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REPORT ON CREDIT AVAILABILITY

SECONDARY FOOD CROPS DEVELOPMENT PROJECT
COMMUNICATION FOR TECHNOLOGY TRANSFER IN AGRICULTURE PROJECT

USAID
and
DEPARTMENT OF AGRICULTURE REPUBLIC OF INDONESIA

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Executive Summary

Report on Credit Availability

The Secondary Food Crops Development Project/Communication for Technology Transfer in Agriculture Project (SFCDP/CTTA) was initiated to assist the Government of Indonesia (GOI) in its food crop diversification program. SFCDP is a GOI/USAID project.

Objectives of Consultancy on Credit Availability.

To ascertain the availability, terms and conditions of credit from all sources available for agricultural purposes in dem-farm areas.

To recommend what measures need to be taken to meet agricultural credit needs in these rural areas to ensure adequate support for future palawija (secondary crop) expansion.

Findings:

It was found that sources of credit are available from Kredit Usaha Tani that is administered by Bank Rakyat Indonesia and from BUKOPIN Village Credit. Both these credit programs target farmers' groups (KT) through the Village Cooperatives (KUD). The BUKOPIN credit program gives special attention to developing credit awareness amongst members of KT.

Various other sources of small credit were explored, both formal and informal. These include small credit units administered by the Regional Development Banks, B.R.I. Unit Desa and informal sources such as traders and money lenders.

The most cost effective way of helping the largest number of farmers is through KUD and KT. Credit will have the greatest impact if the farmers' groups receive suitable training and group development prior to receiving credit. For various reasons not all farmers are suited to group participation and alternative sources of credit need to be opened for them.

Recommendations

The following is recommended:

- (1) A Policy of Expansion: A clear policy decision by the Director General of Food Crops is required as to whether to merge SFCDP methods with existing BIMAS/KUT palawija programs or to incorporate them in a separate but parallel palawija program using KUT or another credit system .
- (2) The Preparation of a Phased Plan to extend SFCDP farming methods outside existing and planned dem-rarm areas.

- (3) The Targeting of Farmers' Groups: Initially a clear commitment is required so that the kelompok tani (KT) can continue to be targeted for extension inputs and promoted.
- (4) The Use of Kredit Usaha Tani: The primary source of credit that is readily available is Kredit Usaha Tani.
- (5) The Use of BUKOPIN Village Credit: The secondary source of credit should be the BUKOPIN Kredit Pedesaan program.
- (6) An Expanded Program of Communication: A program of communication and training, building on current CTTA experience should be developed and implemented and directed at the following main areas:
 - (a) The Promotion of Farmers' Groups: The continued promotion and development of farmers' groups (KT) as the basic unit of development and self help. The farmers' wives must be included in this promotion of farmers' groups. The women are able to exert strong influence for good.
 - (b) The Greater Mobilisation of Savings: The promotion of the concept of farmers' groups accumulating their own basic capital as an alternative to seeking credit to purchase farm inputs.
 - (c) Promoting a Greater Understanding of Credit: The promotion of wider knowledge and understanding of how a credit system works, how it can be used more effectively and the need to maintain a viable credit

program by prompt repayments.

(d) The Promotion of SFCDP Activities to BRI and the Provincial Development Banks (BPD) and other credit institutions as a means of bringing about a better understanding of how properly managed agricultural development programs can present credit-worthy opportunities to these institutions.

- (7) Improving the Image of the Small Farmer: The image of the small farmer, either individually or in groups, as a credit risk is not good and must be improved. This can only be done by coupling successful farming, positive attitudes towards credit and good communications.
- (8) Reducing the Gap Between Farmers and Banks: In the future it would be beneficial if BRI and BPD employed field staff who were experienced agricultural field workers and used them to develop a closer working relationship with small farmers .
- (9) Further Improving the Capabilities of Field Staff: There is an apparent need for field staff of Department of Agriculture to receive increased guidance and training in their role as extension officers. They should not regard themselves only as technical staff. They should see themselves as being concerned with all the components that contribute to the development of the farmer and his family.

- (10) Open up Credit From Small Credit Units: Credit is being distributed at village level by BRI Unit Desa and by small credit units in a number of provinces under the supervision of Bank Pembangunan Daerah (BPD). There is a need to start negotiations with these lending institutions to assist in the opening of credit facilities to individual small farmers involved in SFCDP type activities.
- (11) The Development of Savings and Loan activities within the KUD. It has been found that a credit system that incorporates members savings has a greater chance of success due to a greater awareness as to the source of the funds and a greater sense of responsibility in those involved in the program.
- (12) The Development of Private Sector Small Credit: Alternative sources of credit could be developed. Government regulations permit this.
- (13) The Greater Use of The Regional Development Banks: It is suggested that, in the longer term, the BPD could take on much greater responsibility for channeling credit to small farmers through the medium of sub-district (kecamatan) credit units (BKK).
- (14) A Review of the Role of Bank Rakyat Indonesia by GOI. There must be complete acceptance of the fact that BRI must operate profitably. At the same time it should not forget its role as a government bank charged with providing credit facilities to the rural sector. Government influence

should be brought to bear on BRI to ensure that they provide profitable credit services to creditworthy farmers' including those outside program credit.

- (15) Increase Interest Rates: It has been found that, in both Indonesia and world wide, low interest rates do not help to bring credit to small farmers. The reverse happens. Suppliers of credit have no incentive to lend if interest is too low. Commercial sources of credit become inactive. It is recommended that Government policy be directed to increasing interest rates for rural loans in order to promote commercial profitability and stimulate the supply of credit.
- (16) Collateral: Bank Indonesia should give clear directions to banks and credit units on the subject of collateral. Collateral should not be required for loans upto Rp.200,000. Alternatives to collateral could be group guarantees from the KT or from an individual of standing in the community. A result of the development of the KT and it's members should be a greater degree of trust between the lender and the farmer.

Report on Credit Availability

Chapter 1

Introduction

1.0.0 Background

The Secondary Food Crops Development Project (SFCDP) was officially initiated with the signing of a USAID Loan agreement on May 23 1983. The Project was to assist the Government of Indonesia (GOI) in its food crop diversification program.

The Project was directed primarily to farmers at kecamatan (sub-district) level but also provides for technical assistance to address regional and national policy issues relating to domestic and foreign demand for secondary crops.

SFCDP was designed as an experimental, trial, demonstration and intensification project to introduce new cropping systems and demonstrate their superiority over traditional systems. It also worked towards improving post-harvest operations and to developing the market for secondary food crops.

1.2.0 Objectives The objectives of the project are:

- (a) To bring about rapid adoption of improved production technology using improved varieties, commercial inputs

(such as fertiliser, lime, seeds, rhizobium inoculum and pesticides), improved agronomic practices and appropriate cropping systems.

- (b) To improve the quality, storeability and market acceptance of secondary food crops by the adoption of improved pre and post-harvest technologies at farm levels and at various stages of the marketing chain.
- (c) To formulate appropriate policies regarding prices, subsidies, production, consumption and market development.
- (d) To identify possible extension, marketing and behavioral change models for maximising the contribution of secondary food crops to improve nutrition.

1.3.0 Project Activities: At field level there are four components of the project:

- (a) Provision of production and marketing inputs including the provision of a revolving fund.
- (b) Extension, demonstration and field trials.
- (c) Training.
- (d) Nutritional considerations.

An important practical activity of the project is the "Dem-Farm" (demonstration farm). The dem-farm of about 5 hectares involves a group of farmers (kt). Dem-farms are clustered together at village (desa) level within the provincial project areas.

Because of a shortage of extension staff and funds it was believed that greatly improved communication and extension mechanisms were needed. A technical assistance contract was established with Communication For Technology Transfer in Agriculture (CTTA) through their parent organisation, the Academy for Educational Development Inc. (AED). This assistance commenced in February 1988. The assistance would be directed at increasing the impact of SFCDP by cost effective communications strategies and the promotion of a suitable agricultural economic policy environment that will provide the farmer with sufficient incentive to increase his production of secondary crops. Obviously this strategy in communication would reach many who do not have direct participation in the project. In the absence of project grants many of these people would need access to credit.

In Indonesia all project activities are designated under the SFCDP banner. Therefore, to avoid confusion, all references will be made simply to SFCDP.

1.4.0 Objectives of Consultancy on Credit Availability.

The consultancy extended over a period of 12 weeks commencing 28th March 1989. Scope of work is attached as Appendix 1. The Objectives of the Consultancy as stated in the Project Scope of Work are:

- (a) To ascertain the availability, terms and conditions of credit from all sources available for agricultural purposes in dem-farm areas in the Provinces of Lampung, East Java, South Sulawesi, West Sumatera, West Nusa Tenggara and East Nusa Tenggara.
- (b) To recommend what measures need to be taken to meet agricultural credit needs in these rural areas to ensure adequate support for future palawija (secondary crop) expansion and more sustainable food-crop systems. Preference would be given to enhancing any existing rural credit vehicle to improve financial management and to mobilise savings where this is deemed practical.

1.5.0 Output and Expectations of this Study: In addition to carrying out the survey in accordance with the scope of work the Consultant's aim is to provide a practical introduction to the intricate subject of rural credit.

The following outputs will be provided:

- (a) An overview of the banking and credit delivery system in Indonesia, both formal and informal. Included in this overview will be an indication of the relevance of each credit source to the needs of small farmers. Potential sources of small scale agricultural credit will be dealt with in detail in separate chapters of the report.

- (b) A description of interaction with farmers and other individuals during field trips and some of the situations and attitudes that emerged in relation to the use of credit and its alternatives.
- (c) A description of the evolution of rural credit delivery systems in Indonesia. This is intended to create an awareness of the complex nature of rural credit so that the future delivery of credit can be based on a sound interpretation of factors that show positive results. This subject will be discussed under the chapter heading of "The supply of credit to small farmers'".
- (d) An introduction to social factors and their effect on small credit delivery systems. Thus promoting the need for a greater understanding of how the farmer reconciles the responsibilities of credit with other conflicting demands, how he could be helped to successfully handle these credit responsibilities and how even poor farmers can organise and build up their own limited capital as an alternative to outside sources credit.
- (e) Having ascertained the availability, terms and conditions of credit from all sources available for agriculture, in accordance with the scope of work, the consultant will then provide a detailed description of these credit schemes, the credit organisations concerned and their evolution.

The following are the Expectations:

- (a) Recommendations as to specific initiatives that should be taken to open up credit delivery to small farmers. Findings and discussions that have developed in the body of this study will be brought together into firm conclusions and recommendations for specific action.

- (b) That at the end of this study, the initiatives proposed that will enable credit to be made available for the expansion of palawija plantings in the short term.

- (b) That in the longer term, the participation of the Department of Agriculture in creating a suitable environment for farmers' credit will progressively expand credit delivery to small farmers.

- (c) That the gap that exists between the farmer and formal credit institutions will be closed and that rural credit will be developed into a profitable activity that will encourage greater participation by these credit institutions in lending to small farmers.

Chapter 2

Introductions to Financial Institutions in Indonesia:

In Indonesia a financial institution is unlikely to extend credit to a loan applicant unless he is able to attend personally at one of their offices. An exception is a program credit (i.e. credit tied to a specific development program) such as Kredit Usaha Tani (KUT). Previous attempts to have government departments channel credit have been generally unsuccessful. The availability of credit to the small farmer is therefore dependent on the extent to which banks and other financial institutions extend their network of offices. Credit offices operating at sub-district (kecamatan) level can provide mobile services at village level to a "Pos Desa" which is a place located centrally to several villages.

The following is a review of the level at which each group of credit sources operate. Reference should also be made to Appendices 2-5

- 2.1.0 Bank Indonesia; (BI) Is the Central Bank, providing supervision for the financial system in Indonesia. Head Office is situated in Jakarta with branches at provincial level. This Bank has 43 branches in Indonesia, some provinces have more than one branch. BI deals

directly with both State and Commercial Banks at both head-office and provincial level. For example the provincial branch of BI is in constant touch with the various bank managers in the province. Supervision of small rural financial institutes is delegated to other banks, normally Bank Rakyat Indonesia (BRI) or Bank Pembangunan Daerah (BPD).

Bank Indonesia is not only a central bank but it provides banking services to government and other banks. It receives funds from these sources as well as from private non-bank depositors. The level of government funding allows it to provide liquidity credit to commercial banks. This is usually as part of a lending program such as KIK/KMKP (Investment Credit/Working Capital Credit) or KUT (farmers' credit). For example Bank Indonesia B.I.) will provide 55% of the funds lent out under KIK/KMKP credit and 100% of funds lent out under KUT. B.I. provides these funds as a loan at 3% interest per annum. Alternatively B.I. may provide a direct loan to the bank to enable it to maintain liquidity. For example if withdrawals exceed deposits to the extent that the commercial bank is short of cash.

2.2.0 State Owned Commercial Banks: There are five state owned commercial banks. Although they are allocated specific

areas of financial responsibility they are involved in all other areas to various extents.

2.2.1 Bank Rakyat Indonesia (BRI): is responsible for providing credit for agriculture, fisheries and cooperatives. It has the major responsibility for handling various credit schemes, on behalf of B.I., directed to small entrepreneurs. BRI has the most extensive network of offices throughout Indonesia reaching down to village (desa) level with 2,702 BRI Unit Desa (in March 1989). Despite this number there are many areas that are not served by a B.R.I. unit desa.

The number of B.R.I. unit desa has actually reduced in number. They reached a peak of 3,626 in 1983. In 1985-86, because of the end of the BIMAS mass credit program it was necessary to close down inefficient and surplus units. In the absence of any further subsidy the remaining units had to become commercially viable in order to survive.

Statistics for lending by BRI Unit Desa as at the end of February 1989 shows that 27% of total outstanding loans in rupiah went to farmers . Average size of outstanding loans to farmers was

Rp.407,644. (Appendix 6) Visits to BRI Unit Desa in SFCDP areas revealed that lending to farmers was less than 10% of outstanding loans. Loans granted were more than Rp.500,000 to each farmer. Small farmers involved in SFCDP and KUT normally only require upto Rp.70,000 for each season's inputs. Therefore farmers financed by BRI Unit Desa are in a higher bracket. Some Units had no loans for agriculture. Refer to Appendix 7 for the rules under which BRI village credit (KUPEDES) operates.

2.2.2 Other State Banks are not normally found beyond Provincial level except in certain provinces where high population density supports a township of sufficient size to attract a branch. Specific responsibilities of the remaining 4 State banks are: Bank Bumi Daya (BBD)-estate financing; Bank Daqana Negara (BDN)-trade financing; Bank Negara Indonesia (BNI)-industrial financing; Bank Ekpor Impor Indonesia (Bank EXIM) export credits. These banks, like BRI also involve themselves in a wider range of normal banking activities. Unlike BRI they do not normally involve themselves in small rural lending.

2.3.0 Development Banks: Indonesia has 29 Development banks. Each Province has its own Provincial Development Bank, Bank

Pembangunan Daerah (BPD), 27 in number including a Jakarta BPD. Although bearing the same title and of similar organisation, these banks are separate entities. These BPD have branches at sub-district (kabupaten) level. They are ideally situated to become a strong force in village lending in their own right. Some have taken over the supervision of Badan Kredit Kecamatan (BKK) credit units. There is one State Development Bank, Bank Pembangunan Indonesia (BAPINDO). A private industrial development bank, Bank Pembangunan Industri has offices only on Java. BAPINDO has numerous branches in Jakarta and branches at Provincial level. Their type of lending does not cater for the small rural borrower.

2.4.0 Private Commercial Banks: There are 69 private commercial banks. 10 of these operate nationally. 59 small and medium sized banks operate but have only limited local or provincial representation. Most do not have any dealings with small farmers'.

2.5.0 Co-operative Banks: The major co-operative bank is BUKOPIN. Although a relatively new bank it is very progressive and determined to make an impact on rural lending. Because of BUKOPIN's potential as a source of credit for secondary food crop development. This bank will be discussed in a separate chapter. Small co-operative

banks still exist. BUKOPIN have taken over several of these.

2.6.0 Other Credit Units: These will be listed and described briefly. Those with potential for development as a supplier of agricultural credit will be described in more detail later in the report. Many of these may have very little involvement in lending for agriculture. Some do, however offer possibilities for a negotiated arrangement to supply agricultural credit:

(a) Bank Pasar: These "Market Banks" specialise in trade loans. They may be owned by commercial banks, cooperatives or be privately owned. They have no potential for agricultural lending, except to farmers engaged in trade. In 1988 it was reported that 175 bank pasar existed.

(b) Village Banks: There are said to be more than 3,500 small village credit institutions. Some date back even to the days of Dutch Government. Many are no longer active. Bank Indonesia report that there are also 2,063 paddy banks (Lumbung Desa). Many of these village banks are located on Java providing small amounts of short term credit.

(c) Badan Kredit Kecamatan: Sub-District credit units,

operating under various names have been developed in recent years as part of the USAID sponsored Provincial Development Project (PDP). Some of these are based on older established credit units. These are supervised by the Regional Development Banks (BPD). A separate chapter explains these units.

(d) Village Co-operatives: Koperasi Unit Desa (KUD).

Although these co-operatives can operate at village level, they now more commonly serve several villages. In some kecamatan there may only be one KUD. In this way they can call on greater resources. In each province there is a provincial co-operative known as PUSKUD, Pusat Koperasi Unit Desa. PUSKUD provide services to the KUD through PKK, Pusat Kelayanan Koperasi).

2.7.0 Informal Credit Sources: These include traders and money lenders, usually with high interest rates. Alternative sources are informal savings and loans groups and other self help groups.

(a) Traders, These are found in all areas. Their involvement in credit varies. When interest rates are high, 10-25%+ per month, they become only emergency sources of

credit. A farmer might borrow for seed but not for fertiliser. In Lampung Province trader credit could be found at 7-10% per month. The credit was readily used to purchase agricultural inputs. In NTB and Jawa Timur interest rates were much higher.

- (b) Simpan-Pinjam, (Saving and loans groups). These are KT that have built up a revolving fund for lending. They use savings that are deposited regularly by the members. The members may also contribute permanent capital. From interest received they can build up their capital. The members of a kelompok are usually engaged in similar occupations. In many cases the revolving fund that is a feature of the Dem-Farm group has developed into an informal Simpan-Pinjam group.
- (c) Usaha Bersama. This is a self reliance group and is an advanced form of Simpan-Pinjam group. They engage in other self help activities such as processing and marketing.

Chapter 3
Provincial Visits

Five of the six Project Provinces were visited during the consultancy. Those Provinces visited were NTB, South Sulawesi, East Java, Lampung and West Sumatera.

Each visit followed a similar pattern. The primary objective was to meet as many farmers' as possible, to discuss a variety of subjects, their needs, their problems with credit, their attitudes towards credit, how some found alternatives to credit, their participation as a member of a KT and KUD and how they thought credit delivery systems could be improved to better suit their needs, their experiences with private lenders and traders.

In each provincial and most kabupaten centres visited discussions were held with BRI, BPD and BUKOPIN where there was a branch and also the Departments of Agriculture and Cooperatives. In the field local offices of BRI Unit Desa, BKK units and Department of Agriculture field offices were visited also, together with any other relevant institution. Private traders were also contacted.

3.1.0 Visit to Lampung Province: 3-7 April 1989

Lampung is divided administratively into three kabupaten

(Districts) and the Kotamadya (City) of Bandar Lampung.

Kabupaten Lampung Selatan. 20 Kecamatan

Kabupaten Lampung Tengah. 24 Kecamatan

Kabupaten Lampung Utara. 10 Kecamatan

Sources of Credit in this Province are:

3.1.1 Bank Rakyat Indonesia: (BRI).

BRI has three branches serving the three kabupatens and Bandar Lampung.

Together with staff of the Provincial Dinas Pertanian Tanaman Pangan. Lampung. I had discussions at all three branches of BRI in this Province. Bandar Lampung, Metro and Kotabumi. Several offices of BRI Unit Desa were also visited.

3.1.2 BRI Unit Desa are numerous within Lampung Province. For example within the Lampung Tengah there are 24 kecamatan with 32 BRI Unit Desa under the control of the BRI branch at Metro. The staffing of the Unit Desa varies from 3 to 5. BRI Unit Desa at Ganjaragung had an authorised strength of 5 but had two vacancies. The Unit Desa had opened in 1970. It was surprising to find that they had no loans for agriculture although they were lending to some farmers for trade or other non-farm activity. This pattern was repeated in several other Unit Desa visited.

Discussions at the BRI branches revealed the fact that most Unit Desa lend only for non farm activities. The Unit Desa base their operations on a savings scheme, SIMPEDES and a lending program, KUPEDES. They receive savings from all sectors including farmers. In theory KUPEDES loans are open to farmers . In practise, however, a separate policy applies to farmers . The source of credit for farmers is through the Kredit Usaha Tani (KUT) program. Extended through a KUD (Koperasi Usaha Desa). Under certain circumstances credit can be channeled direct to a farmers' group (Kelompok Tani).

3.1.3 Difficulties Facing the Farmer:

- (a) KUT can only be handled by a BRI branch and not by the Unit Desa, with the exception of repayments.

- (b) The farmer or the Kelompok Tani (KT) must apply for KUT through a cooperative (KUD). Many KUD are not active. In this case the farmer may direct his request through another co-operative. Here there are problems that stem from difficulties in dealing with a distant KUD that has no previous dealings with the applicant.

- (c) BRI have various documentation requirements. These include production of Hak Milik (land ownership certificate) or SKPT, Surat Keterangan Pemilikan Tanah. This requirement presents difficulties to some farmers'.

(d) Concern was expressed by both farmers and Dinas Pertanian Staff concerning the administrative procedures necessary to obtain a loan, the number of visits to the branch and the difficulties in meeting the bank's requirements. Farmers borrowing through a KUD do not have to visit the bank and most of the administrative work is done for them.

3.1.4 Informal Credit:

Farmers who are not provided for by special government sponsored programs are able to obtain credit from small traders who are usually kiosk owners. There are usually sufficient traders within or near the village to establish a level of competition. Farmers are normally seeking credit for fertilizer. A typical example given by a kiosk owner in Kibang Desa, Lampung Tengah.

Normal retail price of fertiliser: Rp.16,500

Price on credit for 4 months: Rp.20,000

Actual interest rate over 4 months is 21.21% flat rate.

In theory this represents 63.63% per annum.

Another example in Lampung Utara:

Normal retail price of fertiliser: Rp.16,000

Price on credit, 1 season : Rp.20,500

Depending on the length of the season a trader may earn interest of between 4 and 7% per month. These kiosk owners are small traders, dependent on the next level of traders who may extend credit to them. They do have an opportunity to borrow from a bank.

3.1.5 Revolving Fund: SFCDP assistance is received by the kelompok tani in the form of a grant in kind from the Project. This grant is divided into two categories. The first category includes various items of equipment and the second various inputs such as fertiliser, seed, spray etc. These latter inputs are distributed to the individual members of the kelompok. After harvest the individual then repays to the kelompok fund the value of the inputs plus an additional amount. Under the project rules this should be 10% minimum. This may be in kind, an example of this is one kelompok tani that distributed 1 ton of fertilizer. In return it expected 1 ton of padi.

1 ton fertiliser = Rp.165.000

1 ton padi = Rp.175.000

Interest earned in one season = 6.06%

The interest earned varied with the price of padi at the time of harvest.

Another kelompok tani at Translok Daya Iton, Lampung Utara uses a cash system. If a member receives inputs valued at

Rp.1,500 then he must repay Rp.1,600 at harvest time.

Value of inputs = Rp.1,500

Repayment = Rp.1,600

Interest earned in one season = 6.6% They said that they were charging non-members 10% per season.

This group had received project assistance during the period 1986-87. The last distribution of working capital to members was on 1st September 1988. This had not yet been repayed. They said that the harvest was currently being processed. It had not been a good harvest, the season too long, 7 months and it had been decided that they should not have to repay until next season. They would then be expected to pay an extra season's interest. The question that arises is, if they cannot repay the cost of the last lot of inputs then would they be able to pay for another lot of inputs, to maintain adequate production. Would they turn to the village trader and thus create conflicting obligations ?.

Some KT are making a small charge for the use of an item of equipment. This is a contribution towards repair and eventual replacement.

3.1.6 Management of the Revolving Fund in the Kelompok Tani

All farmers spoken to who had received project assistance stated that they had no need for further outside assistance from a bank or other credit body. How long this situation can be maintained will depend on how well they can conserve and build up their revolving fund. All KT visited were managing their revolving fund in accordance with the general rules of a revolving fund and were deciding their own interest rates and other charges. The following suggestions are made regarding the management of this revolving fund:

- (a) When inputs are first provided to the KT they should be clearly informed as to the value of the inputs. This enables the actual cost to the farmer to be accurately determined and recovered by the KT.
- (b) It is preferable to base repayments on cash rather than kind. This overcomes the problem of variable selling prices of produce and fixes the repayment in money terms.
- (c) An adequate interest rate should be charged. This should take into account: Inflation, overhead costs, build up of capital to enable admission of new members, capital expenditure, and provision for losses. This may be decided somewhere between the current low of about 6% per 4 months (1.5% per month)

for KT and the trader's rate of 5-7% per month. A rate of 3% per month is a good compromise.

- (d) The revolving fund should be fully utilised in order to maximise earnings. Only a small cash reserve for expected expenses should be maintained. The remainder should be lent out to both members and suitable non-members wishing to purchase farm inputs. When not required for these purposes, the capital should be deposited in such a way as to earn interest as for example in SIMPEDES, BRI Unit Desa savings program.
- (e) Care must be taken in deciding whether to use these funds for capital expenditure such as machinery or buildings. Depletion of the revolving fund will restrict earnings and the ability to extend lending to other farmers.
- (f) As in all enterprises cost control must be exercised.
- (g) In one KT there had been an ex gratia payment to all members. There is a need to ensure that all KT understand a basic philosophy of SFCDP. That is to progressively expand its operations to include new members. There is no objection to ex gratia or bonus payments. What should be avoided is the possibility that a revolving fund may be kept for the sole benefit of the founding members.
- (h) Book keeping systems are generally good and only limited change is needed to provide additional information. The

following would be useful:

The working capital situation can be monitored at all times by adding cash balance to total loans in the hands of the farmers, assuming that all transactions are cash. Bad debts should be deducted.

Separate records for each farmer will continue to be maintained and totalled. It should then be possible to reconcile this total with the cash book.

3.2.0 Visit to Nusa Tenggara Barat (NTB) 19-22 April

At the time of visit there were no dem-farms operating as SFCDP involvement was only in the early stages. There were trial plots established but it was not useful to visit these. The most widely used system of credit for small farmers was Kredit Usaha Tani (KUT) channeled through BRI and the KUD. Time was spent in examining the operation of this credit system within the province as well as seeking out other sources of credit.

Kepala Dinas Pertanian Tanaman Pangan, NTB, Drs Tri Wibowo had, during a visit to Jakarta, expressed concern at the level of arrears in the KUT lending. During the survey the problem of arrears was examined also.

3.2.1 Profile of several KUD:

In the following examples the season 87/88 has been chosen as an example in preference to the 88/89 season which is technically still in progress. Using the 87/88 data we are able to examine the arrears situation also.

KUD: Cipta Karya

Province: NTB

Kabupaten: Lombok Tengah

Location: Mantang

Number of members: 1,184

Details of Kredit Usaha Tani (KUT) for season 87/88

Program: Supra Insus Padi.

Villages involved: 6

Number of Kelompok Tani, KT: 77

Number of farmers involved: 3,282

Average size of KT: 42 farmers'.

Area planted to padi: 1631.795 ha.

Average area per farmer: 0.4975 ha.

Borrowed through KUT: Rp.177,137,754.80

Interest: 7,224,367.33

Total: Rp.184,362,122.13

Repaid: Rp.155,034,692.00

Balance/Arrears: Rp. 29,327,430.18

Arrears: 15.1%

Average loan per KT: Rp. 2.300.490.00
 farmer: 53,973.00
 Loan period for KUD: 12 months from November 1987.
 Farmer: 7

Interest rate 1% per month

This KUD did not use credit for palawija during the dry season of 1988 but borrowed again during the season 88/89. The amount borrowed was Rp.118.9 million for 75 KT, a reduction on the previous year. Repayments have only recently started.

Comments on this KUD:

- (a) 3,282 farmers' received credit yet the KUD only has 1,184 members. Therefore at least 2,098 non members are involved.
- (b) Through one KUD BRI are able to reach 3,282 farmers'. The administrative problems would be enormous if BRI were to lend direct to these farmers. During this season BRI in NTB lent Rp.752 million in KUT through 32 KUD, based on an average loan size of Rp.50,000 which represents approximately 15,000 farmers .

- (c) The BRI maintains contact directly with the KUD, the KUD is the credit supervisor for the kelompok tani through the ketua of the kelompok. The kelompok members, through their leaders supervise credit within the kelompok.
- (d) The arrears are attributed to 2 kelompoks in which there were disputes over payments by farmers to the ketua kelompok and not passed on to the KUD. These two kelompoks were not included in the program for the 88/89 season.
- (e) Although arrears are still high there had been a reduction of Rp.5.4 million between 1st April and the date of visit on 22nd April, from 19.59% arrears to 15.1%.

KUD: Lingsar

Province: NTB

Kabupaten: Lombok Barat

Kecamatan: Narmada

Number of members: 232

Details of Kredit Usaha Tani (KUT) for season 87/88

Program: Supra Insus Padi.

Number of Kelompok Tani, KT: 33

Number of farmers involved: 1,907

Average size of KT: 58 farmers .

Borrowed through KUT:	Rp. 60,672,840
Interest:	<u>2,836,928</u>
Total:	Rp. 63,509,768
Repaid:	Rp. 50,689,907
Arrears:	Rp. 12,819,861
Arrears:	20.2%

Average loan per KT:	Rp. 1,838.571
.. farmer:	Rp. 31,816
Loan period for KUD:	12 months from November 1987.
.. Farmer:	7
Interest rate 1% per month	

Further loans: During the dry season of 1988 the KUD borrowed Rp.10.8 million for palawija. Only 6 KT with 177 farmers were involved. Loan balance is Rp.3.6 million.

During 88/89 wet season the KUD borrowed Rp.26.1 million of which there is a balance of Rp.16.1. million. The following changes over a period of one year are noted.

The number of KUD members increased from 232 to 570.

The number of kelompok tani that borrowed under the KUT program dropped from 33 to 10

The number of farmers'/borrowers decreased from 1.907 to 350.

Over the three seasons the average loan per farmer was:

1987/88 Rp.31.816

1988 Rp.69.987

1988/89 Rp.74.574

Many of the remarks made for KUD Cipta Karya could be repeated for this KUD. Here we see how the KUD has divested itself of the non-members and is concentrating on members with slightly larger land holdings. The management of the KUD wishes to concentrate on its own members because of difficulties in dealing with large numbers of non members. There is a clear need for training and management advice in handling credit.

Several other KUD were visited but are not detailed in this report. The Kelompok Tani (KT) is the key to dealing with the problem of delivering credit to a large number of farmers. Visits were made to farmers, both those who were active members of a KT and those who farmed independently. It is intended to discuss the subject of the KT elsewhere in this report.

3.2.2 Traders: Borrowing from traders is not popular in Lombok (NTB) due to high interest rates. Often repayment is in kind, produce for fertiliser after 4 months. Or inputs supplied and paid for later at a higher price (cash payment). In

the latter situation the interest rate was found to be 32-48% for a season of up to 4 months, 8-12% per month. When repayment is in kind, interest rates are often much higher. Perhaps because cash does not change hands the borrower is not fully aware of the high interest charged. Interest rates for this type of lending was found to be as high as 112% for the season or 28% per month.

Credit of this type generally comes from small kiosk traders at village and kecamatan level. Most farmers interviewed saw borrowing from traders as a last resort and only for urgent minimal requirements. The traders themselves have limited capital and have no desire to tie up their working capital for long periods. High interest rates discourage this type of borrowing and encourage farmers towards formal credit such as Kredit Usaha Tani (KUT).

3.2.3 Arrears: Unless arrears are controlled and kept to a minimum a credit program will fail, either within a locality or province or nationally. In NTB the situation, although still healthy does show problems. Elsewhere in this report the problem of arrears control will be dealt with fully. Rather than repeat myself I will only mention some very obvious points.

The season (MT) varies from 3-4 months depending on the crop. A short period is required for processing and marketing. Why then allow 7 months for the farmer to repay his loan ?, particularly if the period includes Lebaran, the peak spending month.

Care is required in selecting the KT and ensuring that it is in fact a homogenous and cohesive group.

Within both KUD and the KT it is necessary to ensure that there are persons who are adequately trained in credit supervision. Emphasis on the fact that continued credit is dependent on continued prompt repayments. As seen in the above examples many farmers were dropped from the credit program.

This emphasis starts even before the loan is given out. Gentle reminders should be given regarding repayments as soon as harvesting starts. The period of repayment by the farmers must be shortened to match the cropping period, thus preventing dispersion of funds to other uses. All those involved must have full regard to the survival and growth of the credit program. This includes all government and KUD staff involved.

3.2.4 Other Credit Sources:

Discussions were held at BRI branch offices, BRI Unit Desa, Bank Pembangunan Daerah (BPD) regarding the kecamatan based Lumbung Kredit Pedesaan (LKP).

BRI Unit Desa operate extensively throughout the province. LKP are situated at 30 of the 59 kecamatan. These small credit units operate under rules that do not specifically exclude small farmers but in practice lending for farming is minimal.

BPD does have limited lending to farmers under KIK/KMKP. A small number of kelompok tani receive loans averaging from about Rp.180,000 to Rp.500,000 per farmer. This lending involves long established clients and excludes small farmers who require less than Rp.100,000.

3.3.0 Visit to East Java 24-28 April 1989

The visit to Jawa Timur followed a similar pattern to that of NTB during the previous week. Research concentrated mainly on the kabupatens of Ponorogo and Nganjuk.,

3.3.1 Kredit Usaha Tani (KUT)

Again in the context of delivering credit to a large number of farmers the Kredit Usaha Tani program attracted the most attention. There were gaps in the data available regarding the number of farmers receiving assistance but it was possible to make the following estimates:

In the planting season of 1988/89 Bank Rakyat Indonesia BRI, through various branches in East Java Province, was able to provide the following loans:

BRI--> 448 KUD--> 5.500 Kelompok Tani--> 250.000 farmers

BRI operate at kabupaten level. There are 30 kabupaten (districts) plus 7 kodya (townships/cities). There are a total of 33 branches. Most branches of BRI are handling loans to 15 to 25 KUD. With adequate supervision and control at each level of distribution, a large number of farmers can be served.

Several KUD in each of Kabupaten Ponorogo and Nganjuk were visited and also a number of members of KT served by these KUD. The profiles given previously for KUD lending in NTB apply also to the typical KUD in East Java. In East Java there are 759 KUD of which up to 578 distribute KUF.

3.3.2 Kredit Usaha Rakyat Kecil (KURK):

These are small credit units at kecamatan level normally staffed by three persons and supervised by the Bank Pembangunan Daerah (BPD). Each of these units are assisted by several PPD. Pos Pelayanan Desa. Currently there are KURK units in 148 out of the 580 kecamatan in East Java. These are supported by more than 1.600 PPD.

Most of their loans are to traders and are based on a system of regular repayments which does not suit the small farmer. The rules do include a system of seasonal repayment (Musiman) but in practise it is not used. In theory it is possible to lend to farmers. This aspect will be further discussed later.

Loans size range from Rp.10,000 to Rp.500,000 maximum. Normally most loans are in the range Rp.50,000-Rp.200,000. Interest rates are 3% per month and normally the maximum term is 6 months.

3.3.3 Bank Umum Koperasi Indonesia (BUKOPIN) Since 1985 BUKOPIN have been developing a program to provide credit at village level through certain cooperatives. In conjunction with RABOBANK of the Netherlands they established a limited credit program using inputs from the Netherlands Government. This program is now being extended and will eventually reach throughout Indonesia. The extended program uses BUKOPIN funds. In East Java the program has commenced activity in the Malang area (April 1988) and recently in Sidoarjo, near Surabaya. Credit is available to all sectors. Although in its early stages this credit program presents good opportunities for farmers' in the palawija program.

3.3.4 Other Sources of Credit. In East Java there are numerous sources of informal credit operating a village level. Some of these are remnants of old institutions. For example, small village banks, Badan Kredit Desa (BKD). There are small money lenders also.

Bank Harian (Daily Bank) are an example. The method of operation of one of these was described by a village lady:

Borrow: Rp.10,000

Receives only Rp. 9,000

Every day for 40 days someone will come and collect Rp.300

= Rp.12,000

Interest $\frac{\text{Rp.3,000} \times 100}{\text{Rp.9,000}} = 33.3\%$ over 40 days.

Rp.9,000

Traders are also a source of credit. Interest rates are very variable and were found to vary from more than 10% to over 25% per month.

These sources are not attractive to farmers at these rates. It is possible that a trader providing credit at less than 10% per month could be found.

3.3.5 Kredit Candak Kulak was found to be still operating in KUD Jetis, Kecamatan Jetis, East Java. This is a small credit scheme dating back to 1976. Funds were put into KUD as a permanent revolving fund for lending to small traders at 12 % interest per year. Maximum loan at KUD Jetis was Rp.80,000. Many of these KCK have closed. The remainder are under the supervision of BRI. BRI funds are not involved.

KUD Jetis were also lending from their own capital. Although they called it Simpan/Pinjam the savings side referred to members' capital contribution and not to a separate savings activity. Conditions were, maximum of Rp.100,000, 3% per month interest. Members only may borrow. There are 56 borrowers mostly traders.

3.4.0 Visit To South Sulawesi: 15-19 May 1989

Field activity concentrated on two kabupatens, Bulukumba and Bone. There are concentrations of SFCDP dem-farms in these provinces. The survey was directed at a broad sample of farmers. It included some dem-farm participants, participants in the KUT credit program and farmers' who were not receiving any formal credit.

Because of the broad nature of the sample only a few dem-farm participants were interviewed. The interview was aimed at assessing the level of success of the revolving fund.

Also to gain an insight into the capabilities of the Kelompok Tani (KT) as a self help and self regulatory body. This study of the KT was continued within the KUT program and with KT that had no credit affiliations. An assessment was also made of the strength and level of cohesion within the various KT interviewed.

Each dem-farm KT are normally only a part of a larger KT. The dem-farm KT usually numbers 10-15. The average size of the larger KT is about 35. Often the other members of the larger kelompok obtain credit from KUT. My enquiries did not reveal any dem-farm participant who was also receiving KUT.

One dem farm in Desa L. Riawang, Kecamatan Lappariaja, Kabupaten Bone had received revolving funds totalling approximately Rp.1.11 million in three seasonal grants. These grants were received by the kelompok in November 86, April 87 and November 87. One record book indicated that the first two grants had been repaid to the KT by the farmers but the last one had not, apart from a small amount. The cash book only had one entry in two and a half years of operations. This was a bulk entry referring to the repayment, by the farmers of the first grant. The PPL and the Ketua KT were evasive about the whereabouts of the kelompok funds. Certainly the grant has not become a revolving fund. Details were passed on to Dinas Pertanian

Tanaman Pangan at Ujung Pandang.

- 3.4.1 Kredit Usaha Tani KUT: In South Sulawesi, as in all other provinces visited, KUT was the largest credit distributor for small farmers. It is interesting to examine the operation of KUT in South Sulawesi. This gives an insight into credit operations and also into the credit handling capabilities of the Cooperatives and the Kelompok Tani.

In the season 1988/89 an estimate 175,000 farmers in 202 KUD (in Sulse) received an average of Rp.65,000 through the Kredit Usaha Tani program. It was originally planned to provide credit to 242,292 farmers. 28% of the credit that was available was not distributed.

In Kabupaten Bone it was planned to distribute KUT through 25 KUD during the planting season that started April 1989. At the time of the visit credit has been released to only two KUD. Applications from two more were being processed and two others had just been received. Obviously many applications will be too late for the planting season. The exclusion of KUD that lack sufficient commitment is clearly desirable but in some cases there are administrative problems that could be overcome. The non participation of these KUD will probably help to reduce arrears.

There are problems within the management of the KUD in South Sulawesi. Various problems in the handling of loan applications and loan funds were described. However such matters are outside the scope of this study. It should be said though that if KUD in South Sulawesi are to be used to distribute credit for SFCD type farming then careful selection is required.

Members of 5 KT involved in KUT were questioned about their ideas on credit. They were asked whether they would put pressure on other members of the KT if they were in arrears. They all said that they might mention the subject to the member but they pointed out that the loan was from the KUD and not the KT. Therefore the staff of the KUD would take whatever action that was required. They were of the opinion that credit would only be stopped for those individuals who did not repay their loans. They were not aware of the possibility that a KUD with high arrears could be denied further credit and this would affect all members.

3.4.2 Conclusions:

From the reading of various reports on KUD and kelompok tani, the study of the pattern of KUT distribution and arrears statistics in KUT together with the findings of this study show that:

- (a) Cohesion within KUD and KT are variable. Often farmers within this Province do not adapt easily to group co-operation.
- (b) There is a need to intensify communication programs to help farmers become more responsive to the advantages of group participation.
- (c) Whilst the channeling of credit through KUD and KT enables a bank to reach the largest number of borrowers it must be recognised that some farmers do not respond well to group participation. Therefore there is a need for a source of credit that is available to individual borrowers.

3.5.0 Visit to West Sumatera 23-26 May 1989

The visit followed a similar pattern to the visits to the other Project Provinces. As many farmers as possible were interviewed. There are no dem-farmers at this time. Those interviewed included recipients of KUT and farmers who were not using credit.

In Padang discussions were held with The Department of Agriculture. Department of Cooperatives. BRI. BPD and BUKOPIN. Also with the Project Coordinator of Government of Indonesia/German Technical Cooperation (GTZ) in the

Provincial Development Project/ Area Development Project.
West Pasaman.

Field work was carried out in Kabupaten Solok and Sawahlunto Sijunjung. The consultant was accompanied by a staff member from Dinas Pertanian Tanaman Pangan, Padang and local Dinas Pertanian staff

Some proposed dem-farms are to be in the transmigration areas. Discussions took place with 6 farmers in the Sitiung I Transmigration area in Kecamatan Koto Baru. The PPL from BPP Sitiung accompanied the party. As in the other Project Provinces Kredit Usaha Tani is the main source of credit for farmers. Because it is program credit it is not available to farmers who are not included in the program.

Three of these farmers are members of KUD Sidorejo. The KUD has 837 members. Members' savings and deposits with the Cooperative total Rp.21.6 million. The KUD is handling Kredit Usaha Tani. The last release of KUT funds was in February 1989 to 24 KT. Average membership of each KT is 30.

Most members of this KUD are transmigrants from the Wonogiri area of Central Java and migrated about 1977. A neighbouring KUD has members from Bali. The party met with the Manager

and Chairman of KUD Siderejo. Arrears are minimal and the kelompok tani system is working well. During the discussions, the reasons for success or failure of kelompok tani were explored. The officials of the KUD were emphatic in their opinion that people from Jawa did not accept participation in kelompok tani more easily than in the outer islands. They said that the system will work for anyone who recognised the advantages of participation.

The three other farmers interviewed were using their own capital. These are poor farmers who are gathering enough capital together, each planting season, to buy fertiliser, seed, insecticide etc. They were involved in various off-farm activities.

Discussions were held with the chairman and several members of the Kelompok Tani Beringin Jaya, also in Kecamatan Koto Baru. This KT did not receive KUT but had accumulated own capital, total Rp.1.4 million. In early May they had lent out a total of Rp.900.000 to their members for Lebaran needs. These loans are to be repaid within 3 months. This is an example of how some farmers are able to mobilise their own savings. These are poor farmers.

The survey continued in Kabupaten Solok. The strengths of the KT were examined as were the attitudes of the members

towards their participation in the KT and towards credit.

3.5.1 Kredit Usaha Tani:

In this Province there are 262 KUD in the classification "A" and "B". The actual number of KUD that delivered KUT in the season 1988/89 was only 86. Only 54% of the credit made available was actually distributed. KUT for palawija is small. One KUD distributed credit of Rp.5.5 in the season 1988/89. In the season 1988 three KUD distributed Rp.36.1 million. Arrears are high.

Discussions at the Department of Cooperatives and BRI indicate that problems in many of the KUD make them a poor risk for distributing credit.

3.5.2 Lumbung Pitih Nagari LPN.

The LPN at Desa Tarantang, Kecamatan koto Baru was visited. This is one of seven LPN in this Kecamatan. Their repayment system requires monthly payments. In the month of May the number of borrowers was 70 of which 63 were farmers. Average loan balance is Rp.94.000. The 63 farmers must have off farm income in order to be able to make monthly repayments. Arrears are said to be only 1.5%.

This LPN serves three villages. The LPN has only one staff member although authorised staff is three. During this

year staff will be brought up to strength. In order to borrow, an individual must become a member of the LPN Group. The LPN is inspected by BPD every two months.

3.5.3 Indonesia/German Technical Cooperation

As part of the Provincial Development Project/ Area Development Project, GTZ provided loan funds through BPD and LPN in the Pasaman Barat area of West Sumatera. Total fund is Rp.97.0 million of this Rp.20.0 is allocated for farmers. Loans are available either to KT or to individuals. Interest rate is 12% per year.

Chapter 4

The Supply of Credit to Small Farmers

The delivery of credit to small farmers is still considered by most banks and other lending institutions to be difficult and un-profitable with heavy recovery costs and write-offs. In fact the experience in previous credit schemes, both in Indonesia and in other developing countries does support this opinion.

4.1.0 Early Assumptions Regarding Credit.

- (a) For many years it was thought that the major obstacle to rural development was the lack of credit. Rural poverty was seen to be a result of lack of capital to develop the farmers resources. Credit was provided with the expectation that the farmer would be able to increase the productivity of his land. In many cases this did not result.

What was not understood was that if credit was provided when there was not a clear opportunity to substantially increase his income then the credit will end up being used for consumption. Even if credit is provided, not as cash but in the form of inputs such as fertiliser, seed, insecticide etc. it will still

take up the form of cash at harvest time. Even if income is increased the total may still be less than is required to meet all the family needs and the income will be directed to consumption and not repayments.

- (b) It was thought that high interest rates were a major contributing factor in rural poverty. Therefore it was thought necessary to rescue the rural poor from the high interest rates of the money lenders and the traders.

The answer to this was to provide loans at low interest rates. BRI were the major channeling bank for this type of lending. The problem was that this low interest was insufficient to cover transaction costs and keep pace with inflation. This lack of financial incentive, together with bad debts, left the bank in difficulty and resulted in a reluctance to extend credit to small farmers.

- 4.2.0 Trends in Credit: High arrears have led to cutbacks in credit supply to small farmers. Lenders find it more profitable to lend in larger loan categories. In small lending they direct their lending towards small traders and public servants, leaving gaps in the supply of credit to small farmers.

Recently President Suharto has instructed that greater attention must be given to supplying credit to the rural sector. At that time it was said that the size of arrears was not only the fault of the people. They were at fault only because the system allowed them to be.

It has been said that we may ignore history at our peril. An analyses of the history of credit to rural borrowers both, within Indonesia and throughout the developing world is of great value. We will see that very definite factors emerge that enable the preparation of guidelines for the establishment of a succesful credit scheme. In the past not all factors have been properly interpreted or applied effectively, resulting in the repetition of problem lending.

We now know that a credit delivery system has a greater chance of success if all those involved understand how a credit system can be made to work. This includes not only the lenders and the borrowers but also those indirectly involved, such as the staff and board of the KUD, members of the kelompok tani and extension staff of Dinas Pertanian.

The most important thing to understand about credit is that it is not one way, from the lender to the borrower. Credit must revolve. The amount lent must come back plus

sufficient interest to pay costs, provide for bad debts and keep pace with inflation. If it does not then the lending capital will become smaller and smaller and lending will stop.

4.3.0 The Evolution of Credit

Bank Rakyat Indonesia (BRI) has been the only bank that has been involved in volume lending to small farmers. Most other banks have not been involved in this type of credit with the exception of BUKOPIN who has, since 1985, been developing a lending program for small farmers. This is explained in another part of this report. Even BRI has now become very selective in lending to small farmers. Rural lending through KUPEDES credit program via BRI Unit Desa does not favour small farmers.

4.3.1 The Attitudes of the Banks: Banks prefer not to lend to small rural borrowers. When they do they favour non-farm enterprises. There are commercial reasons why banks prefer to lend to large enterprises. Some of the reasons for this are summarised as follows:

- (a) Administration costs for a large loan are cheaper than the cost of administering a large number of small loans. For example one large loan of Rp.100,000,000 costs less to administer, compared to 2,000 small loans of Rp.50,000.

- (b) Large borrowers can comply with the banks' requirements for financial statements and collateral.
- (c) In many cases small borrowers cannot provide collateral. Even when they are able to, the bank is normally, in the case of a default, not able to sell a property for social reasons.
- (d) The staff are under pressure to minimise costs and arrears and optimise the use of capital by profitable lending. This may be done much more easily by lending to large borrowers.
- (e) Large borrowers are also influential persons in the community and are able to negotiate directly with the banks. They have greater access to information on the various sources of credit.
- (f) The rural poor are regarded as unreliable borrowers. There is little contact between the banks and these people. The large borrowers are in regular contact with the banks. These are the type of people that the commercial bankers are trained to do business with.

4.3.2 The Attitudes of the Farmers : Discussions with farmers revealed that many were reluctant to directly approach a bank. Some of the reasons given for this are:

- (a) Information regarding various credit schemes are not widely circulated amongst small farmers. There are misunderstandings about the requirements of the banks.
- (b) The distance from the banks and restricted hours deter farmers from even making enquiries. Transaction costs are perceived to be high.
- (c) There is a clear cultural gap between the small farmer and bank staff. Only BRI Unit Desa and the BKK type credit units at kecamatan level bridge this gap but even so their lending to small farmers is small.
- (d) Farmers remember the difficult times of the BIMAS mass lending and associate borrowing from a bank as being full of problems. This opinion was not generally shared by those receiving Kredit Usaha Tani (KUT). The planning and administrative procedures for KUT are complex but the individual farmer does not have difficult procedures to follow. This is attended to at Kecamatan level.

(e) Non formal sources of credit such as money lenders and traders have very simple procedures. There are no forms or collateral requirements. The decision is quick and the transaction is made in the village. The farmer prefers this simple approach to bank procedures.

Farmers interviewed in different provinces indicated that there was a cut off point for this preference. In Lampung Province, where trader finance at 7-10% per month was found, some small farmers preferred this type of credit to KUT available at 1% per month because procedures were simple.

In other provinces interest from traders varied from 10% to more than 25% per month. Here the farmers saw the traders only as an emergency source of credit. They might borrow to buy seed but not for fertiliser. Most of those receiving KUT had no complaints about administrative procedures as compared to the simple but very expensive trader credit.

(f) Most farmers interviewed said that they worried about not being able to repay a loan to a bank. However they still gave higher priority to repaying an informal source of credit such as a trader. They still believe loans from banks are being provided by the government

and therefore they are allocated lower priority.

(g) Some farmers said that bank procedures were difficult. It is not necessary for bank administrative procedures to be a reason for a small farmer to be reluctant to approach a bank. If a bank wished to lend to a small farmer then bank staff could attend to most of the documentation and give guidance and on the spot assistance. On the other hand those same procedures could be used to discourage a potential borrower. Bank staff could say "Yes we do lend for agriculture but you must satisfy these requirements". A small farmer does not have the experience that enables him to present a case for credit without assistance. Many will not be able to make regular repayments (for example two-weekly or monthly repayments). This alone excludes most farmers unless he also has other commercial activity such as trade.

4.4.0 The Current Situation: The official lending policy of small credit programs such as KUPEDES or BKK type credit units will usually show that agriculture is first on the list of sectors that are eligible for finance. Where statistics are available for small credit units in SFCDP areas it may be seen that lending for agriculture is less than 10% of total lending.

4.4.1 Kredit Usaha Tani: The survey revealed many farmers who were receiving credit regularly each season through the Kredit Usaha Tani program (KUT). There are many others who do not have access to this credit for various reasons. Details of the KUT program are to be found elsewhere in this report. The actual implementation of the KUT credit program links it with government programs for meeting production targets for rice, and to a much lesser extent, certain secondary food crops. The program is fairly selective and is directed towards those who are effectively organised into kelompok that are in turn grouped as members of an effective KUD.

The nature of KUT excludes farmers who are not participating in the government cropping program. In its present form KUT is not available to those who wish to follow their own cropping program.

4.5.0 Attempts to Open up the Supply of Credit to Farmers'.

4.5.1 BIMAS Mass Credit The biggest attempt to provide widespread credit to farmers was the BIMAS mass credit program now defunct. This credit was part of a GOI program aimed at improving agricultural production and practices. The Government added Kredit Mini (1973) and Kredit Midi (1980) to provide credit for small borrowers outside the BIMAS program. The government used Bank Rakyat Indonesia (BRI)

as a channel for this targeted and subsidised credit with set interest rates.

The BRI Unit Desa were set up at kecamatan level to facilitate the credit delivery for this BIMAS program. In 1984 GOI announced the collapse of this BIMAS program due to heavy defaults. The program ended with effect from April 1985. The problems were complex. From the banking side some of the problems could be summarised as follows:

- (a) BRI had little part in the choice of borrowers. Most credit decisions were made by government officials, not by Bank Staff.
- (b) Bulk delivery of credit resulted in poor selection of borrowers.
- (c) Many individuals found that they were given credit though if they had had free choice, they might not have wanted it.
- (d) There was little incentive for BRI to chase arrears. The cost of recovery was high, most of the funds came from Bank Indonesia liquidity credit and was covered by credit insurance.
- (e) It was well known that the source of the loan funds was the government. There was no mobilisation of savings from the people. Repayments were not given high priority.

(f) Income from interest and subsidies was not sufficient to cover lending costs.

4.5.2 Other Attempts: In the past it has been government policy to channel oil income through Bank Indonesia and handling banks to the rural sector in the form of liquidity credit. Liquidity credit is usually part of a lending program. B.I. provides, for example, 70-100% of the funds for on-lending at 3% per annum interest. Examples of credit using BI liquidity are detailed in Appendix: 5. Not all these funds are directed to agriculture.

Some 70-95% of the risk of default by farmers is usually covered by insurance with state owned companies: ASKRINDO or Perum PKK. In this way the risk to the handling banks (HB) funds was minimised. The bank most heavily involved in this type of credit is BRI. Credit programs include KIK\KMKP, Kredit Usaha Tani (KUT), Kredit Koperasi, Kredit Investasi (KI) etc.

4.6.0 Past Problems:

Non-bank organisations, such as government departments or technical services and KUD were given wide responsibilities in the selection of borrowers. This low interest money and loan insurance was designed to remove barriers within the banks. Government officials gave more attention to

getting projects started rather than finding truly credit worthy opportunities and borrowers. There was often a strong experimental influence. Their responsibilities did not include serious attempts to obtain repayments.

BRI and other credit units were lending to persons that they did not know and with less caution than they would normally exercise. The number of persons receiving loans greatly increased. The expense of administering the loans was high compared to the interest earnings. Defaults were high. The delivery of credit to small farmers' slowed down.

Now credit programs are much more selective in the choice of borrowers. The supply of BI liquidity credit is likely to be reduced.

BRI Unit Desa KUPEDES credit program is operating profitably even though cost of funds is approximately 15% and loan interest is 18% per annum. The margin is very small now that the BRI unit Desa are no longer subsidised with low interest liquidity credit from Bank Indonesia. BRI Unit Desa also mobilise savings. The high cost of funds and their 100% responsibility for defaults has resulted in a high standard of management.

In KUT and Kredit Koperasi low interest, low risk liquidity funds are still available but more care is now exercised in distribution of this credit.

The result of this tightening in the distribution of funds is that many farmers are denied credit.

4.7.0 Credit Availability:

4.7.1 Informal Development with Informal Credit.

Many farmers are adopting new technology and have a need for credit. In its most simple form this means the application of fertilizer and sprays with credit being provided by the local kiosk owner. Often this use of technology is not done as part of a formal program. Rather it is the farmers adaptation of previous programs and information gathered from various sources, including other farmers. What we see here are certain related facts.

(a) The farmer is satisfied that he has adopted a technology that is superior to the old ways and that this technology will produce extra income well in excess of the cost of the extra inputs and provide profits of sufficient size to justify the risks of borrowing.

(b) The kiosk owner is satisfied that if he lends he will be repaid. This may be because he understands the

technology that the farmer is using and that it will generate sufficient income. More probably, the trader may lend because his position in the community enables him to monitor the credit worthiness of an individual. This decision is not based on a technical assesment but on an opinion that the farmer is prudent enough to do only what will produce adequate profits and, most importantly, will by some means or other repay the trader in order to prevent the future supply of credit being cut off.

4.7.2 Formal Development with Formal Credit

The informal system demonstrates the need for a credit organisation that is in close contact with the farmers. This concept develops the basic requirement of a successful credit delivery system, mutual trust. The credit organisation must build up the type of local knowledge that the trader has developed.

Credit should be open to the farmer who has made his own decisions regarding the use of credit and not only to those who are participating in a formal development program.

Chapter 5

Social Factors and Their Effect on Small Credit

The problem facing both technical staff in government and staff engaged in credit delivery is how to provide a quality service to a very large number of people, at the same time remembering that the borrowers are individuals who may not wish to conform to a pattern that is convenient to those who wish to organise them.

5.1.0 A Portrait of The Small Farmer:

Most small farmers are poor people. They are under constant pressure in providing the needs of their families. Often they do not work towards a profit in the normal business way. Instead they strive to meet their family and community responsibilities and do not expect to have any surplus. Their income is often unstable. Unexpected expenditure such as medical expenses and family emergencies, have to be satisfied. Always in farming there is the possibility of a bad harvest.

Often credit that is provided to help small farmers may cause further difficulties by (a) reducing the need to assemble working capital from non-credit sources, reducing attention to careful budgetting at the start of the planting season and (b) creating a liability to repay a loan from limited

farm income. These are extra demands on management capability. A poor harvest, if coupled with a credit liability, brings greater problems.

There is increasing evidence that credit is not as necessary as originally thought. During this survey the need for credit facilities was not pressed strongly by the farmers interviewed. Those who were using credit did so because it had been offered to them in the form of KUT or the SFCDP revolving fund. The actual number of small farmers who would actively seek credit facilities is probably much smaller than might generally be thought

The farmer may be a person who can work together with others as a member of a group or a cooperative. On the other hand he may prefer to work alone. Assistance directed at the group provides help more easily for a larger number of people but will fail if those in the group are not compatible.

There are those who have a strong feeling of responsibility towards borrowing and are fearful that they may not be able to repay their loan. Some actually state this as a reason for not using credit. There are those also who may have the opposite feelings. Some borrowers may avoid repaying a loan even though they may have the money to do so. This

problem can only be dealt with effectively by increasing understanding of credit amongst farmers by communication and education. The participation of farmers as responsible members of farmers' groups is the best way to do this.

5.2.0 The Small Farmer and Credit:

Even up to the mid 1970's there was a general assumption in developing countries that the provision of credit would, in itself, produce development. It was then recognised that greater attention to planning and to technical aspects was also necessary.

This was taken a step further with further program development. For example, the old BIMAS planting program aimed particularly at rapidly increased rice production. It was assumed that the farmer could not participate in the program unless he received credit. To a lesser extent this is seen in the Kredit Usaha Tani program. It was convenient to provide credit because it enabled fertiliser and other inputs to be distributed more smoothly. It also provided incentives to induce small farmers to participate.

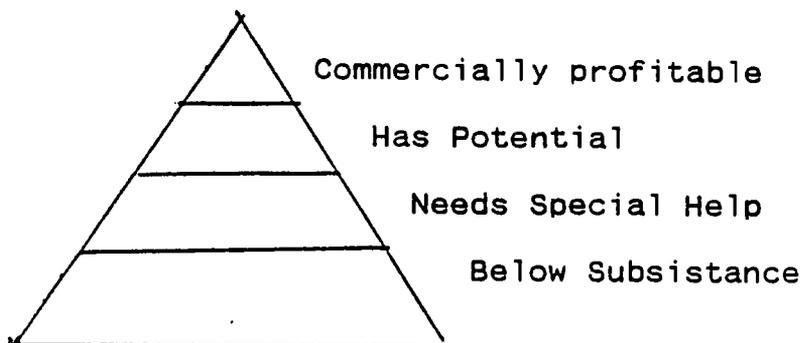
A study by a project team from Stanford University was concluded in October 1988 with their final report entitled: Rural Income and Employment Effects of Rice Policy in Indonesia.

The findings of this study were discussed with a member of the Project Team. The study revealed many off-farm employment activities, particularly on Java. The opportunities to supplement farm income were less in South Sulawesi. A need for credit was not apparent in the interviews that took place. The study included only one of the provinces involved in SFCDP. It did, however demonstrate that many farmers actively seek sources other than formal credit to finance their plantings. This was confirmed by the current study.

At a certain level in the social scale farmers will have problems in managing credit. This does not mean that the farmer cannot manage it. Technical and credit staff could help the farmers' to manage better if they could gain a greater understanding of the social factors that influence farmers' decisions.

In this study our subject is the small farmer but what is written here could also apply to all small entrepreneurs.

5.3.0 Classification Small Farmers: may be grouped according to the triangle below.



These categories are not clear cut. One merges into the next. Different farmers with the same basic resources will have different capabilities in using those resources. They will respond differently to the difficulties and opportunities outlined below.

5.3.1 Commercially Profitable:

There will always be some farmers who have sufficient land, capital reserves, access to technical information, knowledge about credit availability and ability to negotiate directly with a bank for seasonal credit. This study is not directed towards farmers in this category. These farmers may be able to include some neighbouring small farmers as part of their overall development plan. Such an arrangement could provide the input needs of these small farmers.

5.3.2 Has Potential:

Farmers in this category are mostly poor but with careful management they can support their families. Family members who are able are expected to contribute in some way to the family income.

They do not have much contact with people outside their own social group. For most a bank is something that they know about but they believe it is not for people in their social bracket. The bulk of the farmers involved in the BIMAS/KUT program may come from this category. Some farmers who are also engaged in small trading or other non farming activities may have easier access to credit. They may borrow from BRI Unit Desa or other small credit unit that may be available, for example a Badan Kredit Kecamatan. Because of their non-farm income they are able to make the periodical repayments, for example weekly, two weekly, monthly etc.

Many may farm without the use of formal credit. They may raise capital from their own resources to plant their season's crop. This may come from previous crops, earnings from various non farm activities and perhaps credit from a trader.

Due to limited knowledge and resources, the inputs that the farmer applies may be below the most suitable quantities for the best production. However he may be content that he hasn't over committed himself by borrowing too much.

There is a need for a readily available source of credit for these farmers. This source of credit should be an alternative to the KUT program. There are farmers who are not participants in KUT. They have developed their own farm plan and need to be able to obtain suitable credit without the necessity of being part of a large government program.

5.3.3 Need Special Help:

These are farmers who are not able to provide all the needs of their family. Total estimated farm costs and living expenses would probably be greater than expected income. Credit staff would then decide that the applicant was uncreditworthy. Western methods of calculating farm budgets may produce misleading results if they do not take into account the farmers' normally enforced careful money management.

Without credit the family would exist by living with shortages, denying family members what would normally be considered essentials and by intensifying family

involvement in off farm income activities. They may even be able, by careful management, to buy essential farm inputs.

If the farmer received credit and was able to increase his income, this increased income may still not be enough to meet all his family needs. At harvest time he is faced with the decision: should he pay back his loan or use the money for his family. The situation is even more difficult if there is an unexpected family emergency. But if he does not pay back his loan then he will not be able to borrow for the next season and his income will be reduced. What may happen is that, for example, 75% of borrowers may manage their needs carefully and repay their loans and 25% may not. Although many may have repaid their loans the whole group could be considered un-creditworthy.

There is a need for help to be directed towards farmers' groups to show them how they may become a more cohesive group. Assistance is required to develop their ability to work for their mutual good, to regulate their own affairs including the handling of credit, to be responsible as a group for the development of each member and to demonstrate that they, as a group and as individuals, are a good credit risk.

There must be a good understanding of responsibilities involved in credit implementation by all those concerned including the KUD, the members of the KT, staff of Dinas Pertanian and Dinas Kooperasi. The essential understanding that must be developed is that credit must be handled correctly and it must be repaid. The credit must continue to revolve and grow. It can do this only if it is repaid promptly. This situation can not be achieved by force but by a carefully devised program of communication.

At each level of credit distribution there must be persons appointed who is given clear responsibility in supervising credit within his group and with close links with those next in the line of distribution. For example in Kredit Usaha Tani the distribution chain is as follows:

BRI Cabang ---> KUD ---> Kelompok Tani ---> Anggota KT

There must be active supervisors in all 4 levels and the members of the kt must participate in group regulation. BRI should increase their field supervision to ensure that all other levels of supervision are active. BRI are receiving adequate interest from KUT to pay for this. Interest rates for KUT should be increased to enable the KUD to provide a full-time credit supervisor. A condition of lending through the KT should be that they nominate one

of their own members as credit supervisor within the KT. This position would normally be voluntary.

Repayment schedules must be designed for the crop. For example, don't give a 7 month repayment period if the growing period is only 3 months.

Mobilisation of savings produces a greater degree of responsibility towards credit management. It is not correct to say that small farmers are too poor to save. Even a small amount such as Rp.500 per week is sufficient enable a group to build up some capital. If savings are known to be part of the lending capital, then individual and group responsibility is increased.

5.3.4 Below Subsistence:

There are farmers who are completely un-creditworthy because of various reasons, perhaps un-economical land holdings, poor soils etc. Other ways are required to help these farmers to increase their earning power. Self help programs with some small capital inputs and savings mobilisation may help the farmer to gradually improve his situation.

Chapter 6

Kredit Usaha Tani (KUT)

Kredit Usaha Tani (KUT), Farm Business Credit, is credit that is provided to enable farmers to participate in specific government agricultural programs to increase farm productivity. KUT is currently not available to farmers outside government programs. Farmers can, however, participate in a program using their own capital instead of KUT if they so wish.

KUT is channeled through the branches of Bank Rakyat Indonesia (BRI) to qualifying village cooperatives (KUD) and thence to farmers' groups (KT) and through the KT to individual members of the group. It is not necessary for these farmers to be members of a KUD but they are encouraged to join. If there is no KUD in the area it has been possible for farmers, as members of a KT, to borrow direct from BRI. They are only allowed to do this twice, then they must join a qualifying cooperative. Direct borrowing by a KT from BRI was not found in the provinces visited. Direct borrowing is being phased out. It will not be permitted from 1991. A breakdown of KUT lending for the planting season 1988/1989 may be found in Appendix: 8.

6.1.0 Village Cooperatives:

(Kopersasi Unit Desa or KUD). The selection of a KUD to handle KUT is based on the performance of the KUD as an organisation and proven business ability. The KUD must be within the classification "A" or "B" under the official guidelines for classification of cooperatives. These guidelines are contained in Appendix: 9. Refer also to Appendix: 10 for a breakdown in the classification of KUD in the provinces concerned.

Class A are those Cooperatives that are self supporting and have gained a good level of management in accordance with the criteria that has been laid down. Class B fall below the standard of the Class A but are assessed as being within acceptable limits of the Class A criteria.

KUD are usually more effective if they can serve several villages within any one administrative area. Examples were found of only one or two KUD in a Kecamatan.

6.2.0 Farmers' Groups:

Success of a KT depends on the ability of members to cooperate and work together for mutual benefit and to encourage and even regulate members who do not attain certain levels of achievement. Successful credit can only follow successful farming and must be linked then with a

positive attitude towards the individual and collective responsibilities of credit. A KT that is working well together will encourage its members to use credit to the best advantage. It will ensure that repayments are made promptly and will recognise the benefits of a continuing source of credit. Therefore it will give particular attention to any member that is in arrears to help and encourage him to overcome his problems. A well founded KT should be willing to pay out arrears from the group funds, confident that it will recover this from the member.

The happy situation described above actually happens and was found many times during the survey. But the reverse was also found. Of the five provinces visited the KT seemed to work better in East Java and presumably in the rest of Java also. It was suggested that the cultural background, population pressures and the close proximity of the farmers on Java have, of necessity, given strong impetus to the KT system and dates back many years.

It was also suggested that KT in other provinces are often formed at short notice to enable farmers to participate in schemes such as KUT. The KT may thus be non-homogeneous and does not have time to go through a period of adjustment in membership. It may not have sufficient time to gain experience in mutual help activities that would help to

bind the members together .

Women play a very important part in the farming community and can exert strong influence. In credit distribution it has been seen that women recipients of credit have very responsible attitudes towards credit. Their skill in budgeting the family's daily expenditure helps them to also to effectively manage credit. Promotion of farmers groups should also be directed towards women.

A system has been devised to classify KT into one of four groups according to ability. The classification of the KT must be recorded on the request for Kredit Usaha Tani. A list has been drawn up with 10 points on which the ability of the KT may be assessed. See Appendix 11.

During the survey in West Sumatera discussions were held at the offices of KUD Sidorejo in the Transmigration area of Silingi I. This KUD was distributing KUT to 24 KT with an average membership of 30 members each. The membership of KUD was 837 at the end of 1988. All members originated from the Wonorejo area of Central Java. Discussions were with the Chairman and Manager of the KUD. The KUT program was operating well with minimal arrears.

The question was put: do farmers from Java respond better to KT membership than those from other provinces ?. Their answer was an emphatic no. They expressed the opinion that there was no difference. KT were only strong when people saw and experienced the benefits. They said that a strong KUD was an important factor.

A good KUD must be developed from the bottom up therefore effective and properly trained members for executive functions are vital. There is also top down development of the KUD from government assistance. The KUD itself therefore should be able to contribute to its own development and to the development of the KT. The difficulty is in drawing a line between imposing a KUD on the people and the people deciding themselves that membership of KT and KUD are to their own advantage. To leave this completely to the people can only result in slow progress. The technique to be used in developing the KT needs to be carefully developed.

6.3.0 The Requirements and Procedures of Kredit Usaha Tani:

These are contained in detail in a 1988 publication by the Sekretariat Badan Pengendali BIMAS. The publication is entitled:

"Pemanfaatan Fasilitas KREDIT USAHA TANI Untuk Menunjang Program Intensifikasi Padi dan Palawija"

" Utilisation of Farm Business Credit Facilities to Promote Rice and Secondary Food Crop Intensification Programs"

The readers of this report are referred to this publication. In the following paragraphs only the main points will be considered.

6.3.1 General Policy and Conditions:

- (a) KUT is made available to enable farmers to benefit from optimal technology and increase production and income. To stimulate the farmers in active participation in and the development of the KUD.
- (b) KUT, handled by Bank Rakyat Indonesia provides working capital loans that are channeled through the KUD and Farmers' Groups to the farmers.
- (c) KUT cannot be used for personal consumption, purchase of capital investment items or for working capital within the KUD. I did see instances where this did, however, happen. If farmers pay back to the KUD within 4-7 months of commencement of the loan, then the KUD is only obliged to repay the loan within 12 months from commencement. It was noted that most KUD make repayments to BRI shortly after receipt from the KT. A few retain the repayments and use them for working capital.

- (d) Normally KUT is distributed in kind, e.g. as fertiliser, seed, insecticide etc.
- (e) The amount of individual credit is decided on the area that each farmer will be planting in accordance with the government planting program. A pre-determined amount per hectare is used to calculate the amount of the farmer's loan. Often the farmers' land is less than one hectare.
- (f) The interest rate paid by the farmer is 1% per month or 12% per year. This includes 4% that goes to the KUD as a management fee. 1% goes to the KUD on release of loan funds, the remaining 3% is received by the KUD only when the loan is fully repaid by the KUD to BRI.
- (g) The loan period from BRI to the KUD is 12 months. The farmer is given a maximum loan period of 7 months (adequate for any normal planting season).
- (h) To continue to receive credit the KT and the KUD must have repaid all loans due for repayment up to 12 months previously and at least 60% of loans due for repayment subsequently. These conditions are not always enforced. Various examples were found of arrears remaining over several years and the KUD continuing to receive credit.

(i) Apart from the requirement that a KUD must be in classification "A" or "B" there are various other requirements that are not detailed here. The reader is referred to the BIMAS publication.

6.3.2 Administrative Requirements: These are quite complex.

Prior to the actual delivery of credit a long period of planning, assembly of data, placement of inputs and implementation is required. The whole program is developed at all levels of administration as part of a national program. The farmer himself is protected from most of this but is expected to be involved to the extent that he understands what he is committed to do.

The members of the KT receive a lot of help from the PPL. petugas penyuluhan lapangan (field extension officer of the Department of Agriculture) and the staff of the KUD. The basic forms that must be submitted by the KT are:

(a) Formulir Pendaftaran Petani Perorangan. This form has to be filled out for each member of the KT. It is a one page form that details personal information, details of house and land. Also requirements of fertiliser etc etc and their total value.

- (b) RDK (Rencana Definitif Kelompoktani). This contains details of the KT, location, number of members, areas and types of land, livestock, machinery, current assets and classification of the KT. Details of land areas and productivity etc.
- (c) (RDKK) Rencana Definitif Kebutuhan Kelompoktani. This is a list of participating members of the KT with membership status in the KUD, address, land details, details of fertiliser, seed, pesticides etc, total credit and signature.
- (d) Additional Documents. The member is expected to sign 3 additional short documents when he receives his credit in kind.

During the survey, the ketua and members of groups receiving KUT were asked if they had any problems with the documentation. None had. Familiarity with administrative requirements had developed over several seasons and they received plenty of help and guidance from staff of the Department of Agriculture and the KUD. The only complaints about the administrative requirements were from those who had never received KUT. Some of these had never actually applied for a loan but had heard that it was very difficult.

6.4.0 Types of Loans:

Loans for rice growing make up the bulk of KUT lending. Loans for secondary food crops (palawija) represent a small percentage of all lending. In the planting season (MT) 1988/89 KUT lending for the whole of Indonesia was:

Rice growing	Rp.94.3 billion
Secondary Food crops	Rp.3.7 billion
	(3.9%)

Rice is the major crop and a difference in credit demand can be expected. There is room for expansion in palawija production and credit is available from KUT. Credit for rice and secondary food crops continue to be available each planting season. Other lending programs, usually of short duration, have been introduced, for example: farm equipment, pest control programs etc. This type of lending represents only a very small part of KUT.

6.5.0 Arrears in KUT:

It is inevitable that arrears will occur in this type of bulk lending. The lending regulations enable credit to be stopped for any KT that is in arrears and for any KUD that has a history of arrears. The system does not, however, favour early detection of arrears. Although the actual planting and growing season is normally about 3 months for

palawija and 4 months for rice, the loan period is 7 months for the farmer and 12 months for the KUD. It is possible to use monthly reports to monitor repayments but no action is taken until the end of the 12 month period. The farmer, in some provinces, is granted the full 7 months loan period. This leaves the income from the harvest in the hands of the farmer for too long. For the season commencing in October/November 1988 the 7 month extends over the Lebaran period of peak expenditure. Invariably seasonal conditions and bad harvests are quoted as the primary reason for arrears. Instances of harvest failure, due to adverse seasonal conditions, as an excuse for arrears, was not supported by fact during the survey. In such instances there had been no such problems with surrounding farmers. What was found were managerial problems within the KT and often within the KUD.

6.6.0 Conclusions: Kredit Usaha Tani is the most suitable source of credit for further expansion of palawija plantings.

Chapter 7

Profile of BUKOPIN (Bank Umum Koperasi Indonesia)

Since 1985 BUKOPIN, the Co-operative Bank of Indonesia have been developing a program to provide credit at village level through cooperatives.

7.1.0 Background:

BUKOPIN was incorporated in Jakarta in July 1970 and commenced banking operations on March 17 1971. In July 1984 BUKOPIN signed an agreement for Technical Assistance with Bank Duta. Under this agreement Bank Duta provides management and technical assistance to BUKOPIN over a four year period.

At the Bank's Annual General Meeting in July 1985, a re-organisation was approved. These initiatives brought about a new image for BUKOPIN and a rapid expansion. This expansion is to extend eventually to all provinces.

Immediate implementation of a credit scheme for small borrowers through the KUD was announced.

7.2.0 Organisation:

BUKOPIN has 69 member co-operatives which include the 6 PUSKUD in the 6 project provinces. In addition to head office BUKOPIN has 16 branches and two sub-branches. 5 of

these 19 offices are in Jakarta and 14 in the provinces. 5 of the 6 provinces involved in SFCDP have branches of BUKOPIN. These are NTT, South Sulawesi, East Java (2 branches), Lampung and West Sumatera. BUKOPIN does not have offices at kabupaten or kecamatan level with the exception of Sidoarjo Branch in East Java. 5 of these branches came about by mergers with co-operative banks at provincial level.

7.3.0 Lending to Co-operatives:

In April 1985 there was set up PPKKP, Pusat Pelayanan Kredit Koperasi Pedesaan (Rural Co-operative Credit Service Centre). This was done in conjunction with the Department of Co-operatives and technical assistance from the Netherlands Rabobank Foundation. Financial assistance was also provided for the initial lending program.

(Appendix 13)

The basic objective of the program is to develop a cooperative rural credit and savings system through KUD to individuals organised into kelompok.

The project commenced operations in West Java and DI Yogyakarta using Project funds. It then expanded, using BUKOPIN funds and working capital, to the areas of Solo (Central Java), Ujung-Pandang (South Sulawesi), Sidoarjo

and Malang (East Java) and Bandar Lampung (Lampung). This program will eventually reach throughout Indonesia. In NTB there was an awareness of the credit program amongst Cooperative staff in Mataram. Credit is available to all sectors. Although in its early stages this credit program presents good opportunities for farmers in the palawija program.

7.4.0 Lending Policy:

To provide loans to low income groups (kelompok) to undertake any income-generating activities that the members may wish to undertake. The choice of the activity is left to the members of the group.

There is no upper limit to the size of a loan to the individual but it normally does not exceed Rp.100,000.

Lending guidelines are:

- (a) Collateral is required.
- (b) Individuals must form themselves into a group before applying for a loan.
- (c) Loan term for the individual member of a group is a maximum of six months.
- (d) Regular repayments and contributions towards compulsory savings is strictly enforced.
- (e) Women are recognised as borrowers in their own right

7.5.0 Lending Procedures:

BUKOPIN lending procedures are of great interest because they are designed to overcome the problems that have caused failure in other credit programs. These procedures will be detailed because of their value for possible application to other credit programs such as Kredit Usaha Tani.

- (a) The selected KUD must agree to and conform to the conditions laid down by BUKOPIN/PPKKP.
- (b) The KUD must establish a credit unit within the KUD.
- (c) The KUD must appoint a credit assistant who will carry out the credit activities of BUKOPIN/PPKKP.
- (d) The group holds a meeting at which a BUKOPIN/PPKKP staff member explains the purpose, rules and procedures of the savings and credit system.
- (e) The members of the group decide whether to accept the by-laws and regulations and to participate.
- (f) A contract is signed between the three parties. the group. KUD and BUKOPIN/PPKKP.
- (g) BUKOPIN/PPKKP introduces training courses for all participants.
- (h) Each member of the group must participate in compulsory savings, Simpanan Wajib. This must be a minimum of Rp.500 - 1,000 per month for as long as he remains a

member of the group. He must have saved for at least three months before he can apply for a loan.

(i) Members must attend weekly meetings at which they deposit savings and may apply for a loan. The board of the kelompok decide whether or not to support the application.

(j) Each loan contract has to be signed by the credit assistant on behalf of the KUD, by the member and acknowledged by the board of the Kelompok.

7.6.0 Supervision:

Weekly meetings are held within the group. BUKOPIN/PPKKP are in regular contact and meet with the boards of the KUD and kelompok every three months. Members of the kelompok may attend the meeting every 6 months. A training program is provided at the different levels including BUKOPIN/PPKKP staff, credit assistants and board members of both KUD and kelompok.

The key factor in supervision is that it is based primarily on internal control by the board and members of the kelompok. BUKOPIN build in a linkage of trained staff, and credit assistants in the KUD and the group.

7.7.0 Example of Lending through a KUD:

(a) From BUKOPIN to KUD

Rp.30 million per KUD (the amount is dependent on the number of kelompok and members.

Interest: 18%. per annum or 1.5% per month.

Note that where project funds are being used interest is 12% per annum. This does not apply to new areas now that BUKOPIN funds are being used.

Loan Period: 5 years (To KUD)

Grace Period: 1 year.

(b) From KUD to Farmers' Group.

Average number of farmers' groups: 10

loan per group: Rp.3.0 million.

loan per member: Rp.100,000

Interest paid by a member of the group: 4% per month.

this 4% interest is then divided as follows:

1.5% per month is paid through the KUD to BUKOPIN.

0.5% a management fee for the KUD.

2.0% is retained by the kelompok.

This 2% is used by the group for operating expenses and bad debts. The balance is then allocated as Simpanan Khusus to each members account.

(c) Repayments by the Group:

Year 1	0%	Rp. 0
.. 2	20%	600,000
.. 3	25%	750,000
.. 4	25%	750,000
.. 5	30%	<u>900,000</u>
		Rp.3,000,000

Plus interest.

(d) Repayments by the member: The loan to the group (5 year term) is used as a revolving fund within the kelompok. Thus the member borrows only for a short period, 3-6 months. Repayments can be arranged to suit farmers.

(e) Mobilisation of savings: An essential part of the program is to build up the capital of the group so that as repayments are made to BUKOPIN these are replaced by savings and the revolving fund is not reduced in size.

7.8.0 Comments:

The history of small lending in Indonesia and throughout the developing world has revealed definite criteria that are essential to the success of a credit system. The BUKOPIN attempts to provide these essentials.

- (a) All participants including the borrowers are trained in relevant aspects of the credit program. Training is a continuing process, started well before an individual may apply for a loan.
- (b) Emphasis is placed on prompt repayments and payment of simpanan wajib (voluntary savings). This emphasises an essential part of the credit cycle.
- (c) The source of the funds is emphasised. They are depositors' funds and not from a government source with low priority repayments. This is further emphasised as the savings within the group increases and starts to replace loan funds. It has been often demonstrated that a lending program incorporating savings is more likely to succeed.
- (d) It is important to have a continuous link between the borrower and the lender well before a loan is granted and regularly during the term of the loan, at least until the last repayment is received. This is one of the reasons why lenders prefer to lend to those who can repay at short intervals, weekly or monthly. This favours traders but not farmers.

In the past it was common for an institutional lender to have only limited contact with the borrower prior to granting a loan and then only attempting to make contact several months later when the account went into arrears. BUKOPIN provides continuity starting at least 3 months before a loan is granted. The contact is positive and helpful. Often the first regular contact between a bank and a small borrower is when the account goes into arrears.

The 3 month period enables evaluation of the applicant. Weekly meetings and saving deposits maintain continuity. There is also the regular activity of the credit assistants and the board members in both the group and the KUD.

(e) The BUKOPIN program, like the Kredit Usaha Tani program through BRI overcome the difficulties facing banks in providing and administering a very large number of small loans. The bank lends to a lesser number of borrowers, the KUD

At the end of 1988 BUKOPIN were lending to 35 KUD but were reaching 17,365 borrowers.

BUKOPIN----> 5 Branches----> 35 KUD----> 333 Kelompok---
----> 17,365 members.

With an average of only 7 KUD loans to each participating BUKOPIN branch there is considerable capacity for expansion. It would be very difficult for the 5 BUKOPIN branches to lend directly to the 17,365 persons and capacity would be quickly reached.

(f) One aspect is not clear. A basic rule of small rural lending is that the lender should have an office close to its borrowers. BUKOPIN branches are prepared to lend throughout their provincial area and even into neighbouring Provinces. In this early stage of the program BUKOPIN/PPKKP field staff will be able to supervise a limited number of KUD but problems may occur as the program expands.

7.9.0 Conclusions:

The writer has had several discussions with senior staff of BUKOPIN head office and with staff of 5 branches. The bank is very progressive and professional in development of a credit system for small borrowers. It can be expected to deal effectively with any problems that may arise.

The kelompok receiving loans from the BUKOPIN/PPKKP credit program are from all sectors including agriculture. The use of BUKOPIN credit in SFCDP type farms outside the project may be negotiated directly with BUKOPIN.

This type of credit is a good substitute for the revolving fund provided to existing dem-farms. The BUKOPIN program does provide a revolving fund to farmers' groups (KT), first as a loan to promote establishment of then progressing to using the KT's own savings.

Department of Agriculture/DGFC staff should open up a dialogue with BUKOPIN for the joint development of finance for small farmers' groups outside the dem-farm program.

Chapter 8

Badan Kredit Kecamatan, Sub-District Credit Units

BPD manage a system of small credit units at Sub-District level that serve the villages. BPD lending to small farmers is very limited. A description of these regional development banks will be given.

Known as BPD (Bank Pembangunan Daerah), the prime difference that distinguishes a BPD from other banks in Indonesia is that each BPD is a separate provincial institution without affiliation to any other BPD. It is thus not part of an extensive, nation-wide, branch system such as Bank Rakyat Indonesia (BRI) or Bank Bumi Daya (BBD). Each BPD has its own branches at district (kabupaten level) and operates only within its own province.

There are advantages in the provincial nature of the BPD but there are also disadvantages. It enables the Provincial Government to marshal and use its own development funds within the province.

Unlike the large national banks the BPD do not have access to a large supply of well trained professional staff. Usually many of their staff, particularly senior staff are drawn from the ranks of provincial public servants rather

than from professional bankers. This problem is minimal in the larger BPD to be found in the three major Provinces of Java but increases in the smaller BPD.

8.0.0 The Organisation of the Provincial Development Bank:

8.1.0 Capital. The major shareholder is the Provincial Government with other contributions coming from Kabupaten (district) Governments and Kotamadya (city) Governments (where the city or town is not part of a Kabupaten). Although each level of Provincial Government is expected to take out shares the amount involved varies widely.

8.2.0 Source of Funds, Each BPD relies heavily on two main sources of funds.

(a) Provincial Government to deposit local taxes and funds from Central Government. In the case of some BPD problems have occurred when the Provincial Government have favoured other Banks.

(b) Bank Indonesia to provide liquidity credit as part of an established credit line or as a loan to enable the Bank to maintain its liquidity.

The BPD also receive deposits from individual customers. Because Bank Indonesia is trying to make the Banks less

reliant on liquidity credit (from BI) this private source of funds is becoming more and more important.

8.3.0 A Profile of Small Credit Units (BKK)

There are small credit unit systems operating at sub-district level under the supervision of BPD. These exist in at least nine provinces. These small credit units are not part of the BPD but the BPD in these provinces supervise the units. The units have their own staff and must eventually become self supporting. Most of these credit systems have been supported and developed under the Provincial Area Development Program (PDP) of GOI/USAID. The system in West Sumatera has received assistance under the Financial Institutions Development Project (FID program), of GOI/USAID. At least two other provinces have developed the system without outside aid. These include Riau (6 units) and Bali (138 units).

The use of small credit units independent of the co-operative system is not new but they have emerged to greater prominence since the commencement of the mainly USAID financed Provincial Area Development Programme (PDP) in 1978. The units developed are not part of any Bank but they are supervised by their respective Provincial Development Bank.

8.3.1 The Evolution of Small Credit Units in PDP;

In examining ways of delivering credit to small farmers it is useful to consider the development of the BKK systems and the failure of early attempts to bring credit to the villages. What is interesting is that early failure did not result in abandonment but in development of a better system.

The level of success in each province is now linked directly to the ability of the BPD as supervisors, particularly their ability to overcome the negative attitudes resulting from previous credit failures.

A study of PDP credit also gives us an opportunity to examine the early evolution of small independent credit units. It is therefore proposed to go into some detail in describing the PDP approach to small credit

The objective of PDP was to develop projects to improve the income of the rural poor in 8 Provinces. These projects have been of relatively small scale and multisectoral in nature. An important part of PDP was to develop the capacity of local government agencies at provincial, kabupaten (district) and kecamatan (sub-district) level to carry out and continue this development. The emphasis in credit development was on the use of existing local financial channels and institutions.

These credit units as they are today have evolved over several years. It may be appreciated that the great lack of credit delivery systems at village level is not through lack of awareness of the need but from the many problems associated with making them work.

A feature of PDP as mentioned above was to use existing local channels and institutions. This, in effect, meant that the choice of channels was decided at provincial level. In relation to credit delivery this choice, initially was quite variable. It usually involved government departments, KUD and even private organisations. No proper credit training was given, emphasis was on getting the money out and not enough attention was given to repayments.

8.3.1 The Current Situation:

The 8 PDP Provinces are Central Java, West Java, East Java, South Kalimantan, Bengkulu, Aceh, West Nusa Tenggara, and East Nusa Tenggara. There is also a similar credit system in West Sumatera, developed under a separate USAID project, FID (Financial Institutions Development Project). FID is currently also giving further assistance to East Java as well as in West and Central Java.

It is common to refer to these credit units collectively as BKK (Badan Kredit Kecamatan) however in some provinces a different name is used. In some provinces credit units were developed under PDP from existing credit systems in others the system was completely new. The units came into existence following widely distributed losses due to un-coordinated and largely un-supervised distribution of loan funds through government agencies and KUD.

What was required was:

- (a) A quicker way of approving loan applications.
- (b) A system that reduced transaction costs to a minimum.
- (c) Greater emphasis on prospects of success and not on collateral.
- (d) A system that was not tied to program credit.
- (e) Full accounting, standard procedures, proper borrowers records.
- (f) Proper after care and collection of repayments.
- (g) One uniform provincial administrative system instead of a large number of projects.
- (f) Greater authority over unit staff by supervisors

From this was developed the system of Badan Kredit Kecamatan (BKK).

The basic purpose of these BKK was to provide a credit delivery system to borrowers at village level who lacked access to, or were unable to meet the requirements of the banking system. BAPPEDA, the provincial planning authority, was responsible for the implementation of the PDP projects including the credit system. With the establishment of the BKK the Provincial Development Bank (BPD) was given the responsibility for their supervision. BAPPEDA continued to be also involved in supervision at a level that varied from province to province. It was intended that BAPPEDA should phase out participation. At this time BPD should be fully responsible.

8.4.0 BKK Type Credit Units in SFCDP Provinces:

The following brief profiles will deal only with the credit units in the SFCDP Provinces.

- 8.4.1 East Java: Provincial Government decided to create a new delivery system from the start of PDP. It was based on existing institutions. The KURK system (Kredit Usana Rakyat Kecil or Small Entrepreneur Credit) and was established by PDP in 1979 at village level.

When it began the credit system was to be managed by BAPPEDA and the Co-operative Department. Despite this latter link the KURK unit remained a unit separate from

the KUD. This management arrangement was replaced by BPD. The new arrangement began in 1984 and was formalised by Governor's decree in August 1985.

In 1987 there were more than 1,600 credit units at village level. Because of organisational and supervisory problems it was decided to consolidate these units at kecamatan (sub-district level). Eventually it is intended to have a unit in each kecamatan. This program is well advanced. However there are still representatives at village level (Petugas Pos Pelayanan Desa) which are part of the kecamatan unit.

These small credit units at kecamatan level are normally staffed by three persons and supervised by BPD. Each of these units are assisted by several PPD, Pos Pelayanan Desa. Currently there are KURK units in 148 out of the 580 kecamatan in East Java. These are supported by 1,600 + PPD.

Most of their loans are to traders and are based on a system of regular repayments which does not suit the small farmer. The rules do include a system of seasonal repayment (musiman) but, in practise, it is not used. In theory it is possible to lend to farmers. Loans size can range from Rp.10,000 to Rp.500,000 maximum for up to 48 weeks.

Normally most loans are in the range Rp.50,000-Rp.200,000 for a maximum of 24 weeks.

Interest rates are approximately 3% per month and there are also compulsory savings, the amount depending on the amount borrowed and the term of the loan. The schedule of repayments, savings etc is in accordance with a pre-calculated schedule. Part of this schedule is re-produced in Appendix 12

8.4.2 NTB (West Nusa Tenggara) instituted its credit delivery system in late 1981, KPURP (Kredit Peningkatan Usaha Rakyat Pedesaan or Credit For The Improvement of Rural Entrepreneurs). Funds were channeled through the BPD to co-operatives. Lending was determined by village leaders and government officials. BPD and the co-operatives were simply a delivery system.

Failure resulted because the lending decisions were not made by the credit organisation but by government officials and village officials. BPD and the cooperatives were not involved in supervision.

A new system was started in NTB in December 1986 to overcome the problems of the early scheme. These new credit units are known as Lumbung Kredit Pedesaan (LKP). They are at kecamatan level but not always in the kecamatan headquarters. These units are all on the island of Lombok. There are currently 25 LKP, of which 10 have been started in this financial year,

1988/89. A further 5 are to be opened within the next few months. This will bring the total to 30. There are 31 kecamatan on Lombok island and 28 on Sumbawa island.

8.4.3 West Sumatra: Lumbung Pitih Nagari (LPN) are small savings and loans groups that have their origins in the period of Dutch government. They were generally inactive for some years following the war years but were revived by the Provincial Government in 1972.

These credit units are owned by their members based on the traditional village group (Negari). Local ownership of this type is an advantage but it can also be a weakness. Often the staff are chosen from the group and lack independence in their decisions and are not always suitable or adequately trained. It is also difficult for the group to accept advice and supervision from BPD. This illustrates that the best situation is where there is a combination of outside capital and group savings/capital.

Technical assistance is being provided under the USAID financed FID Project.

8.5.0 Organisation of PDP Credit Units:

BAPPEDA, the provincial planning authority had significant involvement in the initial setting up of the PDP credit

system but primary responsibility now rests with the BPD. The term BKK will be used as a generic title for these credit units but it should be remembered that some provinces use other titles. The description below is a typical situation but there are variations between provinces.

Normally the BKK is staffed by 3-4 young people, educated to senior high school level (SMA). They operate from an office, normally but not always, provided by the Camat (Sub-District Head) at the sub-district level and use a system of "Pos Desa" (Village Post). This means that staff from the kecamatan office visit a different village on each day of the week. They may operate at more than one village in a day and they may go back there weekly or two-weekly. The number of Pos Desa vary and cannot include all villages. The Pos Desa is usually central in order to serve several other villages. In East Java the pos desa actually has its own part time staff.

The staff of the BKK have normally been recruited by BAPPEDA. Now BPD are becoming more and more involved. Obviously effective supervision requires the right to recruit and dismiss staff by BPD.

In the organisation chart the BKK is directly responsible to the Camat (Sub-District Head) and through him eventually

to the Provincial Governor. Ideally the Camat does not interfere with the day to day operations of the BKK, nor does he dictate who should or should not receive loans. Nevertheless the Camat and village heads are asked to endorse their opinions on loan applications. They are also expected to help the BKK staff in dealing with arrears. The Camat receives a small monthly honorarium and a share in the productivity bonus.

8.5.1 Funding: The BKK normally receives initial loan capital of Rp.10,000,000 and is subsidised for major expenses, such as salaries, motor cycle etc. for a period of two years. At the end of this period the BKK is expected to be able to pay all expenses from earnings. It should also have been able to minimise arrears and increase its lending capital, perhaps to as high as Rp.25 million in this time.

8.6.0 Lending: Generally a loan is structured according to time period; for example there are:

(a) Mingguan (weekly repayments over a 6 week period.

(b) Dua mingguan (2 weekly repayments over a 12 weekly period),

(c) Bulanan (4 weekly repayments over a 24 week period)

(d) Musiman (Seasonal for farmers'), although the rules of

each BKK type credit system provide for seasonal repayments, this type of credit is not usually made available because of previous arrears problems.

(e) Harian. Some units also provide short term credit with daily repayments. For example KURK in East Java have harian lending which requires 22 daily repayments.

(f) Pasaran, This type of repayment matches the regular market days. In East Java repayments are divided into 12. The pasaran system of lending is not available not available in some provinces.

An example of the repayment system used in East Java is contained in Appendix 11.

Loans are given for a variety of sectoral activities. They obviously favour short term cropping, tradesmen, small traders, and domestic based activities. They should not be used for domestic consumption.

Loan amounts are usually graded, for example the first loan could be Rp.50,000, then Rp.100,000 and upto Rp.200.000 maximum. It is possible to go as high as Rp.500,000 but rarely is a maximum of Rp. 200,000 exceeded.

8.6.1 Interest Rates may be considered high in some quarters.

Usually 3% per month and usually a once only payment of 1%

administration costs. There is usually a system of compulsory savings involved. The month may actually be 4 weeks and the interest rate is flat not reducing. Interest is high compared to perhaps 12 % per annum from a bank. During the survey it was found that many borrowers preferred to pay 5-7% per month to a trader rather than 1% to a bank because of the ease of the transaction and the low transaction costs. Therefore 3% per month is not considered excessive by the borrowers, particularly if the lower interest available from a bank is, in fact, beyond his reach or costly in terms of transaction costs.

On an average sized loan of Rp.100,000, interest at 3% per month for 6 months plus a 1% administration charge would amount to a total of Rp.19,000. It should be remembered that the cost of administering a loan may be just as high for a loan of this size as for one many times this amount. It is not normal to charge penalty interest.

8.6.2 Advantages: Some of the advantages of this type of credit system are:

- (a) Low transaction costs as long distances are not involved.
- (b) No collateral requirements.
- (c) Ease of delivery, usually within one week.

- (d) Available to those that cannot meet minimum requirements of a Bank.
- (e) Availability of small loans below the minimum amount set by the Banks (Rp.500,000).

BKK emerged from earlier failures as detailed elsewhere. Where it succeeds is because it avoids repeating those mistakes. Success came in PDP when it was no longer obliged to technical departments who presented their lists of would be borrowers and fixed lending packages. Suitable staff were recruited and trained.

8.7.0 The Current Situation:

Not all BKK type credit units are successful and they still face problems but what has been illustrated is that they can succeed.

8.7.1 Lending to Farmers :

- (a) Most of these credit units lend only to farmers: if they can make regular repayments. Therefore a farmer must either be producing non-seasonal crops such as certain vegetable crops and tree crops or he must have off-farm income. In rural areas, many of those engaged in trade are also farmers. These are able to meet the repayments set down.

(b) Early mass lending under the BIMAS program provided seasonal lending to farmers. Widespread arrears resulted. Experience in the early PDP attempts at credit tended to support the opinion that seasonal lending was high risk.

(c) It is true that the risk of arrears is less if there is a continuous link between the lender and the borrower. This is usually provided by regular contact through regular repayments. It is risky to give a loan and then have no contact for 4-6 months until the loan falls due.

Elsewhere in this study it may be seen that BUKOPIN provides this regular contact in another way, by maintaining regular contact through group contact and a savings program.

(d) Another reason why seasonal lending is not popular with the lender is that seasonal demand and delayed repayments tie up loan capital.

8.8.0 General Conclusions:

(a) Farmers involved in existing Dem-Farms rely on their own revolving fund for credit requirements. There is a

need for credit for those farmers who are outside the project who have been encouraged to adopt the techniques developed within the project.

(b) In the provinces where these credit units exist, such as West Sumatera, East Java and NTB it may be possible to negotiate seasonal credit for individual borrowers. The strength of the SFCDP should enable Dinas Pertanian to assist in these negotiations.

(c) This type of lending is directed to individuals but there is no reason why such individuals should not be organised into groups to adopt SFCDP group methods, to receive training in credit usage, to provide their own credit supervision and build up group savings. A system of regular contact between lender and borrower can be built into the group as it is in the BUKOPIN system.

(d) The problem of tying up unit capital of by heavy seasonal demand and delayed repayments could be overcome by the BKK negotiating a seasonal loan from BPD for on-lending to selected farmers.

(e) Skill will be required in negotiating with BPD and the credit units. It will be necessary to first demonstrate the success of the SFCDP and gain the confidence of

the lenders before presenting specific requests for finance. The KURK credit system in East Java is the most suitable starting point for negotiations. It is the strongest of the three credit systems discussed.

- (f) Potentially the BPD in each province can be developed into a powerful tool to bring credit to small borrowers in all sectors including small farmers who are the primary subject of this study.

Chapter 9

Credit Strategy for SFCDP Expansion

The basic strategy of the Secondary Food Crops Development Project has been to target project inputs to selected Kelompok Tani (farmers' group). There is no reason why an individual or a KT, not included in the project, could not adopt project methods using funds from outside the Project.

9.1.0 Conclusions:

Findings and discussions on various aspects of credit, considered during this study, are to be found in the relevant chapter. From these are drawn the following conclusions:

9.1.1 Distribution of Credit through Farmers' Groups:

Government sponsored programs using Kredit Usana Tani, like SFCDP, have also targeted the KT but through the village cooperatives, KUD. The overwhelming advantage of the KT and the KUD is the ability to provide a channel for credit and services to a large number of people.

The KT/KUD system appears to work much better in Java than in the outer islands. In the Project Provinces outside East Java the KUD/KT system still

works but to a lesser degree. Clearly then SFCDP may still use the kt as its target in all provinces if it uses a system of careful pre-evaluation, selection and group development. It would also be necessary to use the KUD because it is a part of the Kredit Usaha Tani (KUT) delivery system. This would allow expansion of project type development within existing systems.

9.1.2 Distribution of Credit to Individuals: The cost and difficulties of providing credit and other services directly to individuals is very high and consequently a greatly reduced number of farmers can be serviced. In this regard therefore we may divide farmers into two broad groups: Those who work well as members of a KT and KUD and those who do not. For those in this second group it is very difficult to obtain credit. Many of those in this group would be responsive to initiatives to build up involvement in farmers' groups. Such initiatives would need some careful planning. Farmers have been at the receiving end of many programs seeking to influence their thinking so if this one is to work it has to be good.

Targeting individuals would be much less cost effective. This does not mean that they should be

ignored. Before they can be helped, however, a lengthy period of strategy development, negotiation with credit suppliers and implementation is needed.

9.1.3 Self-Help: It is possible to develop some farmers on a self-help basis without credit. The reality of the situation is that most farmers in project areas, but not yet involved in the project, do not use credit. Many of these are, however, using fertiliser, insecticides and other inputs. In various ways they are, often with difficulty, assembling their own finance.

Most development programs have incorporated credit or a grant of some kind. This may be based on two questionable assumptions:

- (a) The farmer must have credit to participate in a program because he can't purchase inputs without it. This is not always correct.
- (b) The provision of credit would speed up the decision by the farmer to participate and make a commitment to follow the recommended farming system. In this way the agency sponsoring the development can commence its program on schedule.

The main difficulty in promoting the self-help method is that it is more time consuming. A quick decision may be expected from an offer of credit or a grant. On the other hand promoting a particular farming program based on self-help, using the farmers own resources, is a prolonged process that normally needs a lot of personal contact. There is a need here for a carefully planned communication strategy. This could proceed in parallel with expansion using KUT.

9.1.4 Various Credit Sources:

Certain credit delivery systems are not easily available to small farmers. These systems include BRI KUPEDES credit program and the small BKK type credit units under the supervision of the Provincial Development Bank, Bank Pembangunan Daerah. It may be possible over an extended period of time to negotiate a way to provide credit to small farmers from these credit sources.

9.1.5 Kredit Usaha Tani is the most readily available source of credit for palawija development but to make effective use of this advanced planning is required. KUT already provides finance for palawija. It should not be difficult to negotiate a KUT credit

line for SFCDP type farming methods. The main elements of the farming system developed in SFCDP could become part of the existing BIMAS Palawija program using KUT. This is an important consideration if SFCDP is to have any continuity after USAID assistance ceases.

9.1.6 BRI Involvement in Kredit Usaha Tani The nature of KUT lending allows BRI Branches to be remote from the small farmer. KUT loan funds do not include any of BRI funds. The choice of borrowers and arrears chasing is largely left to the KUD and government departments. The BRI Unit Desa are not involved in the distribution of KUT. All KUT loan funds are provided by BI to BRI at 3% per annum. No BRI funds are involved. It had been thought that such attractive terms to a bank would be sufficient incentive for close management of the loan program including borrower supervision. Because BRI own funds are not part of the loans, they do not feel a strong responsibility to provide active field supervision. The use of BRI funds in KUT would be one way of stimulating greater participation.

9.1.7 BUKOPIN Village Credit may also be used for palawija development. This program has special features aimed at the development of farmers' groups that could provide a model for use with other forms of credit.

9.1.8 BRI Unit Desa: In making credit available to small farmers as many sources of credit as possible should be opened. This should be done by making lending to farmers attractive and profitable to the lender. It is unacceptable that BRI, the bank that has the major responsibility for providing credit to small farmers, should avoid direct lending to a large group of small farmers. The group referred to are those farmers requiring seasonal credit of less than Rp.100,000 and who are outside the KUT program.

BRI Unit Desa are well situated to lend to farmers if they become more mobile with a "Post Desa" system and active field staff. There must be adequate profit incentive for BRI. Farmers have shown themselves willing to pay high interest to traders but only if they are not involved in difficult administration procedures. BRI would have to streamline their procedures, look for loan guarantees other than land titles and rely more on

closer personal contact with borrowers.

To work the credit system would have to be attractive to both BRI (profits and minimal arrears) and the farmer (quick and simple). Convincing BRI will be very difficult and can only be done over a period of time by regular contact with BRI staff at all level in order to explain and demonstrate project successes.

9.1.9 Reducing Dependence on Credit:

This may be done by the promotion of the concept of farmers accumulating their own basic capital as an alternative to seeking credit to purchase farm inputs. There are two possibilities here.

The farmer does not use credit at all but purchases his basic inputs using part of his income from the previous harvest, off farm employment, sale of chickens, fruit, vegetables etc etc. Many farmers are already doing this. Some are also organising themselves into groups and accumulating capital through voluntary savings.

The second alternative is to use credit. At the same time, whatever the source of initial funds (own capital or credit), he participates in a

savings program that mobilises compulsory and voluntary savings. Thus building up a capital base within the KT. A study of BUKOPIN methods used in their Kredit Pedesaan program would be helpful.

9.2.0 Recommendations for the Expansion of SFCDP

The following is recommended:

9.2.1 A Policy of Expansion: That the Director General of Food Crops make a policy decision as to the future of SFCDP type palawija development. A clear policy decision is required as to whether to merge SFCDP methods with existing BIMAS/KUT Palawija programs or to incorporate them in a separate but parallel palawija program.

9.2.2 The Preparation of a Phased Plan to extend SFCDP farming methods outside existing and planned dem-farms. If possible this should be coordinated with on-going BIMAS palawija planting programs.

9.2.3 The Targeting of Farmers' Groups: Initially a clear commitment is required so that the kelompok tani can continue to be targeted for extension inputs and promoted.

9.2.4 The Use of Kredit Usaha Tani: The primary source of credit that is readily available is Kredit Usaha Tani. Negotiations with BIMAS and the necessary planning for preparation of credit resources should take place at least 3 months before proposed implementation of an expanded SFCDP type palawija program.

9.2.5 The Use of BUKOPIN Village Credit: The secondary source of credit should be the BUKOPIN Kredit Pedesaan program. A dialogue should be entered into between Ditjen Tanaman Pangan and BUKOPIN staff to explore the use of this source of credit in SFCDP type development.

9.2.6 An Expanded Program of Communication: A program of communication and training building on current CTIA experience should be developed and implemented. This should be multi-pronged and directed at the following main areas:

(a) The Promotion of Farmers' Groups: The continued promotion and development of the group as the basic unit of development and self help, to help the members to become cohesive, homogeneous and self regulating groups. Promotion of farmers groups should be directed at both the farmer and

his wife. The women in the community can exert a strong influence on their families.

(b) The Greater Mobilisation of Savings: The promotion of the concept of farmers groups accumulating their own basic capital as an alternative to seeking credit to purchase farm inputs.

(c) Promoting a Greater Understanding of Credit: The promotion of wider knowledge and understanding of how credit works, how it can be used more effectively and the need to maintain a viable credit program by promote repayments. The target recipients for such a program are the members of the KT, members and staff of the KUD, field staff of the Departments of Agriculture and Cooperatives.

(d) The Promotion of SFCDP Activities: to BRI and the Provincial Developments Banks (BPD) and other credit institutions as a means of bringing about a better understanding of how properly managed agricultural development programs can present credit-worthy opportunities to these institutions. The concept of "Supervised

Credit" should be presented and developed by the institutions to be involved. This means that if the Department of Agriculture are able to demonstrate to credit organisations that they are successfully supervising SFCDP type development with effective extension work then the task of negotiating the opening of credit lines is less difficult.

9.3.0 General Recommendations:

9.3.1 Improving the Image of the Small Farmer: The image of the small farmer, either individually or in groups, as a credit risk is not good and it must be improved.

9.3.2 Reducing the Gap Between Farmers and Banks: In the future it would be beneficial if BRI and BPD employed field staff who were experienced agricultural field workers in order to develop a closer working relationship with small farmers. This is not likely to happen unless these banks were prepared to make a commitment to expand lending to small farmers and this will not happen in the near future. It is up to the Department of Agriculture to provide leadership in this sphere and cooperate with BRI and BPD to such ends.

9.3.3 Further Improving the Capabilities of Field Staff:

There is an apparent need for field staff of Department of Agriculture to receive increased guidance and training in their role as extension officers. They should not regard themselves only as technical staff. They should see themselves as being concerned with all the components that contribute to the development of the farmer and his family. In the context of this study this includes the promotion of the KT and the KUD. It includes the development of positive attitudes towards credit. It includes being involved in a line or communication that channels a variety of information to and from the farmer. Obviously all these activities have their own sponsoring agencies and the extension officer should not interfere with them. However, in his regular contact with the farmers the extension officer can, in his own way, promote those activities that contribute to attaining his own aims of developing the farmer's business capabilities.

9.3.4 Open up Credit From Small Credit Units:

Credit is being distributed at village level by BRI Unit Desa and by small credit units in a number of provinces under the supervision of BPD. In all these credit units the list of priorities is headed by agriculture although in actual fact their

lending to small farmers who require credit of less than Rp.100,000 is very small.

There is a need for DGFC to open up negotiations with these lending institutions to promote palawija and to eventually assist in the negotiation of the opening of credit facilities to individual small farmers involved in SFCDP type activities. Adequate background training in credit development is essential.

9.3.5 The Development of Savings and Loan activities

within the KUD, initially supplemented by the cooperatives own funds and, if required, by loan funds such as Kredit Koperasi. It has been found that a credit system that incorporates members savings has a greater chance of success due to a greater awareness as to the source of the funds and a greater sense of responsibility of those involved in the program.

9.3.6 Encourage Non Agriculture Credit: Farmers who have regular alternative or off-farm sources of income, for example as traders, can be encouraged to use a variety of credit sources that are directed towards non-farm commercial activities. These include Kredit Candak kulak from certain cooperatives, KUPEDES credit from BRI Unit Desa, Bank Pasar, BKK type credit units etc. They could borrow directly

for agriculture from the BKK type units or KUPEDES, if they can meet the requirements which include regular (not seasonal) repayments . Or alternatively they could borrow for trade activities thus releasing some of their own capital for agriculture.

9.3.7 The Development of Private Sector Small Credit

Units. Alternative sources of credit could be developed. Government regulations permit this.

It could be profitable for someone in the private sector to operate a small credit unit. It must be accepted that small farmers are willing to pay monthly interest rates of up to 10% per month providing procedures for arranging credit are simple. A small privately operated credit unit could operate profitably with monthly interest rates at 5-7% per month.

9.3.8 The Greater Use of The Regional Development Banks:

It is suggested that, in the longer term, The BPD could take on much greater responsibility for channeling credit to small farmers. A BKK-type credit system could be developed using commercial funds and charging commercial rates of interests of, perhaps, 4-5% using existing BPD infrastructure.

9.3.9 A Review of the Role of Bank Rakyat Indonesia by GOI. There must be complete acceptance of the fact that BRI must operate profitably. At the same time it should not forget its role as a government bank charged with providing credit facilities to the rural sector. This must include profitable lending to creditworthy small farmers.

Government influence should be brought to bear on BRI to ensure that they provide profitable credit services to all creditworthy farmers including those outside formal program credit.

It is recommended that the composition of KUT lending funds be reduced initially to 70% from BI and 30% from BRI. Interest rates for KUT should be increased in order to provide adequate incentive to BRI and the KUD to improve their field administration of the loan program.

9.3.10 Increase Interest Rates It has been found that, in both Indonesia and world wide, low interest rates do not help to bring credit to small farmers. The reverse happens. Suppliers of credit have no incentive to lend if interest rates are too low. It is recommended that Government policy be directed to

increasing interest rates for rural loans in order to stimulate the supply of credit.

Interest rates could be increased to at least 3% per month for lending to small farmers. If KUD are involved then part of this 3% could be used to provide incentive to the KUD.

If this higher interest rate is considered undesirable then an up-front loan administration charge could be substituted together with a suggested interest rate of 1.5% per month. The loan administration charge could be in the region of Rp.10.000 per loan irrespective of loan size up to Rp.200.000. These are only suggested amounts. The banks would have to calculate and decide upon the amount or its own charges that would make lending to these small farmers attractive (profitable).

9.3.11 Collateral Bank Indonesia should give clear directions to banks and credit institutions on the subject of collateral. Collateral should not be required for loans upto Rp.200,000. Alternatives to collateral could be group guarantees from the KI or from an individual of standing in the community. A result of the development of the KI and its members should be a greater degree of trust between the lender and the farmer.

could be group guarantees from the KT or from an individual of standing in the community. A result of the development of the KT and its members should be a greater degree of trust between the lender and the farmer.

CTTA PROJECT SCOPE OF WORK

CTTA/Indonesia, 18 March - 3 June 1989
Peter Croke, Credit Availability

Objective

To ascertain the availability, terms and conditions of credit from all sources available for agricultural purposes in dem-farm areas in the provinces of Lampung, Jawa Timur, Sulawesi Selatan, Sumatra Barat, N.T.B. and N.T.T.

To recommend what measures need to be taken to meet agricultural credit needs in these rural areas to ensure adequate support for future palawija expansion and more sustainable food-crop systems. Preference would be given to enhancing any existing rural credit vehicle to improve financial management and to mobilize savings where this is deemed practical.

Scope & Approach

There are numerous sources of credit theoretically regarded as available throughout Indonesia, much of which is available only at the provincial or district level. Sources of rural credit are generally geared to the requirements of small traders and often not readily available for agricultural purposes. In order to ensure that suitable sources of credit are available to farmers in areas selected for palawija expansion, it behooves the project to physically check the current situation in each locality, noting what sources, procedures, conditions and opportunity costs actually exist.

Provision of the services of a specialist rural/agricultural credit surveyor would be extremely helpful in assessing the availability of credit for agricultural purposes, and for dem-farm expansion in particular. Availability of reliable sources of credit from established sources based on dependable farm budget forecasts would alleviate the need for the future provision of capital for revolving funds.

The consultant will travel to Jakarta, Indonesia for a maximum of 60 working days between approximately 18 March and 3 June 1989 to provide the Communication for Technology Transfer in Agriculture (CTTA) Project and the Secondary Food Crop Program the following services:

1. Initial briefing and enquiry would take place in Jakarta with contact with Dept. Keuangan, B.R.I., Dept. of Home Affairs (BANGDA) and Donor agencies involved in Credit Department in the areas under consideration (i.e., USAID, GTZ, CIDA). Similar contacts would also be necessary at provincial level for Bank Pembangunan Daerah, BAPPEDA Tk.I. and provincial credit consultants (i.e., F.I.D. in Jawa Timur).
2. Peter Croke would operate primarily at the kabupaten and kecamatan level in the six SFCDP/CTTA provinces, identifying all existing sources of credit actually available for agricultural purposes, i.e. regular banking sources such as B.R.I., B.P.D., project related sources such as K.U.R.K. in Jawa Timur, B.K.K. in N.T.B. and Lumbung Negari in Sumatera Barat and noting in full what terms and conditions are for potential borrowers.
3. Peter Croke will prepare a final written report and present his findings in a one day workshop/seminar prior to the end of his consultancy in Jakarta.

**NUMBER OF BANKS AND THEIR OFFICES
IN INDONESIA**

Particulars	Mar 31, 1987	1987/88		Mar 31, 1988
	Number of banks/ offices	Estab- lished	Licenses revoked	Number of banks/ offices
Commercial banks				
State commercial banks				
- Number of banks	5	—	—	5
- Number of offices	780	18	—	798
Private national commercial banks				
- Number of banks	65	—	1	64
- Number of offices	464	48	—	512
Foreign banks/joint ventures				
- Number of banks	11	—	—	11
- Number of offices	21	—	—	21
Development banks				
State development banks				
- Number of banks	1	—	—	1
- Number of offices	22	—	—	22
Regional development banks				
- Number of banks	27	—	—	27
- Number of offices	228	10	—	238
Private development banks				
- Number of banks	1	—	—	1
- Number of offices	3	3	—	6
Savings banks				
State savings banks				
- Number of banks	1	—	—	1
- Number of offices	15	—	—	15
Private savings banks				
- Number of banks	2	—	—	2
- Number of offices	28	—	—	28
Number of commercial banks, development banks, and savings banks				
- Number of banks	113	—	1	112
- Number of offices	1,561	79	—	1,640
Rural credit banks ¹⁾				
- Village banks	3,550	—	8	3,542
- Paddy banks	2,063	—	—	2,063
- Petty traders' banks	175	2 ²⁾	—	177
- Employees' banks	1	—	—	1
Total number of banks	5,902	2 ²⁾	9	5,895
Total number of offices ³⁾	7,350	81	8	7,423

1) The number of banks is equivalent to the number of bank offices.

2) The permit to continue the activities obtained from Ministry of Finance by two petty traders' banks.

3) The number of offices comprises head, branch, and sub-branch offices.

Sumber: Laporan Bank Indonesia

Appendix 3

VARIOUS CREDITS TO THE ECONOMICALLY-WEAK GROUP
(billions of rupiah and thousands of customers)

Items	March 31					Jun.	Sep.	Dec.	Mar.
	1983	1984	1985	1986	1987	30, 1987	30, 1987	31, 1987	31, 1988
1. Small-scale Investment Credit (KIK)									
- Number of application approved (customers)	220	241	256	272	290	290	291	295	304
- Value of application approved	737	847	946	1,054	1,176	1,207	1,233	1,269	1,301
- Outstanding credits	414	387	356	326	311	301	292	297	311
2. Permanent Working Capital Credits (KMKP)									
- Number of application approved (customers)	1,526	1,685	1,871	2,053	2,216	2,226	2,248	2,278	2,315
- Value of application approved	1,629	2,007	2,448	2,869	3,438 ^f	3,562	3,758	3,781	3,895
- Outstanding credits	815	867	931	889	879	900	909	903	943
3. KIK/KMKP (1 + 2)									
- Number of application approved (customers)	1,746	1,926	2,127	2,325	2,506	2,516	2,539	2,573	2,619
- Value of application approved	2,366	2,854	3,394	3,923	4,614 ^f	4,769	4,991	5,050	5,196
- Outstanding credits	1,229	1,254	1,287	1,215	1,190	1,201	1,201	1,200	1,254
4. Kupedes ¹⁾	104	99	166	273	383	410	421	429	462
- Investment	11	10	12	12	15	16	16	16	16
- Working capital	93	89	154	261	368 ^f	394	405	413	446
5. Working Capital Credits under Keppres No. 29/1984	--	--	36	67	46	27	54	69	54
6. Credits with maximum of Rp75 million	--	9	79	185	324	364	406	462	525
- Investment	--	9	40	78	143	158	170	186	208
- Working capital	--	--	39	107	181	206	236	276	317
7. Credits for Teachers (KPG)	56	51	58	112	283 ^f	308	306	304	306
8. Credits for Indonesian Students (KMI)	4	13	26	35	45	48	49	51	52
9. Credits for Cooperatives	241	278	271	300	275	332	314	284	340
- Investment	52	74	78	76	71	74	74	74	74
- Working capital	189	204	193	224	204	258	240	210	266
10. Credits for farm's enterprises (KUTI) ²⁾	184	176	161	145	137	136	136	135	134
11. Impres Pasar	79	97	82	94	96	90	88	91	92
12. Pension Credits	27	26	28	35	45	48	49	48	50
13. Viability Credit up to Rp75 million	99	64	67	89	100	100	100	100	100
14. Keppres No.14A/1980 credits	107	65	70	69	63	63	63	63	63
15. House Ownership Credits (KPR)									
State Savings Bank (BTN)									
- Customers	148	196	241	333	363	376	398	409	425
- Outstanding credits	400	578	803	1,106	1,391	1,428	1,483	1,557	1,613
16. Credits for Student Dormitories	--	--	0.5	4.8	6.1	4.5	4.5	4.5	4.6
17. Perusahaan Inti Rakyat (PIR) Plasma	47	64	99	132	210	272	263	304	339
18. Rejuvenation, rehabilitation, and extension of export plantation (PRPTE)	106	129	139	148	158	190	190	246	326
19. House Ownership Credits (KPR) PT Papan Sejahtera ³⁾									
- Customers	0.68	1.46	2.33	2.84	4.67	5.71	7.17	7.94	9.05
- Outstanding credits	7	19	33	41	68	82	96	115	132
20. Candak Kulak Credits (KCK) ³⁾									
- Customers	11,901	12,956	14,045	15,271	16,171 ^f	16,279	16,341	16,413	16,503
- Outstanding credits	8	10	12	12	14	14	14	14	14
Total	2,698	2,932	3,418	4,153	4,834^f	5,118	5,238	5,477	5,861

1) Prior to January 1984 was known as Mini and Midi credits.

2) Prior to 1985 was known as Rimas.

3) Extended by non-bank institutions.

Sumber: Laporan Bank Indonesia

**INTEREST RATE AND SELF-FINANCING REQUIREMENT OF
BANK INDONESIA'S REFINANCING FACILITY**
(percentage)

Items	Interest charged by handling banks to customers p.a.	Minimum ratio of customer's self financing requirement in total cost of project	Ratio and interest rate of BI's refinancing facility	
			Ratio	Interest p.a.
I. Working capital credits				
1. Bimas credits	12	—	100	3
2. Permanent Working Capital Credits (KMKP)	12	—	55	3
3. Credits to Bimas for production, imports and distribution of fertilizer and insecticide	12	25	75	3
4. Credits to Private National Plantation (PSN)	12	30	75	3
5. Credits to cooperatives (for members and for the purchase of essential commodities)	12	—	90	3
6. Export credits	freely determined by respective handling bank ¹¹	15 ²¹	70 ³¹	3
7. Credits to national contractors	9	50-70	70 ³¹	3
8. Credits to villages (Kupedes)	18	—	100	12 ⁴¹
9. Working Capital Credit through Rp75 million	15	10	70	3
10. Keppres 29/1984	15	10	70	3
11. Credits to farmers through KUDs for the intensification of paddy/ secondary crops	12	—	100	3
II. Investment credits				
1. Small investment Credits (KIK)	12	—	55	3
2. Plantation credits :				
a. Nucleus Smallholder Estates (PIR)	12	—	80	3
b. PIR Trans ⁵¹	16	35	55	6.5
c. Rejuvenation, Rehabilitation, and Expansion of Export Plants (TRPTE)	12	—	80	3
d. Private National Plantation (PSN)	12	10 ⁶¹	85	3
3. New rice fields ⁷¹	12	—	100	3
4. Investment credits through Rp75 million	12	10	80	3
5. Credits to cooperatives (for members and for the purchase of essential commodities)	12	—	90	3
6. Credits to villages (Kupedes)	12	—	100	3
7. Mini credits	12	—	100	3
8. Midi credits	12	—	100	3
III. Others				
1. House Ownership Credits (KPR)	5-9	10-20	90	3
2. Credits for Indonesian Students (KMI)	6	—	100	3
3. Credits for Student Dormitories	5	—	80	3

- 11) An interest of 9% and 11.5% p.a. would be applied each on credits to finance primary and non-primary commodities of which exports have been realized.
21) Prior to October 1986, 30% for PKM companies.
31) 95% for state development bank (Bapindo).
41) Before October 1987, an interest rate of 3% p.a. has been applied, excluding reserve for risk.
51) Applicable to nucleus estates. For credits extended to plasma estates transferred to farmers, the rate will be adjusted as that charged to economically-weak group.
61) For new project and extension of existing plantation areas reaching minimum economies of scale, self financing is set at 30%.
71) Prior extension credit to farmer, this credit scheme provided by Bank Indonesia as direct credit to the Ministry of Agriculture.

CHARACTERISTICS OF CREDIT SCHEMES IN INDONESIA

Name of Schemes (1)	Date of Commencement (2)	The use of Credit (3)	Economic Sector (4)	Handling Bank (IB) (5)	Maximum Loan (Rp) (6)	Maximum Maturity (7)	Source of Fund (8)	Lending Rate p.a (9)	Interest Rate on BI Fund p.a (10)	Collateral Requirement (11)	Insurance Premium (12)	Risk Sharing (13)	Note (14)
1. Credits to rural vendors (Kredit Cerdak Kulak/KCK)	April 1976	Working capital	Trade in rural area	-	50.00 thousands	3 months	Gov't budget 100%	12%	-	-	-	Gov't:100%	Extended by KLD
2. General rural credit (KUEDES)	Feb. 1984	Working capital/investment	All sectors in rural area	ERI	5.00 millions	WC :2 yrs Inv:3 yrs	BI ERI WB	Flat rate WC :18% Inv:12%	12%	The project	-	Gov't:100%	BI's fund are available temporarily
3. Small Investment Credit & Permanent Working Capital Credit (KIK/PKCP)	Jan. 1974	Working capital/investment	All economic sectors	All National Bank	30.00 millions (flexible)	WC :5 yrs Inv:8 yrs	BI : 55% IB : 20% WB : 25%	15%	5.2%	The project	BI : 4.5% IB : 1.5%	Askrindo :70% IB :30%	-
4. Credit with maximum of Rp 75 millions - Working Capital (KCK) - Investment (KI)	May 1984 June 1983	Working capital/investment	All economic sectors	All National Bank	150.00 millions (flexible)	WC : 1 yr Inv:10 yrs	BI : 30% IB : 70%	15%	3%	The project	for 6 mths BI :0.75% IB :0.75%	-	Customer's own financing min. 10%
5. Working Capital Credit under Presidential Decree (KEPRES 29/1984)	May 1984	working capital	All economic sectors, mostly construction	All National Bank	200.00 millions	1 yr	BI : 30% IB : 70%	15%	3%	The project	for 1 yr credit BI :1% IB :1%	-	-
6. Cooperative Credits : a. For the members and for supply of high priority goods Kredit Koperasi (KT)	June 1983	Working capital/investment	All economic sectors, mostly agriculture	All National Bank	15.00 millions	WC : 1 yr Inv:10 yrs	BI : 90% IB : 10%	12%	3%	The project	-	Perum PPK :75%	-

Source: Bank Indonesia

Name of Schemes (1)	Date of Commencement (2)	The use of Credit (3)	Economic Sector (4)	Handling Bank (HB) (5)	Maximum Loan (Rp) (6)	Maximum Maturity (7)	Source of Fund (8)	Lending Rate p.a. (9)	Interest Rate on BI Fund p.a. (10)	Collateral Requirement (11)	Insurance Premium (12)	Risk Sharing (13)	Note (14)
b. For the farmers under intensification program of paddy and crops Kredit Usaha Tani (KUT)	April 1985	Working capital	Agriculture	ERI, BELL	121.00 thousands per hectare	HB to KLD: 1 yr KLD to merchant: 7 mths	BI : 100%	12%	3%	Land	-	-	-
7. Paddy field formation	Sept 1979	Investment	Agriculture	ERI	-	10 yrs	BI : 100%	12%	3%	Gov't	-	-	-
8. Credit for plantation : a. Estate smallholder	Aug 1978	Investment	Agriculture	ERI, BBD, BELL	-	20 yrs	BI : 80% HB : 20%	12%	3%	Gov't	-	-	-
b. Replanting/rehabilitation & development of export commodity plants	Aug 1979	Investment	Agriculture	All National Bank	-	20 yrs	BI : 80% HB : 20%	12%	3%	Gov't	-	-	-
c. Private national plantation (PSN)	June 1978	Investment	Agriculture	All National Bank	-	10 yrs	BI : 85% HB : 15%	12%	3%	The project	-	-	Customer's own financing min. 10 - 20%
9. Export Credit	Jan 1982	Working capital	-	All National Bank	-	1 yr	BI : 70% HB : 30%	14% for primary commodity 14.5% for non primary commodity	3%	Exported goods	For 6 mths credit : BI : 0.25% HB : 0.25% Add. premi 0.25% for every 3 mths cred	PT.ASEI : 85% BI : 7.5% HB : 7.5%	-
10. Credit for house ownership (KPR) a. Public housing	Nov 1978	Investment	-	SUN	3.50 millions	20 yrs	Gov't budget	5%	3%	The project	-	-	Customer's own financing min. 10 - 20%

Source: Bank Indonesia¹¹, May 1989

Name of Schemes (1)	Date of Commencement (2)	The use of Credit (3)	Economic Sector (4)	Handling Bank (5)	Maximum Loan (Rp) (6)	Maximum Maturity (7)	Source of Fund (8)	Lending Rate p.a (9)	Interest Rate on BI Fund p.a (10)	Collateral Requirement (11)	Insurance Premium (12)	Risk Sharing (13)	Note (14)
b.Non public housing	Nov 1978	Investment	-	BN	7.00 millions	20 yrs	BI : 90% HB : 10%	9%	3%	The project	-	-	Customer's own financing min. 10 - 20%
11.Student loan : a.For Indonesian Student (KII)	May 1982	Investment	-	BI '46	750.00 thousands	5 - 7 yrs	BI : 100%	6%	3%	certificate/ diploma	BI : 4.5% BNI : 1.5%	PT.Askrinco : 75% BI : 18.75% HB : 6.25%	-
b.For student dormitorium (5 univercities)	June 1983	Investment	-	BN	5.50 billions	20 yrs	BI : 80% BIN : 20%	5%	3%	The project	-	Perum PKK : 70% BI : 15% IB : 15%	-

Jakarta, May 22, 1989
Cooperative and Small Scale Credit Department
Bank Indonesia, Jakarta.

BANK RAKYAT INDONESIA

Bulan February 1989

Data Perkembangan KUPEDES Per Sector
(Seluruh Indonesia)

(dalam ribuan rupiah)

S E K T O R	O U T S T A N D I N G			T U N G G A K A N		
	JUMLAH		Per Orang	JUMLAH		
	ORANG	Rp.		ORANG	Rp.	%
Pertanian	383.353	156.271.589	408	49.054	9.296.782	5.9 %
Industri	25.679	11.021.237	429	5.637	1.106.906	10.0 %
Perdagangan	884.372	379.579.476	429	161.565	32.452.734	8.5 %
Lain-lain	43.284	13.150.451	304	6.861	878.452	6.7 %
Peng. Tetap	66.680	15.202.085	228	7.878	755.222	5.0 %
Total	1.403.369	575.224.838	410	230.995	44.490.096	7.7 %

Sumber BRI Jakarta May 1989

BANK RAKYAT INDONESIA
MELAYANI KUPEDES
(Kredit Umum Pedesaan)

Ketentuan.

1. Pengertian: adalah jenis Kredit yang hanya dilayani oleh BRI UDES baik untuk pengusaha yang ada di pedesaan ataupun perkotaan dan dipandang dari segi ekonomi layak untuk dikembangkan.
2. Penggunaannya: dapat dipergunakan untuk keperluan Investasi (pengadaan barang modal) ataupun untuk keperluan modal kerja (exploitasi).
3. Penerima: dapat diberikan kepada semua pengusaha baik pribumi maupun non pribumi.
4. Suku Bunga: untuk Investasi 12% / thn dan untuk exploitasi/modal kerja 18% / thn di hitung secara flat rate.
5. Jangka waktu kredit: Untuk investasi maksimum 3 tahun dan untuk modal kerja maksimum 2 tahun.
6. Besarnya Kredit: untuk Nasabah baru maksimum Rp. 3 Juta dan untuk Nasabah lama maksimum Rp. 5 Juta.
7. Jaminan Kredit KUPEDES :- Jaminan benda tidak bergerak (tetap) seperti tanah, Bangunan.
- Jaminan benda bergerak seperti mobil, sepeda motor, alat-alat rumah tangga surat berharga, seperti Tabanas dan Deposito.
8. Sektor yang bisa dilayani baik untuk kebutuhan investasi ataupun modal kerja adalah Pertanian, Perdagangan, Perindustrian, Jasa Dunia Usaha dan berpenghasilan tetap.
9. Lain-lain persyaratan bisa dihubungi semua BRI Unit/Unit Kota di wilayah Lampung Tengah.

Nama Program : Kredit Usaha Tani
Tahun Program : MT. 1988/1989

DATA PERRENGANGAN KREDIT USAHA TANI
INTENSIFIKASI PADI DAN PALAWIJA
POSISI AKHIR M A R S 1989

(DALAM RIBUAN RUPIAH)

NO.	KANWIL/KANCAKO Bank Rakyat Indonesia	MAKSIMUM CO YANG DIBUEA			M U T A S I		SISA KREDIT		TUNGGAKAN XX	
		DEBITUR	Ha	Ep.	DEBIT	KREDIT	DEBITUR	Rp.	DEBITUR	Rp.
1.	PADANG - P a d i +)	46	12.681	2.304.315	1.103.950	0	46	1.103.950	0	0
	- P a d i	40	3.631	444.767	259.748	8.733	40	251.015	0	0
	- Palawija	2	75	12.000	5.426	0	2	5.426	0	0
2.	LAMPUNG - P a d i	65	187.134	6.170.482	6.164.432	732.725	65	5.431.707	0	0
	- P a d i x)	7	320	29.267	29.267	0	7	29.267	0	0
	- Palawija	19	6.437	638.990	643.635	22.519	19	621.116	0	0
	- Palawija x)	14	461	57.696	57.696	0	14	57.696	0	0
3.	SURABAYA - P a d i	471	237.286	37.543.757	23.489.889	240.007	447	23.240.882	0	0
	- Palawija	52	26.375	2.195.835	1.121.229	178.854	39	942.375	0	0
4.	MATARAM - P a d i	78	59.192	6.083.050	4.645.435	25.350	78	4.620.085	0	0
	- Palawija	7	734	154.000	89.923	0	7	89.928	0	0
5.	SUL. SELATAN - P a d i +)	83	92.615	8.200.953	3.603.479	2.187.504	83	1.421.975	0	0
	- P a d i	123	69.886	6.884.813	6.040.800	98.503	122	5.942.297	0	0
	- Palawija	29	7.852	547.368	416.725	3.003	28	413.723	0	0
			704.707	71.267.293	47.668.634	3.497.198		44.171.442	0	0

Keterangan :

- +) Supra Insus
- x) Kelompok Tani
- +x) Supra Insus Eel. Tani

XX Belum Jatuh Tempo

SISTIM PENILAIAN KUD MANDIRI

1. Mempunyai anggota penuh minimal 25% dari jumlah penduduk dewasa yang memenuhi persyaratan keanggotaan KUD di daerah kerjanya.
2. Dalam rangka meningkatkan produktivitas usaha anggota maka pelayanan kepada anggota minimal 60% dari volume usaha KUD secara keseluruhan.
3. Minimal tiga tahun buku berturut-turut RAT dilaksanakan tepat pada waktunya sesuai petunjuk dinas.
4. Anggota Pengurus dan Badan Pemeriksa semua berasal dari anggota KUD dengan jumlah maksimal untuk pengurus 5 orang dan Badan Pemeriksa 3 orang.
5. Modal sendiri KUD minimal Rp. 25.- juta.
6. Hasil Audit laporan keuangan layak tanpa catatan (unqualified opinion).
7. Batas toleransi deviasi usaha terhadap rencana usaha KUD (Program dan Non Program) sebesar 20%.
8. Ratio keuangan :
Liquiditas, antara 150% s/d 200%.
Solvabilitas, minimal 100%.
9. Total volume usaha harus proposional dengan jumlah anggota, dengan minimal rata-rata Rp. 250.000 per anggota pertahun.
10. Pendapatan kotor minimal dapat menutup biaya berdasarkan prinsip efisiensi.
11. Sarana Usaha layak dan dikelola sendiri.
12. Tidak ada penyelewengan dan manipulasi yang merugikan KUD oleh pengelola KUD.
13. Tidak mempunyai tunggakan.

Klassifikasi KUD di Berberapa Propinsi

Propinsi	Jumlah KUD	Klassifikasi KUD					KUD dlm Program KUT 88/89	KUD A+B	% A+B dari Jumlah
		A	B	C	BDK	TDK			
Sumatera Barat	355	105	157	61	11	21	86	262	74%
Lampung	215	10	101	37	52	15	72	111	52%
Jawa Timur	761	243	407	66	39	6	447	650	85%
Sulawesi Sel.	467	93	227	76	47	24	205	320	69%
NTB	149	22	72	20	35		85	94	63%

Sumber: Kantor Wilayah Department Koperasi di Propinsi

BDK = Belum Diklassifikasi

TDK = Tidak Diklassifikasi

KUD A+B: Mampu Salurkan Kredit Usaha Tani (KUT)

10 Jurusan Kemampuan Kelompok Tani

1. Kemampuan mencari, mevambahkan, menruskan dan memanfaatkan informasi. (pencatatan usahatani nelavan, pra dan pasca panen, teknologi ekonomi dan technology sosial).
2. Kemampuan merencanakan kegiatan untuk meningkatkan produktifitas usahatani nelavan (termasuk pasca panen dan analisa nelavan) para anggotanya dengan penerapan rekomendasi yang tepat dan memanfaatkan sumber daya alam secara optimal.
3. Kemampuan kerjasama kelompok dalam melaksanakan rencana secara konsisten dan disiplin.
4. Kemampuan mengadakan dan mengembangkan fasilitas atau sarana kerja yang diperlukan kelompok.
5. Kemampuan melaksanakan dan mentaati perjanjian dengan pihak lain.
6. Kemampuan pemupukan modal dan pemanfaatan pendapatan secara rasional.
7. Kemampuan mengatasi keadaan darurat seperti banjir, kekeringan, eksploitasi hama/penyakit dan lain-lain.
8. Pengembangan kader kepimpinan dan keahlian dari anggota kelompok untuk dapat melaksanakan tugas khusus yang memerlukan keahlian (termasuk wanitatani nelavan dan tarutani nelavan).
9. Hubungan yang melembaga antara kelompok tani nelavan dengan KUD.
10. Tingkat produktifitas dari usahatani nelavan para anggota kelompok.

PROPINSI JAWA TIMUR
KREDIT USAHA RAKYAT KECIL
CONTOH SISTEM ANGSURAN PINJAMAN LEMBAGA KURK

BESAR PINJAMAN	JENIS PINJAMAN	SISTEM ANGSURAN	BESAR TIAP ANGSURAN	JUMLAH ANGSURAN	BIAYA PENGELOLAAN (B P)	SIMPANAN
Rp. 30.000	Harian	22 Hari	1.500	33.000	1.050	1.950
Rp. 30.000	Pasaran	12 Kali	3.000	36.000	2.400	3.600
Rp. 30.000	1 Mingguan	12 Kali	3.000	36.000	3.000	3.000
Rp. 30.000	2 Mingguan	12 Kali	3.300	39.600	6.000	3.600
Rp. 30.000	4 Mingguan	12 Kali	3.900	46.800	12.000	4.800
Rp. 40.000	Harian	22 Hari	2.000	44.000	1.400	2.600
Rp. 40.000	Pasaran	12 Kali	4.000	48.000	3.200	4.800
Rp. 40.000	1 Mingguan	12 Kali	4.000	48.000	4.000	4.000
Rp. 40.000	2 Mingguan	12 Kali	4.400	52.800	8.000	4.800
Rp. 40.000	4 Mingguan	12 Kali	5.200	62.400	16.000	6.400
Rp. 50.000	Harian	22 Hari	2.500	55.000	1.750	3.250
Rp. 50.000	Pasaran	12 Kali	5.000	60.000	4.000	6.000
Rp. 50.000	1 Mingguan	12 Kali	5.000	60.000	5.000	5.000
Rp. 50.000	2 Mingguan	12 Kali	5.500	66.000	10.000	6.000
Rp. 50.000	4 Mingguan	12 Kali	6.500	78.000	20.000	8.000
Rp. 75.000	Harian	22 Hari	3.750	82.500	2.625	4.875
Rp. 75.000	Pasaran	12 Kali	7.500	90.000	6.000	9.000
Rp. 75.000	1 Mingguan	12 Kali	7.500	90.000	7.500	7.500
Rp. 75.000	2 Mingguan	12 Kali	8.250	99.000	15.000	9.000
Rp. 75.000	4 Mingguan	12 Kali	9.750	117.000	13.000	12.000
Rp. 100.000	Harian	22 Hari	5.000	110.000	3.500	6.500
Rp. 100.000	Pasaran	12 Kali	10.000	120.000	8.000	12.000
Rp. 100.000	1 Mingguan	12 Kali	10.000	120.000	10.000	10.000
Rp. 100.000	2 Mingguan	12 Kali	11.000	132.000	20.000	12.000
Rp. 100.000	4 Mingguan	12 Kali	13.000	156.000	40.000	16.000

BANK UMUM KOPERASI (BUKOPIN)
VILLAGE CREDIT

I. LOAN AND SAVING PROGRAM

This program is carried out by Rural Cooperatives Units under cooperation with BUKOPIN. It is a further development of the QTA-46 Project (Rural Cooperative Credit Service Centre) which was initiated in 1985 with assistance from RABOBANK, Netherlands.

II. OBJECTIVES

1. To mobilize savings from rural societies for the accumulation of cooperative's equity capital.
2. To develop a rural credit system suitable for lower income group earners in the villages.
3. To encourage cooperative members to develop profitable businesses in order to improve their income and welfare.
4. To increase the role of BUKOPIN as the bank owned by cooperatives to strenghten the capital formation of cooperatives in Indonesia.

III. TERMS AND CONDITIONS

A. RURAL COOPERATIVES UNITS

1. Have a cooperative legal status.
2. Obtain at least B classification.
3. Already have loans and savings department.
4. Already have groups of members.
5. Obtained a recomendation letter from the local Department of Cooperatives Office.
6. Agreed with the terms and conditions stipulated by BUKOPIN.

B. GROUP OF MEMBERS

1. Have been selected by BUKOPIN and the Rural Cooperatives Unit concerned.
2. Comprised of the least 50 people.
3. Each group has their own executive committee.

IV. SAVING AND LOAN

A. SAVINGS

1. Initial savings : The amount is stated in the article of association.

2. Compulsory savings : Rp. 1,000 minimum per month and accumulated for three months.
3. Special savings : Derives from 80% of the dividend declared at the end of the year.
4. Voluntary savings : From the members and non members of the cooperatives. A competitive interest is provided for this kind of saving.

B. LOAN

To obtain the loan each member should have:

1. Obtained membership.
2. Fulfilled the compulsory savings requirement for at least 3 months.

V. TERMS AND CONDITIONS OF THE LOAN

A. FROM BUKOPIN TO RURAL COOPERATIVES UNITS

BUKOPIN extends an initial capital loan selectively. The loan is 5 years with 18% interest rate per annum.

B. FROM GROUP TO MEMBERS

1. The interest rate is 4% per month or 1% per week on the outstanding balance, payable at maturity date. From the 4% interest rate, 50% is returned to the group and broken down as follows :
 - 80% . for special savings
 - 12% . for capital accumulation in the group
 - 4% . for provision of own equity
 - 2% . for provision of social purposes
 - 2% . for provision of training
2. The loan is 6 month maximum or according to the farming season.
3. The loan is provided on the basis of project viability of members businesses.
4. Collateral for the loan would be in the form of any properties owned by the members.

C. RISK OF BAD DEBT

To be the joint responsibility of the members.

VI. LOAN APPLICATION PROCEDURES

A. RURAL COOPERATIVES UNITS TO BUKOPIN

1. Loans application to BUKOPIN.
2. Head of the Regional Office of Department of Cooperatives recommends the proposal by Rural Cooperatives Units.

3. Concise loan analysis prepared by BUKOPIN's staff.
4. BUKOPIN sends a letter of approval to Rural Cooperatives Units.
5. Signing of loan agreement.
6. Loan disbursement.

B. MEMBERS TO THE GROUP

1. Each members furnish the application forms that are available at the group.
2. Concise loan analysis prepared by the committee of the group together with the Assistant Manager of the Loan and Saving Department of Rural Cooperatives Units.
3. Signing loan agreement.
4. Loan disbursement is made after one week of its approval.

VII. RESPONSIBILITIES

A. BUKOPIN

- 1 Organizing trainings for the Rural Cooperatives Units and Group Members.
2. Provide Guidance to the Rural Cooperatives Units and Group Members.
3. Managing the surplus funds of the loan and saving departement of the Rural Cooperatives Units.
4. Organizing rural credit administration center at the Rural Cooperatives Units, including training for Assistant Managers of the loan and saving department of the Rural Cooperatives Units.
5. Extending the working capital loans to Rural Cooperatives Units and Group Members.
6. Organizing monthly meeting with the Rural Cooperatives Units and Group Members.

B. RURAL COOPERATIVES UNITS

1. Organizing the administration center of the group.
2. Provide guidance and supervision regularly at least once a week.
3. Signing loan agreement with BUKOPIN and evaluating credit applications of the members.
4. Organizing meetings of the committee of the group once in three months.

VIII. DEVELOPING MEMBERS BUSINESSES

For the members who have larger scale businesses and need larger loans above the available ceiling, they could be assisted directly by the loan and savings department in the Rural Cooperatives Units or by the nearest BUKOPIN branch office.

C. COMMITTEE OF THE GROUP

1. Organizing the loan and saving administration center for the members.
2. Signing loan agreement with BUKOPIN and evaluating credit applications of the members.
3. Organizing meetings with all members once a month.
4. Managing the voluntary savings from the members as well as from the non members.

(Source BUKOPIN)

Recommended Reading

"Rural Sector Review" (Indonesia)

World Bank, 1988.

"Credit In Support of Rural Development: An Evaluation of the Credit Component of the Indonesian Provincial Area Development Program"

John M. Dukesbury & Christopher James for USAID, 1988.

"Mid-Term Evaluation of The Financial Institutions Development Project (Phase I)"

Susan Goldmark & David Lucock for USAID, 1988.

"Establishment of Credit Window Units In Indonesia"

Dallas S. Garland for GOI/USAID, 1988.

"Undermining Rural Development with Cheap Credit"

Dale W. Adams.

"Rural Credit, Lessons for Rural Bankers and Policy Makers"

by K.P. Padmanabhan, Intermediate Technology Publications of London, 1988.

"A Manual of Credit and Savings for the Poor of Developing Countries"

OXFAM, Oxford, England, 1987.

Glossary of Terms

Badan Kredit Kecamatan (BKK): Sub-District Credit Body.

Bank Indonesia: (BI): Central Bank of Indonesia.

Bank Pembangunan Daerah: (BPD): Provincial Development Bank.

Bank Rakyat Indonesia (BRI): Peoples' Bank of Indonesia.

BRI Unit Desa: Village Savings/Credit Unit of BRI.

BUKOPIN (Bank Umum Koperasi): General Cooperative Bank.

BIMAS (Bimbingan Massal): Mass Guidance (for national rice self-sufficiency program)

Desa: Village.

Kabupaten: District. (The level of government immediately below provincial level).

Kecamatan: Sub-District.

Kelompok Tani (KT): Farmers' Group.

Kredit Usaha Tani (KUT): Farmers' Business Credit.

Koperasi Unit Desa (KUD): Village Cooperative Unit.

KUPEDES (Kredit Umum Pedesaan). General Village Credit. (Administered by BRI)

KURK: Kredit Usaha Rakyat Kecil. Small Business Credit (Supervised by BPD East Java)

Lumbung Pitih Nagari (LPN) Loan Unit based on a traditional ethnic group. (West Sumatera).

Lumbung Kredit Pedesaan (LKP): Village Credit Unit. (NTB)

Palawija: Secondary food crop.

Pusat Pelayanan Kredit Koperasi Pedesaan (PPKKP) Village Cooperative Credit Service Centre. This is the village credit unit within BUKOPIN.

Simpan-Pinjam: Savings and loans.

SIMPADES (Simpanan Pedesaan). Village Savings. (Administered by BRI).

Usaha Bersama: Working Together.