Local cooperatives and microfinance in eastern Indonesia: Autonomy and opportunity for community economies

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Introduction

Pro-poor financial models for alleviating poverty have considerable policy support among donor agencies and development programming. In most developing countries access to financial and banking services is severely constrained, particularly in regions remote from urban areas and district townships, and limits opportunities for poorer communities to benefit from economic growth. This paper reports on strategies for financial inclusion that have addressed this problem in two regions of Indonesia. In both cases, local NGOs sponsoring the programme have realised the importance of savings as well as microcredit, as part of the financial participation.

Poor access to financial services characterises much of rural Indonesia. Despite improvements in recent years through activities such as the expansion of the 'Village Bank' system (BRI-Unit Desa) which offers financial services to the local level, coverage remains limited. Moreover, the commercial orientation of BRI (People's Bank of Indonesia) precludes participation in credit opportunities for many poorer households.

We report on strategies adopted by two NGOs in eastern Indonesia to support financial cooperatives which facilitate savings and credit while also promoting community-based economic enterprises that draw upon accumulated capital of the local financial institutions. The study arises out of a collaborative action research programme in Southeast Sulawesi and Flores Island to implement an asset based community development project promoting community partnering and an appreciation of the significance of diverse economies under Indonesian regional autonomy policies (Robinson et al. 2004; Robinson and McWilliam forthcoming).

In particular we highlight the comparative advantages of two strategic approaches to generating savings and credit opportunities for low-income households. The first approach comprises local Indonesian adaptations of the well-known Grameen Banking system for microfinancing community enterprise and household needs in Southeast Sulawesi and Flores. This is compared with a complementary programme, promoting self-regulating community-based financial cooperatives known as *Lembaga Ekonomi Desa* (Village Economic Institutions). We argue that while both approaches demonstrate successful pro-poor strategies to promote economic enterprises and alleviate poverty, there are distinct advantages to encouraging forms of community banking that also generate economic services for community benefits.

Microfinancing eastern Indonesia

The success of the Grameen Bank over the last 30 years from its humble origins in Bangladesh is reflected in the recent award of the Nobel Peace Prize to its founder and champion, Muhammad Yunus. As a microcredit programme lending to impoverished communities lacking the collateral to access conventional bank loans the approach has encouraged much adaptive imitation around the world including Indonesia. With its focus on poor rural women and their borrowing potential as microentrepreneurs, along with group liability and the promotion of a social ethic, the Grameen Bank principles have demonstrated the powerful impact of microcredit provision on poverty alleviation.

Support for microcredit programmes through direct government funding or in business partnerships has expanded rapidly across Indonesia in recent years. The emergence of organisations such as Gema-PKM (*Gerakan Bersama Pengembangan Keuangan Mikro*), the Indonesian Movement for Microfinance Development, and the Banking with the Poor Network, reflect a growing interest in the sector (see, for instance, Indonesian Stakeholder Workshop 2004). Similarly, many district governments across Indonesia are implementing their own version of microcredit financing of community-based economic enterprise (Ismawan and Budiantoro 2005).

Our collaborative action research partners in eastern Indonesia, NGOs Sintesa (Buton) and Sannusa (Flores) have also instituted Grameen inspired programmes to facilitate income generation among the poor and vulnerable — centralised loan facilities extending cash credit and collecting repayments from village based borrowers according to a fixed set of guidelines and regulations.

Sintesa and Bantesa

In Southeast Sulawesi, Sintesa has developed a microcredit system based on the Grameen Bank model, following a study tour by Sintesa staff to Bangladesh. Named Bantesa (village assistance), the programme has developed, over the last few years, into a significant component of their community development activities. Sintesa operates as a community development organisation in southeast Sulawesi with over 80 staff supporting diverse programmes including water supply and sanitation, community health initiatives, institutional strengthening and income generating activities. They orient their practice to three guiding principles, namely those of *silahturami* (social solidarity), *kemitraan* (partnership), and *kesinambungan* (continuity of engagement with participating communities).

The principles of Bantesa encourage the formation of small groups of five non-directly related community members who are able to borrow small amounts of money individually but with group responsibility for repayments. The familiar strategy of 'shared responsibility' (*tanggung rentan*) is used to effect compliance in repayments as well as the incentive of higher levels of borrowing following successful repayments. At the highest of four levels, borrowers may access up to Rp1 million (A$165). No collateral is required but each request for lending undergoes an assessment of its economic feasibility. People who successfully negotiate the higher level are then permitted to borrow for house improvements using a credit facility based on their capacity to repay.

The implementation of Bantesa is quite staff intensive. In Buton district for example, Sintesa has appointed 30 local staff based in four sub-districts to manage the programme there. They hold weekly meetings with the credit groups in the communities, and each field staff officer is encouraged to manage seven of these groups of five with expectations that coverage will increase over time.

There are clear advantages to the Bantesa system, both for impoverished households unable to access formal banking credit or who are prey to moneylenders, as well as the NGO managing institution. As Sintesa expands the scope of its lending activities across the region, it creates opportunities for poor people to access finance and generate economic activities that contribute directly to improved household welfare. For Sintesa, as the managing institution — the credit bank — they receive a portion of the 'profits' of the lending programme generated from the net proceeds of the two per cent per month repayment schedules for outstanding loans. This cash flow is dependent on timely and regular adherence to loan repayments from the participating groups, and is designed to ensure the viability of the NGO itself, into the future.

Sannusa and Senu

Sannusa is a small NGO based in the district of Ngada (central western Flores). Since 1998 they have managed a Grameen-inspired informal banking facility called Senu (an acronym for *Semangat Nurani* [Pure Spirit]). Senu began with a Rp5 million (A$1,000) grant from Oxfam. It provides individual and group access to greater amounts of cash than is available through small savings and loan groups. Interest on loans is charged at two per cent per month which contributes to the administration and operational core funding of Sannusa. Currently, 23 groups from Ngada district (with over 200 members) have access to the Senu credit facility. As of June 2006 Senu had operating capital of approximately Rp63 million (A$10,000), 80 per cent of which was circulating as loans.

In terms of practice, participating groups are able to borrow twice the amount of capital they have saved in Senu. Money is borrowed on agreed terms commensurate with the borrower's ability to repay. Unlike the Sintesa system, Senu requires that their groups put up some capital as collateral against the loans. This can include land titles, livestock or other convertible assets of value; however, Sannusa has never seized assets when loans are in arrears. Sannusa staff act as debt recovery agents and regularly visit groups to discuss management or repayment problems.

Under the Senu system, individuals may borrow directly and are responsible for repayments but, like Sintesa, ultimately the group takes responsibility for the full acquittal of the loan. There is also a strong ethical dimension to these loans with a limited range of options for expenditure on productive enterprise and consumption items such as school fees and house construction. Mutual trust is an important feature of the programme, and repayment schedules are generally maintained especially with the requirement that borrowers commit their own proportional matching funds.

The groups also serve to build community trust. For example, the Papa Laka group has 17 members, all migrants under a Government resettlement scheme which brings people from nearby locations to cultivate unused land. The group initially formed under a Government seed distribution programme in 2000. As with all Sannusa groups, it is a savings as well as a credit group; building trust and solidarity is prioritised over generating profit; and members articulate a fear of failure if they grow too fast.

The programmes of Senu and Bantesa represent comparable strategies designed to assist marginal and vulnerable households to participate in the market economy and to build household self reliance. The stepped loan approach provides a phased programme of borrowing as households gain confidence and demonstrate their skills in managing small scale community enterprises. NGOs as financial managers of the process ensure compliance and provide continuing advice for enterprise development, while generating a return on borrowed funds that helps sustain their own institutional services. This model clearly has advantages for poor people excluded from the commercial banking system, but Grameen-style arrangements such as these also have their limitations. Principal among these is the recognition that while the programmes may be expanded geographically to accommodate increased numbers of participants, the borrowers remain dependent on the schedules and fixed terms offered by the financial providers. Microcredit in this case remains simply that, with little opportunity for enhanced financial services or benefits under the programme design.

Alternative cooperatives: Sintesa and LED microfinance

In 2001, Sintesa instituted an innovative model of microfinance in Buton based on lessons gained from a study tour to Lombok, by Buton regional director, Syukri Rauf. Utilising an initial grant of Rp615 million (A$100,000) from a German church based donor the LED (*Lembaga Ekonomi Desa*) financial cooperatives programme was initiated to assist Butonese refugees from the violence and civil disorder in the Moluccan provincial capital, Ambon (1999-2000). In due course, 12 LED cooperatives were formed and legally registered as multi-purpose enterprise cooperatives (*Koperasi Serba Usaha* [KSU]) which allows for their expansion from savings and loan cooperatives into service provision and community based enterprises. As they have developed, membership of the LED cooperatives expanded to include local residents as well as refugee groups.

The core component of the LED is a programme of microfinance services in the form of savings (with compulsory and voluntary components) and low interest loans. Lending limits are related to savings history and profits generated by the LED cooperative are distributed proportionally to members and held as cash reserves. Sintesa provides a continuing advisory role, since donor funding ceased in 2004, and importantly has been able to offer further injections of capital to the respective cooperatives to build their loan books as they meet lending and financial benchmarks. These loans are offered by Sintesa on a subsidised basis (one per cent per month reducing) allowing the LED to maintain their lending levels at two per cent per month. These partnering arrangements have enabled a number of the LED to show impressive results over the five years of operation. Two of the cooperatives in particular are standout performers. They include LED (KSU) Syukur Jaya from Kolowa-Wadiobero with over Rp2,000 million in circulation ($300,000) and 447 members, and another from Wolando village with over Rp500 million in circulation ($70,000+) and 172 members.

As legally autonomous financial institutions, the LED cooperatives have had to adjust and adapt their operating procedures to meet the growing demands of management and service to members. The larger LED effectively operate as small banks, with a dedicated office, over the counter services, passbooks, computerised transactions records, the use of safes and holding accounts with regional commercial banks. Local LED management committees take responsibility for most of the operational activities, lending policy, setting interest rates, profit distributions and repayment schedules. The success of the programme to date offers lessons in practical empowerment of village communities to become financially self reliant and active participants in guiding their own economic development. They are very much pro-poor in their orientation.

LED Syukur Jaya and enterprise partnering

The LED Syukur Jaya is a facilitated local initiative of the village communities of Desa Kolowa and Wadiobero, two coastal settlements on the south-eastern shore of Muna island in the district of Buton. From small beginnings under the enthusiastic leadership of LED chair La Paaga, the financial cooperative Syukur Jaya has become an important local vehicle for economic growth and development. It is a key banking facility for the local community and residents of neighbouring villages. Of its 447 members (June 2006), around half are out migrants, living outside the villages of Kolowa and Wadiobero.

One use of the microfinance offered by the LED is to secure capital to initiate trading activities outside the region. The practice of economic migration (*merantau*) has a long history in Buton and up to 35 per cent of cooperative members are reported to access LED funds for diverse trading interests which include trading in gold, clothing, shoes, tobacco, cosmetics, fish and transport, in distant markets including Ambon, Ternate, Kendari, Makassar Manokwari and Jayapura. Once they have established themselves in their economic enterprise, they utilise their family ties and the banking services of the LED to make direct deposits of remittances and loan repayments.

Kolowa-Wadiobero was selected as one site for a collaborative action research project undertaken with researchers from ANU. Following a community mapping and planning exercise, community members identified opportunities to develop a marketing cooperative to collect and manage bulk sales of locally cultivated seaweed (*agar agar*). Sintesa provided an interest free loan to construct a storage shed and buy weighing scales, and offered initial training for the local management group. A savings and loan system was established among the members of the cooperative, known as KMUM Agar Agar. Using a further loan facility from the LED Syukur Jaya, the group was able to immediately begin buying and bulking local seaweed.

Cooperative members and non-members alike were able to take advantage of the local marketing opportunity which facilitated the expansion of seaweed production along the seafront as poorer households, widows and school children, were able to sell to the coop amounts as little as 2-3kg of dried seaweed. The cost of transporting dried product to market by boat had previously precluded their involvement in this lucrative industry.

Soon after establishing the cooperative, the group was able to negotiate its first bulk sale to traders in the district capital, Bau Bau, a half hour boat trip across the narrow Buton straits. Now operating for less than 18 months, the cooperative has recently organised their 23rd shipment of dried seaweed to traders in Bau Bau. The trading netted profits of Rp10,400,750 (A$1500) and while the accounts of the trades this year show that some were sold at a loss, this was more than compensated by profitable trades averaging around Rp1 million (A$140) on a 2-3 tonne sale. At present the KMUM Agar Agar has become the largest private seaweed cooperative of its type in the region.

The example of the seaweed cooperative venture fostered and supported by the local LED highlights a further feature of the innovative possibilities of the LED financial cooperative model. This is the development of profitable supplementary enterprises and services to the local community developed out of cooperative profits (in 2005 this was approximately A$7500). They include:

A telephone booth at the LED office staffed by a local resident who is paid to run the service on a 25 per cent profit share basis. Under this system there is a Rp5000 'informing fee' for incoming phone calls when the local recipient is notified of the call. The business has been very successful, particularly as a direct form of communication with economic migrants living outside the region. On their profits, 55 per cent is used to pay back the capital loan to the LED, and 20 per cent of profit is distributed to cooperative members (in 2005 they shared Rp908,460 [A$150]). The installation of the phone has been very popular among non-resident members to communicate with family and organise their financial arrangements.

The LED purchased a photocopier for cooperative use and for the wider community on a fee paying basis.

The LED also collects the monthly tariff for electricity use on behalf of PLN (state electricity board). For this they receive a commission fee and after costs of there is a profit share to members of the cooperative.

A new kerosene depot business planned at the annual LED meeting was opened in 2006 in response to escalating fuel prices. After acquiring a licence the drums of kerosene were purchased at Rp2,600/litre and sold for Rp2,700/litre retail. Local residents who sell kerosene from home based kiosks are able to purchase the fuel at cost price. The latter arrangement reflects the intention of the LED membership to facilitate the extension of services to the community, not to harm local small businesses.

A 50 per cent profit share business in the nearby sub-district town, Lombe, was established in 2006 with a local shopkeeper. Under this arrangement, the LED set aside Rp30 million (A$5,000) for investment in a range of commodities including cooking oil, tobacco products and sugar, with profits allocated for capital return and distributed to members of the LED cooperative.

The remarkable growth of the LED Sykur Jaya, under the energetic and committed leadership of local resident, La Paaga and his fellow committee members, highlights the potentialfor innovative microfinance approaches in eastern Indonesia. They extend well beyond limited microcredit schemes and illustrate the multiplier effects that can be generated when local communities are encouraged to draw on their own capacities and strengths to address local needs and economic opportunities.

Pro-poor community economies and microfinance

Case studies of Grameen-style microcredit programmes and the forms of financial cooperatives exemplified in the Sintesa LED model illustrate complementary approaches to economic growth and pro-poor development in local contexts. The benefits of these programmes are well demonstrated where access to formal banking credit is restricted or absent, and informal money lending creates long term indebtedness through punitive interest rates. Both models of village financial institutions present opportunities for impoverished households to participate in economic enterprise through facilitated access to low interest loans, and both approaches encourage self reliance with social support and censure strategies to achieve repayment compliance. Where they differ lies in the significant potential for LED type arrangements, with their emphasis on community savings and community self-management, to expand financial and economic services to the wider community in profitable and ethical ways. As decision making and enterprise development rests with the LED cooperative owner-members, the financial advantages of building accessible savings and loan accounts and profitable community based enterprise produces multiple benefits and beneficiaries at the local level.

Notes

1. The recent 'White Paper on Australia's Aid Program 2005' is a case in point.
2. The BRI–UD microcredit program is called Kupedes and lends between $3 and $5,000 for collateralised loans achieving high rates of repayment (>98 per cent). <http://www.bwtp.org/arcm/indonesia/II_Organisations/MF_Providers/BRI.htm>.
3. Bank Indonesia defines a microcredit loan as one under Rp50 million (about US$5,500), still way beyond what most rural households could contemplate or be qualified to receive, <http://www.bwtp.org/arcm/indonesia/Indonesia.html>.
4. For example, the Gerbang emas programme in Ngada District, Flores.

5. The Evangelische Zentralselle fur Entwicklungschiffe, and subsequently renamed as the Evangelische Entwicklungdients e.V (Evangelical Development Service).
6. Subsequently three further LED were formed in conjunction with the collaborative action research project with researchers from ANU.
7. The senior management of Sintesa has elected to promote the Bantesa model as its preferred microfinance initiative, but Syukri Rauf has argued that the LED model may well serve the NGOs interests more effectively as a source of revenue given its lower cost structure.
8. KMUM stands for *Kelompok Mitra Usaha Masyarakat* (community enterprise partner group).
9. In 2005 the profit of the cooperative was Rp52 million (A$7,500), which was distributed according to a formula [40 per cent to cash reserves, 20 per cent to borrowers, 20 per cent to savers, 15 per cent to the management committee and five per cent to a social fund (*dana sosial*)] which in 2006 is funding educational materials for the local schools and a fund to assist poorer families with school fees.

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