularity, were: the Credit Mini, BIMAS/INMAS, family loans, moneylenders, and simpan-pinjam. A negligible percentage had received loans from the KCK program, rural banks, or raw material suppliers.

The chief reason why BKK borrowers had selected these alternative loan sources was that no other source had been available at the time (38 percent). About one-fifth said the source they had chosen was more convenient, 10 percent believed it had lower interest charges (for example, arisan or Credit

Mini), 7 percent liked the longer repayment period, and one quarter said that a combination of all of these factors had led them to this other source.

The reason why borrowers switched to the BKK varied by location. A majority of those in the PDP area said they switched because they found it more convenient than their previous source; most in urban areas and a high proportion of non-PDP rural areas were more convinced by its attractive terms. Table 21 indicates that none said that they had no alternative sources of capital.

A high percentage of BKK clients in the PDP area (46 percent) said they would not have attempted to borrow from other sources if the BKK office did not exist; most (69 percent) in urban areas and rural non-PDP areas (62 percent) said they would have borrowed funds either from another credit institution or from their family. These responses indicate that borrowers in the PDP area, which has the highest ratio of posts to villages, consider easy access to credit a major factor in the decision of whether and where to borrow; urban residents have a greater variety of credit sources within easy access among which to choose, and thus can afford to be more discriminating about loan terms.

BKK Loan Information

The average Rp 59,000 loan (\$88) received by surveyed clients was much greater than the program's overall Rp 33,400 (\$50) average. This is because failing BKK, which provide smaller loans due to lack of funds, were under-represented in the sample.

Table 21: BKK Versus Alternative Sources of Credit

Reason Why Borrowers Chose BKK	PDP	Non-PDP (rural)	Non-PDP (urban)	PDP + Non-PDP
Convenient	53	40	30	41
Good terms	26	44	61	45
Quick	21	11	9	12
No alternative source of Credit	0	1	0	0
Other (combination)	0	3	0	2

What would they have done without BKK credit?

Would not have attempted to borrow elsewhere	46	38	32	38
Would have borrowed from other credit source	54	46	62	50
Would have borrowed from family	0	16	7	12

Source: Survey results

Average borrowers quadrupled their loan size (in real terms) within four years of association with the BKK. Overall, 64 percent said they had missed loan payments, with a higher percentage of urban (76 percent) than rural (61 percent) admitting loan delinquency.

Sampled clients had received an average of 13 loans from the BKK; while the largest percentage had received one to five loans (44 percent), the following breakdown shows that over 25 percent had received more than 20 loans:

Table 22: Distribution of BKK Loans to Clients

<u>Number of BKK Loans per Client</u>	<u>Percentage of Sampled Clients</u>
1 - 5	44%
6 - 10	13%
11 - 20	16%
21 - 40	22%
Over 40	3%

The mingguan loan was the most popular type of loan taken by clients. A weekly repayment schedule fit their cash flow patterns, and usually coincided with market day. Also, since posts frequently open only once a week, this loan was the only option for many. The monthly bulanan loan was the second most popular loan in rural areas, while the 35-day lapanan loan was preferred by urban residents. Few six-month musiman loans are currently being disbursed, since interest charges are too low to cover costs.

Savings

BKK borrowers' propensity to save is much higher than expected. Over 40 percent of clients had savings accounts besides the BKK forced savings program. Most placed excess funds in informal sector non-interest bearing savings and loan associations such as the arisan (51 percent), simpan-pinjam (20 percent), usaha bersama (3 percent), or other savings societies (10 percent), but a high percentage (17 percent) put their funds in a high-interest-bearing savings account (see Table 23).[6] Government subsidies allow tabanas accounts to pay 15 percent per annum on small deposits -- the highest interest rate of any formal savings program. Since tabanas are located only in urban centers, it is not surprising that urban BKK borrowers could take greater advantage of this option.

Half of urban clients said they would move their savings into another savings account if the BKK forced savings program were eliminated; only 9 percent of rural borrowers agreed with this course of action. Most villagers preferred to keep the savings at home (37 percent) or spend the money (32 percent). However, if they had the same option of earning a high interest rate on savings as their urban counterparts, their willingness to deposit voluntarily their savings in another account might be greater.

A 1978 Indonesian Household Budget Survey (SUSENAS) also found potential for greater savings mobilization in rural areas. Survey data indicated that despite low incomes, rural households

Table 23: Savings Information

	Rural (n=539)	Urban (n=123)	Combined (n=662)
Clents with Non-BKK Savings Accounts	40 (n=216)	48 (n=59)	42 (n=275)

(in percentages)

Type of Savings
Account

Arisan	49	58	51
Tabanas	15	24	17
Simpan-Pinjam	22	14	20
Usaha Bersama	3	3	3
Other savings societies	13	2	10

Use of savings if
BKK savings account
did not exist

Open savings A/C elsewhere	9	50	17
Keep savings at home	37	10	32
Spend the money	32	38	33
Combination of the above	22	2	18

Source: Survey results

had a high 20 percent savings rate. This compares well with other more developed countries such as Taiwan (27 percent average propensity to save) that have turned this characteristic into a major propellant of growth. Tapping these resources and feeding them into productive sectors will be increasingly important if foreign capital sources continue to decline. The BKK program, through its presence in the countryside and high loan interest rates, is well suited to provide the access and high savings interest rates needed to mobilize voluntary rural savings. Further discussion of this issue is found in Chapter Six.

PROGRAM IMPACT ON CLIENTS

BKK Loan Impact on Borrowers' Businesses

Survey results show that BKK loans did promote the expansion of most borrowers' businesses. In addition to improving ongoing activities, one quarter of rural clients and 14 percent of urban clients (23 percent combined) said they had added new economic activities since receiving their first BKK loan. The BKK's good loan repayment rate is one clue that borrowers must be using these loans for productive purposes that generate a cash flow sufficient to cover the high interest charges.

Since BKK borrowers juggle their resources among a variety of household activities, it is difficult to trace the impact of one discrete source of income. Respondents were asked how certain

aspects of their business had changed since receiving their first BKK loan and whether they thought these changes occurred because of their BKK loans.

Almost all clients said loans were used as working capital to buy raw materials or goods for resale. A few (3 percent) purchased equipment alone, or both equipment and raw materials (2 percent). Table 24 shows that most clients thought their BKK loans caused their raw materials purchases, their sales volume, the number of customers, and their net profits all to increase. Over 40 percent said that their BKK loans had enabled them to order larger quantities and thereby receive suppliers' discounts. Since these discounts were not fully passed on to consumers, an automatic increase in profits resulted. The possibility of receiving such discounts was the key factor that caused many to borrow from the BKK.

Only half said they increased the number of their suppliers and the diversity of goods sold; the relationship of these developments and the BKK loans was weaker, however, than the other proxies of business prosperity.

Market Saturation

The future growth of these businesses depends upon whether the market for their products is saturated. Many small trader loan programs are justifiably criticized for providing loans to businesses to expand without the necessary market for their goods. In these cases, the business uses its loan to purchase a greater volume of raw materials or goods, which it cannot sell.

Table 24: Impact of BKK Loans on Clients' Businesses

	Decreased	Remained The Same	Increased	Because of BKK Loan
(in percentages)				
Volume of raw materials purchased	1	11	88	93
Number of suppliers	3	49	49	74
Variety of goods sold	2	47	50	74
Number of customers	1	12	84	89
Sales volume	1	12	88	92
Net profits	2	6	96	96

Source: Survey results

Usually the business then must default on its loan. Central Java is unusual because its high population density provides a strong market for these traders' goods. Thus when a BKK office has provided 100 loans to different clients all practicing the same trade, market demand has absorbed their increased production.

Although almost 40 percent thought that market competition had increased since receiving their first BKK loan, almost 70 percent believed that they could still sell more of their product at the same price. Entrance into the market is fairly unrestricted since 56 percent believed that others could begin a similar business successfully.

Use of Profits and BKK Savings

Most reinvested their profits into their business and withdrew their forced savings for family needs and holiday celebrations. The percentage of those using savings for domestic needs may even be greater than shown in Table 25, since many BKK allow savings to be withdrawn only if the client states they are for productive purposes. This may explain why only two-thirds of clients have ever withdrawn funds from their savings accounts.

Lebaran and Slamatan holidays consumed a large percentage of savings (16 percent and 2 percent respectively); in anticipation, most BKK reduce their lending levels several months before Lebaran so that savings can be returned. A small percentage of clients invested some of their profits and savings into traditional storages of wealth such as land, gold, silver, and jewelery.

Table 25: Use of Business Profits and BKK Savings

	Profits	Savings
Working capital	58%	36%
Family needs	28%	36%
Housing improvement	4%	3%
Lebaran, Slamatan	1%	18%
Equipment purchase	2%	2%
Gold, silver, jewelry	2%	0%
Start new activity	2%	0%
Land investment, funerals, weddings, other	2%	5%

Employment Impact of BKK Loans

A small infusion of working capital usually is not expected to increase the employment generated by seasonal, family-run trading activities. Unlike the equipment purchases that may geometrically increase production and require additional labor in a manufacturing operation, any marginal increase in small trading activities can be expected to be handled by the existing owner.

Surprisingly, BKK loans do seem to have had a positive effect on employment. Underemployment of owners decreased, and new full and/or part-time workers were hired by 17 percent of borrowers (see Table 26). The effect of BKK loans on increasing the productivity of clients, however, is far stronger than on

Table 26: Employment Effect of BKK Loans

	Decreased	Remained The Same	Increased	Because of BKK Loan
	(in percentages)			
Amount of time spent by clients on business activity	1	38	62	81
Number of people working in the business	1	82	17	54

Source: Survey results

stimulating new employment. While four-fifths of clients thought the BKK loan affected their own productivity, only 54 percent believed it had influenced the number of people working in the business. Often, for example, small entrepreneurs will employ family members in their business, whether or not they need additional help.

Over 60 percent of clients said that the amount of time they spent on their business had increased since receiving their first BKK loan. Only 1 percent said that the amount of time they spent or the number of people working for them had decreased since receiving the loan. Over four-fifths said that the number of people working in the business (usually only themselves) had remained the same.

About 16 percent said that they had hired full-time workers since receiving their first BKK loan; an average of 1.85 persons were hired by these clients. Usually only the more established small businesses, for example, restaurant owners that were open all year, hired full-time labor. This category included both family members and outside paid labor.

A greater number of part-time employees were hired by fewer clients; 13.5 percent of clients each hired, on average, 2.7 part-time laborers. The definition of a part-time laborer was anyone, including family members, who regularly worked for the client. Most clients chose the option of increasing the number of hours they worked when business was brisk, rather than adding the extra expense of an additional worker.

The average sampled BKK client, therefore, created 0.3 new full-time jobs and 0.4 part-time jobs. This reaffirms the belief that the BKK is meeting its goal of increasing the productivity and employment generated by its small entrepreneurial clients.

PROGRAM IMPACT ON COMMUNITIES

Community Income and Employment

The BKK program has contributed significantly to village and area development in Central Java, but is still a long way from fully servicing the province's demand for rural off-farm credit.

Most BKK borrowers have benefited from their BKK loans, and most BKK clients have been able to use their loans to generate sufficient income both for loan repayment and for business expansion. Moreover, these clients have found the credit valuable enough to seek it repeatedly, in progressively larger amounts.

BKK client success has rippled through local economies through backward linkages and income multipliers, although the effects of forward linkages and consumer surplus have been minimal.

The primary BKK backward linkage has been through suppliers: about 90 percent of surveyed BKK borrowers have increased the volume of materials they purchase since receiving BKK credit, and almost half have also increased the number of suppliers from whom they buy. Traders purchase their supplies both from within and outside their community.

In contrast to backward linkages, forward linkages have not been important contributors to the BKK program's community impact. Most BKK clients are petty traders and handicraft workers, so they produce or market end products, rather than serve as intermediate suppliers for other businesses. In addition, survey results indicate that BKK traders' cost-savings derived from new buying patterns usually have not been passed on to consumers. For example, the 41 percent who received new supplier discounts seldom subsequently lowered their selling prices. Instead, consumers have benefited chiefly through the increased availability and wider diversity of products in the marketplace.

The most significant community impact of the BKK program occurs through income multipliers. In addition to buying more materials from more suppliers, BKK clients have also contributed to the economic growth of their communities by spending more on personal consumption through their increased purchasing power. About one-third have used business profits and roughly 40 percent have used accumulated savings for family needs and housing improvements. An additional 18 percent have used their savings for the Lebaran and Slamatan holiday celebrations. BKK staff also assume that surplus funds from non-agricultural endeavors are siphoned into agricultural production, since farming is a secondary economic activity for over half of the BKK borrowers.

BKK impact on community employment has also been positive, although much more moderate than the program's impact on community income. Both underemployment and unemployment have

decreased as a result of the growth of BKK-assisted businesses: since receiving their first BKK loan, over 60 percent of surveyed BKK clients spend more time on their businesses, and about one-fifth have hired new full- and/or part-time workers. However, the number of new employees per business was usually small, as the average surveyed BKK borrower created 0.3 new full-time and 0.4 part-time jobs. These figures, although modest, probably overstate the program's employment impact, because the survey sample excludes Class V BKK, and is biased against clients who have defaulted on their BKK loans. The evaluation team therefore did not extrapolate from the survey sample to the program's entire clientele.

Community Coverage

The BKK program is large, both in coverage and in volume, when compared with similar credit programs. It now operates in 486 of Central Java's 492 sub-districts, and should have made about 300,000 loans totaling approximately Rp 9.7 billion (\$14.5 million) in 1982, based on projections from figures through July 1982.

However, there is still a large unmet demand for credit in rural Central Java. The BKK's short-term target is to establish one post for every two villages; under this assumption, the existing 1,300 BKK village posts now cover 2,600 villages. This represents only 30 percent of the 8,500 villages in Central Java. Furthermore, survey results indicate that each village may require its own BKK post to deliver the effective service and

convenience desired by BKK borrowers, thus further increasing coverage demands.

This unmet credit demand exists not only in the province's villages not yet covered by the BKK program, but also in those villages where there are currently active BKK. As of July 1982, there were about 326,000 active BKK savers, which is a rough proxy of the number of present BKK borrowers; this covers 6 percent of Central Java's 5 million households.

In several BKK visited by the evaluation team, all working capital is turned over daily: those with payments due come to the BKK early in the morning, and villagers seeking loans come in the late morning or early afternoon with the hope of receiving some of this cash.

Repeat borrowing is another sign of unsatisfied credit demand in villages presently being served by BKK. Although surveyed BKK clients received an average of 13 loans over four years, almost 70 percent still felt that with additional credit, they could sell even more of their products without reducing prices.

However, BKK staff are not sure how much this demand for credit, as well as the ability to repay loans, is dependent on an growing economy, or whether clients use new loans to pay off old loans. Consequently, after bad harvests, many BKK staff begin to use stricter lending criteria to hedge against BKK failure during economic downturns.

Area Development

The BKK program has had its most visible impact in areas where the district commissioner views the program as a vehicle for district-wide development rather than simply as a collection of sub-district credit organizations. A striking example is Boyolali, Central Java's seventh poorest district. When its 19 BKK were originally classified in June 1981, approximately half were labeled either Class IV (7 BKK) or Class V (2 BKK). However, through the efforts of the district government and assistance from successful BKK, all BKK in Boyolali are now classified as Class III or better.

Boyolali's plan to improve district-wide BKK performance includes a combination of capital injections, technical assistance, personnel incentives, and close supervision. Thus they used the same strategies as those later employed by the PDP program and gained similar results.

In the mid-1970s, when new funds were not yet forthcoming from Semarang, non-BPD capital was supplemented by a Rp 5 million (\$12,000) district government grant to its BKK. Local funds were again provided to Boyolali BKK following the first classification survey, through an inter-BKK lending program: profitable BKK lent approximately Rp 500,000 (\$800) to struggling BKK, at 1 percent per month. All of this money was repaid within six months.

In the second instance, however, infusions of local capital were complemented by the provision of technical assistance. No BKK was eligible for new funds until the BPD and district

government supervisors had conducted an administrative and financial review of BKK past performance, and the BKK had corrected all of the problems identified by these supervisors. BKK changes usually involved personnel switches, together with revised lending and bookkeeping procedures, and were often implemented with the temporary help of staff from a successful BKK.

The above capital and technical assistance were supplemented by a district government effort to hire the best-performing BKK staff into the government civil service. This policy offered BKK employees the multiple incentives of higher pay, more security, and a pension plan. The policy has greatly encouraged BKK staff, and approximately half of Boyolali's 76 BKK employees are now government civil servants.

Thus the district government's capacity to look beyond the performance of individual BKK units to the health of the BKK program throughout Boyolali has enabled strong BKK to assist weak units, and has allowed the government to apply financial and technical assistance in an effective and equitable manner. The Boyolali experience presents a compelling model for how other districts might strike a balance between BKK program decentralization and the application of this program to district-wide development.

While the Boyolali approach may serve as a positive model for the constructive application of district and sub-district government resources, lack of consistent financial and administrative district support has damaged several BKK. For example,

when district commissioners have failed to replace corrupt or incompetent BKK staff, or sub-district chiefs have decided that the BKK should be a social welfare program in times of economic distress, BKK units have gone bankrupt. Local government development priorities have been and will continue to be a critical factor in determining the nature and magnitude of BKK community impact.

NOTES

- 1 For additional information on survey methodology, see Annex A.
- 2 The Javanese questionnaire, together with an English translation, is presented in Annex C.
- 3 Nineteen percent of Central Java's population is 15-24 years old, thereby suggesting that BKK borrowers under-represent those entering the labor force. Since members of this group have no credit history and therefore are greater risks, it is likely that others would request loans on their behalf, if needed.
- 4 Lack of similar available statistics on landholding practices in Central Java prevents these statistics from being compared rigorously with the general population.
- 5 To simplify the data gathering process, the survey team asked borrowers how much cash they had received, how much they had repaid, and how many days they had had to repay the loan from the alternative credit source. Because the interest rates calculated on the basis of this information may understate the effective interest rates, they cannot be compared with the BKK effective interest rates shown in Table 10.
- 6 Tabanas Tabungan Pembangunan Nasional, or National Development Savings Scheme.

CHAPTER FIVE REHABILITATION OF CLASS V BKK

Class V BKK present a special set of problems for program development. Because these units have either ceased to function or are barely operating, they pose a critical constraint to BKK client coverage, and greatly decrease BKK interest payments to the BPD. The rehabilitation of a Class V BKK is a very slow, administration-intensive process, so the majority of failed or failing BKK are still awaiting financial and technical revitalization assistance. However, the PDP program has demonstrated that Class V BKK can, indeed, be rehabilitated.

AN OVERVIEW

Class V units have been with the BKK program ever since the provincial government stopped injecting additional funds in the mid-1970s, and the problem has lingered to the present. In August 1981, as part of its semi-annual classification survey, the BPD conducted a special study of Class V BKK. Almost 40 percent (184 BKK) of all BKK units were ranked as Class V, of which almost half (88 BKK) had ceased lending operations.

A similar survey was conducted in June 1982, after PDP had provided financial and technical assistance to 65 BKK for less than three years. Overall about one-third of the BKK units (159 BKK) were still ranked as Class V. However, during this one-year period, the number of Class V BKK in the PDP area decreased from one-fourth (16 BKK) to about one-tenth (7 BKK) of all PDP BKK,

whereas in the rest of Central Java, the proportionate number of Class V BKK remained almost the same (from 40 percent in 1981 to 36 percent in 1982).

The number of Class V BKK in the PDP area dropped from 26 to 7 during the three years that the BKK units received PDP technical and financial assistance. Procedures to rehabilitate BKK were developed by provincial government and BPD staff, assisted by the PDP rural credit adviser. Their aim was to use the PDP area as a testing ground to experiment with rehabilitation techniques, and isolate those that were most effective. This experiment has demonstrated that various combinations of the following tactics were most successful in revitalizing and upgrading PDP BKK:

- Retraining or replacment of BKK staff;
- Restriction of loans to borrowers with off-farm productive activities;
- Infusion of new funds; and
- Strict supervision of the BKK.

Recently committed recapitalization funds will allow this proven rehabilitation technique to be applied to the rest of the BKK in Central Java.

This experiment led to the discovery that BKK have failed for a variety of reasons. Remedies for recovery also would have to vary considerably. In the 1981 classification survey, the BPD conducted a special review of the causes of BKK failures, and concluded that over half collapsed due to misuse of funds by BKK staff members. Another one-fifth failed because funds were lent

either for inappropriate purposes or to inappropriate sectors. The last major group of BKK failures, accounting for another one-fifth of Class V BKK, was caused by borrowers who were either unwilling or unable to repay their loans. Natural disasters only accounted for 5 percent of all collapses, and lack of staff and competition from other credit institutions were each responsible for about 2 percent of BKK failures. The results of this survey are summarized below.

Table 27: Reason for BKK Failure

	Percentage of Failed BKK
1. Misuse of funds by BKK staff	52%
2. Borrowers unwilling/unable to repay loans	21%
3. Funds lent for wrong purpose or to wrong sector	18%
4. Natural disaster	5%
5. No BKK staff	2%
6. Competition from similar credit institutions	<u>2%</u>
Total	100%

One cannot help but notice that, according to the above table, over 90 percent of BKK failures were caused by dishonest, misinformed, or unaggressive BKK staff, that is, staff who did not pursue delinquent clients. The BPD thus concluded that it could best deal with Class V BKK by:

- Bringing corrupt BKK staff to court or before an arbitration board;
- Conducting refresher training courses for all BKK staff that emphasized the program's purpose, bookkeeping skills, and the need to pursue delinquent clients actively;
- Replacing unmotivated or incompetent BKK staff with newly trained or successful personnel;
- Recapitalizing BKK that followed BPD suggestions with loans on the same terms as their initial BPD loans; and
- Increasing outside supervision of BKK so that these problems could be identified more quickly and corrective action taken.

While the BPD has been able to provide additional training for all BKK staff and fresh working capital for appropriate BKK, it has very little control over the hiring and firing of BKK staff. BKK personnel are nominated by the sub-district chief and appointed by the district commissioner, so local staff changes are dependent upon the caliber and interests of these key local government officials. This situation presents a key constraint to the rapid rehabilitation of rural Class V BKK.

These personnel difficulties are compounded in modern urban areas by the social fragmentation and metropolitan politics described in Chapter III. However, the 10 Class V BKK in this category make up only 6 percent of all Class V BKK.

An additional constraint to the swift rebuilding of Class V BKK is the tremendous amount of personal attention each unit requires during each stage of the rehabilitation process. The initial administrative and financial audit must usually be conducted using partial and inaccurate records, which are tedious

and time consuming to reconstruct. If local government officials are part of the problem, because of either personnel selection or misunderstanding of the program, considerable political capital must often be expended to achieve the changes required to reopen a BKK unit. Finally, if all suggestions are accepted by BKK staff and local government officials, continued technical assistance is still necessary to supervise and assist in the implementation of prescribed procedures.

The BPD is currently shouldering the primary burden of Class V BKK rehabilitation. Given the BPD's small BKK program staff, coupled with the laborious nature of the tasks entailed in BKK reconstruction, the number of BKK that the BPD can resurrect at any one time is severely limited. However, this process could be greatly facilitated by the assistance of successful BKK, as was done in Boyolali District (see "Program Impact on Communities," Chapter Four).

TWO CASE STUDIES

The plight of Class V BKK can be better understood by examining two BKK units that are indicative of the entire group. The first, BKK Bandongan in Magelang District, has been a Class V BKK since 1976; the second, BKK Welahan in Jepara District, has just progressed from Class V to Class III.

BKK Bandungan was established in 1974 with a Rp 1 million (\$2,400) loan from the provincial government, per standard operating procedures. For the next two years, the BKK lent about Rp 500,000 monthly (\$1,200), and operations were progressing smoothly.

In 1976, however, the area suffered a poor harvest as a result of bad weather, vermin, and rats. Most BKK clients were agricultural laborers who were borrowing for personal consumption, and then repaying their loans with harvest earnings. When the crops failed, these clients had no assets or secondary economic activities upon which to draw, and thus most defaulted on their loans.

The BKK did not go bankrupt, but it decreased its funding level considerably, furloughed one of its two staff members, and revised lending procedures to conform with the BKK program objective of lending primarily to off-farm entrepreneurs and petty traders.

Nonetheless, past misfortune still haunts BKK Bandungan. Although current on-time repayment is good, BKK books reflect the impact of the collapse on present portfolio quality. About 40 percent of the value of all loans outstanding are delinquent, but three-fourths of these date back to the mid-1970s and most likely never will be recovered. In addition, 80 percent of BKK clients are listed as delinquent, and most of these borrowers will never be seen again.

Consequently, the BKK now lends approximately Rp 150,000 monthly (\$224), about one-third of its previous lending level in nominal terms, and 8 percent of the earlier monthly turnover in real terms. It often runs out of working capital, and can still pay only one staff member -- the other has joined the government civil service.

But BKK Bandungan is hopeful. Both the BPD field supervisor and the district commissioner's BKK program monitor visited the BKK in mid-1982. They suggested that the unit might be a good candidate for a new BPD loan from the program's large infusion of fresh working capital. Not only had the unit managed to survive with very limited resources, but it is also located very close to the BPD's Magelang branch office, so the BKK's rehabilitation could be monitored closely.

BKK Welahan is a good example of a successfully reconstructed BKK. It is located in Jepara District, and so has been eligible for PDP technical assistance. The experiments tried at BKK Welahan through the PDP program have been successful, and the BKK is now being used as a model for the rehabilitation of other Class V BKK.

BKK Welahan was established in 1971 with the standard Rp 1 million (\$2,400) BPD loan. The BKK ran smoothly at the beginning, but by 1974 a series of accumulated problems converged to cause the unit's collapse. The BKK was subsequently inactive for the next five years.

Foremost among BKK Welahan's problems during its first three years of operation were inappropriate lending policies and high staff turnover. Like BKK Bandungan, BKK Welahan lent primarily to farm laborers for family consumption, rather than to small-scale entrepreneurs and petty traders for productive activities. However, the effect of this lending procedure was different at each BKK.

Unlike BKK Bandungan, BKK Welahan is in an area where harvests are usually bad, since annual floods or droughts are the rule rather than the exception. Consequently, although BKK Bandungan almost went bankrupt because of a single bad harvest, BKK Welahan collapsed after three years of steady decapitalization. Moreover, BKK Bandungan did not stop operations completely, whereas BKK Welahan's crash was complete and enduring: the BKK was inactive for five years, with a loan portfolio that was 100 percent delinquent.

The difficulties created by these lending policies and poor harvests were compounded by BKK Welahan's high staff turnover. Part of this was due to extreme misfortune, for one BKK worker contracted tuberculosis, and another BKK employee suddenly died of unknown causes. Staffing problems also resulted from the continual departure of BKK staff for neighboring sub-districts, usually for personal reasons. Staff transience prevented new BKK personnel from learning the lessons previous BKK workers had so painfully acquired.

Thus when PDP technical assistance was introduced in 1979, BKK Welahan had no money and no clients in good standing. Nor was there a quick response to the BKK's predicament: the unit had been dead for five years. BKK staff had not been paid from 1974 to 1978, when the district government hired two employees in the hope that the BKK would be regenerated. These workers had little to do for the next two years, however, until PDP began working with the BPD to rehabilitate Class V BKK.

PDP assistance to the BKK program began by sponsoring two weeks of special BPD training to recently hired BKK staff, in which BKK Welahan personnel participated. The BPD also permanently transferred a staff member of a neighboring Class III BKK, BKK Pecangaan, to BKK Welahan, as a form of inter-BKK technical assistance. This person, successful in his past position, made every effort to collect old debts while waiting for an external capital injection to complete the external technical assistance. Unfortunately, for the most part he was unsuccessful.

Once the BPD was confident that BKK Welahan staff understood and could implement BKK lending policies and procedures, it then lent the BKK another Rp 1 million (\$1,600) in 1980, in Rp 200,000 (\$320) tranches. The BPD lent BKK Welahan another Rp 1 million (\$1,600) in similar tranches in 1981, so that at the time the evaluation team visited the BKK, it had received a total working capital injection of Rp 3 million (\$5,600).

This combination of financial and technical assistance appears to have been successful. The BKK now serves 966 clients from its head office and three village posts, lending approximately Rp 1.4 million (\$2,100) monthly. Although only 5 percent of the value of loans outstanding are delinquent for less than six months, total delinquency is 22 percent. That is, over three fourths of the value of delinquent loans is from the unit's prior life as a Class V BKK, and is probably unrecoverable: BKK Welahan's recent performance has been good enough to reclassify it as Class III, and thereby raise its credit ceiling an additional Rp 2 million (\$3,000).

As these two cases illustrate, the rehabilitation of Class V BKK is a long, tedious, and expensive process. Moreover, each cure must be adapted to the specific malady that causes a BKK's demise, further compounding the difficulty of program-wide reconstruction of Class V BKK. Nonetheless, the second case is encouraging, as it provides an example of the successful application of an appropriate mix of administrative guidance and financial infusion. Thus one of Central Java's poorest areas once again has access to off-farm rural credit.

CHAPTER SIX FUTURE BKK DEVELOPMENT

EXTERNAL SOURCES OF LOAN FUNDS

Insufficient working capital is no longer a constraint to BKK program development. The task now at hand is to apply this money to the expansion, diversification, and institutionalization of a well-functioning but still nascent off-farm rural credit program.

The BKK program has an accumulated equity, less loans in default, of approximately Rp 1.6 billion (\$2.4 million). In addition, BKK equity has been supplemented recently by a Rp 3 billion (\$4.7 million) central Ministry of Finance loan and provincial government grants of approximately Rp 350 million (\$530,000) in 1981/82 and Rp 200 million (\$300,000) in 1982/83. Together, these funds ensure that the BKK program has an adequate amount of money to lend for the next several years. In addition, the provincial government has provided grants of Rp 120 million (\$180,000) during 1982/83 to cover BKK staff training, the administrative costs of the classification surveys, and specific program implementation tasks.

Another source of money for BKK program development will be the BPD's own funds, which the bank has agreed to lend to the most successful, or healthy (sehat), BKK on the same terms as it lends BKK program funds. This will link the BPD to BKK units commercially, as inter-bank lending signifies the increased status bestowed upon the best-performing BKK.

Moreover, the BKK program will be able once again to experiment with loans to small-scale industries, through the use of PDP funds. The PDP program has allocated about Rp 50 million to the Industrial Technical Development Service (Dinas Perindustrian) to develop small-scale industries. This cooperative endeavor is intended to allow the BKK to explore the most promising areas for program portfolio diversification. However, the lessons learned from the previous unsuccessful Khusus industry development program should be carefully followed, or this new program will also fail.

EXTERNAL TECHNICAL ASSISTANCE

The BKK program should continue to receive external technical assistance through PDP, or whatever AID program follows it. The program is strong enough financially and administratively to be self-sustaining without further outside help, but the speed of BKK rehabilitation and implementation of new policy initiatives would probably slow down considerably.

Specific areas where technical assistance would be most helpful are:

- Improving overall BKK program administration, particularly by upgrading its management information system through the use of microcomputers;
- Designing, implementing, and assessing a small-industry loan window; and
- Developing the BKK voluntary savings program.

External technical assistance, while providing skilled resources upon which to draw, has been equally effective as a catalyst for change and a facilitator among sparring political and bureaucratic groups. Continued provision of this assistance, although not essential for the survival of the BKK program, would enhance program development considerably.

CLIENT COVERAGE

Another major goal of the BKK program is to increase its geographic coverage and client base. This can be accomplished through the:

- Revival of Class V BKK;
- Addition of new village posts to Class I through Class IV BKK; and
- Diversification and expansion of the BKK loan portfolio.

Large numbers of people have had no access to BKK credit since their local BKK unit collapsed -- sometimes as long as nine years ago. However, BPD staff have evaluated all Class V BKK to determine the cause for their collapse. Over 50 BKK have made the recommended corrections of their past problems, and are due to receive a transfusion of new funds shortly. The remaining Class V BKK will undergo the same process until all have been revived.

Expansion of successful BKK is also a high government priority. The BKK program aims to have one post for every two villages throughout Central Java. The convenience that such access offers rural borrowers is BKK's source of comparative

advantage over other formal credit programs, and the main justification for high interest rates. Some BKK have almost achieved this coverage in their sub-districts; once this is accomplished by all BKK, the program should investigate whether it is advisable to have a BKK post in each village.

The infusion of funds through PDP, or a subsequent AID small-scale enterprise (SSE) assistance project, should enable the BKK to reach more established, slightly larger small-scale enterprises than the BKK usually assist. The Dinas Perindustrian is currently conducting an industrial survey to identify high potential small-scale enterprises in Central Java. This list will then be given to the BKK, as a method of identifying potential borrowers. SSE clients who receive BKK loans then also are supposed to receive technical assistance. This could be a useful experiment to learn how a credit and technical assistance program may be coordinated effectively.

However, strong efforts should be made to prevent the mistakes of the past Khusus program from being repeated. If the BKK only serves as the conduit for another agency's funds, and cannot control who receives loans but is responsible for loan collection, then the probability of failure is high. Thus any future BKK SSE development program should follow the BKK standard operating procedures.

Although the Dinas Perindustrian list of enterprises might be a very useful SSE identification method, BKK should not be limited to lending only to SSEs on this list. Thus after

potential borrowers are approved by the village headman and BKK staff, small loans for working capital should be disbursed to assist existing businesses. After a good repayment record is established, the BKK can grant progressively larger loans.

These loans, however, should have longer repayment periods that reflect the business cycle of these larger enterprises (such as six months to one year), and charge interest rates sufficient to cover BKK risk, inflation, and administrative costs. Loan limits might be raised from the current Rp 200,000 to Rp 500,000 for Class I and II BKK, so that SSE working capital needs may be covered. Only working capital loans should be disbursed through the BKK since the time-consuming procedures that should accompany the disbursement of equipment loans could best be handled by the BPD. Forced savings should not be a component of these loans, especially if a voluntary savings program has been established.

As the businesses of clients become more successful, they should be encouraged to graduate to other credit programs designed for larger enterprises. Credit programs such as the BKK usually resent this process: the BKK assumes the risk of nurturing a weak business, only to pass it on to other financial institutions once it has an established credit record. However, the high interest charges and numerous posts of the BKK would not be justified if it were transformed into a program that provided larger loans to fewer large enterprises. The BKK's unique character should be preserved despite temptations to transform it into a more comprehensive SSE financing institution. That type

of program would require a higher level of technical and administrative skills than current BKK staff possess, and would duplicate similar programs now operating in Central Java.

SAVINGS MOBILIZATION

The first decade of the BKK program was focused on building an institution that could serve the credit needs of small-scale entrepreneurs. In the future, the program should also strive to meet its clients' need for a secure, high-interest-yielding savings institution. A voluntary savings program would provide local communities with a financial service that complements the current BKK lending program. It could also become an important source of BKK loan funds, and thus offer another mechanism for assisting in SSE development.

In contrast with a voluntary savings program, the current practice of some BKK to retain borrower savings forceably is unfair to borrowers, and unnecessary for the financial viability of profitable BKK, or those BKK being rehabilitated through fresh capital infusions. Not only does the 0.5 percent monthly interest rate fail to protect erosion of client savings from inflation; the practice by some BKK of not allowing savers to withdraw their money on demand also undermines BKK clients' right to the use of personal funds. In theory, clients are allowed to use their savings to help repay a delinquent loan. In practice, however, this rarely occurs. Since BKK loan agents could easily misuse this accounting transaction, the BPD strongly encourages them not to transfer funds in this manner.

The BPD has begun a campaign to advise BKK agents of the merits of allowing savers to withdraw their funds. The healthy supergrade classification for the most successful Class I BKK uses a savings to equity ratio as one of its criteria: if the ratio is over 70 percent, indicating that savings are not being released, then the BKK is not eligible to receive extra BPD funds. This will be a persuasive argument to those BKK seeking such funds, but will not be relevant for most BKK units. However, the accumulated savings figure used to classify all BKK is also an indicator of the working capital composition of a BKK, and thus its reliance on savings as a source of loan funds.

A successful transition from forced to voluntary savings has several prerequisites. First and foremost, forced retention of savings must end before voluntary savings can begin. Although the evaluation team's survey indicates that BKK borrowers do have additional savings, clients must be enticed into placing them in the BKK. The key elements of any successful savings mobilization campaign are:

- Easy Access

Clients must feel confident that they can withdraw their savings at any time for any reason. Some programs also grant withdrawal privileges to someone the client designates, so if the client is ill, for example, these savings can still be withdrawn. Since BKK are conveniently located within most villages, transportation and other transaction costs that sometimes discourage savers should not be a problem.

- Adequate Interest Rates

Clients must earn a real return on their funds to induce them to save rather than spend their earnings. Savings account interest rates must at least cover the erosion of funds due to inflation. To compete with the Tabanas program in urban areas, the BKK would have to provide the same 15 percent annual interest rate. If the BKK program paid this rate, then rural residents finally would be able to earn the same return on savings that urban residents have enjoyed. BKK high loan interest rates make it one of the few institutions capable of supporting this savings rate without subsidization.

- Security

Clients must believe that the BKK is a secure place for their savings. The first prerequisite to stimulate savers' confidence is the knowledge that their BKK is a financially viable institution. The establishment of a guarantee or insurance plan that protectssavings would further increase clients' faith in the program.

Donors wishing to encourage rural savings would find the BKK program an excellent opportunity for investment. The first two critical components of a successful voluntary savings program, easy access and adequate interest rates, can be provided without external assistance; however, donors could help to establish an insurance scheme that would guarantee BKK savings, through a BPD-administered program.

A variety of options should be examined carefully for their feasibility, cost, and security prior to the initiation of any voluntary savings program. Failure of the savings program could have grave consequences for BKK units and their clients, as well as for any future savings mobilization programs in Central Java. Special attention should be given to avoiding any savings program that would require large amounts of staff time. The

diversion of this scarce resource might have the unanticipated effect of endangering the viability of BKK lending operations.

SUPERVISION OF THE BKK PROGRAM

Careful BPD technical supervision is crucial for the continued success of the BKK program. However, this supervision responsibility is impotent without the authority of local government behind it.

The BPD recently increased its supervision of the BKK program, as evidenced by the placement of additional BPD field supervisors: there is now one BPD supervisor in each of the province's 29 districts. Supervisors presently have a moderate level of authority and responsibility, which will continue to increase as the program grows and becomes more complex. Since BKK staff report to the sub-district chief, however, rather than to BPD supervisors, and are appointed by the district commissioner, the BPD field supervisors will have to continue working closely with these authorities to ensure that BPD recommendations are enacted.

Good supervision increasingly will require that BPD supervisors be able to travel quickly and easily to BKK posts. Funds have already been allocated but not yet utilized for automobiles to be purchased for the business use of BPD supervisors.

As the program expands, the training and supervision responsibilities of the BKK unit at BPD headquarters will also increase. Partial computerization should help to reduce the paperwork that swamps this five-person unit. Those currently occupied primarily with bookkeeping and secretarial duties could then undergo training that would upgrade their skills and allow them to assume greater data analysis and management responsibilities.

MANAGEMENT INFORMATION SYSTEM

The BKK unit at BPD headquarters in Semarang is currently inundated with data that it cannot effectively compile, access, manipulate, or analyze. Each periodic report it receives has hundreds of large, interrelated figures for each of the program's hundreds of active BKK units. However, the five-person staff cannot possibly process and use all of these data employing current manual techniques, which are laborious, time consuming, and highly prone to human error.

Realizing this problem, the BPD is now considering the use of PDP funds to install microcomputers in its BKK office to facilitate data processing and utilization. In evaluating how best to upgrade its current BKK management information system, BPD staff should:

- List, in order of priority, the management decisions it must make regularly regarding BKK policy formulation, program implementation, and performance assessment;
- Define the data, formats, and reporting frequency it would find most useful in reaching these decisions;

- Determine the extent to which the current management information system meets these requirements;
- Outline alternative ways to address system deficiencies;
- Estimate the cost and technical feasibility of each of these alternatives; and
- Decide which plan best reconciles the bank's trade-off between estimated cost and anticipated effectiveness.

In short, computers are only one component of an overall management information system, and should be incorporated into an integrated plan designed to service the decision-making needs of BPD staff. However, if the BPD does computerize part of the operations of its BKK unit as part of an overall plan to upgrade the unit's management information system, it should also complement this new hardware with supplementary staff training. Not only would the computer greatly reduce current staff paperwork, but it would also perform new data-processing and manipulation functions. BPD staff would need special training to enable them to derive the full benefits of these functions in the execution of their daily management responsibilities. For example, staff should be trained to recognize patterns and irregularities in computer print-outs, as well as internal relationships and cross-checks in ledgers.

Moreover, implementation of this plan at BPD headquarters should be coordinated closely with revisions in BKK field book-keeping and reporting, so internal BKK data wanted by the BPD can be relayed quickly to the bank in an easily accessible form. At the same time, the burden of local BKK record-keeping responsi-

bilities might further be reduced by simplifying books that units keep strictly for internal BKK management, and either compiling or eliminating the least important of these books.

PERSONNEL

Transformation of the BKK program from an experiment in off-farm rural credit to an established, self-sustaining institution will be determined in large part by its ability to attract, train, and retain primary and secondary school graduates of the caliber that now staff the more successful BKK units.

Staff selection is now performed at the local level, with the sub-district chief nominating BKK personnel and the district commissioner formally appointing approved staff. This procedure is an effective preliminary screening mechanism, as it ensures local accountability of all BKK staff. However, local government officials sometimes use selection criteria that stress personal acquaintance and loyalty over technical capability and learning aptitude, and thus compromise the professional competence of BKK staff.

The provincial government and the BPD can counterbalance this tendency not only by offering their mandatory one-month training session for all new BKK staff, but also by using this training session to screen personnel a second time. The provincial government can accomplish this in one of two ways. Its first option would be to have the BPD administer a final exam that all BKK trainees must pass upon completion of training

before local BKK can hire them. Alternatively, the BPD could distribute a ranking of each class of trainees to all BKK units represented, with a suggested cut-off point. The former mechanism is stricter than the latter, which would leave the final decision to the district commissioner. However, both plans would have the effect of changing the designation of local government appointees sent for training from BKK staff to BKK nominees; these appointees would become BKK staff only after they have received either approval from those administering the course, or a second endorsement from the district commissioner.

Staff retention is much more difficult to achieve than improved staff selection. If BKK are to keep their best staff, they must first resolve the trade-offs between trying to achieve this under the umbrella of government civil service, independently, or through some combination of the first two options.

Approximately one-third of all BKK staff are currently government civil servants. The chief benefit to BKK units of having personnel on the government payroll is that, under present conditions, they no longer have any salary obligations for these employees -- the only compensation the BKK must provide is the quarterly distribution of BKK profits. BKK staff who have joined the government civil service benefit from higher salaries for comparable duties, special allowances and perquisites, participation in the government pension plan, job security, and a career path offering many options for upward mobility.

The primary disadvantage to BKK units of being staffed by government civil servants is lack of employee accountability. This is not a problem if the staff member is performing well, and is not diverted from BKK duties to other pressing government needs. However, if the staff member is corrupt, incompetent, or lazy, there is little the BKK or the BPD can do to remove the individual, other than pressure the sub-district chief to ask the district commissioner to transfer or fire the employee.

Reassignment or dismissal of poorly performing government civil servants is a difficult task in most countries. However, the unlikelihood of such action in the BKK context is compounded by the reticence of local government officials to lose face by breaking both a personal and a public commitment. If the employee is truly unacceptable, no other department will want this individual either. This is often the case with Class V BKK, where lack of success makes the appointment very unprestigious. The government therefore assigns low-caliber employees to these BKK, thus simply perpetuating the most common reason for the BKK's collapse.

The only major drawback to joining the government civil service from the BKK employee's perspective is restricted autonomy and flexibility. However, most employees feel this is a small price to pay in return for the much better financial and non-monetary benefits of government employment.

The issue of retaining good personnel is thus reduced to the ability of the BKK to offer an employee compensation package comparable with that of its chief competitor, the government, at a price that does not jeopardize the unit's financial viability.

Salaries could certainly be raised considerably in Class I through Class IV BKK, without substantially reducing their profitability. As for a pension plan, the BKK probably could not finance a scheme that would be competitive with the highly subsidized government program. However, they might be able to have their employees incorporated into the government pension program that covers both direct employees and those of government enterprises. Since the BKK program is government mandated and administered, the inclusion of their employees should not pose any legal difficulties. BKK employees could be covered by the government pension plan in exchange for a relatively small BKK contribution.

BKK could increase employee job security and career mobility through intra-district cooperation. Successful BKK that must lay off workers through no fault of the employees can try to place them in neighboring BKK, under an informal reciprocity agreement. Moreover, the most successful BKK staff might rise to levels of administration somewhere between the district and individual BKK units, as the program expands in scope and complexity. Both of these practices would require the pooling of individual BKK interests for the mutual advantage of all units. Otherwise, the best and brightest BKK staff might see no long-term future with

the BKK program, especially since most are ineligible for positions with the BPD because of insufficient education and technical training.

SUSTAINABILITY

The BKK program is financially self-sustaining if it maintains current lending terms and procedures. However, this financial viability may be undermined by administrative inefficiency and ineffectiveness as the program grows in scope and complexity. To counteract anticipated management problems, the BPD should increase the size and depth of its BKK supervision unit, as well as offer an employee compensation package that will attract and retain high-caliber BKK field personnel.

Although the BKK program still has several problems, many individual BKK units are now operating smoothly, generating large profits, and expanding quickly. Ultimately, BKK program growth and sustainability can be achieved only by maintaining the health of these successful units, and by slowly enlarging their ranks to include BKK previously in the lower classes.

CHAPTER SEVEN REPLICABILITY OF THE BKK PROGRAM

When a program is successful, planners have a tendency to try and replicate it in other regions of the same country, or even across continents. Yet specific characteristics of the BKK political, administrative, economic, and social environment have contributed to its success. Lack of any of these ingredients could doom a similar project elsewhere.

A checklist of the factors that have contributed to the success of the BKK program includes:

- **Government Support:** The BKK program is strongly supported by the central, provincial, district, and local governments. The GOI and the provincial government are responsible for designing and providing initial funding. The central government has proved that it is committed to the project through its recent Rp 3 billion (\$4.7 million) loan. This situation contrasts with that of some small enterprise development projects in other countries that are primarily stimulated by the lure of outside donor funding. In these cases, the government has less of a stake in project implementation; elaborate designs constructed by donor experts are forgotten soon after funding begins.

- **Decentralization:** High-level political support is complemented by decentralized operations. The involvement of the district government in project implementation has been critical to BKK success or failure. The most successful BKK were those that had local officials who understood their objectives, took an active interest in their welfare, and appointed capable staff to serve as loan agents and BKK supervisors.

- **Skilled External Supervision and Training:** The BPD has provided invaluable assistance to the BKK program since its inception. The bank has instilled in the BKK traditional banking procedures necessary to maintain a

financial institution, blended with innovative techniques geared to assisting small-scale entrepreneurs. This outside agency ensures that additional financial resources are disbursed to BKK only on the basis of their good past performance and absorptive capacity. The BPD training program to teach intricate standardized procedures to minimally educated BKK staff has been relatively successful, despite its short length. BPD branch offices throughout Central Java, BPD field officers, and BKK program monitors provide important sources of on-going support, supervision, and feedback. In addition, the project has been lucky to receive expert foreign technical assistance, which has played a catalytic and facilitating role in the program's development; AID funds have allowed the program to experiment and grow during a critical formative period.

- Lending Philosophy: The BKK offers the same convenience as moneylenders, but with lower interest costs. BKK posts maintain easy access to clients, and a variety of repayment plans have been designed to meet client needs. Character references and a good repayment performance rather than client net worth or collateral are the basis for loan disbursement. Interest rates are high enough to cover administrative costs, defaults, and inflation so that the portfolio can grow in real terms. Loans begin at very low levels (\$10); the expectation of receiving future loans results in good repayment levels. A BKK's inability to provide additional loans quickly causes widespread defaults.
- Social: Central Java is one of the most densely populated rural areas in the world. Unlike parts of Africa, almost every village has a critical mass of clients capable of supporting the costs of manning a BKK office. Strong social cohesion and homogeneity allow the client reference system to ensure high repayment rates; the BKK experience in urban areas indicates that this is a critical factor behind BKK success. In addition, a large pool of educated, unemployed youth makes it possible to staff the BKK with talented but relatively low-cost personnel.
- Economic: The Central Java economy has been dynamic during the past decade, thereby stimulating the growth of small-scale enterprises. It also has a well-developed infrastructure that helps to promote merchandising activities and a relatively buoyant market for small-scale enterprises.

Thus the BKK approach may not work in other regions of Indonesia that are sparsely populated, ethnically diverse, and lacking a respected social figure who can vouch for borrowers and ensure that repayments are made. Other programs must adapt appropriate elements of the BKK program to the local environment and find alternative means of fulfilling the remaining functions.

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GLOSSARY

IndonesianEnglish

arisan	savings association
Badan Kredit Desa	Village Credit Body
Badan Kredit Kecamatan (BKK)	Subdistrict Credit Body
Badan Perencanaan Pembangunan Daerah (BAPPEDA)	Regional Development Planning Body
bank pasar	market bank
Bank Pembangunan Daerah Jawa Tengah (BPD)	Central Java Regional Development Bank
Bank Pembangunan Indonesia (BAPINDO)	Indonesian Development Bank
Bank Rakyat Indonesia (BRI)	State Bank of Indonesia
BIMAS Program	Mass Guidance Program
bulanan loan	monthly repayment loan
bupati	district commissioner
camat	subdistrict chief
desa	village
Dinas Perindustrian	Industrial Technical Service
harian loan	daily repayment loan
INMAS Program	Mass Intensification Program
kabupaten	district
kecamatan	subdistrict
khusus	special
Koperasi Simpan Pinjam (KOSIPA)	Veterans Loan Fund
Kredit Candak Kulak (KCK)	Petty Trading Credit
Kredit Investasi Biasa (KIB)	Normal Investment Credit
Kredit Investasi Kecil (KIK)	Small Investment Credit
Kredit Kelayakan	Feasibility Credit
Kredit Midi	Medium-Scale Credit
Kredit Mini	Small-Scale Credit
Kredit Modal Kerja Permanen (KMKP)	Small Permanent Working Capital Credit
lapanan loan	35-day repayment loan
lurah	village headman
mingguan loan	weekly repayment loan
musiman loan	seasonal loan
pasaran loan	5-day repayment loan
sehat	healthy
sewa/gadai	land-related credit systems
simpan-pinjam	savings and loan association
SUSENAS	Household Budget Survey
Tabanas Tabungan Pembangunan Nasional	National Development Savings Scheme
tebasan/ijon	in-kind credit
tengkulak/bakul	moneylender/middleman
umum	general
usaha bersama	savings and loan association
walikota	mayor

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ANNEX A
SURVEY METHODOLOGY

ANNEX A
SURVEY METHODOLOGY

The evaluation team's survey methodology was designed to meet, in one week, the dual objective of interviewing a sample of BKK clients large and diverse enough to represent the total population of BKK clients, while ensuring that each client interview would be in-depth enough to meet the information needs of the GOI, the BPD, and AID.

The study team therefore conducted a two-stage purposive sample survey of BKK clients. The first stage of sampling, selection of 20 BKK, emphasized balanced geographic coverage of Central Java -- physical dispersion among the province's six regencies was the most reliable way to select a mix of BKK that would be representative of Central Java's economic diversity.

Another concern was to maximize the cost-effectiveness of an interviewer's trip to a selected BKK, so Class V and newly classified Class IV BKK, which are all either operating at very low levels or have closed and therefore have few if any borrowers to interview, were excluded from the sampled population. Instead, the evaluation team investigated the history, current condition, and future prospects of Class V BKK on a case study basis, while it was supervising and spot checking execution of the field survey.

Stage one sampling thus consisted of the random selection of Class I through old Class IV BKK, with intra-class substitution between over- and under-represented regencies in Central Java. The survey sample, listed in Figure 2, compares with the total population.

Figure 2: Sample of Surveyed BKK

District	(code)	Sub-district	Class	PDP	Urban
Semarang	(A)	Sumowono	III		
Kendal	(B)	Boja	II		
Demak	(C)	Guntur	IV	X	
Pati	(D)	Sukolilo	III	X	
Jepara	(E)	Mlonggo	I	X	
Kudus	(F)	Gebog	III	X	
Blora	(G)	Cepu	III		
Pekalongan	(H)	Peninggaran	IV		
Tegal	(I)	Adiwerna	IV		
Brebes	(J)	Katangunan	III		
Brebes	(K)	Jatibarang	I		
Purbalingga	(L)	Rembang	III		
Banyumas	(M)	Purwokerto	II		
Banjarnegara	(N)	Mandiraja	II		
Magelang	(O)	Mertoyudan	IV		
Kodya Magelang	(P)	Magelang Utara	II		X
Temanggung	(Q)	Candiroto	II		
Boyolali	(R)	Karanggede	I		
Sragen	(S)	Sumberlawang	III		
Klaten	(T)	Ceper	IV		

	<u>Population</u>	<u>Sample</u>
Class I	10%	15%
Class II	24%	25%
Class III	34%	35%
Class IV (old)	33%	25%
Class V	---	---
Total (rounded)	100%	100%
PDP	18%	20%
Urban	1%	5%

Source: Compiled by authors

The sample is fairly representative of the population, although it is slightly biased toward Class I BKK and against Class IV BKK because of the exclusion of newly classified Class IV BKK. About 20 percent of the BKK in both the sample and the population are in PDP districts, and urban BKK are represented in roughly the same proportion in both the sample and the population (5 percent and 1 percent respectively).

The principal concern of stage two sampling was to interview a sample of clients at each BKK that reflected the distribution of those who borrowed at the BKK sub-district office, and those who borrowed through BKK village posts. Each surveyor was instructed to interview a minimum and maximum number of each type of borrower at each BKK, so that the client sample would be in the same proportion as the BKK's mix of all borrowers. These instructions were closely followed by the surveyors.

The evaluation team wrote the survey questionnaire (Annex C) in Javanese, Indonesian, and English; pre-tested it at BKK Boja; and made initial revisions. The BDP then called 6 bank BKK supervisors and 12 local BKK staff to its Semarang headquarters for training in administering the survey questionnaire. The questionnaire was revised during the four days of survey training, in deference both to the complexity of Javanese, the language in which the questionnaire was to be administered, and to the field experience of the trainees.

During the next seven days, the BKK surveyors interviewed 662 BKK borrowers at 20 different BKK throughout Central Java. A team composed of one BDP supervisor and two BKK surveyors worked in each of the province's six residencies, while the evaluation team spot checked and assisted these teams, as well as visited Class V BKK. The BDP supervisors also administered a second questionnaire (Annex B) to all BKK heads, designed both as a cross-check on central BPD statistics, and an overview of present BKK operations

and potential for future growth. All supervisors then returned to BPD headquarters and, together with the evaluation team, compiled and reduced the survey data.

Throughout the course of this field survey, the evaluation team used a Kaypro II microcomputer to facilitate its activities. The microcomputer was most valuable in preparing the continually evolving, tri-lingual questionnaire, and in manipulating BPD loan repayment data for the entire BKK program, with which survey repayment figures could then be compared.

ANNEX B
QUESTIONNAIRE FOR BKK ADMINISTRATORS

PERTANYAAN UNTUK PARA ADMINISTRATOR BKK

Diperiksa oleh :

Nomor Pertanyaan :
 Nama Kecamatan :
 Kode Kecamatan :
 Kepala BKK :
 Nama para interpiu :
 1.
 2.
 Nama dari Pengawas :

<p>1. Berapa banyak nasabah langganan yang saudara miliki dalam kecamatan ini seluruhnya, termasuk mereka yang ada di pos-pos desa ? (TULIS JUMLAH DARI NASABAH LANGGANAN BKK)</p>	<p>BKK1 ! _____</p>
<p>2. Berapa banyak nasabah langganan yang saudara miliki di kantor pusat (Kecamatan) ? (TULIS JUMLAH DARI NASABAH LANGGANAN BKK YANG MEMINJAM DI KANTOR KECAMATAN).</p>	<p>BKK2 ! _____</p>
<p>3. Berapa banyak nasabah langganan yang saudara miliki di pos-pos desa saudara ? (TULIS JUMLAH DARI NASABAH LANGGANAN BKK YANG MEMINJAM DI POS-POS DESA).</p>	<p>BKK3 ! _____</p>
<p>4. Untuk petuga interpiu : Bagilah jumlah dalam pertanyaan 3 dengan jumlah dalam pertanyaan empat. Ini akan memberikan kepada saudara persentasi dari para nasabah langganan BKK yang meminjam pada pos-pos desa. Contoh dari para nasabah langganan yang saudara interpiu akan sama persentasinya dari para nasabah langganan yang meminjam pada pos-pos desa. (TULIS PROSENTASI DARI PARA NASABAH LANGGANAN YANG MEMINJAM PADA POS-POS DESA).</p>	<p>BKK4 ! _____</p>
<p>5. Berapa prosen pinjaman BKK yang diberikan kepada wanita dan berapa prosen kepada laki-laki ? SAMPLING DARIPADA NASABAH BKK YANG DIWAWANCARI HARUS MEMILIKI PROSENTASI YANG SAMA DENGAN PERTANYAAN NO. 5.</p>	<p>BKK5 ! _____</p>
<p>6. Berapa banyak pos-pos desa yang aktif yang saudara miliki ? (TULIS DARI POS-POS DESA YANG AKTIF).</p>	<p>BKK6 ! _____</p>

14. Jika demikian, apakah kegiatan di luar pertanian tersebut ?

BKK14 !

PENGOLAHAN PERTANIAN. PEMBUATAN KERAJINAN TANGAN.

- | | |
|------------------------|--|
| 20. Padi-padian. | 30. Anyaman bambu. |
| 21. Buah-buahan. | 31. Tukang jahit/penjahitan. |
| 22. Sayuran. | 32. Pekerjaan seng lembaran (besi). |
| 23. Kacang-kacangan. | 33. Pertukangan kayu/perahot rumah tangga. |
| 24. Tahu/tempe. | 34. Membuat genting/bata/batako. |
| 25. Kopi. | 35. Batik tulis. |
| 26. Madu. | 36. Batik cap. |
| 27. Minyak yang perlu. | 37. Keramik. |
| 28. Ikan pindang. | 38. Pande besi. |
| 29. Lainnya. | 39. Tembaga/kuningan. |
| | 40. Perajutan jala. |
| | 41. Pertenunan kain. |
| | 42. Lainnya. |

PELAYANAN SERVIS/REPARASI.

PERDAGANGAN.

- | | |
|-------------------------------|---|
| 50. Reparasi seng lembaran. | 60. Pengangkutan. |
| 51. Reparasi alat elektronik. | 61. Rumah makan. |
| 52. Tukang protret. | 62. Pergudangan umum. |
| 53. Reparasi kendaraan. | 63. Jagal hewan/penjual daging. |
| 54. Reparasi peralatan. | 64. Pedagang keliling padi/beras. |
| 55. Pembangunan. | 65. Pedagang keliling minuman. |
| 56. Lainnya. | 66. Pedagang keliling makanan. |
| | 67. Pedagang keliling buah/sayuran. |
| | 68. Pedagang keliling minyak (arang, kayu). |
| | 69. Dagang macam-macam. |
| | 70. Lainnya. |

15. Apakah ada bisnis dalam daerah yang mempekerjakan buruh di luar rumah tangga ? 1. Ya. 2. Tidak.	<u>BKK15 !</u>
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16. Jika ya, bisnis-bisnis tipe apa mereka itu ? (PERIKSA PERTANYAAN 13 UNTUK KODE).	<u>BKK16 !</u>
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AKHIR DARI PERTANYAAN.

QUESTIONNAIRE FOR BKK ADMINISTRATORS

Checked By:

Questionnaire Number: _____

Kecamatan Name: _____

Kecamatan Code: _____

BKK Head: _____

Name of Interviewer(s):

1. _____

2. _____

Name of Supervisor:

1. How many clients do you now have at this kecamatan in total, including those at village posts?

(WRITE TOTAL OF BKK CLIENTS)

2. How many clients do you now have at the head (kecamatan) office?

(WRITE TOTAL NUMBER OF BKK CLIENTS WHO BORROW AT THE KECAMATAN OFFICE)

3. How many clients do you now have at your village posts?

(WRITE TOTAL NUMBER OF BKK CLIENTS WHO BORROW AT VILLAGE POSTS)

4. TO INTERVIEWER: DIVIDE THE NUMBER IN QUESTION 3 BY THE NUMBER IN QUESTION 1. THIS WILL GIVE YOU THE PERCENTAGE OF BKK CLIENTS WHO BORROW AT VILLAGE POSTS.

(WRITE PERCENTAGE OF BKK CLIENTS WHO BORROW AT VILLAGE POSTS)

5. How many of your loans are given to females?

(WRITE NUMBER OF LOANS GIVEN TO FEMALES)

6. TO INTERVIEWER: DIVIDE THE NUMBER IN QUESTION 5 BY THE NUMBER IN QUESTION 1. THIS WILL GIVE YOU THE PERCENTAGE OF BKK LOANS THAT GOES TO FEMALES.

(WRITE PERCENTAGE OF BKK LOANS THAT GOES TO FEMALES)

7. How many active village posts do you have?

(WRITE TOTAL NUMBER OF ACTIVE VILLAGE POSTS)

8. What is the value of loans you now have outstanding?

(WRITE RUPIAH BKK LOANS OUTSTANDING)

9. What is the value of the outstanding loans are now delinquent?

(WRITE TOTAL RUPIAH OF OUTSTANDING BKK LOANS THAT ARE DELINQUENT)

10. TO INTERVIEWER: DIVIDE THE NUMBER IN QUESTION 9 BY THE NUMBER IN QUESTION 8. THIS WILL GIVE YOU THE PERCENTAGE OF BKK CLIENTS WHO ARE DELINQUENT IN REPAYING THEIR LOANS.

(WRITE PERCENTAGE OF BKK CLIENTS WHO ARE DELINQUENT)

11. Approximately what percentage of all the loans you have made since you were established have been Khusus loans?

(WRITE APPROXIMATE PERCENTAGE OF KHUSUS LOANS)

12. Approximately what percentage of current delinquent loans are Khusus loans?

(WRITE APPROXIMATE PERCENTAGE OF CURRENT DELINQUENT LOANS THAT ARE KHUSUS LOANS)

13. Approximately what percentage of delinquent loans are more than six months overdue? (in rupiah)

(WRITE APPROXIMATE PERCENTAGE OF CURRENT DELINQUENT LOANS THAT ARE MORE THAN SIX MONTHS OVERDUE)

14. Do most people in this area have one main off-farm economic activity?

1. Yes 2. No

15. If so, what is this off-farm activity?

AGRICULTURAL PROCESSING

- 20. Grains
- 21. Fruits
- 22. Vegetables
- 23. Nuts
- 24. Tahu/tempe
- 25. Coffee
- 26. Honey
- 27. Essential oils
- 28. Ikan pindang
- 29. Meat
- 30. Fried wafers
- 31. Other

HANDICRAFTS/MANUFACTURING

- 40. Bamboo weaving
- 41. Tailor/sewing
- 42. Metal working
- 43. Carpentry/furniture
- 44. Tile making/bricks/batako
- 45. Batik tulis
- 46. Batik cap
- 47. Ceramics
- 48. Blacksmithing
- 49. Copper/brass
- 50. Fishnet weaving
- 51. Cloth weaving
- 52. Other

SERVICE REPAIRS

- 60. Metal repair
- 61. Electronics repair
- 62. Photography
- 63. Vehicle repair
- 64. Equipment repair
- 65. Bricklayer
- 66. Construction
- 67. Civil servant
- 68. Doctor
- 69. Soldier
- 70. Housekeeper/janitor
- 71. Driver
- 72. Barber/beautician
- 73. Other

COMMERCE

- 80. Transport
- 81. Restaurant
- 82. General store
- 83. Butcher
- 84. Grain vendor/beras
- 85. Beverage vendor
- 86. Snack vendor
- 87. Fruit/vegetable vendor
- 88. Fuel vendor (charcoal, wood)
- 89. Miscellaneous trading
- 90. Garbage collections
- 91. Animal trader
- 92. Bamboo vendor
- 93. Other

16. Are there any businesses in the area that employ labor outside the household?

1. Yes 2. No 3. Don't know

17. If yes, what type of businesses are they?

(SEE QUESTION 14 FOR CODES)

END OF QUESTIONNAIRE

ANNEX C
QUESTIONNAIRE FOR BKK BORROWERS

PITAKONAN KANGGO MASABAH BKX

Letiti doring :

- Ongko Pitakonnan :
- Kecamatan :
- Kantor Pos BKX :
- Ongko sing utang BKX :
- Asno langganan :
- Asno sing agentakake :
- Pitakon :
- 1.
- 2.
- Asnane pangwas :

ANDARAN KANGGO KEPERLUAN PENELITIAN.

KITA KAREH NYAMBUY GAME ONO SAMJEDING PAKINOMAN, KANGGO MANDERTENI OPO SING PARA SADULUR SING PADA UTANG PINKIRANE GEGAYUTAN KARO PROGRAM UTANGAN SOKO BKX.

KITA KAREH BUTUH MENGEREPI LUVIN GEGAYUTAN KARO PARA SADULUR KANG PODO UTANG, SAHINGO KITA BISO NGLAYANI SADULUR KUMI MAU KAREH LUVIN BECIK. SUMONGGO, KERSOHO PADA MARENGI MANGSULAN SING ONO GEGAYUTANE KARO SAKAREHING PITAKONAN SAK BISO-BISO SING GAMPANG CETO LAN UTUH, SEBAB TANGGUNG JAWAB PARA SADULUR AREP KARIMPEN PRIMPEN, LAN DIKOMBINASI UTONO DICAMPUR KARO KAGUNJANE MARATUS-RATUS SADULUR LIYANE KANG PODO OJEH UTANGAN BKX SING SUMBER ONO, JAMA TENGAH.

ASAL - USUL GERANG MASABAH.

-
1. Jenise langganan
- | | | |
|----------|------------|---|
| 1. Prio. | 2. Manito. | T |
|----------|------------|---|
- | 001 |
-
2. Opo sampyan urip lan mnggon ing doro ?
- | | | |
|-----------|---------|--|
| 1. Bener. | 2. Ora. | |
|-----------|---------|--|
- | 002 |
-
3. Pakaryan opo sing lan katindakake kanggo urip ? (Pakaryan baku) | 003 |

<u>MULU WETU</u>	<u>ANGGILAN HASTI</u>	<u>PAGAWAYAN KERAJINAN</u>
<u>BAKIL PERTANTAN</u>	<u>PERTANTAN</u>	<u>TANGAN</u>
10. Tetani.	20. Pari-parian.	40. Anyaman pring.
11. Ngingu ternak sapi.	21. Bush-bushan.	41. Tukang jahit/ penjahitan.
12. Wedus/wedus gumbel.	22. Seyuran.	42. Pegaweyan wesi.
13. Ternak pitik/bebek.	23. Kacang-kacangan.	43. Pertukangan kayu/ perabot mejo kursi lemari.
14. Parikaman	24. Tahu/tempe.	44. Gawe gendang/boto/ Betako.
15. Ngingu babi.	25. Kopi.	45. Batik tulis.
16. Liyane.	26. Madu.	46. Batik Cap.
	27. Lisah/Lengo kang perlu/migunani.	47. Bolo pecah esok lemah.
	28. Pindang iwak.	48. Pande wesi.
	29. Daging.	49. Pegaweyan tembogo/ kuningan.
	30. Krupak	50. Mgraryar
	31. Liyane.	

JASA PELAYANAN/REPARASI

60. Reparasi sang.
61. Reparasi alat-alat radio, TV,
Casette dan liyane.
62. Tukang potret.
63. Reparasi kendaraan.
64. Reparasi peralatan liyane.
65. Tukang batu.
66. Pegawai pembangunan.
67. Pegawai Pemerintah (Guru).
68. Dokter.
69. Prajurit.
70. Abdi rumah tangga.
71. Sopir.
72. Tukang cukur/salon kecantikan.
73. Liyane.

DAGANG

80. Angkutan.
81. Rumah makan.
82. Pergudangan umum.
83. Jagal/daging.
84. Adol kelilingan beras dan pari.
85. Adol kelilingan unjukan.
86. Adol kelilingan panganan.
87. Adol kelilingan buah-buah/sayuran.
88. Adol kelilingan arang, kayu dan
lango gas.
89. Dagang warna-warna.
90. Tukang kumpul barang bekas.
91. Blantik kewen.
92. Dagang Daling.
93. Liyane.

4. Opo pakaryan iki kangungane ?
1. Benar. 2. Ora. | 004 |

5. Opo sampayan mindakake jagawayan liyane kang bisa ngasilake paneta
Cantone ppo sampayan ngg-rap sawijine paneta ? (Secondary acti.) 005 |
1. Benar 2. Ora.

6. Yen mangkono, pegawaiyane opo ?
(COBO DIPERIKANI PITAKONAN 3 NGANGGO TOMBO KODE) | 006 |

7. Opo pakaryan iki kangungane ? 1. Benar 2. Ora. | 007 |

8. Opo sampayan mindakake tambahan pakaryan liyane sek wise nempu
wtangan solo HKK ? 1. Benar. 2. Ora. | 008 |

9. Yen benar, kagiyatan sing endi sing anyar ?
(COBO DIPERIKANI PITAKONAN 3 NGANGGO TOMBO KODE). | 009 |

10. Umur sampayan piro ? (TULIS SING LEMAS / BENDER). | 010 |

11. Sampayan temat / lulus Sekolah punopo ? (TULIS KELAS SING PALING | 011 |
1. Ora Sekolah. 4. S.M.P. .. -DUWUR) ..
2. Ora tetug sekolah dasar. 5. S.M.A 7. Universitas.
3. Sekolah Dasar. 6. Akademi.

12. Punopo sampayan anyar kromo ? 1. Bajang 2. Karin. | 012 |
3. Pegatan/pisah 4. Dudo
5. Bando.

13. Piro cacahé jiwé lan kang dadi tanggungan dahar ono omahmu ?
(COBO TULISEN CACAHÉ JIWO KALEBU SAMPEYAN DEME) | 013 |

14. Piro cacahé jiwé kang mahu abiyantu ngurumi wulu wetu pametusmu
kanggo kabutuhan rumah tangga ? (COBO TULISEN CACAHÉ JIWO KANG
DUWE WULU WETU PAMETU KALEBU SAMPEYAN).
Kanggo sing ngmakake pitakonan. Wangsulane supoyo dibagi kanggo
pitakonan 11 kanggo jawaban pitakonan 12. | 014 |

15. Opo sampayan dawé pasitan/tenah ? (Tanah omah, lan tegalan | 015 |
1. Benar. 2. Ora.

16. Yen agono piro antane ? (COBO TULISEN PIRING INTAN)

II. KETERANGAN GEGAYUTAN KARO UTANG.

18. Piro cacahé utang sing wis sampeyan tompo soko BKK ? | 016 |
 (COBO TULISEN KAPING PIRO UTANG KANG KATOMPO SOKO BKK). |
19. Piro akehe soko utang iku kang kaddeknake utang khusus ? | 017 |
 (COBO TULISEN KAPING PIRO UTANG KHUSUS SING KATOMPO SOKO BKK). |
20. Taun piro sampeyan njupuk utangan sing pungkasan ?
 (COBO TULISEN TAUN OLEHE UTANG ONO DAFTAR A NGISOR IKI).
21. Piro gedene utang sampeyan soko BKK kang pungkasan.
 (COBO TULISEN CACAHE RUPIAH ONO SADRONE DAFTAR ING NGISOR IKI).
22. Jenis utang opo iku mau ?
 1. Dinonan. 4. Masen.
 2. Pasaran. 5. Selapanan.
 3. Minggon. 6. Musiman.
 (COBO TULISEN NOMOR MODEL/JENIS ONO ING DAFTAR A NGISOR IKI).
23. Opo gunane/padahe utangamu kang pungkasan ?
 1. Pawitan/modal kerjo kanggo dagang kang lagi mlaku.
 2. Alat-alat, mesin-mesin utowo gedung kanggo dagang kang lagi mlaku.
 3. Gagrag siwiti dagang anyar.
 4. Tuku pasiten.
 5. Liyo-liyane.
 (COBO TULISEN CACAHE KEPERLUAN ONO ING DAFTAR A NGISOR IKI).
24. Taun piro sampeyan njupuk utangamu sing sapisan.
 (TULISEN TAUN OLEHE UTANG ONO DAFTAR A NGISOR IKI).
25. Piro cacahé/akehe utang sampeyan kang sapisan soko BKK ?
 (TULISEN CACAHE RUPIAH UTANG SAMPEYAN KANG SAPISAN SOKO BKK).
26. Iku mau jenise utangamu sing sapisan ?
 1. Dinonan. 4. Masen.
 2. Pasaran. 5. Selapanan.
 3. Minggon. 6. Musiman.
 (TULISEN NOMOR SOKO JENIS ING DAFTAR A ING NGISOR IKI).
27. Opo gunane/lan kapetluane utangamu kang sapisan.
 1. Pawitan/modal kerjo kanggo dagang lan lagi mlaku.
 2. Alat-alat, mesin-mesin utowo gedung kanggo dagang kang lagi mlaku.
 3. Dagang siwiti dagang anyar.
 4. Tuku pasiten.
 5. Liyo-liyane.
 (TULISEN NOMOR JENIS ING DAFTAR A ING NGISOR IKI).
- | DAFTAR A | | | | | | |
|----------------------|------------------|--------------|--------------|--------|--------------|--------|
| ONGKO UTANGAN | TAUN OLEHE UTANG | INFLASI | GEDENE UTANG | JUMLAH | JENISE UTANG | IGNANT |
| UTANG | UTANG | | | UTANG | UTANG | UTANG |
| UTANG SING PUNGKASAN | 018 | | | 019 | 020 | 021 |
| UTANG SING SAPISAN | 022 | | | 023 | 024 | 025 |
| BEDANE | 026 | XXXXXXXXXXXX | XXXXXXXXXXXX | 027 | XXXXXXXXXXXX | |
28. Opo sampeyan nompo utangmu sapisan nganti pungkasan ono ing pos BKK / kecamatan ? 1. Bener 2. Ora. | 028 |
29. Yen Bener COBO TAKONONO KOYO ING NGISOR IKI.
 Yen Pos BKK ing kecamatan utowo pos liyane sing cedak menyang Kantor BKK ? 1. Bener 2. Ora. | 029 |
30. Yen Ora, COBO TAKONONO KOYO ING NGISOR IKI : (// 30)
 Soko ngendi sampeyan nompo utangmu/utanganmu kuwi.
 1. Kantor kecamatan 2. Soko Pos liyane.

31. Opo sampayan nate leweng ora bayar cicilan ? 1. Bener. 2. Ora.	031
32. Yen bener, sebabe opo ? 1. Vektu lan ragat kang kanggo nyicil akeh. 2. Kahanan elek, hanjir, dalane bletak. 3. Mergo loro, kasripahan. 4. Keruwetan duwit. 5. Liyane.	032
III. KETERANGAN SIMPENANE.	
33. Piro cacah simpenanu ono BKK ? (TULISEN CACAH RUPIAH)	033
34. Opo sampayan nate njupuk simpenan ? 1. Bener 2. Ora.	034
35. Yen mangkono, digunakake opo duwit iku mau ? 1. Pawitan kerjo dedagangan sang lagi klakon. 2. Alata-alat, mesin-mesin utawa omah kang kanggo dedolan saiki. 3. Miviti dagang anyar. 4. Kebutuhan kaluwargo, (daharan, ageman, bayar sekolah, pet ngobatan.) 5. Dandan omah. 6. Tuku pasitem. 7. Tuku msa, perak lan rojo brenu liyane. 8. Selanetan. 9. Ongkos kubur. 10. Lebaran / dina riyoyo. 11. Ongkos Hantu. 12. Liyane.	035
36. Yen ora, opo sampayan ora nate njupuk simpenan ? 1. Ora perlu. 2. Wis nyobe manging ora kasil lan ora oleh palilane BKK. 3. Ang-el banget kanggo nyobe njupuk simpenan. 4. Ora nate dipikirake. 5. Kuvatir yen disilih sedulure. 6. Liyane.	036
37. Opo sampayan wis kagungan rekening simpenan ing liyo panggonan. 1. Yo, bener. 2. Ora bener.	037
38. JEN BENER Ing agendi sampayan kagungan rekening simpenan iku ? 1. Tabanas. 4. Usaha bersama. 2. Simpan pinjam. 5. Liyane. 3. Arisan.	038
39. Piro akehe anakan kang kabayarake deneng rekening iku mau nyang sampayan saben sasi ? (TULISEN PROSENTASE ANAKAN)	039
40. Yen sampayane ora diwajibake nyimpen ing BKK opo sampayan isih karep sabung ing BKK. 1. Mbuka rekening simpenan ono endi wae. 2. Disimpen ing omah. 3. Digunakake belanjo. 4. Liyane.	040
41. Opo sampayane seneng kanti ono simpenan ing BKK ? 1. Yo, bener. 2. Ora, bener.	041

42. Priye carane sampayan ngunggahake program simpanan BKK ? ' 042
1. ora perlu ono undakan. ' 1
 2. Bente (anakane) ditasbah. ' 1
 3. carane anjupuk digampangake. ' 1
 4. 2 + 3. ' 1
 5. liyane. ' 1

IV. REJARAN KREDIT (UTANGAN) DUDU BKK.

43. Opo sampyane nate nompo utangan soko :

Sumber	nompare piro	ludu nba - lakake piro	pirang dino suwono cicilan	ojo ditakok-ake gedene anak-anak sing klakon.
kredit mini (BRI)	'043	'044	'045	'046
BKK (AKH) dices sosial	'047	'048	'049	'050
candak kulak	'051	'052	'053	'054
Bank swasta	'055	'056	'057	'058
tetangga/keluargo	'059	'060	'061	'062
rentenir	'063	'064	'065	'066
toko bahan baku	'067	'068	'069	'070
tengkulak panon	'071	'072	'073	'074
Arisan	'075	'076	'077	'078
simpan pinjam	'079	'080	'081	'082
Badan kredit desa	'083	'084	'085	'086
Bank pasar	'087	'088	'089	'090
kocipa	'091	'092	'093	'094
BKMS / INTAS	'095	'096	'097	'098
liyane	'099	'100	'101	'102

YEN SING UTANG DUNE PASITEN, SAKBANTJURE TAKONONO :

44. Opo sampyane nate oleh kredit liwat cara nyewekake pasiten, gede pa - ' 103
siten, cara ijon utowo cero tebasan ? ' 1
1. yo, baner ' 1
 2. ora, baner ' 1

YEN SING UTANG NOMPO SAWIJINE UTANGAN SOKO SAKBANTJURE SAKBANTJURE SUMBER ING DUDU BKK, SAKBANTJURE TAKONONO : (No. 45).

45. Opo sebabe sampayan milih sumber iku ? (Alasan kang penting) ' 104
1. Utangan ditempo sakdurunge ono BKK. ' 1
 2. Nyenengake / gampang. ' 1
 3. anakane asor. ' 1
 4. Waktu aglunasi luhli dowo. ' 1
 5. Ditolak dening Bank. ' 1

46. Sebabe opo sampayan saiki ayilih soko BKK (alasan sing penting	105
1. ora ono sumber liyan	
2. gampang.	
3. cepet.	
4. sarate edi.	
5. liyane.	
47. Sok umpomo BKK ora ono, opo sing arep sampayan tindekt ? kanggo oleh utangan.	106
1. aku ora arep nampo utangan.	
2. anjupuk soko sumber kredit liyane.	
3. liyane.	
V. PENGASILANE LINGGARAN MASA-BEH.	
48. Salawasé sampyane nampo utangan kang sapisan soko BKK, upo bebas buku, utowo barang-barang sing sampayan tuku.	107
1. madap	
2. tetep sami utowo	
3. munggah	
49. Opo iku mau kasebabake dening utanganmu soko BKK ?	108
1. yo, bener.	2. ora, bener.
50. Opo cacahé leveransair (tukang asok barang)	109
1. dadi kurang.	
2. tetep podo utowo	
3. tambah ?	
51. Opo iku kasebabake dening utangan BKK mu ?	110
1. yo, bener.	2. ora, bener.
52. Opo ekehe barang sing didol ?	111
1. midun.	
2. tetep podo utowo.	
3. tambah.	
53. Opo iku mau disebabake utangan BKK mu ?	112
1. yo, bener.	2. ora, bener.
54. Opo macemé barang kang sampayan dol ?	113
1. midun.	
2. tetep podo utowo.	
3. tambah.	
55. Opo iku mau disebabake dening utangan BKK mu ?	114
1. yo.	2. ora.
56. Opo cacahé sedulur kang tuku barangmu	115
1. midun.	

57. Opo iku mau disebabake dening utangamu soko BKK ?	' 116
1. yo, bener.	
2. ora, bener.	
58. Opo sedulur sing mindakake pakaryan sing podu isih ?	' 117
1. midun.	
2. tetep podo utowo.	
3. tambah.	
59. Opo iku mau disebabake dening utangamu soko BKK ?	' 118
1. yo, bener.	
2. ora, bener	
3. ora, agerti.	
60. Opo penghasilanmu sakwise dikurangi on:kos-ongkos ?	' 119
1. midun.	
2. tetep podo utowo.	
3. tambah.	
61. Opo kasebabake dening utangamu BKK ?	' 120
1. yo, bener.	
2. ora, bener.	
62. Opo waktu kang dikorbanake kanggo pakaryan iku mau ?	' 121
1. midun.	
2. tetep podo utowo.	
3. tambah.	
63. Opo iku mau disebabake utangamu BKK ?	' 122
1. yo, bener.	
2. ora, bener.	
64. Opo cacah sedulur kang nyambutgawe karo sampeyan, dadi	' 123
1. midun.	
2. tetep podo utowo.	
3. tambah.	
65. Opo iku mau disebabake dening utangamu BKK ?	' 124
1. yo, bener.	
2. ora, bener	
YEN BUNINGU TABELAN SIKLAS NONGPO UTANGAN BKK, BAKBANDJURE TAKONONO : No. 66, 67	
66. Piro cacah buruh anyar waktu utang kang sapisan soko BKK ? (TULISEN CACAH PEKAWI BARIAN KEMPUT ANYAR)	' 125
67. Piro cacah buruh pocokan anyar waktu nongpo utang kang sapisan soko BKK ? (TULISEN CACAH PEKAWI POCOKAN ANYAR)	' 126
68. Sakwise nongpo utang soko BKK, kapiye agengrengan kuliramu ?	' 127
1. tetep.	
2. turu kang kwalitote luwih apik	
3. turu naliko rego midun.	
69. Opo anyaranyar nongpo potongan anyar soko leveransir ?	' 128
1. yo, bener.	
2. ora, bener.	

70. Yen ono wong liyo ing daerah iki arep wiwit makaryo kang podo dawa, opo dawake biso adol asile ? 129
- | | | |
|--------|---------|----------------|
| 1. yo. | 2. ora. | 3. ora ngerti. |
|--------|---------|----------------|
-
71. Opo saspeyan biso adol luwih akah yen saspeyan karep, kanti rego sing podo ? 130
- | | | |
|--------|---------|----------------|
| 1. yo. | 2. ora. | 3. ora ngerti. |
|--------|---------|----------------|
-
72. Yen ora, opo biso saspeyan adol luwih akah soko rego kang luwih asor ? 131
- | | | |
|--------|---------|----------------|
| 1. yo. | 2. ora. | 3. ora ngerti. |
|--------|---------|----------------|
-
73. Sakawene nopo utangan BKK, opo keuntungamu tambah sakwise ongkos-ongkos tambah ? 132
- | | | |
|--------|---------|----------------|
| 1. yo. | 2. ora. | 3. ora ngerti. |
|--------|---------|----------------|
-
74. Yen bener, priye cara saspeyan nyimpen saben nopo tambahing pengasilan soko makaryo ? 133
1. modal kerjo kanggo dagang sing saiki.
 2. peralatan, mesin-mesin utowo bangunan kanggo dagang kang saiki.
 3. miwiti dagang anyar.
 4. kebutuhan kaluargo, (daharan, sandangan, bayar sekolah, pengobatan).
 5. dandan omah.
 6. tuku pasiten
 7. mas, perak, utowo rojo bronc.
 8. selamatan.
 9. cagakos kubur.
 10. lebaran / dino riyoyo.
 11. mantu.
 12. liyane.
-
75. Opo saspeyan ugo mikir yen asilmu soko pakuryan iki arep tambah ing tembe mburi ? 134
- | | | |
|--------|---------|----------------|
| 1. yo. | 2. ora. | 3. ora ngerti. |
|--------|---------|----------------|
-
76. Yen bener, priye carane saspeyan ngrancang kanggo nyimpen tambahe pengasilan soko iku ? 135
1. modal kerjo kanggo dagang sing saiki.
 2. peralatan, mesin-mesin utowo bangunan kanggo dagang kang saiki.
 3. miwiti dagang anyar.
 4. kebutuhan keluarga, (daharan, sandangan, bayar sekolah, pengobatan).
 5. dandan omah.
 6. tuku pasiten.
 7. mas, perak utowo rojo bronc.
 8. selamatan.
 9. cagakos kubur.

77. Sak wise asopo utangan kang anjisan soko BKK opo sampayan bisa tuku ' 136
 sedian pangan sak jrono setahun ?
 1. yo. 2. ora.

YEN OMO OMBE OMAHAN ING BARAGAN PANG-N, SAK BANJURE TUKONONO :

78. Opo utangamu soko BKK ugo menahi andil nganakake owah-owahan iki ? ' 137
 1. yo, bener, 2. ora, bener.

VI. PANGGRAITO PANGGRAITO SOKU LAMOGANAN

79. Priye menurut pemikiran sampayan opo layanane BKK. ' 138
 1. ora perlu diapik-ake.
 2. anakane digawe asof
 3. pangolaha panyuwunan utangan dicepetake.
 4. pos-pos ing padasan di akahi.
 5. liyane.

80. Opo sampayan siogo nyritakake sakabehing bab maneh sing gegayutan ' 139
 karo program BKK.

81. Opo omc salah sawijine bab sing sampayan crep takon karo aku ? ' 140
KETUJOKAKE PETUGAS KANG NGANALAKE PITAKONAN :

82. MENURUT MAHASANNU OPO KETERANGAN IKU MAS BISO DIPERCOYO ? ' 141
 1. ora diperooyo
 2. sak penerungan diperooyo.
 3. diperooyo baaget.

PENGALAMAN TAMBAHAN :

FUNGKASANE PITAKONAN

QUESTIONNAIRE FOR BKK BORROWERS

Checked By:

Questionnaire Number:-----

Kecamatan:-----

Post:-----

BKK Borrower Number:-----

Name of Client:-----

Name of Interviewer(s):

1. -----

2. -----

Name of Supervisor:

EXPLANATION OF SURVEY PURPOSE

WE ARE WORKING ON A STUDY TO LEARN WHAT BORROWERS THINK OF THE BKK LOAN PROGRAM. WE NEED TO KNOW MORE ABOUT OUR BORROWERS SO THAT WE MAY SERVE THEM BETTER. PLEASE ANSWER ALL QUESTIONS AS COMPLETELY AS YOU CAN, SINCE YOUR RESPONSES WILL BE KEPT CONFIDENTIAL, AND COMBINED WITH THOSE OF HUNDREDS OF OTHER BKK BORROWERS THROUGHOUT CENTRAL JAVA.

I. CLIENT BACKGROUND

1. Sex of client.

1. Male 2. Female

2. Do you live in this desa?

1. Yes 2. No

3. What do you do for a living? (primary activity)

AGRICULTURAL PRODUCTION

- 10. Farming
- 11. Cattle
- 12. Goats/Sheep
- 13. Poultry
- 14. Fish
- 15. Pigs
- 16. Other

AGRICULTURAL PROCESSING

- 20. Grains
- 21. Fruit
- 22. Vegetables
- 23. Nuts
- 24. Tahu/tempe
- 25. Coffee
- 26. Honey
- 27. Essential oils
- 28. Ikan pindang
- 29. Meat
- 30. Fried Wafers
- 31. Other

HANDICRAFTS/ MANUFACTURING

- 40. Bamboo weaving
- 41. Tailor/sewing
- 42. Metal working
- 43. Carpentry/furniture
- 44. Tile making/bricks/batako
- 45. Batik tulis
- 46. Batik cap
- 47. Ceramics
- 48. Blacksmithing
- 49. Copper/brass
- 50. Fishnet weaving
- 51. Cloth weaving
- 52. Other

SERVICES/ REPAIR

- 60. Metal repair
- 61. Electronics repair
- 62. Photography
- 63. Vehicle repair
- 64. Equipment repair
- 65. Bricklayer
- 66. Construction
- 67. Civil servant
- 68. Doctor
- 69. Soldier
- 70. Housekeeper/janitor
- 71. Driver
- 72. Barber/Beautician
- 73. Other.

COMMERCE

- 80. Transport
- 81. Restaurant
- 82. General store
- 83. Butcher
- 84. Grain vendor/ beras
- 85. Beverage vendor
- 86. Snack vendor
- 87. Fruit/vegetable vendor
- 88. Fuel vendor (charcoal, wood)
- 89. Miscellaneous trading
- 90. Garbage collectors
- 91. Animal trader
- 92. Bamboo vendor
- 93. Other

4. Do you own this business?

1. Yes 2. No

5. Do you do any other kind of work for which you earn income? For example, do you farm any land? (secondary activity)

1. Yes 2. No

6. If so, what kind of work?

(SEE QUESTION 3 FOR CODES)

7. Do you own this business?

1. Yes 2. No

8. Have you added new activities since receiving your first BKK loan?

1. Yes 2. No

9. If yes, what activities are new?

(SEE QUESTION 3 FOR CODES)

12. How old are you?

(WRITE EXACT AGE)

11. What is the highest level of schooling you have completed?

- | | |
|---------------------------------|-----------------------|
| 1. No schooling | 5. Senior high school |
| 2. Not completed primary school | 6. Academy |
| 3. Primary school | 7. University |
| 4. Junior high school | |

12. Are you married?

- | | | |
|-----------|------------|-----------------------|
| 1. Single | 2. Married | 3. Separated/Divorced |
| 4. Widow | 5. Widower | |

13. How many people live and eat with you?

(WRITE NUMBER OF PEOPLE INCLUDING CLIENT)

14. How many of these people contribute to your household income?

(WRITE NUMBER OF PEOPLE EARNING AN INCOME INCLUDING CLIENT)

TO INTERVIEWER: DIVIDE NUMBER OF PEOPLE IN QUESTION 11 BY NUMBER OF PEOPLE IN QUESTION 12.

15. Do you own farm land?

- | | |
|--------|-------|
| 1. Yes | 2. No |
|--------|-------|

16. If so, how much farm land?

(WRITE NUMBER OF HECTARES)

17. Do you rent farm land from others?

- | | |
|--------|-------|
| 1. Yes | 2. No |
|--------|-------|

18. BKK LOAN INFORMATION

18. How many loans have you received from the BKK?

(WRITE TOTAL NUMBER OF LOANS RECEIVED FROM THE BKK)

19. How many of these loans have been khusus loans?

(WRITE TOTAL NUMBER OF KHUSUS LOANS RECEIVED FROM THE BKK)

20. What year did you take out your last BKK loan?

(WRITE YEAR OF LOAN IN CHART A BELOW)

21. What was the amount of your last BKK loan?

(WRITE NUMBER OF RUPIAH IN CHART A BELOW)

22. What kind of loan was your last BKK loan?

1. Harian
2. Pasaran
3. Mingguan
4. Bulanan
5. Lapanan
5. Musiman

(WRITE NUMBER OF TYPE IN CHART A BELOW)

23. What was the purpose of your last BKK loan?

1. Working capital for current business
2. Equipment, machinery or building for current business
3. Start new business
4. Buy land
5. Other

(WRITE NUMBER OF PURPOSE IN CHART A BELOW)

24. What year did you take out your first BKK loan?

(WRITE YEAR OF LOAN IN CHART A BELOW)

25. What was the amount of your first BKK loan?

(WRITE NUMBER OF RUPIAH IN CHART A BELOW)

26. What kind of loan was your first BKK loan?

1. Harian
2. Pasaran
3. Mingguan
4. Bulanan
5. Lapanan
6. Musiman

(WRITE NUMBER OF TYPE IN CHART A BELOW)

27. What was the purpose of your first BKK loan?

1. Working capital for current business
2. Equipment, machinery or building for current business
3. Start new business
4. Buy land
5. Other

(WRITE NUMBER OF PURPOSE IN CHART A BELOW)

CHART A

Loan Number	Year of Loan	Inflator	Size of Loan	Total	Type of Loan	Purpose of Loan
Last Loan						
First Loan						
Difference		XXXXXXXX	XXXXXXX		XXXXXXXX	XXXXXXXXXX

Year	Inflator	Loan Size	Total
1972	6.3	x	----- = -----
1973	5.0	x	----- = -----
1974	4.0	x	----- = -----
1975	3.0	x	----- = -----
1976	2.5	x	----- = -----
1977	2.2	x	----- = -----
1978	1.9	x	----- = -----
1979	1.7	x	----- = -----
1980	1.4	x	----- = -----
1981	1.2	x	----- = -----
1982	1.0	x	----- = -----

28. Did you receive all BKK loans from this BKK office?

1. Yes
2. No

IF YES, THEN ASK THE FOLLOWING: (ONLY FOR BKK POST BORROWERS)

29. If this BKK post did not exist, would you travel to the nearest BKK post or kecamatan to borrow money from the BKK?

1. Yes
2. No

IF NO, THEN ASK THE FOLLOWING:

32. Where did you receive the previous loan(s)?

1. The kecamatan office
2. Another BKK post

31. Did you ever miss any loan payments?

1. Yes
2. No

32. If so, why?

1. Money, time or distance required to travel to BKK post/kecamatan
2. Bad weather/floods/mudslides
3. Illness/death
4. Financial problems
5. Other

III. SAVINGS INFORMATION

33. How much do you have in your BKK savings account?

(WRITE NUMBER OF RUPIAH)

34. Have you ever made withdrawals from your savings account?

1. Yes
2. No

35. If yes, what did you use this money for?

1. Working capital for current business
2. Equipment, machinery or building for current business
3. Start new business
4. Family needs (food, clothing, medicine, school fees)
5. Housing improvement
6. Land investment
7. Gold, silver or jewelry purchases
8. Slamatan
9. Funeral
10. Lebaran/Hari Raya
11. Wedding
12. Other

35. If not, why have you never made a withdrawal?

1. No need/want to save
2. Attempted but not able to secure BKK approval
3. Too difficult to try to withdraw funds
4. Never thought of it
5. Other family members would want the money
6. Other

37. Do you have savings accounts in any other places?

1. Yes
2. No

IF YES,

38. Where do you have this savings account?

1. Tabanas
2. Simpan-Pinjam
3. Arisan
4. Usaha Bersama
5. Other

39. How much interest does this account pay you per month?

(WRITE INTEREST RATE)

40. If you did not have a BKK savings account, what would you do with your savings?

1. Open a savings account elsewhere
2. Keep savings at home
3. Spend the money
4. Other

41. If you were not required to save at the BKK, would you still save at the BKK?

1. Yes
2. No

42. How would you improve the BKK savings program?

1. No improvement necessary
2. Raise the interest rate
3. Make withdrawals easier
4. 2 + 3
5. Other

IV. NON-BKK CREDIT HISTORY

43. Have you ever received loans from:

(DO NOT ASK)

Source	How much did you receive?	How much was to be paid back?	Payback Period? (days)	Effective Interest Rate
(BRI) Credit Mini				
BKM (AKM) Dinas Sosial				
KCK				
Private Bank				
Neighbor/ Family				
Money Lender				
Raw Material Suppliers				
Product Buyers				
Anisan				
Simpan-Pinjam				
Badan Kredit Desa				
Bank Pasar				
Kosipa				
BIMAS/INMAS				
Other				

IF THE BORROWER OWNS LAND, THEN ASK:

44. Do you ever get credit through cara sewa (land rental), cara gadai (land pawning), cara ijon (selling green crops before harvest), or cara tebasan (selling crops immediately before harvest)?

1. Yes 2. No

IF BORROWER RECEIVED A LOAN FROM ANY OF THE ABOVE SOURCES,
THEN ASK: (QUESTION 45)

45. Why did you select this source?
(Most important reason.)

1. Loan received prior to BKK establishment
2. More convenient
3. Lower interest rate
4. Longer repayment period
5. Rejected by BKK
6. Other

FOR ALL BORROWERS: (QUESTIONS 46 & 47)

46. Why are you now borrowing from the BKK?
(Most important reason.)

1. No alternative sources
2. Convenient
3. Quick
4. Good terms
5. Other

47. What would you have done without the BKK
loan?

1. Would not have received any loan
2. Would have gone to other credit
source
3. Other

V. CLIENT INCOME

48. Since receiving your first BKK loan, has
the volume of raw materials or goods you
purchase

1. Decreased
2. Remained the same or
3. Increased?

49. Is this because of your BKK loan?

1. Yes
2. No

50. Has the number of suppliers

1. Decreased
2. Remained the same or
3. Increased?

51. Is this because of your BKK loan?
1. Yes
 2. No
52. Has the volume of sales
1. Decreased
 2. Remained the same or
 3. Increased?
53. Is this because of your BKK loan?
1. Yes
 2. No
54. Has the variety of goods you sell
1. Decreased
 2. Remained the same or
 3. Increased?
55. Is this because of your BKK loan?
1. Yes
 2. No
56. Has the number of your customers
1. Decreased
 2. Remained the same or
 3. Increased?
57. Is this because of your BKK loan?
1. Yes
 2. No
58. Has the number of people doing the same activity
1. Decreased
 2. Remained the same or
 3. Increased?
59. Is this because of BKK loans?
1. Yes
 2. No
 3. Don't know
60. Has your income after expenses
1. Decreased
 2. Remained the same or
 3. Increased?
61. Is this because of your BKK loan?

1. Yes 2. No

62. Has the amount of your time devoted to this business

1. Decreased
2. Remained the same or
3. Increased?

63. Is this because of your BKK loan?

1. Yes 2. No

64. Have the number of people working in this business with you

1. Decreased
2. Remained the same or
3. Increased?

65. Is this because of your BKK loan?

1. Yes 2. No

IF EMPLOYMENT HAS INCREASED BECAUSE OF THE BKK LOAN, THEN ASK: (QUESTION 66 & 67)

66. How many new full-time people have you hired since receiving your first BKK loan?

(WRITE NUMBER OF NEW FULL-TIME EMPLOYEES)

67. How many new part-time people have you hired since receiving your first BKK loan?

(WRITE NUMBER OF NEW PART-TIME EMPLOYEES)

68. How have your buying patterns changed since receiving your first BKK loan?

1. Not at all
2. Buy greater quantities
3. Buy at time when price is lower
4. Other

69. Do you receive any new discounts from suppliers?

1. Yes 2. No

70. If somebody else in this area wanted to start this type of business, could they sell their products?

1. Yes 2. No 3. Don't know

71. Could you sell more if you wanted to, at the same price?
1. Yes 2. No 3. Don't know
72. IF NO, could you sell more at a lower price?
1. Yes 2. No 3. Don't know
73. Since receiving your BKK loan, have your profits from this activity changed?
1. Yes 2. No 3. Don't know
74. IF YES, how have you spent any additional earnings from this activity?
1. Working capital for current business
 2. Equipment, machinery or building for current business
 3. Start new business
 4. Family needs (food, clothing, school fees)
 5. Housing improvement
 6. Land investment
 7. Gold, silver or jewelry purchases
 8. Slamatan
 9. Funeral
 10. Lebaran/Hari Raya
 11. Wedding
 12. Other
75. Do you think your earnings from this activity will increase in the future?
1. Yes 2. No 3. Don't know
76. If yes, how do you plan to spend additional earnings from this activity?
1. Working capital for current business
 2. Equipment, machinery or building for current business
 3. Start new business
 4. Family needs (food, clothing, school fees)
 5. Housing improvement
 6. Land investment
 7. Gold, silver or jewelry purchases
 8. Slamatan
 9. Funeral
 10. Lebaran/Hari Raya
 11. Wedding
 12. Other

77. Since receiving your first BKK loan, have you been able to provide food for your family throughout the year?

- 1. Yes
- 2. No

IF THERE IS A CHANGE IN FOOD SUPPLY, THEN ASK:

78. Has your BKK loan contributed to this change?

- 1. Yes
- 2. No
- 3. Don't know

VI. CLIENT SUGGESTIONS

79. How do you think BKK loan services could be improved?

- 1. No improvement necessary
- 2. Lower interest rates
- 3. Faster loan application processing
- 4. More village posts
- 5. Other

80. Would you like to tell me anything else about the BKK program?

81. Do you have anything else to ask me?

TO THE INTERVIEWER:

82. How reliable do you think this information is?

- 1. Not reliable
- 2. Somewhat reliable
- 3. Very reliable

Additional observations:

END OF QUESTIONNAIRE