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**SEMINAR ON INFORMAL FINANCIAL MARKETS
IN DEVELOPMENT**

**THE FINANCIAL CHAMELEON IN DEVELOPING COUNTRIES:
Informal Finance
with Case Material from Indonesia**

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**The Financial Chameleon in Developing Countries:
Informal Finance
with case material from Indonesia**

by

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**Paper for the Seminar on Informal Finance,
Washington, 18-20 October 1989.**

FOREWORD

The first objective of my current research about informal finance in the rural areas of Ambon in Indonesia, is to describe how the specific agro-ecological resource base as well as regional trade and transport networks, affect the saving, lending and borrowing behaviour of villagers. My second research objective is to discover how different financial needs of villagers are satisfied and how financial relations are embedded in other kinds of relations. Thirdly, I want to explore what relations exist between informal and formal finance and the ratio of these relations. My fourth objective is to end the classical fight of Don Quichotte-minded bankers and, one may add, politicians, against the myth of the usurious moneylender.

The research base is the village Tulehu which is located at the north-eastern coast of Ambon island in the Moluccan province.

The first part of this paper describes how different economic parameters enable and constrain the financial behaviour of its inhabitants. It shows that:

- * the fruits of the forest guarantee a minimum living standard but provide no seed for sustained economic growth;
- * the expanding off-farm sector opens new income avenues and radically transforms the local financial market;
- * women and migrants play important financial roles as street vendors and traders.

The second part is about recent informal financial innovations and illustrates that informal finance behaves like a financial chameleon: it offers a colourful palette of financial services to villagers and adapts itself to their diverse and changing financial needs.

The third part tentatively outlines pre-conditions and possibilities for imitation of informal financial practices by formal financial agencies. It also discusses the ending or bridging of the differences between formal and informal financial markets.

1. ECONOMIC PARAMETERS CONDITION FINANCIAL BEHAVIOUR

The forest as the natural bank of last resort

Just like all other coastal villages in the Moluccan province, Tulehu enjoys an agro-ecological resource base which guarantees all native villagers a minimum living standard in terms of food security and shelter: the sago palms provide the traditional staple food as well as all necessary materials for traditional house construction. The sea is supplier of fish which is an integral part of the daily diet. The related food production processes neither require capital-intensive inputs nor a large labour input (within one week a group of 6 persons is able to collect enough sago food for a 3 months supply). Farming and fishing are therefore the main and complementary activities of the first and foremost category of laborers: villagers living close to nature. For the smaller and less common categories of laborers such as government employees, tailors, traders, shopkeepers, drivers and harbour labourers, collecting tree and fish produce are more incidental and supplementary activities. Usually, these second category villagers just ask first category villagers to harvest their sago trees on sharecrop- or cash basis when in need of food or a little money. When I asked a fish seller what she would do in case of total lack of money, he responded with "ke hutan saja" (we just go the forest). The forest, even more than the sea, is perceived as a natural bank of last resort.

Besides a secure subsistence-basis, the forests in the Moluccan archipelago offer the villagers enormous but unpredictable cash incomes: once in every two or three years, clove trees yield a crop that promises a vast amount of money. In the seventies, when prices rose to Rp. 12,000/kg, 40 mature clove trees, each yielding 10 kg., were by far enough to pay for large expenditures such as the pilgrimage to Mecca or a new house with concrete walls and zinc roof. In the eighties, it became impossible to do the same as the tide turned: prices fell to Rp. 3,000/kg while the costs of a journey to Mecca ⁽¹⁾ and house construction material sharply increased. The

1 The Rupiah devaluated from US\$1.00 = Rp. 623 (annual average) in 1979 to US\$1.00 = Rp. 1,760 in July 1979. The price for the Mecca-journey rose from Rp. 766,000 in 1979 to Rp 5,150,000 in 1989.

village scene shifted accordingly: villagers with the ambition to build a new house in these days, do it in steps, resulting in numerous unfinished houses. Farmers complain about the low prices of cloves and find that only traders and senior civil servants can afford to go to Mecca nowadays.

Cloves represent a form of savings, too. After the harvest a part of the crop is stored in the houses and will be sold when money is needed for daily food, school and other, not too large expenditures.

The economic boom of the seventies did not upgrade the agro-ecological basis of the Moluccan villages. The enormous cash flows into the village economy were largely used for consumption purposes and did not result in economic diversification of the agricultural sector. Instead, it brought the native farmers close to monocultural clove cultivation (2). The Indonesian government contributed to this development by offering cheap credit for the intensification of clove production. When the prices dropped because of the government-led increase of total clove acreage in the Indonesian archipelago, the farmers were left with increased consumption needs only. Wrecked ships on the shores of Tulehu are reminders of the few attempts of native villagers to exploit the broader investment opportunities in the fishery sector: due to bad maintenance, they all too sudden broke down. The native villagers were thrown back into their role of traditional fishermen using low-technology equipment such as proas (wooden canoes), fish lines, bare hooks and small nets. The entrepreneurial Butonese people however, form the exception to the rule.

Migrants, the new entrants into the economy

Migrants do not enjoy the same fruits of the abundant Ambonese resource base, as the native villagers do: newcomers do not possess traditional ownership or usufructuary rights on land and trees. Therefore, they have to concentrate on other factors of production. The Butonese focus on labour and capital.

The Butonese are migrants from Southeast Sulawesi and can be found in nearly all Moluccan villages. They are in the first place known as agricultural labourers and dedicated farmers. They are very often asked by

2 Until the mid-seventies, Indonesia was the largest importer of cloves, that are an important ingredient in the production of local "kretek" cigarettes.

native villagers to fulfil labourious tasks such as the harvest of sago and clove trees. The native population has allowed them to settle on their lands and obtain a share-tenant status. They have exploited the possibilities for vegetable gardening, more than the average native farmer. Secondly, the Butonese people are known for their finance and lending roles in the trade in cloves: they either buy the cloves-on-the-trees at harvest time ("beli buah") or buy the right to harvest the trees for one or more good seasons ("sewa pohon"). Good seasons may occur only once in three years. This will cost the buyer-cum-lender between Rp. 100,000 and Rp. 1,000,000, depending on the number and age of the trees and the expected prices of cloves. Both pre-harvest agreements imply that the seller-cum-borrower does neither have to organize the very labour-intensive harvest of the trees nor the sale of the produce. In case of "sewa pohon" the risks related to price fluctuations are carried by the lender. The interest rate is hidden and unpredictable. Finally, this agreement offers the owners of clove trees the opportunity to satisfy large, expected or unexpected financial needs and might be classified as long-term finance in the informal sector. The declining trend of the price of cloves in the eighties however, has made the Butonese more cautious about long-term agreements with needy owners of clove trees, as the base for the transactions devaluated. They would rather try to escape the clove business and become entrepreneurs in the fishery sector.

Nearly all the owners of "bagan" in Tulehu belong to the ethnic minority of Butonese people. A "bagan" is a huge wooden raft with net to catch small fish at night. Presently, the ingenious construction of a medium-sized "bagan" costs about Rp. 4,000,000 (approx. 2,200 USD) which ofcourse is far less than the price of a motorized ship but 100 times the price of a proa (wooden canoe).

The finance and lending capacities of the Butonese are the result of their frugal living, hard physical labour and use of both formal and informal financial agencies: in case of the purchase of cloves in harvest time ("beli buah"), the Butonese also mobilize capital with their golden coins and ornaments that they have saved over the years, as collateral at the government pawnshop in Ambon city. The maximum loan periods are 3 and 6 months with interest rates of resp. 4% and 3% p.m. The pawnshop is able to

fulfil the more urgent financial needs of the Butonese on the spot: an identity card and the gold are enough to be eligible as borrower. Within two months the harvest and repayment follows. The pawnshop however, proves to be the only accessible formal financial institution for the "landless" Butonese. This is further illustrated by the ways Butonese finance their investments in "bagan": the financial basis for the purchase of construction material to build a "bagan", are savings from earlier clove transactions and the sale of fish and vegetables. These savings are just kept in their simple, wooden houses. The (Butonese) fish wholesalers in the market of Ambon city, supply additional interest-free capital to the medium-sized entrepreneurs in Tulehu under the agreement that the owner of the "bagan" will sell the future catches to the fish wholesaler. The investment of the wholesaler is a supply-securing strategy with hidden and diffuse repayment forms. Although the size of the investment involved with "bagan", the entrepreneurial and creditworthy character of the Butonese, and the income flows related to "bagan"-fishing, would legitimate an active lending role of banks in this fishery section, this has not (yet) been bank policy. Perhaps, the banks could diversify their collateral requirements (land titles, stone houses) to include "bagan" as well. But even then, the new entrepreneur might prefer the uncomplicated, financial help of the fish wholesaler and the pawnshop.

The clove trade

Besides Butonese people, there are four other main categories of clove traders: shopkeepers, private professional traders, village co-operatives (KUDs) and agents of kretek (☞) cigarette factories.

The co-operative movement in Indonesia forms an integral part of its rural development program under the general direction and management of the central government in Jakarta. The KUDs in the Moluccan province (and eight other provinces in Indonesia) officially have the monopoly on cloves. They are obliged to buy the cloves directly from the farmers at Rp. 6,500/kg. The PUSKUD is the central co-operative which auctions the cloves collected by the KUDs. If the cloves meet the minimum quality standards of the

☞ Cloves are an essential ingredient of kretek cigarettes. These cigarettes enjoy great popularity amongst the male part of the Indonesian population.

PUSKUD, the state buying-agent has to offer about Rp. 7,000/kg which in these years is enough to beat the competition of the agents of kretek cigaret factories on the auction floor. In practice, the KUDs are not able to fulfil their duties in the prescribed way.

In the far-off villages in the Moluccas where shopping alternatives and possibilities to earn money are few, the local shopkeeper offers consumer goods on credit and accepts repayment in kind: the debt is recorded in kg. of cloves with a fictitious (low) price per kg. of cloves as the standard. Private professional traders and KUDs just act as lending wholesalers and pump consumer goods worth millions of rupiahs into the village economies. In harvest time the big traders and KUDs simply collect the cloves at the village shops. Profits and interest rates for parties involved, are hidden and uncertain as they depend on future market prices of cloves. Credit is the tying device in this part of the trade network of cloves. Cloves change hands from private professional traders to agents of kretek cigarette factories (the private channel) and from KUDs to PUSKUD (the government co-operative channel). These channels also get mixed up: professional private traders and shopkeepers let the KUDs sell their cloves at the lucrative auction floor at the PUSKUD. Some KUDs that collect more cloves than can be auctioned at the PUSKUD, sell their cloves to or store them with wholesalers in cloves or consumer goods in Ambon city.

The regional administrative and transport centre, Tulehu, offers its inhabitants more shopping alternatives and possibilities to earn money than the far-off villages. This might explain the lack of debt claims of shopkeepers on clove trees there.

The Moluccan area has been gifted with rich natural banks of last resort. The villagers of Tulehu however, more and more try to evade these banks and "cari uang" (look for money) in the expanding off-farm sector of Tulehu. When I asked another fish seller what he would do in case of total lack of money, he responded in a very telling way: "kembali ke hutan" (back to the forest).

The government sector as employer

Tulehu contains an exceptionally large number of government employees and

schools as the administrative capital of a sub-district. Nearly 350 villagers are on the roll and about 85 people enjoy pension payments. This implies a regular cash flow into the village with 12,000 people and nearly 2,000 households. Government jobs rank high in the eyes of the villagers who try to evade the natural banks of last resort: the white collar workers enjoy some prestige, a regular income and future pension privileges. Ironically, their salaries are usually not enough to cover daily expenditures which can in effect, force them to work in the forest on free days.

Although the monthly salaries of the government employees are hardly enough to meet monthly food expenditures (which vary between Rp. 90,000 and Rp. 210,000 per household), many employees are creditworthy in the eyes of both formal and informal financial intermediaries: in the credit program (KUPEDES) of the village unit of the Bank Rakyat Indonesia (BRI) in Tulehu, more than 90% of the borrowers are government employees. Non-Chinese shopkeepers supply consumer goods on credit to known persons and government employees only. The number of their borrowing customers varies between 4 and 40 persons per shop. These customers are expected to repay the interest-free loan within one or two months. The shopkeepers do not perceive it as credit but speak of customers 'who have not yet paid' ("belum bayar").

Women as entrepreneurs

The small street vending activities of the women in Tulehu, indicate the need for extra income amongst government employees as well as workers in the private sector. These activities are called "bantu suami" (to help your husband) which in fact refers to all income-generating activities of wives. The women dominate as vendors in the vegetable and fish markets and are, generally speaking, very experienced in "cari uang" (finding money).

The importance of Tulehu as a regional transport centre

Unlike the average Moluccan village, Tulehu enjoys a strategic position in regional trade and transport networks. Natural produce (fish, cloves, nutmeg, coconut, fruits) passes Tulehu on its way to Ambon city and consumer goods go via Tulehu to far-off islands. This strategic position

gives the villagers another opportunity - besides government jobs - to escape the subsistence oriented sago-economy: fish traders, vegetable sellers, harbour labourers, bus drivers, speed boat crew, petrol vendors and shopkeepers earn daily incomes that on average exceed daily food expenses. Secondly, the central position in trade and transport networks, reduces the dependency of the village economy on the local clove production: every year there are clove booms in some parts of the region, whose produce passes Tulehu and attract its traders.

In 1985-86 the strategic position of Tulehu as a regional trade and transport centre, was reinforced by the construction of another harbour. Alongsides, new shops were opened and two labour groups found employment in loading and unloading of ships. Both the informal and formal financial sector expanded their outreach: the two labour groups started to organize saving activities called "arisan" (equivalent to RoSCA) from the very start. The construction of the new harbour facilities also attracted the Bank Rakyat Indonesia which opened a unit in this frontier area in 1987. It has a regional orientation and clients in four sub-districts. The credit program of the unit, KUPEDES ("Kredit Umum Pedesaan") has not yet responded fully to the economic demands of local enterprise but rather concentrates on the consumer needs of about 500 government employees (more than 90% of total number of borrowers). The saving programs of the unit, service a broader spectrum of people. The rather new BRI-program SIMPEDES ("Simpanan Pedesaan") especially attracts many (categories of) savers: within two years more than 700 people opened a SIMPEDES account at the village unit. The interest rates vary from 0% (balance under Rp. 25,000), 9% (under Rp. 200,000) and 13.5% (above Rp. 200,000) per annum. These rates are less than the interest rates that TABANAS (*) (savings scheme of Bank Indonesia which BRI and other banks execute) offers (15% p.a. on balances smaller than Rp. 1,000,000) but still the SIMPEDES program has twice as many clients as TABANAS in the unit. This might be due to the fine adjustment of the SIMPEDES program to popular financial needs of villagers, such as the need for a current account (simple savings procedure, relatively numerous possibilities to withdraw savings), preference of

4 TABANAS ("Tabungan Nasional") is a national savings scheme, sponsored by Bank Indonesia and offered by state banks and some private banks.

payment of interest at short intervals (every first day of the month interest can be credited), and the possibility to win tangible prizes in the lottery scheme.

2. RECENT INFORMAL FINANCIAL INNOVATIONS

A very interesting development in the informal financial market of Tulehu, is the rather recent popularity of "arisan" amongst different categories of villagers.

The "arisan" is a savings club in which the members periodically contribute to a common fund. When all periodical savings have been collected, the fund is immediately depleted and given to one member. Lottery, member list, consensus or bidding determines the allocation of the fund. Example: if 20 members contribute Rp. 1,000 each per week, the total cycle takes 20 weeks, while each week a fund of Rp. 20,000 is available. When all have got the fund of Rp. 20,000 once, the cycle may start all over again with the possibility of new rules and new members.

The "arisan" has no explicit lending activities but still can be classified as a Rotating Savings and Credit Association (RoSCA). This term refers to the different and changing savings and debt positions of its members during one cycle. When a member has not yet received the fund, she/he has a saver-lender position in the club. After a member has received the fund, she/he takes on a debtor position. Two persons only do not change their status: the first receiver is a debtor all the way while the last in the cycle is a saver till the end. This means that except for this last person, all participants dispose of fund X earlier than an individual saver which is ofcourse, an attractive feature of the RoSCA. In the basic RoSCA-type, no interest has to be paid for this advantage.

The following are five ways "arisan" in Tulehu can be classified:

(1) A classification of the present "arisan" in Tulehu according to the common activities or general characteristics of the members, gives the following result:

Table 1: member characteristics and number of "arisan":

A. Sumatran restaurant- and shopkeepers	2
B. Haruku women	1
C. Banda women	1
D. Harbour labourers	3
E. Petrol vendors	1
F. Fish traders	2
G. Market women and restaurant keepers	4
H. Members of praying and singing clubs	5
I. Government employees	<u>5</u>
	total number: 24

Categories BCGHI consist of women only. DE are male clubs. AF have a mixed gender composition.

(2) The "arisan" of the different categories of people in table 1 can further be characterized and classified as:

- an instrument to mobilize and organize people and/or
- an instrument to meet pure savings needs.

The "arisan" of ABC are the initiative of ethnic minority groups who use the "arisan" as an instrument to mobilize their people and remember their common roots at social gatherings. The "arisan" of HI are meant to mobilize the members around a social issue or keep them coming to a regular, religious meeting. Further, the "arisan" has solved the problem about who should host the group the following week and more importantly, pay for the tea and snacks: the receiver of the fund is obliged to do so. The "arisan" of DEFG is primarily to meet savings needs: the need to store surplus income on a regular basis. The members of DEFG who all enjoy a daily income, say that "arisan" prevents them from wasting money. Secondly, they prefer group saving above individual saving as the "arisan" more or less compels them to save daily. The co-operative savings efforts of FG are especially remarkable because they do not form economic units such as DE which share work and income or have one boss.

The Sumatran restaurant and shopkeepers have the longest experience in Tulehu with "arisan": they started their saving activities some 15 years

ago. At that time they were newcomers in Tulehu. Every week, they came together to eat and drink and play "arisan" as a means to strengthen ethnic ties. They were already familiar with this formula of group savings that was called "bajulo-julo" conform the vernacular for RoSCA in Sumatra. As they mixed with the local population and established firm, independent enterprises, they gradually commercialized the "arisan" and discontinued the weekly meetings. A pre-fixed sequence of receivers instead of lottery now determines the rotation of the fund: all participants bring their contributions each day to the moneykeeper and after ten days, one participant comes to this person to receive the mobilized savings. The moneykeeper is the first to take the fund. Only Sumatran women have an ethnic "arisan" that is still embedded in a monthly, religious gathering and uses lottery as the regulating mechanism.

The government employees and semi-governmental organizations have the second oldest "arisan". They started about 10 years ago when government circulars encouraged the savings habit. In the women clubs the "arisan" functions as a focal point to mobilize and organize women around festivities or specific social issues, such as health care and family planning. Their meetings are - like their salaries - on a monthly basis.

The 18 (other) saving clubs that have been started in the last 5 years were neither named "bajulo-julo" nor given a local Moluccan name. All of them were called "arisan", which indicates an outer origin of the term and practice. Probably, the government-inspired "arisan" supplied the name for the new saving clubs of different categories of villagers searching for an instrument to meet their savings as well as organizational needs. The members of praying and singing societies, Haruku women and Banda people, found the "arisan" an effective instrument to mobilize people and tie them together. The harbour labourers, petrol vendors, fish traders and market women welcomed the "arisan" as a means to meet pure financial needs that resulted from their direct involvement in the expanding village economy of Tulehu.

In general, the rather sudden popularity of "arisan" in Tulehu in the last decade can be ascribed to the expanding money flows due to the increased possibilities for the villagers to earn periodic income in the government service or as entrepreneurs. Villagers who still combine sago farming with

traditional fishing and wait for their clove trees to yield, hold no membership in the "arisan" in Tulehu. Their subsistence orientation and the unpredictable and seasonally concentrated clove production, have for centuries kept "arisan" impossible and unnecessary. Now that villagers have been given opportunities to outgrow the natural banks of last resort and concentrate less on clove farming, the space for "arisan" has been created.

(3) A third way to classify "arisan" is according to their different savings patterns. These patterns strongly correlate with the primary function of the specific club: if the "arisan" is primarily an instrument to mobilize people, contributions are collected and immediately distributed when the main social or religious program of the weekly or monthly meeting has come to an end. If the "arisan" primarily meets savings needs, the members save daily and the fund is issued after two, five or ten days. The collection and distribution of the fund, take place during working hours in a shop, restaurant or market-stall: every day, every participant brings his/her contribution to the moneykeeper and at the end of the savings period one participant comes to this person to obtain the fund. The daily saving clubs also offer their members short term lending facilities: a member may borrow from the keeper of the fund, provided that she/he repays before the end of the savings period.

(4) Fourthly, the "arisan" can be classified according to the mechanism that regulates the rotation of the fund. This mechanism is also directly related to the primary function of the "arisan": if the "arisan" is more a tying tool, the lottery is standard procedure. If the "arisan" is used as a pure savings instrument, a member list is drawn up in which the order of rotation is determined both by lottery and deliberation between the treasurer and members in need of the fund. The "arisan" with bidding as the regulating mechanism, is not (yet) found in Tulehu. Bidding is the most commercial method to determine who gets the fund: the person who offers the highest bid for the fund, is the winner. The untapped money, represented by the winning member's bid, is saved till the end of the cycle and then usually distributed equally amongst the members.

(5) A fifth way to classify the "arisan" is according to the existence or absence of a (non-rotating) emergency or social fund to complement the "arisan". Again, the primary function of the "arisan" tells us much about the criterion: the categories of BCHI all maintain such a fund, as a supplement to the rotating fund: at each meeting everyone contributes a little money to this fund that is used in case of sickness or death of relatives of the members and for religious contributions. Two groups of harbour labourers in Tulehu also manage an emergency fund: when a cargo is damaged due to negligence, this money is used to pay for the losses. The other entrepreneurial categories of EFG do not maintain a more or less permanent emergency or social fund.

The informal financial market of Tulehu is very colourful and adaptive to changing needs and conditions. Informal finance behaves like a financial chameleon. The following innovations show the particulars and problem-solving methods of informal financial agencies in Tulehu.

Co-operative efforts of Islamic savers

During the Islamic fasting month, the "arisan" of market women and restaurant keepers are non-active. Restaurants are closed during day-time and minimum shopping takes place late afternoon. The income of the market women and restaurant keepers loses its regularity which is a condition to keep the savings club going. Therefore, the market women and restaurant keepers aim to end the savings cycle on the eve of the fasting month. In this connection, the "arisan" led by vegetable seller Ibu Cum had a problem: its members would like to go on for another cycle but the number of membership - 14 in this case - prohibited the cycle to end before the next fasting month. The 6 members of the "arisan" led by restaurant keeper Pak Hab, which happened to begin a new cycle on the same date, were willing to accommodate them. Three members of Ibu Cum's "arisan" joined the ranks of Pak Hab's "arisan" resulting in two "arisan" of 9 members each. Two members of the "arisan" of Ibu Cum took the opportunity to decrease their savings contributions. The two "arisan" both started a new cycle of 9 times 5 days and their last receivers got the fund of Rp. 45,000 precisely on the eve of the fasting month. In this way, two "arisan" perfectly conformed themselves to the limits imposed by the Islamic fasting month and

optimally met the savings needs of the entrepreneurs.

Rotating and non-rotating parallel funds

When work is done, the 25 harbour labourers of Group Blue come together to divide the total daily income in the house of their foreman. The group income of the labourers who unload and load ships, varies between Rp. 200,000 and Rp. 600,000 per working day, which is usually easily enough to keep "arisan" going: the members have agreed that "arisan" meeting will be kept each day that all workers earn more than Rp. 10,000 a day. The size of the group income determines how many persons will receive an extra amount of Rp. 100,000 representing the "arisan" fund, at the end of the day. A total daily income of Rp. 300,000 for example, implies that no "arisan" will be held on that very day. Rp. 50,000 is saved by the "foreman" and added to the surplus fund of the next day. As soon as the required Rp. 100,000 have been saved, the man whose turn it is to receive the fund, cashes his number. But usually, the daily income is sufficient to make one man receive the fund. If the total income exceeds Rp. 500,000, two members receive the agreed amount. As the group of 25 members works three days per week, thus allowing three members to receive the "arisan" fund, one cycle usually takes about two months. Every member has got a number informing him when it is his turn to cash the fund. The "arisan" combines certainty with flexibility by allowing the members to exchange numbers.

Besides the rotating fund, Group Blue manages two kinds of non-rotating funds: one for unexpected expenditures and one for expected expenditures. An emergency fund is used for unexpected losses when the group has to pay for damages to cargo. This fund is build up out of the small sums of money which can not be divided amongst the 25 men. Other purposes are to help Islamic officials, poor people and sick members. The second kind of non-rotating fund which parallels the rotating fund, is the newest initiative of the labourers: in July 1989 the members of two sub-groups each started to save a few thousand rupiahs per working day. Their purpose is to save for about one year and to divide the fund among all members, just before the Islamic fasting month when large amounts of food have to be stored. The groups of five and seven men both have given third priority to the non-rotating fund, after the target income of Rp. 10,000 per person and the

common "arisan". This low priority and the varying group income explain the varying contributions to the savings funds: the bookkeepings show empty days as well as daily contributions of Rp. 2,000 to Rp. 5,000. The savings pattern is well adapted to income flows and existing financial arrangements and is another proof of the regulated flexibility of informal finance.

The selective use of formal finance

About 15 years ago, the foundation was laid for the present co-operative shop and savings club, presided by the entrepreneurial Ibu Haji Dia. At that time, she and three close relatives started a praying society which met each Sunday evening. The only savings activity of the members of the society was to contribute to a non-rotating fund for social and religious purposes. It was named "uang celengan" as it was kept in a money-box.

Two years ago, the society had grown to 37 members who decided to extend their savings activities to include "arisan" as well. Member contributions were Rp. 1,000 each. Lottery determines the rotation of the fund of Rp. 37,000. The women have started the "arisan" to prevent further embarrassment about the question who should host the club the following week and pay for expenses. Now the receiver of the fund will. Secondly, the "arisan" has been set up as a tying device to stimulate members to regularly attend the meetings as absent members can not participate in the "arisan".

The weekly meetings of the praying society-cum-"arisan" have further consolidated the already existing family and friendship ties between the members and have proved to be a solid base for more commercial group activities. Few months after the start of the "arisan", the club opened a co-operative shop. The 37 members of the club provided the starting capital of Rp. 810,000 as every member bought one to five shares of Rp. 10,000 each. The new shop developed commercial relations with the largest village wholesaler who very soon started to supply consumer goods on credit to the shop. The shop has already issued 200% dividend to its shareholders twice and offers about 60 persons consumer credit in goods. The distribution of dividend takes place just before the Islamic fasting month and is partly given in kind. Although these generous practices threaten the economic viability of the shop, they are still continued to meet the continuous

claims of relatives and friends on realized profits. Possibly, the shareholder construction is an answer to this dilemma of the native village shopkeeper as 37 women safeguard their enterprise. They want their cumulative non-rotating fund, the share capital, to remain intact and meet their own consumer needs just before the fasting month. The shareholder formula was very attractive in the eyes of a group of harbour labourers and a semi-governmental club, which soon thereafter started their own co-operative shops with respectively 12 and 200 shareholders.

Schematically, the development of the original religious society shows the following pattern:

1975 phase 1:	praying society - money-box	
1987 phase 2:	praying society - money-box - "arisan"	
1987 phase 3:	praying society - money-box - "arisan" - shop	
1989 phase 4:	praying society - money-box - "arisan" - shop	
bank:	savings account	savings account

The last phase started this year with the opening of savings accounts in the SIMPEDES program at the village unit of the Bank Rakyat Indonesia. The entrepreneurial core of the praying society decided it was better for the otherwise idle social-religious fund plus a fixed part from the daily turnover of the shop, to yield interest at the bank. Possibly, phase 5 will start with the multi-faced club borrowing money from the bank with their savings and work capital as collateral. Up till now, however, the managing board of the club does not deem it necessary to build such a linkage with the bank: the largest wholesaler of Tulehu (a Chinese wholesaler) acts as their private bank and provides the co-operative shop with goods on credit in a very efficient way and without calculating interest. Besides, 'the bank is only for big business' they said, and not an appropriate partner for a shop with a daily turnover of only Rp. 60,000.

Villagers prefer the money guards

This largest wholesaler of Tulehu provides 84 shops in the region with consumer goods. He has built up his network by supplying starting shopkeepers with on average Rp. 500,000 work capital. The supplier demands neither an explicit repayment of his investment nor explicit interest payments but the promise of the new shopkeeper to buy his goods for the coming years. Within one year, his investments start to yield. The wide

network of clientele no doubt explains why the shop of the wholesaler has only limited opening hours: a considerable amount of his time is spent checking his clients-cum-debtors.

The wholesaler also keeps the savings of a group of 11 labourers who frequently work for him or his clients. The labourers can count on his help in case of sickness or small financial needs (e.g. fish lines) and smoke his cigarettes. Every day the labourers entrust Rp. 500 per person to the wholesaler. The men believe that it is not advisable to save at home where the money is too easily used for any purpose. The wholesaler offers them a secure place to deposit funds and guarantees the men that enough money to buy consumer goods is available just before the fasting month. The wholesaler himself refuses to define the money as savings because 'I don't pay them any rent' and describes his function as 'money guard'.

The Javanese shopkeeper Sud owns two buses for public transport on the crowded traject Tulehu-Ambon city. He bought the buses with loans from the development bank Bapemindo which forced the migrant shopkeeper to buy land to meet the collateral requirements of the bank. His drivers play a pivotal role in his enterprise as they must realize enough daily income to pay for the installments. Therefore, Sud pays the drivers commission: 20% of the daily gross income. They are lucky because the buses of their boss can transport more passengers than the current, smaller types which means they can get as much as Rp. 12,000 per day whereas their less fortunate colleagues in the smaller buses, get Rp. 8,000 per day at the most. Both drivers save the largest part of their daily income with their boss. The youngest driver and father of three children, only takes a few thousand rupiah homeward for daily food expenditures. Every month he brings nearly Rp. 300,000 from his boss to the TABANAS-savings account at the Bank Rakyat Indonesia. The oldest driver has chosen to invest his savings directly into the education of his seven children. He thought it would be too cumbersome to bring his savings to the bank first and cash them next day for the recurrent school, travel and living expenditures of his children.

The importance of offering money guarding facilities to the village population, has been clearly understood also by the present chairman of the village co-operative (KUD) who was formerly the village secretary. In October 1988 the innovative chairman started the first daily savings

program in the Moluccan province under KUD-cover. As there were no directives from higher co-operative echelons which told him to do so, this interesting initiative can be considered an informal financial program. It has been propoganded as an educational savings program for children and their parents who want to hold a current account for recurrent school expenditures. This proved a very effective approach: within three months more than 1,000 parents and children opened a savings account at the KUD. The popularity of the financial service of the program can not be explained by an attractive interest rate, because there is none. The program successfully meets other kinds of financial needs: in the first place it offers the clients a secure place to deposit funds. Saving at home is unsafe in their eyes because of continuous small claims of family members on this money. Secondly, the opening hours of the KUD are very unorthodox: the office has variable opening hours and might be open from 06.30 till 08.00 and from 20.00 till 21.00 hours. Thirdly, the easy payment and withdrawal procedures guarantee easy access and allow for balances of less than Rp. 5,000. In other words: the daily savings program of the KUD meets an unusual combination of illiquidity preference (the money guarding facility) and liquidity preference (easy withdrawal). By the way, the chairman of the KUD is not only aware of the financial needs of the villagers but also of the financial services of the village unit of the Bank Rakyat Indonesia: the bank pays the KUD 13.5% interest p.a. on its savings account which includes a large part of the daily savings of the KUD clients. In fact, the innovative KUD thus operates as a financial broker between a very large group of small savers and a bank.

2) Pawnbroking facilities to fulfil urgent financial needs of entrepreneurs as well as persons faced by calamities: banks might meet these needs by accepting golden ornaments and coins as alternative collateral forms. The pawnbroker protects himself by giving loans equal to only 40-50% of the value of the pledge. Pawnbroking frees the banks from their bureaucratic and costly screening of loan applications and is a promising instrument to minimize loan transaction costs. Without guarantees for discretion of clients pawning the family jewels and adaptation of the pawnbroking program to business hours of customers however, the introduction of one of the oldest informal lending practices into formal finance might in fact cause the practice die a premature death (Bouman, 1988).

3) Insurance facilities to meet emergency needs of persons faced by personal calamities: these facilities might compete with or supplement existing informal safety nets such as kinship systems, patronage-systems, funeral societies and other emergency funds. Banks themselves might experiment with offering savings programs with an insurance component.

4) Co-operation with private development organizations which offer non-financial services: banks are usually not equipped to establish social and economic relations with their clients. How then to imitate the informal financial aim and practice of rooting financial relations in existing social and economic ones? A possible answer is co-operation with private development organizations (also labelled as 'non-governmental organizations' and 'private voluntary organizations'): these organizations work on the 'grassroots' level and in general put primary emphasis on mobilization and organization of marginal people. In the first place, these organizations could start informal savings activities (such as RoSCAs and non-RoSCAs) as focal points to mobilize and organize marginal people around specific social issues (health care, family planning, small-scale enterprise; see Tulehu-case). Secondly, banks might start to participate in the program of the private development organization and offer savings and credit facilities. As rural poor usually can not meet traditional collateral requirements, banks could make risk-sharing agreements with the

2) The demand for quick and uncomplicated fulfilment of urgent financial needs.

* The pawnshop in Ambon city does not require orthodox collateral requirements and is able to meet the urgent, financial needs of landless clove traders on the spot.

* The non-rotating emergency funds in Tulehu, are immediately used in case of unexpected expenditures amongst the contributors of the fund.

3) The aim to sustain or create social and/or economic relations, parallel to the financial relation.

* Savings clubs, "arisan", maintain social cohesion or mobilize members around a specific social issue.

* Merchants use 'credit' (in kind or cash) as a tool to secure the supply or sale of commodities (cloves, fish, consumer goods).

Formal finance agencies wishing to graft or translate informal financial practices in their own house, should not omit listening to the heart beat of penny-economies. Only then, these agencies might understand the rationalities of informal finance and decide to imitate their practices. Imitation of this financial chameleon in developing countries means to discuss the ranking of top tools in formal finance and to offer a colourful and adaptive palette of financial services. Some possible banking services and strategies which might complement or compete with informal finance are:

1) Money guarding facilities for parents who find it hard to save at home and want to invest in the education of their children: banks might meet these demands by offering parents and pupils the possibility to hold a current account with easy saving and withdrawal procedures. Interest payments are not calculated and are unnecessary as the small savers do not save for this end; this may compensate for the high administrative costs of the program and reduce the risen administrative workload. In the far-off areas, local authorities (e.g. school heads, post offices) might function as alternative branches of the banks.

3. IT IS HARD TO TURN INTO A CHAMELEON

This final section shows pre-conditions and possibilities for imitation of informal financial practices by formal agencies and discusses the ending or bridging of the differences between formal and informal financial markets.

Listening to the heart beat of penny-economies

The easiest way to evade the question about what regulates informal finance is to put your head like an ostrich in the formal sand and stick to the uncontested idea that formal finance is solely regulated by the central financial authorities. This static stance has led to embarrassing and reductionist views about informal finance ("informal finance is nonregulated or unorganized", "informal finance is the monopoly of the usurious moneylender") and the easy consensus that this finance is probably not regulated by the central financial authorities. Informal finance is the oldest and natural response to combinations of financial, extra-financial and non-financial demands of the participants in the penny-economies in Third World countries where cigarettes are bought apiece and money transactions are measured in pennies rather than dollars. The varied and popular demands of the participants of these penny-economies, shape and regulate informal finance. The following financial needs are salient in the Tulehu-case:

1) The need for money guards: a secure place to put savings to protect oneself against family-claims on this money (illiquidity preference).

* Drivers, labourers and housewives in Tulehu find it difficult to save at home and prefer to keep little savings with money guards such as bus-owners, wholesalers and the chairman of the village cooperative. These small savers are not interested in interest but primarily in secure places to put deposits and easy withdrawal. In this respect, they very much look like 17th century European traders who entrusted their different coins to the money guards behind the tables ("banco") at the fringes of the Italian market places.

* One of the reasons for traders and transporters to participate in savings clubs, "arisan", is to escape family-claims on their daily income.

private development organization and explore the possibility of the non-rotating savings fund as an alternative collateral base for supply of credit.

Obviously, the sky is not the limit for formal financial agencies wishing to learn from informal financial practices: in the first place, alternatives have to be given a price-tag. Money guarding and pawnbroking facilities are promising in this respect because both imply cost-reducing technologies: money guarding means no costs of capital accumulation and pawnbroking seems an effective tool to reduce transaction costs. Secondly, legal-administrative bodies and rules probably restrain formal financial agencies from adopting diverse informal financial practices because imitation of informal finance allows for a pluralistic set of rules and regulated flexibility.

Following the informal paths to formal finance

Rural financial market studies have freed us from the fallacy that cheap credit is an effective instrument in combatting rural poverty (e.g. Adams, Graham and Von Pischke, 1984). These studies show that cheap credit does not make enterprises economically viable, assumes lack of saving capacities amongst poor people and discourages people from saving, creates an artificial demand for credit which largely ends up with the richer strata, all of which lead to erosion of the economic viability of development banks. The end of the cheap credit doctrine marked the beginning of studies with an institutional perspective and interest: savings mobilization and cost reducing technologies had to create viable, formal institutions. Interest rates conforming to market conditions would guarantee both viable financial institutions and a more efficient distribution of capital in national economies.

The institutional perspective in rural financial market studies has fueled the idea of two, fully separate financial sectors: the formal and informal sector which were first called institutional and non-institutional. Believers in a uniform market interest rate as the only guarantee for an efficient distribution of capital, declared war against the informal

financial sector which 'only meets consumptive financial needs, asks usurious interest rates and hides idle capital', or so their superficial argument goes.

Believers in the positive sides of both the informal and formal sector, decided to build financial and institutional linkages between the two sectors (Seibel, 1985; Seibel and Marx, 1986): the informal sector is very responsive to financial needs in penny-economies but not able to meet large and long-term financial needs whereas formal finance is dollar-made but hardly able to discern local financial needs. According to the linkage-builders, non-rotating savings and credit associations are promising partners of banks: their more or less permanent funds can be safeguarded by banks and prove to be an alternative collateral base for lending activities (Seibel and Shretha, 1988).

I have my doubts about the usefulness of ending or bridging the differences between the formal and informal financial sector. Free market riders hardly reflected on the significance of fragmented financial markets for the participants of penny-economies and ignore the relevance of zones where the interest rate does not rule: money guards, emergency funds and different savings and credit associations, are the alternative kings in these zones.

Linkage-builders seem to forget that the participants of penny-economies and related informal financial intermediaries, have already selectively built their direct and indirect linkages with formal financial agencies. Linkages also grow spontaneously as the Tulehu-case illustrates, and even transformations from informal into formal financial agencies do occur (Haggblade, 1978; Bouman, 1989).

Therefore, I think it is first necessary to make an inventarization of existing linkages and bufferzones between formal and informal finance, to discover why participants in penny-economies and related informal financial intermediaries, prefer to keep some distance on the one hand, and some relations on the other, with formal financial agencies.

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