

Simpan Pinjam :
Accumulating Savings and Credit Association for Locally
Important Mutual Funds in Rural Java*

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Abstract

Declining access to productive land and the Javanese small-holder agriculture because of increasing population pressure and rising price of land in the countryside have led to intensification in farming process. But also such a process has resulted into agricultural diversification. For example, apart from wet rice cultivation, other crops (called *Palawija*), such as soybeans or peanuts, have been cultivated as second crops during the dry season. Besides, recently many farmers in the research areas are trying to grow more marketable vegetables in place of soybeans or peanuts, such as red pepper, chili, cabbage, broccoli and so on, in dry season. But these agricultural activities, which are of course main economic ones in the research areas, have not been able to afford sufficient income to the rural households.

Various on-going changes such as simultaneously, a commercializing rural economy and the urbanization of the countryside, have led to an increase in villager's need for cash and also for rural credit. In most rural areas, therefore, the villagers have set up many informal associations providing savings and credit facilities. One example is *Simpan Pinjam*, an accumulating savings and credit association in which the pooled savings are not instantly redistributed but kept in custody and allowed to accumulate by lending parts of it to members for interest. Since the early 1980s, such informal credit systems have also evaluated to meet the increased demand for rural credit from most of the villagers.

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1. Introduction

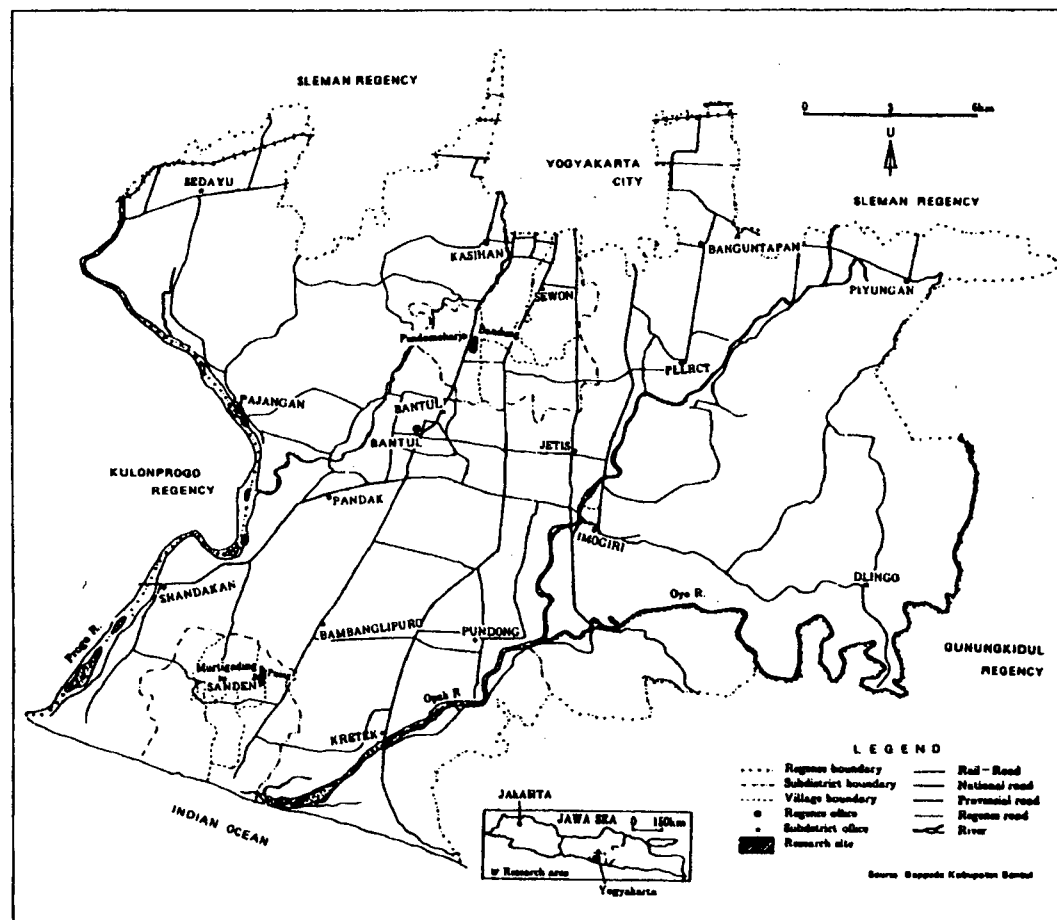
The purpose of this paper is to describe (1) the affective demand for income generation in the selected rural areas of Yogyakarta Special Region in central Java, Indonesia, and (2) the role of existing informal credit institutions or mutual help systems in such areas.

This paper is based on the results of two case studies conducted in two villages (Figure 1) in Yogyakarta Special Region in central Java, Indonesia, from September 1989 to March 1990.

Declining access to productive land and the Javanese small-holder agriculture because of increasing population pressure and rising price of land in the countryside have led to intensification in farming process. But also such a process has resulted into agricultural diversification. For example, apart from wet rice cultivation, other crops (called *Palawija*), such as soybeans or peanuts, have been cultivated as second crops during the dry season. But, recently many farmers in the research areas are trying to grow more marketable vegetables in place of soybeans or peanuts, such as red pepper, chili, cabbage, broccoli and so on, in dry season. Besides, no small farmers practice the fish breeding in the paddy field or within the house compound and sometimes the cattle rising at their home. But these agricultural activities, which are of course main economic ones in the research areas, have not been able to afford sufficient income to the rural households. Most of the households accordingly have to look for non-agricultural activities as a supplement to or a substitute for their agricultural income.

Various on-going changes such as simultaneously, a commercializing rural economy and the urbanization of the countryside, have led to an increase in villager's need for cash and also for rural credit. Therefore in most rural areas, the villagers have set up many informal associations providing savings and credit facilities. One example is '*Simpan Pinjam*', an accumulating savings and credit association in which the pooled savings are not instantly redistributed but kept in custody and allowed to accumulate by lending parts of it to members for interest. But over the last decade, such informal credit systems have also evaluated to meet the increased demand from the part of villagers for rural credit.

Figure 1 Bantul Regency



2. Mutual Savings and Credit System in the Two Surveyed Sites

(1) Sources of Credit

As pointed out earlier, some among of full-time farmers have practiced intensified farming including not only growing wet rice and second crops (*palawija*), but also chicken raising or fish breeding in order to supplement their total income. On the other hand, non full-time farmers are engaged in non-agricultural activities including urban jobs as a primary or secondary activity.

But for expanding their economic activities or initiating new ones, rural residents increasingly take out loans. Moreover, some rural residents borrow money for spending it on consumer goods on which they are becoming keener and keener in the context of the diffusion of urban life-styles in the countryside.

As shown on Table 1, 46 households (54.1%) in Piring and 62 households (42.5%) in Bandung are somewhat indebted. Such figures, however, may be little the actual level of indebtedness of the villagers due to the fact that most household heads feel reluctant to report the actual amount of their debts. Roughly speaking, half of all the household heads in each hamlet are indebted to some extent.

Table 1 Number of Indebted Household

	Piring		Bandung	
	Total	%	Total	%
More than the Two or Three Year Income of Household	18	21.2	22	18.6
Within the Limits of Enable Payment	2	2.3	4	3.4
A Little	26	30.6	36	30.5
No Debt	39	45.9	56	57.5
Total	85	100.0	118	100.0

Source: Household Survey

Main sources of credit being available to the villagers in the research sites are, as shown on Table 2 and 3, People's Bank of Indonesia (*BRI: Bank Rakyat Indonesia*), Development Bank of Province (*BPD: Bank Pembangunan Daerah*), Village Unit Cooperatives (*KUD: Koperasi Unit Desa*), a post office, a public pawn, Accumulating Savings and Credit Association (*Simpan Pinjam*) managed by the Organization for Security Surveillance (*SISKAMLIN: Sistem Keamanan Lingkungan*) or the Women's Organization for Family Welfare Guidance (*PKK: Pembinaan Kesejahteraan Keluarga*), Rotating Savings and Credit Association (*Arisan*) managed by *PKK*, and an individual of friends or relatives.

These abovementioned source of credit, in turn, can be divided into three groups, namely formal and informal associations and individual private lenders. Formal associations are those being promoted and established by central or local governments such as *BRI*, *BPD*, *KUD*, post offices and public pawns. On the other hand, informal associations are those which are voluntarily set up by the villagers themselves within each hamlet in the spirit of mutual help which is still very vivid in rural areas (e.g. *Simpan Pinjam* and *Arisan*).

Table 2 and Table 3 show the share of the indebted households by type of the sources of credit and of the reasons for borrowing. In Piring, the share of villagers involved in *Simpan Pinjam* is the highest (45.7 %), followed by 43.4 % for borrowers from *BRI* and *KUD*. By contrast, in Bandung, the proportion of *BRI*, *KUD* and *BPD* (only one borrower for *BPD*) is the highest with 53.2%, followed by *Simpan Pinjam* (32.3%). Such a difference between the two hamlets may be related to the fact that the villagers in Bandung is more urbanized and that the domestic economy in Bandung is more commercialized than in Piring. In other words, the villagers in Piring are still living more at subsistence level than in Bandung.

But it is noteworthy that in both research site, among all available sources of credit, *BRI* is the most popular and only a few borrowers obtain credit from *KUD*. Although various kinds of credit programmes intended for rural residents

Table 2 Source of Credit × Reason for Borrowing Money in Piring

Reason \ Source	Food, Clothing and Shelter	Consumables and Commodities	Pressing Needs (Disease etc.)	Important Event (Child-birth, Marriage etc.)	Religious Ceremony	Education	Investment	Other	Total(%)
<i>BRI</i>	4		1			3	6	3	17(36.9)
<i>KUD/BPD</i>				1		2			3(6.5)
<i>Simpan Pinjam</i> of <i>Ronda</i>	3		1			6	1	2	13(28.3)
<i>Simpan Pinjam</i> of <i>PKK</i>	3					4	1		8(17.4)
Friends/Relatives		1		1		2	1		5(10.9)
Toal	10	1	2	2		17	9	5	46
(%)	(21.7)	(2.2)	(4.3)	(4.3)		(37.0)	(19.6)	(10.5)	(100.0)

Note :

BRI (*Bank Rakyat Indonesia*) :People's Bank of Indonesia

KUP (*Koperasi Unit Desa*) :Village Unit Cooperatives

BPD (*Bank Pembangunan Daerah*) :Development Bank of Province

Simpan Pinjam : Accumulating Savings and Credit Association

Ronda:Organization for Security Surveillance

PKK (*Pembinaan Kesejahteraan Keluarga*) :Women's Organization for Family Welfare Guidance

Source:Household Survey

Table 3 Source of Credit × Reason for Borrowing Money in Bandung

Source \ Reason	Food, Clothing and Shelter	Consumables and Commodities	Pressing Needs (Disease etc.)	Important Event (Child-birth, Marriage etc.)	Religious Ceremony	Education	Investment	Other	Total(%)
<i>BRI</i>	3				1	2	10	9	25(40.3)
<i>KUD/BPD</i>	2		1	1		4			8(12.9)
<i>Simpan Pinjam of Ronda</i>	1								1(1.6)
<i>Simpan Pinjam of PKK</i>	9	3	1	1	1	2	1	1	19(30.7)
Friends/Relatives	5						3	1	9(14.5)
Total	20	3	2	2	2	8	14	11	62
(%)	(32.3)	(4.8)	(3.2)	(3.2)	(3.2)	(12.9)	(22.6)	(17.8)	(100.0)

Note : see Table 2

Source:Household Survey

are managed through *KUD* as a service center for rural economic activities, *KUD* is not very popular among the villagers as a source of credit.

(2) Reasons for Borrowing Money

In Piring, the share of villagers borrowing money for the education of their children is the highest with 37 %. Further reasons for borrowing money are: purchasing food/clothing and consumables/commodities(23.9%), and then realizing investments(19.6%). On the other hand, in Bandung, the number of villagers borrowing money for purchasing food/clothing and consumables/commodities are the most numerous(37.1%) followed by those borrowing money for investments (22.6 %).

Therefore, it can be said that many villagers in Piring borrow money for the education of their children and then consumption purposes to supplement their income. In reality, villagers who borrow money in order to invest it in productive activities are few in both research site, especially in Piring.

(3) Informal Savings and Credit System

As pointed out above, informal credit associations within the research areas are *Arisan* and *Simpan Pinjam*.

Arisan is the so-called rotating savings and credit association which consists of a group of anything from 10 to about 200 people, who are more often women. For example, in *Dusun* Piring, the seven lower groups of *PKK* (*Dasa Wisma*, which is a lower group of the Women's Organization for Family Welfare Guidance) have their own *Arisan* respectively. Each group consisting of about

10 members has the meeting at regular intervals, namely every 35 days which is equivalent to a month in Javanese calendar. The meetings are held at regular intervals, that is weekly or monthly. Each member contributes a certain amount of money (Rp 1,000 in Piring) to a common kitty, which is distributed to each member in turn. The order in which the kitty is distributed is decided by drawing lots, so that each person receives the kitty (about Rp 10,000 in all) once during the course of a single *Arisan* cycle.

Arisan is very popular and widespread credit associations throughout Java. The original function of *Arisan* was, as it were, more social than economic. Clifford Geertz, therefore, commenting on *Arisan* in East Java during the mid of the 1950s, noted that "arisan members viewed it less as an economic institution than a broadly social one whose main purpose is the strengthening of community solidarity." He also recognised, however, the potential of *Arisan* as an economic institution, aptly describing it as 'a middle rung' in the process of development.

But, in these decade, a new informal credit institution which are more potential or useful as an economic institution than *Arisan* has spread in rural Java. It is called *Simpan Pinjam* which is a kind of savings and credit association.

In *Dusun* Piring which is one of the research sites, *SISKAMLIN* and *PKK* have organized *Simpan Pinjam* since the early 1980s.

For example, this writer will show the case of south *SISKAMLIN* in *Dusun* Piring. *Dusun* is, as it were, a hamlet which is the lowest administrative unit under the village office. *Dusun* Piring is divided into two organizations, namely south and north ones, for security and surveillance. The south *SISKAMLIN* consists of 31 households which are located in the south side of the hamlet. They are divided into five groups which correspond with the market days according to the Javanese calendar. Each group consisting of about 7 members has to keep night watch in the south side two times a night every five days. During the first night watch, they collect hulled rice which is filled in a small can, placed by the front door at every house. As the hulled rice in a can weights about 30~40 grams, about 1 kilograms of hulled rice in all is collected every night. Then, a member of the group at that night buy it for 100 Rupia which is of course cheaper than the market price (Rp 600/kg). Every 100 Rupia paid by a member every night in turn contributes to the common kitty of *Simpan Pinjam* of the south *SISKAMLIN*. As the meeting of the south *SISKAMLIN* is held at the Javanese market days, namely every 35 days, at that time every member who need cash can borrow money with five percent interest till the next meeting.

3 . Conclusion

Throughout this paper, it has been stressed that commuting and the spread of off-farm activities in the countryside that are simultaneously occurring with rising rural-urban linkages enable a significant share of rural residents to find alternatives to full-time agriculture. Such alternatives are, indeed, definitely needed in a context of high demographic pressures on land.

In many instances, however, such off-farm activities still remain little productive due to the paucity of capital which is available to most rural residents. Such capital is needed by rural residents for expanding their small-scale or cottage industries through purchasing tools, equipment and paying wages. It is also needed for those farmers who would like to diversify or to expand their agricultural activities such as in starting or expanding fish breeding or poultry raising.

It is recommended, therefore, that informal sources of credit provided through the channel of mutual-help groups are strengthened by establishing bridges between such existing informal systems and formal credit institutions. But, in general, it is usually difficult for most of the villagers to access to the formal credit institutions. Thus, they have organized the traditional or informal credit associations to cooperate each other for the adapting to such on-going changes and for the strengthening of community solidarity.

Until the 1970's, only *Arisan* was usually organized as a informal credit association in the research areas. But, over the last decade, with the expansion of the villager's need for cash or capital, they have organized another informal credit association, called *Simpan Pinjam* which has been rapidly spreading throughout Yogyakarta Special Region.

Simpan Pinjam is a more useful and economical tool than *Arisan* because the villagers can easily borrow small money when they need it. *Simpan Pinjam* has been taking, therefore, the place of *Arisan* as a useful tool for the rural development in Java. But, it can be said that the most common function of both *Arisan* and *Simpan Pinjam* is that of strengthening community solidarity through the symbolic pooling of small amount of each member's contributions.

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