Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.
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

Resfa Fitri 
2006
“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.
ACKNOWLEDGEMENTS

All praises are only for the Almighty Allah SWT, who is the most benevolent and merciful.

The completion of this work would not have been possible without contributions and support from many people and institutions. To them, I convey my deep thanks and gratitude. In particular, I would like to acknowledge the following:

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GLOSSARY

Adat
ADB
alim-ulama
Arisan
Arisan Barang
Arisan Kelompok Tani
Arisan Kenduri
Arisan Suku
Arisan Tenaga
AVB
Balita
Bank Umum
BAPPEDA
BAPPENAS
BDB
Bidan Desa
BIMAS
BKD
BKK
BKKBN
BLM
BMI

Custom
Asian Development Bank
Religious chiefs
Rotating Savings and Credit Association (ROSCA)
Goods ROSCA
Farmer's Group's ROSCA
Feast ROSCA
Clan ROSCA
Alternate Working Together
Algemeene Volkscredietbank (AVB-Bank)
Children under five years old
General bank
Badan Perencanaan Pembangunan Daerah/ Regional Planning Board
Badan Perencanaan Pembangunan Nasional/ The National Planning Board
Bank Dagang Bali
Rural midwife
Bimbingan Massal/ Mass Guidance Credit Programme
Badan Kredit Desa/ Village Credit Organisation
Badan Kredit Kecamatan/ Sub-district Credit Organisation
Badan Koordinasi Keluarga Berencana Nasional/ National Family Planning Coordination Agency Board
Bantuan Langsung Masyarakat/ Community Direct Assistance
Bank Muamalat Indonesia
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPD</td>
<td>Badan Perwakilan Desa/ Village Representative Board</td>
</tr>
<tr>
<td>BPD</td>
<td>Bank Pembangunan Daerah/ Local Development</td>
</tr>
<tr>
<td>BPR</td>
<td>Bank Perkreditan Rakyat/ People’s Credit Bank</td>
</tr>
<tr>
<td>BRI</td>
<td>Bank Rakyat Indonesia</td>
</tr>
<tr>
<td>BRI Unit Desa</td>
<td>BRI Village Unit</td>
</tr>
<tr>
<td>BUMN</td>
<td>Badan Usaha Milik Nagari/ Village-owned Corporation</td>
</tr>
<tr>
<td>Bupati</td>
<td>District Head</td>
</tr>
<tr>
<td>BUUD</td>
<td>Badan Usaha Unit Desa/ Village Unit Corporation</td>
</tr>
<tr>
<td>Cabe-rawit</td>
<td>Fine-chilli</td>
</tr>
<tr>
<td>Camat</td>
<td>Sub-district Head</td>
</tr>
<tr>
<td>CARE</td>
<td>One of International NGOs which deals with microfinance programme in Indonesia</td>
</tr>
<tr>
<td>Cerdik-pandai</td>
<td>Educated people in Minangkabau customs</td>
</tr>
<tr>
<td>CVPD</td>
<td>One of orange’s disease</td>
</tr>
<tr>
<td>Datuk</td>
<td>The clan’s chief in Minangkabau customs</td>
</tr>
<tr>
<td>DAUN</td>
<td>Dana Alokasi Untuk Nagari/ Allocated fund for a Nagari</td>
</tr>
<tr>
<td>Desa</td>
<td>Village in Indonesia’s centralised system</td>
</tr>
<tr>
<td>Dukun</td>
<td>Traditional healer</td>
</tr>
<tr>
<td>Gabah</td>
<td>Husked rice</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Products</td>
</tr>
<tr>
<td>Golkar</td>
<td>Golongan Karya/ One of political parties in Indonesia</td>
</tr>
<tr>
<td>Gotong-royong</td>
<td>Practices of mutual cooperation</td>
</tr>
<tr>
<td>GTZ</td>
<td>Deutsche Gesellschaft fur Technische Zusammenarbeit/German International Cooperation</td>
</tr>
<tr>
<td>HYV</td>
<td>High Yielding Varieties</td>
</tr>
<tr>
<td>IDT</td>
<td>Inpres Desa Tertinggal/ Presidential Instruction on Development of Backward Village</td>
</tr>
</tbody>
</table>
**Idul Fitri**

Islamic celebration day after fasting month

*(Ramadhan)*

**Idul Qurban**

Islamic celebration day during the pilgrimage time

*(Hajj)*

**Imam**

Islamic religious group leader

**IMF**

International Monetary Fund

**INPRES**

*Instruksi Presiden*/ Presidential Instruction

**Iyuran**

Group member’s contribution, usually in the form of money

**Jaring**

Small fishing net

**Jeruk-peras**

Crushed orange

**Jorong**

Wards in West Sumatra Province

**Julo-julo**

Rotating and Saving Credit Association (ROSCA) scheme in West Sumatra

**Julo-julo Alat-alat Dapur**

Crockery/kitchen appliances’ ROSCA

**Julo-julo Beras**

Rice ROSCA (the contribution is in the form of rice)

**Julo-julo Padi**

Paddy ROSCA (the contribution is in the form of paddy)

**Julo-Julo Panen**

Harvesting's ROSCA (ROSCA that is done every harvesting time)

**Julo-julo Piring**

Plate ROSCA (the lottery received is in the form of plates)

**julo-julo Pupuk**

Fertiliser ROSCA (the lottery received is in the form of fertiliser)

**Julo-julo sekali panen**

Harvesting's ROSCA (ROSCA that is done every harvesting time)

**Julo-julo Tenaga**

ROSCA in which the contribution is in the form of energy

**Julo-julo Tikar**

Carpets ROSCA (the lottery received in the form of carpet)

**Kampung**

Small village
Kedai
Small shop

Kelompok Pengusaha Mikro
Microentrepreneur groups

Kelompok Tani
Farmers’ group

Kepala Desa
Village head

Keramba
Big bamboo basket for catching fish in the river or the sea

KIK
Kredit Usaha Kecil/ Small Investment Credit

KKN
Kuliah Kerja Nyata/ Obligatory social action internship for university students

KKP
Kredit Ketahanan Pangan/ Credit for food security

KMKP
Kredit Modal Kerja Permanent/ Permanent Working Capital Loan

Kongsi
Julo-julo tenaga/ Lambaihari/ Alternate working together

Kongsi Biasa
Regular Alternate working together

Kongsi Kas
Alternate working together aims for group savings

Koperasi
Cooperative

Koperasi Nagari
Village Cooperative

Koperasi Simpan Pinjam
Credit and Saving Cooperative

Koperasi Suku
Clan Cooperative

KOPERTA
Koperasi Pertanian/ Agricultural Production Cooperative

KSP
Koperasi Simpan Pinjam/ Savings and Credit Cooperative

KUD
Koperasi Unit Desa/ Rural Unit Cooperatives

KUK
Kredit Usaha Kecil/ Credit for small businesses

KUK-DAS
Kredit Usaha Kecil- Daerah Aliran Sungai/ Credit for small business in one catchment’s area

KUPEDES
Kredit Umum Pedesaan/ General Rural Credit

KUT
Kredit Usaha Tani/ Credit Programme for Farmers

Lambaihari
Julo-julo tenaga/ Alternate working together
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lapau</td>
<td>Small coffee shops</td>
</tr>
<tr>
<td>LDKP</td>
<td>Lembaga Dana Kredit Pedesaan/ Rural Credit Fund Foundation</td>
</tr>
<tr>
<td>LDP</td>
<td>Lembaga Dana Pedesaan/ Rural Fund Foundation</td>
</tr>
<tr>
<td>LMD</td>
<td>Lembaga Musyawarah Desa/ Village Consultative Assembly</td>
</tr>
<tr>
<td>LPN</td>
<td>Lumbung Pitih Nagari/ Traditional informal credit system in West Sumatra, Indonesia</td>
</tr>
<tr>
<td>Lubuak</td>
<td>Public wells</td>
</tr>
<tr>
<td>LUEP</td>
<td>Local Government's Credit Scheme for rice mills' owner</td>
</tr>
<tr>
<td>Lumbung Beras</td>
<td>Rice barns</td>
</tr>
<tr>
<td>Lumbung Padi</td>
<td>Paddy barns</td>
</tr>
<tr>
<td>Madrasah</td>
<td>Islamic religious school</td>
</tr>
<tr>
<td>Malu</td>
<td>Shy</td>
</tr>
<tr>
<td>Mamak</td>
<td>Mother's brother</td>
</tr>
<tr>
<td>MDGs</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>Merantau</td>
<td>Wandering/ specific culture of Minangkabau</td>
</tr>
<tr>
<td></td>
<td>People who move from their home village to another place to earn income, or to study</td>
</tr>
<tr>
<td>MFIs</td>
<td>Microfinance Institutions</td>
</tr>
<tr>
<td>Nagari</td>
<td>Village in a decentralised system in West Sumatra Province</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non Governmental Organisations</td>
</tr>
<tr>
<td>Ninik mamak</td>
<td>Cultural chiefs in Minangkabau custom</td>
</tr>
<tr>
<td>NPF</td>
<td>Non-Performing Financing</td>
</tr>
<tr>
<td>P4K</td>
<td>Proyek Peningkatan Pendapatan Petani Kecil/ IncomeGenerating Project for Small Farmers</td>
</tr>
<tr>
<td>Paceklik</td>
<td>Time of scarcity before harvest</td>
</tr>
<tr>
<td>PAKJAN</td>
<td>Paket Januari/ Financial deregulation that Occurred on January 1999</td>
</tr>
</tbody>
</table>
PAKMAR  
*Paket Maret/* Financial deregulation that occurred on March 1989

PAKTO 1988  
*Paket Oktober/* Financial deregulation that Occurred on October 1988

_Palawija_  
Secondary crops

_Panca Sila_  
The basic philosophy of Indonesian state

_Pedagang kaki lima_  
Street traders

_Pedagang kecil_  
Petty traders

_Pematang sawah_  
Dikes between rice fields

_Perantau_  
The wanderer/ people who do _merantau_

_Perantauan_  
The destination of the wanderer (_perantau_)

_Perum Pegadaian_  
State-owned pawning company

_PMUK_  
*Pemberdayaan Masyarakat Agribisnis Melalui Penguatan Modal Usaha Kelompok/* Agribusiness Community Empowerment Programme through Strengthening Group Capital

_PMIF_  
Credit for Food Security

_Pos Yandu_  
*Pos Pelayanan Terpadu/* Integrated medical services point

_Pos Yandu julo-julo_  
ROSCA _Pos Yandu_

_PPL_  
*Penyuluhan Pertanian Lapangan/* Agricultural Extension workers

_PRA_  
Participatory Rural Appraisal

_Priayi_  
Civil servants

_Pukat_  
Large and long fishing net

_Ramadhan_  
One of months in the Islamic calendar when Muslims do fasting

_Rankiang_  
The small houses which are located in front of the Minangkabau traditional house

_RDKK_  
*Rencana Dasar Kebutuhan Kelompok/* Basic Group Plan
RFIs
Riba
ROSCAs
Rp
Rumah adat
Rumah Gadang
SACI
Sawah
Sedekah
Simpan pinjam
Simpan Pinjam Kelompok Tani
Simpan Pinjam Suku
Simpanan Pokok
Simpanan Wajib
SIMPEDES
Suku
Syarak
Syari'ah
Tanah ulayat
Tapian
tegalan/pekarangan
Tukang Urut
Tungku Tigo Sajarangan
TV
UEDSP
BUKOPIN
Urang Sumando
USP

Rural Financial Institutions
Money interest in Islam
Rotating and Saving Credit Associations
Rupiah/ The Indonesia’s currency
Traditional house
Minangkabau’s traditional house
Specialised agricultural credit institutions
Ricefields
Charity in Islam
Saving and credit scheme/ Cooperatives
Farmers’ Groups’ Cooperatives
Clan cooperatives
Voluntary savings
Compulsory (basic) saving
Simpanan Pedesaan/ Rural Savings
Clan
Religion
Religious regulations
Clan land
Public toilets and bathrooms
Unirrigated land
Traditional massager
Three hearths in one place (the structure of village council in Minangkabau custom)
Television
Unit Ekonomi Desa Simpan Pinjam/ Village
Economic Savings and Credit Unit
Bank Usaha Koperasi Indonesia/ One of Indonesia’s state-owned banks
Brother in law
Usaha Simpan Pinjam/ Saving and credit
<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wali Nagari</td>
<td>Village Head</td>
</tr>
<tr>
<td>Warung</td>
<td>Small shops</td>
</tr>
<tr>
<td>WILUD</td>
<td>Wilayah Unit Desa/ Agro-economic unit</td>
</tr>
<tr>
<td>Zakat</td>
<td>Compulsory contributions in Islamic religion</td>
</tr>
</tbody>
</table>