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**Informal Finance and Poverty Alleviation:  
A Grassroots Study of Small Farmers' Credit  
In West Sumatra, Indonesia**

A thesis presented in fulfilment of the requirements  
for the degree of Doctor of Philosophy in  
Development Studies at Massey University,  
Palmerston North, New Zealand

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***“If you disclose your charitable expenditures, they are good; but if you conceal them and give them to the poor, it is better for you and He will remove you some of your misdeeds (thereby). And God, with what you do is (fully) acquainted” (Al-Qur’an 2:271).***

**\*\*\*I dedicate this work to my parents,  
who passed away during the process of this study\*\*\***

## ABSTRACT

The main objective of this study is to explore the credit and savings behaviour of small farmers in rural areas of Indonesia, with particular reference to informal systems of credit. It examines the relationship between credit and rural poverty and on identifying small farmers' credit and savings behaviour as well as problems they encounter in accessing credit programmes at the grassroots level. In this study, the extent of informal credit programmes in rural areas is identified and an assessment is made of how important these schemes are to rural people, especially small farmers, from economic, social and cultural points of view. The influence of local culture and values on informal rural credit systems is also examined. Fieldwork was conducted in three villages of Solok district, West Sumatra, Indonesia.

This study reveals that credit programmes, whether from the formal or informal sectors, have not had a positive impact on poverty alleviation. The majority of formal credit programmes in the three case study villages failed to give service to the rural poor, especially small farmers. It is likely that the reason for the failure was the unmet demand between the formal financial institutions as the credit providers and the small farmers as the credit recipients. The informal credit programmes were also unsuccessful in helping the poor to increase their income because the loans were small in size and were mainly used for fulfilling basic and emergency needs. Credit from informal sources is used for survival rather than for development.

However, informal credit schemes were favoured by the majority of the rural population due to their flexibility and adaptation to local cultures and values. This study finds that informal credit schemes in these three case study villages have potential to empower local people and to strengthen traditional rural credit systems in the era of decentralisation. *Arisan Suku*, *Julo-julo* and 'friendly moneylenders' are examples of these informal credit schemes, and they figured significantly in the credit and savings activities of the poor in the study area. Therefore, this study rejects the conventional assumptions that informal finance is exploitative, insignificant and unorganised.

The positive impact of local culture and values on the informal credit systems in the study area mainly focuses on the influence of local culture of Minangkabau and the value of Islamic religion in shaping rural informal credit systems. In this case Minangkabau people have been practicing credit and savings activities for a long time, and this reinforces the informal credit system in the area. Regarding the influence of Islamic values, this is in line with the current growing attention paid to the Islamic finance system, both at national and international levels. The positive impacts of local culture and values are important for developing a more participatory rural financial system. This study recommends that the future rural financial systems can be developed by combining positive features of both formal and informal credit systems.

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## GLOSSARY

<i>Adat</i>	Custom
ADB	Asian Development Bank
<i>alim-ulama</i>	Religious chiefs
<i>Arisan</i>	Rotating Savings and Credit Association (ROSCA)
<i>Arisan Barang</i>	Goods ROSCA
<i>Arisan Kelompok Tani</i>	Farmer's Group's ROSCA
<i>Arisan Kenduri</i>	Feast ROSCA
<i>Arisan Suku</i>	Clan ROSCA
<i>Arisan Tenaga</i>	Alternate Working Together
AVB	<i>Algemeene Volkscredietbank</i> (AVB-Bank)
<i>Balita</i>	Children under five years old
<i>Bank Umum</i>	General bank
BAPPEDA	<i>Badan Perencanaan Pembangunan Daerah/</i> Regional Planning Board
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional/</i> The National Planning Board
BDB	<i>Bank Dagang Bali</i>
<i>Bidan Desa</i>	Rural midwife
BIMAS	<i>Bimbingan Massal/</i> Mass Guidance Credit Programme
BKD	<i>Badan Kredit Desa/</i> Village Credit Organisation
BKK	<i>Badan Kredit Kecamatan/</i> Sub-district Credit Organisation
BKKBN	<i>Badan Koordinasi Keluarga Berencana Nasional/</i> National Family Planning Coordination Agency Board
BLM	<i>Bantuan Langsung Masyarakat/</i> Community Direct Assistance
BMI	<i>Bank Muamalat Indonesia</i>

BPD	<i>Badan Perwakilan Desa/ Village Representative Board</i>
BPD	<i>Bank Pembangunan Daerah/ Local Development Bank at the provincial level</i>
BPR	<i>Bank Perkreditan Rakyat/ People's Credit Bank</i>
BRI	<i>Bank Rakyat Indonesia</i>
BRI <i>Unit Desa</i>	BRI Village Unit
BUMN	<i>Badan Usaha Milik Nagari/ Village-owned Corporation</i>
<i>Bupati</i>	District Head
BUUD	<i>Badan Usaha Unit Desa/ Village Unit Corporation</i>
<i>Cabe-rawit</i>	Fine-chilli
<i>Camat</i>	Sub-district Head
CARE	One of International NGOs which deals with microfinance programme in Indonesia
<i>Cerdik-pandai</i>	Educated people in Minangkabau customs
CVPD	One of orange's disease
<i>Datuk</i>	The clan's chief in Minangkabau customs
DAUN	<i>Dana Alokasi Untuk Nagari/ Allocated fund for a Nagari</i>
<i>Desa</i>	Village in Indonesia's centralised system
<i>Dukun</i>	Traditional healer
<i>Gabah</i>	Husked rice
GDP	Gross Domestic Products
<i>Golkar</i>	<i>Golongan Karya/ One of political parties in Indonesia</i>
<i>Gotong-royong</i>	Practices of mutual cooperation
GTZ	<i>Deutsche Gesellschaft fur Technische Zusammenarbeit/ German International Cooperation</i>
HYV	High Yielding Varieties
IDT	<i>Inpres Desa Tertinggal/ Presidential Instruction on Development of Backward Village</i>

<i>Idul Fitri</i>	Islamic celebration day after fasting month ( <i>Ramadhan</i> )
<i>Idul Qurban</i>	Islamic celebration day during the pilgrimage time ( <i>Haji</i> )
<i>Imam</i>	Islamic religious group leader
IMF	International Monetary Fund
INPRES	<i>Instruksi Presiden/</i> Presidential Instruction
<i>Iyuran</i>	Group member's contribution, usually in the form of money
<i>Jaring</i>	Small fishing net
<i>Jeruk-peras</i>	Crush orange
<i>Jorong</i>	Wards in West Sumatra Province
<i>Julo-julo</i>	Rotating and Saving Credit Association (ROSCA) scheme in West Sumatra
<i>Julo-julo Alat-alat Dapur</i>	Crockery/kitchen appliances' ROSCA
<i>Julo-julo Beras</i>	Rice ROSCA (the contribution is in the form of rice)
<i>Julo-julo Padi</i>	Paddy ROSCA (the contribution is in the form of paddy)
<i>Julo-Julo Panen</i>	Harvesting's ROSCA (ROSCA that is done every harvesting time)
<i>Julo-julo Piring</i>	Plate ROSCA (the lottery received is in the form of plates)
<i>julo-julo Pupuk</i>	Fertiliser ROSCA (the lottery received is in the form of fertiliser)
<i>Julo-julo sekali panen</i>	Harvesting's ROSCA (ROSCA that is done every harvesting time)
<i>Julo-julo Tenaga</i>	ROSCA in which the contribution is in the form of energy
<i>Julo-julo Tikar</i>	Carpets ROSCA (the lottery received in the form of carpet)
<i>Kampung</i>	Small village



<i>Kedai</i>	Small shop
<i>Kelompok Pengusaha Mikro</i>	Microentrepreneur groups
<i>Kelompok Tani</i>	Farmers' group
<i>Kepala Desa</i>	Village head
<i>Keramba</i>	Big bamboo basket for catching fish in the river or the sea
KIK	<i>Kredit Usaha Kecil</i> / Small Investment Credit
KKN	<i>Kuliah Kerja Nyata</i> / Obligatory social action internship for university students
KKP	<i>Kredit Ketahanan Pangan</i> / Credit for food security
KMKP	<i>Kredit Modal Kerja Permanent</i> / Permanent Working Capital Loan
<i>Kongsi</i>	<i>Julo-julo tenaga</i> / <i>Lambahari</i> / Alternate working together
<i>Kongsi Biasa</i>	Regular Alternate working together
<i>Kongsi Kas</i>	Alternate working together aims for group savings
<i>Koperasi</i>	Cooperative
<i>Koperasi Nagari</i>	Village Cooperative
<i>Koperasi Simpan Pinjam</i>	Credit and Saving Cooperative
<i>Koperasi Suku</i>	Clan Cooperative
KOPERTA	<i>Koperasi Pertanian</i> / Agricultural Production Cooperative
KSP	<i>Koperasi Simpan Pinjam</i> / Savings and Credit Cooperative
KUD	<i>Koperasi Unit Desa</i> / Rural Unit Cooperatives
KUK	<i>Kredit Usaha Kecil</i> / Credit for small businesses
KUK-DAS	<i>Kredit Usaha Kecil- Daerah Aliran Sungai</i> / Credit for small business in one catchment's area
KUPEDES	<i>Kredit Umum Pedesaan</i> / General Rural Credit
KUT	<i>Kredit Usaha Tani</i> / Credit Programme for Farmers
<i>Lambahari</i>	<i>Julo-julo tenaga</i> / Alternate working together

<i>Lapau</i>	Small coffee shops
LDKP	<i>Lembaga Dana Kredit Pedesaan/</i> Rural Credit Fund Foundation
LDP	<i>Lembaga Dana Pedesaan/</i> Rural Fund Foundation
LMD	<i>Lembaga Musyawarah Desa/</i> Village Consultative Assembly
LPN	<i>Lumbung Pitih Nagari/</i> Traditional informal credit system in West Sumatra, Indonesia
<i>Lubuak</i>	Public wells
LUEP	Local Government's Credit Scheme for rice mills' owner
<i>Lumbung Beras</i>	Rice barns
<i>Lumbung Padi</i>	Paddy barns
<i>Madrasah</i>	Islamic religious school
<i>Malu</i>	Shy
<i>Mamak</i>	Mother's brother
MDGs	Millennium Development Goals
<i>Merantau</i>	Wandering/ specific culture of Minangkabau People who move from their home village to another place to earn income, or to study
MFIs	Microfinance Institutions
<i>Nagari</i>	Village in a decentralised system in West Sumatra Province
NGOs	Non Governmental Organisations
<i>Ninik mamak</i>	Cultural chiefs in Minangkabau custom
NPF	Non-Performing Financing
P4K	<i>Proyek Peningkatan Pendapatan Petani Kecil/</i> Income Generating Project for Small Farmers
<i>Paceklik</i>	Time of scarcity before harvest
PAKJAN	<i>Paket Januari/</i> Financial deregulation that Occurred on January 1999

PAKMAR	<i>Paket Maret/</i> Financial deregulation that occurred on March 1989
PAKTO 1988	<i>Paket Oktober/</i> Financial deregulation that Occurred on October 1988
<i>Palawija</i>	Secondary crops
<i>Panca Sila</i>	The basic philosophy of Indonesian state
<i>Pedagang kaki lima</i>	Street traders
<i>Pedagang kecil</i>	Petty traders
<i>Pematang sawah</i>	Dikes between rice fields
<i>Perantau</i>	The wanderer/ people who do <i>merantau</i>
<i>Perantauan</i>	The destination of the wanderer ( <i>perantau</i> )
<i>Perum Pegadaian</i>	State-owned pawning company
PMA-PMUK	<i>Pemberdayaan Masyarakat Agribisnis Melalui Penguatan Modal Usaha Kelompok/</i> Agribusiness Community Empowerment Programme through Strengthening Group Capital
PMI	Credit for Food Security
<i>Pos Yandu</i>	<i>Pos Pelayanan Terpadu/</i> Integrated medical services point
<i>Pos Yandu julo-julo</i>	ROSCA <i>Pos Yandu</i>
PPL	<i>Penyuluh Pertanian Lapangan/</i> Agricultural Extension workers
PRA	Participatory Rural Appraisal
<i>Priayi</i>	Civil servants
<i>Pukat</i>	Large and long fishing net
<i>Ramadhan</i>	One of months in the Islamic calendar when Muslims do fasting
<i>Rankiang</i>	The small houses which are located in front of the Minangkabau traditional house
RDKK	<i>Rencana Dasar Kebutuhan Kelompok/</i> Basic Group Plan

RFIs	Rural Financial Institutions
<i>Riba</i>	Money interest in Islam
ROSCAs	Rotating and Saving Credit Associations
Rp	<i>Rupiah</i> / The Indonesia's currency
<i>Rumah adat</i>	Traditional house
<i>Rumah Gadang</i>	Minangkabau's traditional house
SACI	Specialised agricultural credit institutions
<i>Sawah</i>	Ricefields
<i>Sedekah</i>	Charity in Islam
<i>Simpan pinjam</i>	Saving and credit scheme/ Cooperatives
<i>Simpan Pinjam Kelompok Tani</i>	Farmers' Groups' Cooperatives
<i>Simpan Pinjam Suku</i>	Clan cooperatives
<i>Simpanan Pokok</i>	Voluntary savings
<i>Simpanan Wajib</i>	Compulsory (basic) saving
SIMPEDES	<i>Simpanan Pedesaan</i> / Rural Savings
Suku	<i>Clan</i>
<i>Syarak</i>	Religion
<i>Syari'ah</i>	Religious regulations
<i>Tanah ulayat</i>	Clan land
<i>Tapian</i>	Public toilets and bathrooms
<i>tegalan/pekarangan</i>	Unirrigated land
<i>Tukang Urut</i>	Traditional massager
<i>Tungku Tigo Sajarangan</i>	Three hearths in one place (the structure of village council in Minangkabau custom)
TV	Television
UEDSP	<i>Unit Ekonomi Desa Simpan Pinjam</i> / Village Economic Savings and Credit Unit
BUKOPIN	<i>Bank Usaha Koperasi Indonesia</i> / One of Indonesia's state-own banks
<i>Urang Sumando</i>	Brother in law
USP	<i>Usaha Simpan Pinjam</i> / Saving and credit

<i>Wali Nagari</i>	enterprise
<i>Warung</i>	Village Head
WILUD	Small shops
<i>Zakat</i>	<i>Wilayah Unit Desa/</i> Agro-economic unit
	Compulsory contributions in Islamic religion