Juggling Money in Yogyakarta. Financial self-help organizations and the quest for security
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Chapter Four - The Goose with the Golden Eggs: Linking financial self-help organisations with banks

The most recent variety of financial self-help organisation in Bujung is the so-called linkage group, a *simpan pinjam* that obtains part of its capital from a bank. Establishing linkages is one of the more fashionable approaches in Microfinance and in development policy in general. Gaventa (1997:7), for instance, states: "[T]he institutional challenge is not only how to make single institutions more participatory through internal institutional change, but also how to develop more collaboration and linkages between and among organisations, which historically may not have worked together." Advocates of linkages between financial self-help organisations and banks claim this to be the most sophisticated Microfinance approach. These linkages are said to take into account more fully the complexities of local financial institutions and avoid the major pitfalls of top-down approaches.¹

One of the main inspirers of linkage programs is Hans-Dieter Seibel, whose ideas regarding linkage of banks and financial self-help organisations originate from his dissatisfaction with standard credit programs. These programs ignored savings mobilisation and had their loans heavily subsidised, policy choices with various negative effects (Seibel, 1985:390-391). Seibel saw the solution in financial self-help organisations, which by the mid-1980s attracted more and more attention among policy makers. But besides their specific qualities, Seibel also identified a number of shortcomings with financial self-help organisations, such as their lack of access to outside capital, consultancy services, systematic modern inputs (Seibel, 1985:392), and the problem of transaction costs (Seibel and Parhusip, 1992:239). In addition, Steinwand (1997:2) also mentions management deficiencies. Linking these indigenous institutions with banks, Seibel argues, could overcome some of the fundamental shortcomings of financial self-help organisations. He soon put his ideas into practice and developed linkage programs in different countries in Africa and Asia.²

¹ One should be aware that linkages do not have to be established through outside intervention. Treasurers of financial self-help organisations who take money from the burial fund to the bank also establish a kind of linkage. See also Kane (2001:235-46).
² The countries include Cameroon, Nigeria, Nepal, the Philippines and Thailand (Seibel and Parhusip, 1991:240). Other people and organisations have engaged in linkage
Important principles in these linkage programs are deposit mobilisation, group guarantees, market rates of interest and sustainability (Seibel and Parhusip, 1992:240).

In spite of all these assumed qualities, the linkage approach is not without critics. Hospes (1998:9-11) argues for Sub-Saharan Africa that if a program proposes linkages with governmental institutions, its designers are probably insufficiently aware of the negative feelings towards the state, which will result sooner or later in resistance to these programs. Balkenhol and Gueye (1997:13) conclude that linkages seem to be more in the interests of banks than in the interests of individual participants. Abugre (1994:167) warns that "[i]nstitutionalizing ROSCAs could increase operating costs, modify the terms of the contract, introduce new norms, insert mediators between savers and borrowers and bureaucratize behavioral relationships". In Bujung itself, the experience with linkage programs is not encouraging. A number of financial self-help organisations in Bujung joined a linkage program, and all of them collapsed. Although this program does not really involve the institutionalisation of ROSCAs, most of Abugre's fears came true. This chapter explores what went wrong, and what the implications are for the institutional linkage philosophy in Microfinance and Microinsurance.

4.1 Previous Experiences with Credit Programs for the Poor

The experience of Indonesians with credit programs dates back to the last years of the 19th century, when the colonial government established the Popular Credit System (Volkscredietwezen). As an adaptation of the German Raiffeisensystem, it aimed to solve the credit problems of Javanese farmers who supposedly lacked the will to save, were troubled by claims made on them by fellow villagers, and suffered under exploitation by usurious Chinese moneylenders. The initiators saw the cooperative character of Javanese villages as a fertile breeding ground for a cooperative credit system, which included village banks, paddy banks and district banks. As such it was part of the wider ethical policy of the late colonial state, through which the government tried to enhance its legitimacy (Schmit, 1994; Wertheim, 1956). During the first decades of the twentieth century, the Popular Credit System grew to be one of the most important state projects, see for example Jones (1999) in Ghana. A new theme in India is the linkage with multinational corporations that are interested in improving purchasing power in rural areas, and for that purpose are supporting income generating activities (Rao, 2000).
institutions, with offices all over the colony (see among others Cramer, 1929; Besseling, 1919; Krafft, 1929; Schmit, 1991:37-82; and 1994; Booth, 1998:301; Schrader, 1994; Ballendux, 1951; and Boeke, 1955:291-3).

After independence, the Bank Rakyat Indonesia (BRI) was established on the foundations of the Popular Credit System (Schmit, 1991:83-7; Schrader, 1994:222-3). The BRI remained targeted at providing productive credit to farmers although, according to Booth (1998:314), larger proportions of the funds were channelled to urban elites. The BRI came to play a central role in the credit section of the Mass Guidance (BIMAS) programs of the 1960s and 1970s (Schmit: 1991:102-46). These programs were targeted at increasing agricultural productivity, in the later stages in particular through the introduction of modern high-yielding crops. In the last of these BIMAS programs the government and BRI established village units, or BUUD/KUD, in order to have local institutions available to manage the supply of credit (Schmit, 1991:111-3; Tjondronegoro, 1984:33-6). The credit section of the BIMAS program was heavily subsidised and operated at enormous losses because of a high default rate (Bouman and Moll, 1992:210-3; McLeod, 1994:92). Another credit program that was later introduced was the KIK/KMKP, which was also set up only to finance productive activities, although it was not targeted at agriculture in particular. The KIK/KMKP was not as much a failure as the BRI-BIMAS programs, but still operated with substantial losses (McLeod, 1994:92).

These programs were finally abandoned in the 1980s. The BIMAS program was replaced in 1983/1984 with the Kupedes scheme, a credit scheme operated by BRI. In contrast with BIMAS it provided small loans at higher interest rates and only to screened creditworthy borrowers (McLeod, 1994:99-101; Seibel, 1994:23; Robinson, 1994; and Schmit, 1991:147-214). The KIK/KMKP program was abandoned in 1990 and replaced by a requirement on all domestic banks, including the commercial banks, to spend 20% of their loan portfolio on small loans (McLeod, 1994:99). These measures were part of a wider deregulation.

3 The wide reach of the Popular Credit System does not imply that it had a great impact on the lives of all Indonesians. The literature on the Popular Credit System leaves the strong impression that its financial services rarely reached beyond a local elite.
4 BUUD/KUD stands for Badan Usaha Unit Desa/ Koperasi Unit Desa.
5 KIK/KMKP stands for Kredit Investasi Kecil/ Kredit Modal Kerja Permanen.
6 Booth (1998:322-3) says that although Kupedes was generally evaluated as a successful rural credit program, it was still not lending as much in real per capita terms as the Popular Credit System.
4.2 Project for the Development of Linkages between Banks and Self-help Groups (PHBK)

It is against this background that Hans-Dieter Seibel was able to launch a pilot program for the PHBK-project (Pembangunan Hubungan Bank Kelompok Swadaya Masyarakat, or Development of Linkages between Banks and Self-help Groups) in 1989, together with the German Gesellschaft fuer Technische Zusammenarbeit (GTZ), the Asia-Pacific Rural and Agricultural Credit Association (APRACA) and Bank Indonesia, the nation's central bank. This project aims "to improve the system of rural finance available to small farmers and micro-entrepreneurs by promoting and supporting business relations (linkages) between commercial banks and financial self-help groups (SHGs). By achieving the project goal it is assumed that the living conditions of the poorer part of the rural population will be improved" (Koch and Mulyantini, 1993:391). Primarily *simpan pinjam* were identified as institutions with big potential for linkages (Holloh, 1995:8-13), although later Seibel and Parhusip (1998:4) argue that there should be more attention to incorporating *arisan* into the project in order to reach more women. To that end, the *arisan* need to be upgraded first.

In 1988 the Central Bank organised a task force to develop a pilot program in North Sumatra, Bali, Central Java and Yogyakarta (Seibel and Parhusip, 1991:242-3). The project was structured in the following way: "Bank Indonesia provides an umbrella and supports this approach through financial, technical and personal inputs, a growing number of commercial banks provide savings and credit services to groups of small farmers and micro-entrepreneurs. Through the involvement of intermediate Self-help Promotion Institutions (SHPI), which would provide either training and consultancy services to the SHG and in some cases additionally act as financial intermediaries" (Koch and Mulyantini, 1993:391). In practice this

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7 Initially the main banks involved were the Bank Rakyat Indonesia (BRI) and Regional Development Banks (BPD), as well as a few private commercial banks and rural banks. After the financial restructuring measure of 1992 the role of People's Credit Banks (BPR) became increasingly important (Steinwand, 1997:7-8).

8 The SHPIs included both NGOs and governmental organisations. The organisations ranged from large and well-known Bina Swadaya to small local organisations (Steinwand, 1997:8)

9 The set-up included an option for one of three linkage models. One model entails a direct linkage between SHG and bank. A second model involves mediation by an SHPI in the field of guidance and education. The third model entails a role of SHPIs as financial mediators.
meant that the SHPIs and the banks involved in the project actively looked for financial self-help organisations in the villages and towns of these four provinces. If these organisations were then interested in establishing a linkage, the SHPI or the bank would assess the quality of the organisations and the enterprises of their members. If everything was found to be in order, the organisations could apply for a loan of the size of five times their group savings, money which had to be deposited in the bank as collateral. The loans are disbursed to the group, which can decide to onlend the money to individual members or to invest the money collectively. Initially, the project allowed for three different linkage models, one in which the SHPIs acted as financial intermediaries between banks and SHGs, another in which the role of the SHPIs was limited to the provision of guidance and advice, and finally a linkage model with direct relations between the bank and the SHG. The project was quite a success. Between December 1990 and April 1992 the project grew from 417 SHGs with 7,200 members to 700 SHGs with 20,000 members. The number of banks involved increased from 26 to 46 over the same period. April 1992 also marked the end of the pilot period, after which the program expanded to fifteen other provinces (Seibel and Parhusip, 1991:244-5; Koch and Mulyantini, 1993:391).

After 1994 some modifications were made in the organisational set-up. The project concentrated on the direct linkage models and largely moved away from the model involving mediation by SHPIs. This resulted in the first place from a generally bad performance of these SHPIs. It was also related to the new banking act of 1992, which aimed to reduce the number of financial institutions engaging in bank-like transactions, thus discouraging the activities of NGOs in this field. Another important modification is the further concentration on kelompok pengusaha mikro (groups of micro-entrepreneurs) as partners in the project. These groups appear to be more open to expansion of financial activities than simpan pinjam, and can therefore more easily boost the project's performance. From the reports of the PHBK-project, it remains unclear of what type these kelompok pengusaha mikro (KPM) are, but it is clear that they are in many cases formed by the banks that service them. This suggests therefore that this is primarily a strategy on behalf of the banks to create social control among, at least some of, their customers by forcing them to act on a group-basis. The incorporation of KPM implies, according to Steinwand (1997:11-6), that this increasingly important part of the project is technically not a linkage.

10 This last model has been cut down from 65% of all outstanding loans in 1992 to only 10% in 1997 and is recommended only in exceptional cases (Steinwand, 1997:16).
program any more, if linkage implies a relation between existing institutions. In any case, the introduction of KPM into the project accounts for much of the massive expansion of the project after 1994. In June 1997 the project had reached 6,650 SHGs all over Indonesia through 475 different local banks. Two thirds of the SHGs were KPMs (Steinwand, 1997:23).11

In the different linkage models of the PHBK-project the repayment performance varied. The arrears ratio for loans from SHPIs or banks to SHGs ranged from 2.2% to 7.2% at different moments throughout the project period. The arrears ratio for loans from banks to SHPIs (which they on-lend to SHGs), gradually increased from 3.2% in 1992 to 17.2% in 1997 (Steinwand, 1997:25). These repayment problems led the PHBK-project to distance itself from the linkage model that involved an intermediary role for SHPIs. Overall, the impact of the project is positively evaluated. Kerstan and Mulyantini (1993) find that the majority of people reached by the project never previously obtained a loan from a bank. These people had primarily invested their PHBK-loans in enterprises, resulting in higher incomes, and increasingly expanding the workforce in their enterprises. A disappointment was that men were able to benefit from the project more than women were. Steinwand (1997:29-30) observes enthusiasm for the group-banking idea with both policy-making institutions and banks, but also mentions the bad experiences with several of the SHPIs involved and the disappointing lack of ambition among many of the *simpan pinjam*.12

One of the banks engaged in the PHBK-project is Bank Shinta Daya in Prambanan, twenty kilometres east of Yogyakarta. The Bank Shinta Daya is a Bank Perkreditan Rakyat (BPR), a self-financed private village bank established in 1970 (Seibel and Parhusip, 1998:2). From their office they provide financial services to individuals and groups all over the province. Bank Shinta Daya established contacts with two *simpan pinjam* in Bujung and one of them was Manunggal (Unity/Union).

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11 In reality, the increase was even bigger, as figures from various provinces were missing in the report.
4.3 How Manunggal Started and Collapsed

The story of Manunggal is very much the story of Pak Asman. Asman lives in Bujung in a small rented house with his wife, a teacher at a university, and his two children. He is a good talker and a self-proclaimed businessman, but he is locally known for having had as many failures as enterprises. He is also very active in a variety of organisations in and outside Bujung. "I collect organisations, it is my hobby", he says. Asman is no doubt polishing up his own role when he recalls the way Manunggal started in 1990:

"One day, I had noticed that there were some people who suffered from a lack of capital, for business and for daily expenses. Among them were traders, and people who drive pedicabs. Many of them rent their pedicab and do not have one of their own. And I thought, would it not be a nice idea if we could help these people with obtaining credit from a bank, which would make things cheaper. I, Asman, was thinking in this way. After this, I started talking with other people about this, with Salman, with my wife, and with Mas Wendo. We said: 'Let us start a self-help group and call it Manunggal.' The first meeting was held at my house. At that moment we did not have anything at all. We had to start from zero, a big zero. We did not have any members, and we did not have any books. The books we used were not bought but given by my wife. We also did not have any funds at all. After this first meeting we were ready to start. I appointed Salman as the chairman, me I myself as the treasurer, and Wendo as secretary. My wife was to be the first member. So, we had four people."

"After that we had the second meeting. This was in 1992 or 1991. At that moment we really wanted to get things going, but only seven people came to the meeting. My friend Pak Pomo, and two others. So, it was still difficult. (...) I told these people that I wanted to meet every month, 'and I want all the members to contribute Rp.1,000 to the fund.' 'Why?’, they all asked. And I said: 'these contributions are collected as collective savings.' 'Why savings?' they asked. And I said: 'this money can in the future be lent out to you as members.' Now we had seven people, very simple. And we thought that for the next meeting we had to invite a number of aspiring members. We went to several families and told them that we had started a group, and that we were planning to hand out loans as big as Rp.100,000. We promised that, while we did not have any money yet. We did not have anything at all. A lot of people came, fifteen people. The people said: 'well tell me, can I borrow Rp.100,000?' The chairman said: 'yes you can, but not now, some day. We first have to get in contact with a bank.' That way, the meetings went on and on."
Then one moment Pak Asman got in touch with Pak Darmanto, a man from Bujung who was working at a local NGO called BK3S. BK3S was one of the SHPIs involved in the PHBK-project. Together they discussed the opportunities created by the PHBK-project. Asman was immediately enthusiastic and from Darmanto’s house they rang the Bank Shinta Daya, the bank that could provide a loan, and they made an appointment.\textsuperscript{13} Asman cannot help laughing as he recalls the initial contacts with the Bank Shinta Daya:

"Darmanto and Pak Purwon o from the Bank Shinta Daya came to my house. They asked, well Pak Asman, you have a group called Manunggal? And I answered, yes, yes, of course I have, and we want to borrow money from the bank (…). They said, tomorrow we want to see the bookkeeping of the group, the fund, the list of members, etc. Actually, do you already have a simpan pinjam, or not yet? And I said: 'yes we have!', although we didn't.... I was a little bit stressed because of this. I thought, next month they are going to beat me up at the bank when they find out that it is not true. So we made a loan book, a fictive one, hahahaha...., very funny. On top we placed Pak Asman, who borrowed Rp.40,000, below Pak Pomo Rp.30,000, and so forth. Some of us had repaid their debts, and others not yet. This way we went back three months. And then a team came from the bank, a research team…, three people!! I showed them the books. 'They asked, is there an attendance list? 'Whoops, we do not have one'. The people from the team were not stupid either, but we fooled them.'

"Some time later we received the comments from the Bank Shinta Daya. They said that it was OK, but they asked how many members we had, and I said twenty-five. We did not have twenty-five yet, but we still had to look for a few more. Twenty-five was the minimal size of a group for BSD. And they asked: 'how much do you want to borrow?' I asked for Rp.2,500,000. Not very much, because I wanted to set a ceiling, a target. I only wanted to lend Rp.100,000 per person. Every month we paid back, and we asked the members to repay their loans within one year, and we managed to do so. The interest was 2%, only Rp.1,600 per month."\textsuperscript{14}

"And then the word spread around: 'With the group of Pak Asman you can pay Rp.1,000 as an initial contribution, and after that you can

\textsuperscript{13} Darmanto later complained to me that he and his organisation were pushed aside as soon as the contact between bank Shinta Daya and Asman was established. According to Darmanto, this was not according to the rules of the PHBK-project. The coordinator of BK3S said that they left the PHBK-project in 1994 because they felt that it was too far removed from the expertise of BK3S (compare Steinwand, 1997).

\textsuperscript{14} The exact interest rate charged by Bank Shinta Daya is 1.75% per month. The group savings deposited at the bank make a monthly 0.25%.
borrow Rp.100,000! 'Whooah, let's join, let's join!' And many people came (...). There were traders, pedicab drivers, and so on. When they came I asked them what they did (...) [b]ecause I only wanted people who had a small enterprise. Big was not allowed (...). After that, the bank asked how much we wanted to borrow. I put it to the members and we agreed to borrow seven million, and that was all right with BSD."

Even though Asman's account of what happened is clearly coloured, the basic elements of the story are correct and confirmed by others involved. A handful of individuals invented a non-existent simpan pinjam, set up to acquire a loan from Bank Shinta Daya, and armed with this they attracted a group of enthusiastic borrowers. Most of the members came from an RT in the Ledok where Asman at that moment was the chairman, and a number of other members were friends of Salman.

In January 1995, a third and larger loan was taken out, of approximately 27 million rupiah, which was to be returned in one and a half years. In those days there were forty-four members, over whom at least thirty-six loans were distributed. In three cases there was more than one loan per household, including the loans of Asman and his wife. By coincidence, this time one of the main purposes that loans were used for was the purchase of houses. In the earlier cycles many of the members of Manunggal had spent their loans on some form of consumption rather than investment, contrary to the regulations of the PHBK project.\(^{15}\)

In those days there were still two large dwellings at the southern end of the eastern Ledok, which accommodated approximately fifteen households. These houses were built by someone from Pingit, another nearby kampung. When this person died, the heirs were going to sell the land to a Chinese man who wanted to start raising pigs. Because of this the inhabitants of Bujung were alarmed and protested against it, so that finally the Chinese businessman did not get a permit for his business. As an alternative, the heirs offered the land to their tenants at the relatively low price of Rp.17,000 per square meter. Even though it was a real bargain, most of the tenants were not able to raise enough money to buy the land for their part of the houses. There was only Manunggal.... Two of the households living in the houses decided not to take up the offer, and they moved to rented houses in another part of the RT. Thirteen households decided to buy, and eight of them financed the

\(^{15}\) Money is fungible and consequently lenders have a hard time keeping track of the purposes for which loans are used (Abugre, 1994:169; and Heidhues, 1994).
purchase completely or for a large part with a loan from Manunggal. Two outsiders, one of them Asman, moved in to buy the land of the tenants who left. Most of the people who bought their land had some extra money and replaced their parts of the long bamboo house with strong brick houses. It was a good investment. The price of the land rose to Rp.100,000 per square meter in 1998. However, a loan of Rp.1,000,000, enough to buy almost sixty square meters of land, required a monthly instalment of Rp.80,000 per month, which is exceptionally large by their standards. As a consequence, five of the nine people who financed their purchase with money from Manunggal were quickly forced to sell their house. Even though they sold the land at a profit, four of them still retained a debt with Manunggal. This was because they had many other debts, partly acquired in earlier attempts to repay the loans to Manunggal. One of the others who borrowed from Manunggal to buy his house, but did not sell it, is also still left with a large debt.

This time, the loans were not easily repaid. In October 1996, there was still an outstanding debt of 22.5 million rupiah. Since January 1995, about 17 million rupiah had been paid to the Bank Shinta Daya, but slow repayment meant that a large part was for interest. At that time, at least thirty-one of these loans had not been repaid in full, and at least sixteen of them had paid less than 50% of their debt. Although no more recent figures are available, the outstanding debt was still considerable in July 1998. Why did these difficulties occur?

4.4 Manunggal Stays Down

Figure 4.1 shows the monthly repayment performance of all members of Manunggal from January 1995 to December 1996, distinguishing between members who paid their full instalments, those who only partially paid them, and those who did not pay at all. It is clear that repayment gradually deteriorated over these first two years of the third loan cycle, and that this took the form of a snowball effect. The problem is not just a matter of

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16 It is possible that the eight members, whose names were not mentioned on the debt list, had received a loan and repaid it before October 1996. If that were true, that would decrease the default percentage to a certain extent.

17 Source: files of Manunggal. All participants except three received their loans in December 1994. Starting in July 1995 three new members joined, taking out new loans from Manunggal.
individuals defaulting. A considerable number of the members default on payment because other members do not pay either.

After Manunggal got into trouble and Asman turned out to be one of the main debtors, Salman, with the support of several other members, forced him to resign as treasurer. Salman\(^{18}\) himself replaced him and Santoso, a

\(^{18}\) Pak Salman is with his twenty-eight years a very young head of the RT where the largest number of the members of Manunggal came from (the RT where Asman was the previous chairman). His status is based to some extent on his secondary school education, with which he is above the educational level of most people dedicated in his RT. Furthermore, most inhabitants of his RT admire his trading talents. Each morning he takes out his bicycle cart to sell fruit at a secondary school in town. In the afternoon he works as a parking guard at the parking lot of a supermarket. On certain occasions he takes up special trading enterprises, like selling toys during the Fasting Month, and each year he goes to Lombok to sell party material to the tourists at New Year. Pak Salman likes to boast about the success of his business, about his many contacts, and about the achievements of his brothers and uncles. With these stories he is very able to impress his neighbours, and they will accept his judgement on financial and business matters. Pak
former teacher of Salman at the technical school, was invited to become the new chairman. Asman was formally given the position of advisor but in reality he was at that moment effectively thrown off the board. Santoso is a widely respected social figure in Bujung and seemed to be the ideal person to restore confidence in Manunggal. However, Santoso did not succeed in collecting debts either. The meetings that were normally held on the 23rd of each month stopped being held. The members were not interested in attending them any more, because there were scarcely any new developments.

When the Bank Shinta Daya became aware of the problems in Manunggal they reacted with a number of measures. First, they singled out the worst cases, which were treated individually. This approach involved a partial rescheduling of the debt and a more lenient and stretched repayment period. The positioning towards the less serious cases was stricter. These debtors were expected to stick to their repayment schedules and were sometimes coerced to provide personal physical collateral in addition to the group savings already at the bank.

Several members expressed their anger. This was mostly not directed at the major debtors of Manunggal but rather at Bank Shinta Daya, which according to them applies unfair rules. They more specifically had problems with the fact that Bank Shinta Daya treated the major debtors with greater consideration. "We are pushed to repay our debts as soon as possible, even though we are hardly able to do so. Some people have saved their money to repay, others, such as Bu Marzuki, have sold their land. At the same time

Salman comes from a relatively well-to-do family in East Java, and although he is still young, he sometimes feels bad about himself for not having achieved as much as his brothers have, and for still living in this low-class neighbourhood.

19 Pak Santoso is a 59 year old gymnastics teacher at a nearby secondary school, the same school where Pak Salman graduated. They consider their relation as a father-son relation. Until a few years ago Pak Santoso was still unmarried, and that left him much spare time to engage in social activities. He became the head of his own RT, was very active in the mosque, and was closely involved with both UKK and Manunggal. In the past Pak Santoso used to work as a supernatural healer, which gives him some status. Santoso is known in Bujung as an unusually altruistic man. Unlike many others from the higher part of the kampung, he often goes down to the banks of the river to visit poor families. There he is a welcome guest, because it is relatively easy to ask for a loan in times of need. These loans are often not repaid, but Santoso says that he does not care too much.

20 After the meetings had stopped, members were still able to pay their instalments at the house of the chairman, who collected the money in a bamboo box at his home before taking it to the bank every few weeks.
Shinta Daya leaves the people who have squandered their loans alone."
"Why should I sell everything I have to repay my debt, when Asman does not pay anything? He is not bothered at all." Moreover, those who have repaid their debt in full and those who gave ownership certificates to Bank Shinta Daya as collateral were annoyed that they were unable to recover their belongings until the complete debt of Manunggal had been repaid. Most members felt helpless and said that they would like to air their complaints if there were still meetings. Others went to the bank in Prambanan to seek a solution. One of these people, Pomo, was eventually able to recover his land certificate by means of a bookkeeping trick. The Bank Shinta Daya allowed him to take out a personal loan with that same certificate as collateral. As he repaid that loan immediately, the bank released the certificate to Pomo, but he was an exception.

In spite of their stricter stance towards the small debtors, the efforts of the bank to collect debts from them were also infrequent and half-hearted. At an early stage there were no more regular meetings and often months passed without members hearing anything from the Bank Shinta Daya. Nonetheless, irritation remained about the preferential treatment for Asman, who saw his loan rescheduled. Irritation remained about the inability to recover collateral and savings, even for those members who had fully repaid their own debt. Irritation remained about the differences between interest rates on savings and those on loans, which meant that debts could grow even after they had been repaid.\textsuperscript{21} All of that was considered unfair.

4.5 Visits to the Debtors

One day I joined one of the infrequent visiting trips undertaken by Bank Shinta Daya. Satwoko, an employee of the bank, came to the house of Salman in his fine office clothes. The three of us, followed by an entourage of curious neighbours went to the house of Bu Gunawan first. She was clearly shocked when she heard that she had a debt of more than Rp.500,000. Satwoko explained that he understood that she needed money to send her children to school, but that a debt is also something that has to be repaid. "The more time it takes", he said, "the larger the debt will become. When you have repaid you will receive your savings back, and Pomo will

\textsuperscript{21} This means 'repaid' in the understanding of most members of Manunggal. If they had a remaining debt that was equal to their collateral in the bank, they considered themselves to be even.
get his land certificate back." This last point did not impress Bu Gunawan at all. Salman openly supported Satwoko: "Whether you want to or not, you have to pay the money back." Then Satwoko asked if it would be possible to return the debt in three months' time. Bu Gunawan's eyes almost fell out of their sockets. Bu Gunawan muttered something about the school of her children, but eventually signed a paper stating that she would make weekly payments to Salman to repay the loan. The document did not mention any specific amount.

The next 'client' was a young man who was confronted with his own debts and those of his brothers. They once had a popular foodstall. The man explained that one of his brothers had fallen ill, that the whole enterprise had gone bankrupt and that they were out of work. Their debt to Manunggal was almost four million rupiah. Having judged the situation, Satwoko asked who owned the house, and the man answered that half of it was owned by the government and the other half by his parents. Satwoko wrote down on the form that the house would act as collateral, and asked the man to sign the paper. The man signed the paper though he did not seem to have read the part about the house.

The next client, Bu Karto, made no problems at all. She promised to repay her debt of more than Rp.400,000 in three months and she immediately signed the paper although she could not read. Then we went to Karman, a pedicab driver with a debt of Rp.450,000. Karman asked Satwoko whether he could wait until the arisan, which he had just joined, came in. But Satwoko said that that was not possible and that he would have to make daily payments of Rp.5,000 to repay the debt. Karman signed the paper promising that he would pay Rp.35,000 per week to Salman, though it seemed impossible that a pedicab driver would be able to pay this amount.

It is striking how easily the Bank Shinta Daya employee could make these people sign documents the contents of which they sometimes did not even know. Debtors promised to make regular repayments that they clearly could not afford on their income. The visit was clearly meant to impress the debtors and make them nervous. However, it failed to do so. When I asked some of the debtors later that week how they imagined they were going to make those payments, they either said that they would find a way to pay, or they suggested that in the end they would not be forced to pay. A few weeks after Satwoko's visit, and also a year later, Salman confirmed that the results of these new repayment schedules had been very disappointing and that
hardly anybody had really made payments.\textsuperscript{22} Santoso said: "People sign anything, but when you come to collect the money, it is simply not there." Thus, both the official character of their promises and the presentation of collateral failed to scare the debtors. Furthermore, it became increasingly unlikely that Bank Shinta Daya would use the documents to go to court. The size of the debts is simply too small compared to the costs of a legal procedure.

The explanation for these half-hearted attempts, according to Salman and Santoso, was that the objective of Bank Shinta Daya at this stage was no longer to recover the whole debt. The bank had already confiscated the group savings that were placed in the bank as collateral for the loan, and the bank was therefore only interested in recovering the amount by which the debt exceeded the savings in the bank. After that, it would be up to the group to succeed in recovering bad debts in order to compensate those who had already repaid their debt. In this way the bank was successful in recovering a considerable part of its loan, although the strategy was thwarted to some degree by the large number of members of Manunggal who refused to repay their debt in full. Members who had a loan of Rp.500,000, with Rp.100,000 savings as collateral at the bank, repaid only Rp.400,000 and then claimed to be even with the bank. However, the bank did not consider them to be even and, because the interest rate on a loan is higher than the interest rate on savings, their debts eventually increased again. When members became aware of this, they found this procedure extremely unfair.

On the same day that Satwoko visited these debtors, he also went to Asman. As we entered his house, Satwoko was surprised to see that Salman and his friends had a more aggressive attitude and clearly meant business. "We are here to discuss your debt", they said. Asman, however, seemed unimpressed and tried to bring the topic around to the general problem of Manunggal: "So exactly how many people are still in debt?" When he did not get an answer immediately he got annoyed and asked Satwoko again: "I just want to know how many people still have a debt!" In the small room irritation mounted and Satwoko waved a list in front of his face: "These are the debtors". "Yes, but how many people?", Asman insisted. But Satwoko kept to the subject: "The important thing, Pak Asman, is that you are one of them, and I want to know when you will be able to repay your debt." Asman boldly did not reply and told Satwoko that he was the one who started

\textsuperscript{22} One year after the debtors had made these formal promises, an additional Rp.225,000 had been repaid on a total debt of Rp.13,000,000.
Manunggal. "Ah Manunggal," one of the youngsters sarcastically asked Salman, "Is that the organisation that is such a flop?" "It is a complete flop", Salman says. "Aha, a complete flop", the young man concluded. Annoyed by his visitors, Asman finally gave in and asked Satwoko to write down his own debts and those of his wife on a piece of paper. He said that he could not promise anything about repayment because he had to talk to his wife first. They would be welcome to come back at any time. He also boasted that it would be difficult to find him because he was 'operational at the market'.

He promised to discuss the repayment with Santoso in due time. Satwoko, Salman and the others left the house a bit disappointed with these obviously empty promises. While walking home, the men waited until they were far enough away before they started laughing and making jokes. "Operational at the market? At the black market maybe. That stupid fool is always at home - he doesn't do anything." 'Operational at the market' was the running joke for the rest of the day.

4.6 What Went Wrong According to Those Involved?

All those involved in the Manunggal farce, participants, leaders and employees of Bank Shinta Daya, have their own ideas about what went wrong. They put their blame on the leaders of Manunggal, particularly Asman, the attitude of the participants, the role of Bank Shinta Daya, or on the general system of linking simpan pinjam with banks.

The popular view among the participants of Manunggal and their neighbours is that Asman is the bad guy of the story. People point to the big loans that he and his wife took from Manunggal and have so far failed to repay, and that he hardly ever attended the meetings. To demonstrate his unreliability, they also refer to his doubtful role in the KUD-group where he supposedly took the lion's share of the loans for himself without repaying them either. An inhabitant who eventually decided not to join Manunggal says about Asman: "The man is a big liar and a slick talker. He says he has

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21 Asman says: "Operasional pemasaran".
24 On other occasions Asman evoked more violent reactions. There is the story that one of the members of Manunggal hit him in the face and broke his nose, and he once ended up in a hospital because another man stabbed him with a pair of scissors. However, this last event was reportedly not linked to what happened with Manunggal.
25 KUD stands for Koperasi Unit Desa. These government cooperatives were set up within the framework of the BIMAS program and are meant to support income generating activities among the poor (see also Von Benda-Beckmann, 1987).
all kinds of businesses, but not a word of it is true. His business cards are fake. He had a piece of land in front of my house where he wanted to build a telecommunications office, or raise chickens. Now he has finally sold the land because he needed the money to repay one of his many debts. His wife works as a teacher. She brings home all the money and he does not do anything. He just goes around, selling wind."

Many of those who criticise the leaders of Manunggal in general, actually have Asman\(^26\) in mind. The leaders are accused of being not selective enough with regard to new members, and even of actively attracting their own friends and people who were living far away from Bujung. As a result, the leaders did not exercise enough control over the members and their repayment behaviour. Santoso, the present chairman of Manunggal, puts the blame on his predecessors Salman and Asman, although he does not accuse them of intentionally creating problems:

"Manunggal ran into problems because the leadership was frivolous, rash and careless (sembrono). An organisation like this needs to be more professionally organised. The previous leaders were too idealistic. I am also a very social person, but with carelessness you do not help anyone. (…) In the beginning we had fewer members, but our success and the big money from Bank Shinta Daya attracted a lot of people. The leaders allowed them in and the number of members increased. And when the members increase, the problems increase (anggota tambah, tambah masalah). The members were not properly selected. If you do not have a strong relationship you do not know whether they have a large debt somewhere else. If they do, they will use the money to pay back the debt, and not for some productive purpose. And then the problems begin."

Many of the additional members were living far from Bujung, which made it more difficult for leaders to visit them. Furthermore, Salman himself thinks that they probably should have been more careful when providing people with big loans. He says loans were given not so much on the basis of the repayment capacities of people, but rather on the basis of the amount of money they needed. This was especially the case for those people who wanted to buy the land on which they were living.

\(^{26}\) Asman obviously sees things differently. According to him, the problems only occurred after he was replaced by Santoso. Santoso, compared to Asman himself, is "less accurate and less careful in approaching both the members and the Bank Shinta Daya". 
But the leaders also see certain causes outside the organisation. Salman frequently points to the various adversities that created problems for certain members: "Sjafri used to have three pedicabs, but then he had problems with his wife. He sold everything and went back to his village. The enterprises of some participants went bankrupt, while others became ill and had to pay hospital bills." Santoso thinks that it also has something to do with the attitude of most participants: "From the start I already had the idea that the whole thing about Manunggal was a matter of throwing money away. Many people do not have a mind for business and they are not likely to invest their loans in business. Their enterprises are often limited (terbatas) in size and cannot grow. They could start another business in their spare time but few of them did. Without a rise in income they have difficulties repaying the large loans they took from Manunggal." Furthermore, Santoso argues that many problems also arose because of the tendency to on-lend loans to others. Bank Shinta Daya did not know what was going on, and as a result it was often unclear who was responsible for repaying a particular debt.

Both Santoso and Salman also argue that Bank Shinta Daya was not fit for its task. Santoso says that Bank Shinta Daya was not professional enough, "they do not have their figures correct and hardly paid any attention to what was going on in Manunggal". "A major problem", he argues, "was that Bank Shinta Daya was in too much of a hurry. They had 600 million rupiah available, which they wanted to lend out as soon as possible. So they were less careful in assessing the simpan pinjam with which they were working". Salman points to the fact that Bank Shinta Daya is incapable of retrieving bad debts:

"Several participants have understood this and stopped repaying. If they have to choose between repaying a moneylender and repaying Bank Shinta Daya it is obvious where there priority lies. (...) In fact, all the money could come back. If I put time and effort in it, I could get all the money back. The point is that I am not interested in doing so. It is too much trouble. I could go around asking for the money and make them repay. I could really threaten these people with the police. From my school I still have connections with people from the police. I could sue them and get them into jail. There is for instance this person who moved to Jakarta. We told Bank Shinta Daya that he disappeared but he did leave an address as a matter of fact. I could just go to his house and claim the money. If he does not have any money, or does not own any land, I could simply go to the house of his parents and claim his part of the inheritance. I would do that if there was some benefit for me. You can tell the Bank Shinta Daya that I am able to get back 90% of the money as long as I am entitled to a share in the profit. It is a good deal. Now they have a debt of seven million rupiah of
which they will only see a little. With my help, they could get back at least half. (....) In one day I will surely get Rp.50,000 together. If I did that under the present conditions, I would damage my own family. If I am looking for money for Bank Shinta Daya I cannot work, and if I cannot work my children have nothing to eat. You know that I once spent a whole day together with people from Bank Shinta Daya visiting debtors. We ate bakso together and they paid. That was very nice of them, but when I got home my children had not eaten yet. I once proposed my plan to them, but they said that my work was social work. Well, my work may be social, but their work is business. That is not a good combination."27

Also Satwoko, who by then had moved from Bank Shinta Daya to an NGO called Unity Service Cooperation (USC)28, says that it was the bank that failed. "At the Bank Shinta Daya the idea was to lend as much money as possible in order to make more profit. The loans should be given according to the capabilities (kemampuan) of the members. Here [at the USC] there is a lot more time and money available to support initiatives in micro-enterprises, and there is a lot more contact with individual members than with Bank Shinta Daya. At Bank Shinta Daya a lot of groups were accepted which were not ready yet for big loans, or where members were not ready to start enterprises. There were many groups beside Manunggal that folded." Representatives of two other NGOs working under the PHBK-project also criticised Bank Shinta Daya for "only going to meetings to collect money" and "paying insufficient and late attention to defaulters".

Apart from these feelings towards Bank Shinta Daya, there are also people in Bujung who have second thoughts with regard to the idea of linking simpan pinjam to banks and how this was put into practice in the

27 At the Bank Shinta Daya, Haryanto was not amused by Salman's proposal. "If everything goes all right, they are boasting that they do not even get paid, and when things are difficult, they immediately demand a fee. These people sometimes forget their responsibility. (....) Of course it is possible that the board members receive a fee, but it is ridiculous that the Bank Shinta Daya could pay such a fee. It is not so intelligent to try to hold Shinta Daya responsible for everything. (....) The money for such a fee could come from the members themselves, for example from the fines, or from charging a higher interest. We at Shinta Daya are prepared to guide in the drafting of regulations."

28 USC is an NGO targeted at poverty alleviation, to be achieved through "a process of enlarging people's choices". It has started working with simpan pinjam because it supports two of their most important objectives. First, they are a channel through which USC can support informal sector activities, especially small-scale enterprise. Secondly, the meetings of simpan pinjam form an excellent forum to spread information about gender and female empowerment.
PHBK-project. Santoso, for instance, argues that there is a fundamental difference between *simpan pinjam* working with their own capital and *simpan pinjam* that receive or borrow funds from outside. Referring also to a number of experiences with other externally funded *simpan pinjam* in Bujung, Santoso maintains that in these cases participants are simply less careful with their money. Apart from that he also points to the problematic way in which collateral is organised under the project. The first form is social collateral, or group liability (*tanggung renteng*). Santoso: "Group liability is not a good system. People here do not accept that they have to repay for other people. Instead, if some participants stop repaying, the others stop as well." Sutrisno, one of the members, agrees: "I think that group liability is not a good system. We are all punished for the fact that Asman does not want to repay. We cannot go to his house and ask him to pay. He has nothing to give." The second form, physical collateral, later introduced by Bank Shinta Daya in addition to group liability, proved to be not very effective either. Santoso: "Most debtors have ownership documents at the Bank Shinta Daya as collateral for their loans, but most of them are fictive because the goods they represent have already been sold."

Haryanto, the director of Bank Shinta Daya, argues that most of the problems are caused by a few unfortunate debts:

"In Manunggal, there are three large bad debts, namely that of Asman, who has a large debt because he has taken advantage of money of the group, that of Bu Sagimin, whose husband died, and that of Suhariyanto, who fell ill and saw his snack production go bankrupt. These are the large debts and we understand why it is difficult to pay them back. The smaller debts are another story, because they can be repaid. The problem is that people are jealous. They say: Why should I repay my debt when Asman has not repaid his?" But for the Bank Shinta Daya all these small sums together are also important. The large debts will be rescheduled and renewed, to give us time to find a solution, but in the end these debts will also have to be repaid. The people who have small loans have to repay their debts too. The problem is also that Santoso is too social. Salman is more business-like, but he is also following Santoso in a way. The board has to

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29 Haryanto is a self-confident man, who liked to lecture me on the ins and outs of Microfinance. He likes to present himself as the rational and business-like head of a bank with a social objective. Before the Bank Shinta Daya he used to work for an NGO which also had credit activities. He is proud on his good relations and frequent contacts with the leaders of the financial self-help organisations. He even has them visit him in his house. But in reality the contacts are infrequent, and he does not know exactly what is happening in Manunggal.
change their way of thinking. Manunggal is about money and economy. It will break down if you keep being social - you have to start thinking social-economic first."

4.7 A New Start: the Association of Independent People (PWM)

In spite of the distinctly negative experiences with Manunggal, there were still a number of people in Bujung who saw a future for linkages with banks. Even Santoso was developing ideas for a new Manunggal after the complete loan of the third cycle had been repaid. His idea was to join together with about ten people, who are well-off and can be trusted. Each of these ten participants would have to contribute a significant amount of capital, which could then be enlarged with a loan from Bank Shinta Daya. The total capital should then be invested in a common enterprise, for example in raising chickens or fish. His ideas have so far not been put in practice. Salman, on the other hand, did take action.

Salman, unlike Santoso, preferred to move away from Bank Shinta Daya. Through his uncle in East Java he had heard about a government bank that could supply subsidised credit. Like Santoso, Salman emphasised that membership should be limited to a smaller group, containing only people from the area. Salman's idea was to borrow a very large amount from this government bank.

"Each member could then borrow from this collective fund at a low interest rate, and the leaders would determine a maximum loan size, considering the repayment capacity of each borrower. The simpan pinjam could use the remaining money to lend to traders at the market, against an interest of 5% per month. For them, this is a cheap rate and the loans are not risky because these traders have good collateral in the form of their market stalls. It takes some effort to go around the stalls every day to recover the money. For that we will employ the members of the simpan pinjam and they will be paid from the profit. That way we make a very good deal and everybody is happy. The bank has a well-performing group, we have our money and income, and the market traders have their cheap loans."

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30 According to Salman, the government bank is not only interesting because of their low interest rate of 1% per year, but also because there is a pension scheme for group leaders and a regular payment in rice.
After the Sawalan\textsuperscript{31} festivities of January 1998 Salman took the opportunity to discuss his ideas with Bu Nugroho and a few others. Salman said that in this new simpan pinjam more women need to be involved, "because men alone have a weaker character", that the rules should be applied strictly and transparently, and that membership should be limited to a small group of around twenty trustworthy people. Several times, much to the agreement of Bu Nugroho, Salman emphasised that "this is going to be a business organisation and not a social activity." Bu Nugroho was immediately very enthusiastic, talking a lot and making suggestions. She preferred to model the simpan pinjam along the lines of UKK, with proper bookkeeping and komisaris for better control (Chapter Three).

As Nugroho and Pon joined the discussion, the atmosphere in the meeting became a mix between enthusiastic planning and conspiracy, as they were talking about delicate matters. They were discussing who would be allowed in and who should be left out. Irwanto was a point for discussion, they said, but Kasar, Tus and Gunawan should certainly not be accepted. When at a certain moment some doubts arose about the general trustworthiness of people in Bujung, Salman revived the spirits by recalling the story of the farmers in his uncle’s village, how they have all built bigger houses, have cars, and borrow large amounts of money. The eyes of Nugroho and Tejo started twinkling again.

In the weeks that followed, the rumours about the new simpan pinjam spread through the neighbourhood. Some people had their reservations about the desirability of this new organisation. Irwanto said that he first wanted to know how they planned to prevent from happening what happened with Manunggal and the KUD-group. "For sure, I do not want to join a simpan pinjam with a bunch of drunks and gamblers". Bambang, a coolie, said that he was only interested in Salman’s plan if it was well organised. "I worry about the fact that members are required to invest in business, because most people here do not have a head for business at all." \textsuperscript{32}

\textsuperscript{31} Sawalan is the celebration of the end of Ramadan

\textsuperscript{32} Nugroho, one of the few businessmen in the RT, said that he did not want to use his loan for business because his foodstall could not be expanded. Instead, he would invest in the education of his daughter. Nugroho expected no problem at all with the government bank. "I have an enterprise to show, and they will certainly not check whether I have really invested in it. The important point is that we ourselves can judge whether we will be able to repay the debt. I have no confidence at all that my neighbours will be able to repay their loans, but I will." Also Tus, who (together with Gunawan) was
Nevertheless, on 25 March the first meeting of the new *simpan pinjam* took place at Bambang’s house and both Irwanto and Bambang were among the members. The new *simpan pinjam* was named Paguyuban Warga Mandiri (PWM). All twenty members paid Rp.10,000 into the loan fund, and Rp.1,000 to the *arisan*. At the first meeting a lottery was held to select four members who each received a loan of Rp.50,000. The loans had to be repaid in five instalments with a total interest of Rp.10,000. At the following meetings the obligatory contribution to the loan fund was Rp.2,500 per member, and each month two additional members would receive a loan of Rp.50,000. Of each loan Rp.2,500 was deducted for the social fund which disburses money or loans in case of death or hospital treatment. It was agreed that in the first few years the annual dividend would not be given to the members, but be used to accumulate capital. Salman further announced that they would wait another two years before they applied for a loan from the government bank.

Not all the ideas that had previously been discussed have been executed. Tus and Gunawan, two of the people who were supposed to be barred from membership, have joined as well, the bookkeeping is simple enough for the new treasurer to handle, only one woman has become a member, and no *komisaris* have been appointed. But at least the new *simpan pinjam* has taken off.

In the months that followed PWM developed quickly and smoothly, despite the economic crisis. All members paid their contributions and instalments on time and the loan fund grew. Members used their loans for school fees, family celebrations, and in particular for the construction of hatcheries in the river. Several members were not really interested in loans eventually not excluded from the *simpan pinjam*, said that he would borrow for school fees and not for business investment.

At the meeting, Irwanto asked whether it was clear enough that this *simpan pinjam* would not go the same way as the KUD-group and Manunggal, and that all the members punctual with repayment. Bambang, who was appointed chairman, answered vaguely that there would certainly be no problems, and Irwanto paid his Rp.10,000 contribution. Salman explained to me that for practical reasons the group would not borrow directly from the government bank but through his uncle. "That way, the people from the bank will not bother us with visits to check. The interest on their loans is 1% per year, but the members of PWM will have to pay 2% per year. The difference is for me. I have not told the other members about this, but I will do that later. It is important to be transparent in these things. It will be no problem for them. If they do not accept it, they are kindly invited to look for cheap loans themselves. They should see it as a small payment for my efforts."
and each time they received one they on-lent them to somebody else. Others had to borrow money to pay their monthly instalments, but even though the instalments became bigger and bigger, the growth of PWM was never interrupted. After a little more than one year, the capital had risen to almost one million rupiah, and each month four members received a loan of around Rp.250,000. At this stage the bigger loans even forced Nugroho to suggested an adjustment in regulations, so that the instalments remained manageable for all.

At this moment, it also became clear that the government bank of Salman’s uncle was not an option anymore. Because of the crisis, the bank no longer had capital available to provide new loans. But in the meantime, Salman had established another contact with an outside organisation. This time it was Unity Service Cooperation, the Canadian NGO where Satwoko, the employee of Bank Shinta Daya who was responsible for Manunggal, had found a new job. USC had just established a new credit program and Satwoko approached Salman to invite PWM to join this new program. With this program, those members who have an enterprise with potential for expansion could receive a loan from USC. The regulations were quite similar to Bank Shinta Daya but, according to Satwoko, the difference was that guidance, counselling and supervision was much better than with Bank Shinta Daya. Unfortunately for Salman and Satwoko, among the members of PWM doubt had risen about the desirability of outside linkages. PWM was doing quite well and the bad experiences with Manunggal were still fresh in their minds. Each time the option of linkage with USC was discussed in the meetings of PWM, it was postponed for an indefinite period of time. In the other simpan pinjam in Bujung with which Satwoko had established contacts, the enthusiastic leaders were also unable to persuade the other members to join the project. Also they refered to the bad experience with Manunggal.

4.8 A More Distant View

Two other financial self-help organisations in Bujung that engaged in a linkage with a bank suffered the same fate as Manunggal. Before the conception of Manunggal, Asman was also involved in a KUD-group called Mekar Jaya, which was also situated in Bujung. The KUD mediated for the group to acquire loans from Bank Bukopin35, for which they needed to

35 Bank Umum Koperasi Indonesia, or General Cooperative Bank of Indonesia.
present 10% of the loan in savings as collateral. This organisation came to grief over a disagreement on the repayment of loans. Asman had persuaded many members to allow him to borrow money in their names. This is a normal phenomenon in local *simpan pinjam*, but Asman did it on an unusually large scale. Because Asman also managed to take out a rather large loan on a personal basis, he was by far the largest debtor. When the loans had to be repaid it emerged that Asman did not have any money. The KUD then tried to recover the debts with those who lent their names to Asman, creating a large amount of irritation. Here too, the fact that Asman received special treatment in the form of debt rescheduling annoyed the other members. Members started to stay away from the meetings and many of the smaller debts were never recovered. The managers of the KUD project in the subdistrict put the blame on Asman and his debts. The coordinator said: "Asman was the chairman of the group, the chairman of the RT and the person with the highest education in that part of the neighbourhood. The people were impressed by him and afraid to speak up against him. It was also difficult for me to get through to him. Because I am a woman he talked down on me, and he would certainly not accept any criticism from me." However, the coordinator also argued that too many members were uneducated and used loans for consumption rather than investment.

But there was also another *simpan pinjam*, in which Asman was not involved. Shortly before the end of my fieldwork, Muhammad, the chairman of the mosque, told me that there was another *simpan pinjam* in Bujung that had a linkage with Bank Shinta Daya and the PHBK-project. This group had been operating since 1988 and was still a great success, according to Muhammad. One of the former members, however, revealed to me that this *simpan pinjam* had only twelve members and collapsed in 1993. In that year a conflict emerged with Bank Shinta Daya about the total amount the members of the *simpan pinjam* wanted to borrow. The members only wanted around five million, whereas Bank Shinta Daya wanted to give eleven million. According to another member, the mutual relations within the *simpan pinjam* had already deteriorated when members found out that Muhammad was dishonest in handling members' instalments.\(^36\) Six years later, many members are still in debt.\(^37\)

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\(^36\) Santoso, and the last chairman's father and wife confirm Umar's story.

\(^37\) Like Manunggal, these two self-help organisations were not in existence before they joined the linkage project. It is the objective of the PHBK project to link existing financial self-help organisations with banks, not to create new financial institutions.
However, according to the evaluation reports of the PHBK-project, in most cases the linkage groups functioned fairly well.\textsuperscript{38} This suggests that Bujung represents an unusual case compared to the other *simpan pinjam* engaged in linkages with banks. What went wrong with Manunggal? One might argue that problems were caused by the fact that so many members borrowed for purposes of consumption, contrary to the rules of the PHBK-project. Chris Soebroto, the coordinator of Foster Parents in Yogyakarta, identified this as an important problem in credit programs: "We do not explicitly forbid the use of loans for paying school fees, but we discourage it strongly, because such loans are not sustainable. People will need this money again next time. These people should better aim at improving their income, so that they can pay these fees by themselves." The Bank Shinta Daya was clearly unable to check for which purposes people were using their loans. The Bank Shinta Daya was in the custom of selecting a few members and checking their business activities. Although most members had not much more to show than a cooking pot, some cloth for making garments, or a pedicab, the Bank accepted these activities as sufficient evidence that the members were borrowing for productive purposes. For the rest it was the responsibility of the board of Manunggal to check on the purpose of the loan. In reality, from the start only a small proportion of the members used the loans for investment in income earning activities. This is an inevitable consequence of the fungibility of money that plays a role in most credit programs throughout the world.\textsuperscript{39} But were consumptive loans the reason for Manunggal's demise? Even in the first two cycles of Manunggal's existence most members borrowed for consumptive purposes. That did not prevent people from repaying their loans. And table 4.1 shows that in the first instance most members managed to pay their instalments. Only after the first members failed to pay did the others follow suit. This snowball effect of default suggests that the problems were caused by institutional rather than individual factors.

\textsuperscript{38} Steinwand (1997:26) reports an annual repayment rate for Yogyakarta of 94.1\%. Seibel and Parhusip (1998:5-6) show that group loans under the PHBK-project form a profitable undertaking for Bank Shinta Daya. In contrast, Kerstan and Mulyantini (1993:57) finds that in 73\% of the linked self-help organisations in Yogyakarta more than a quarter of the members are in arrears.

\textsuperscript{39} In fact, many people in Bujung do not consider a limitation to productive loans to be a very meaningful approach. Mbak Fitri, the treasurer of a *simpan pinjam* that was approached by Satwoko for linkage with USC, said: "My experience is that people without an enterprise are often better payers than those with an enterprise."
It is obvious that the problems with Manunggal can be traced back to a few malevolent or unfortunate individuals. However, the question remains as to how Asman and a few others were able to completely disrupt Manunggal and in which way this is related to the characteristics of the PHBK-project.

One fundamental problem has to do with the ideas surrounding group liability, one of the most crucial concepts in the PHBK-project. Group liability assumes that if members of a *simpan pinjam* intend to default on their payments they will be pressured by other members not to do so. Other members are expected to produce such pressure in view of their own individual loss, in the form of lost deposits and in the form of no further access to loans. Implicitly, the joint liability mechanism assumes that *simpan pinjam* have a homogeneous membership and, consequently, that each member can be made to pay through social pressure.

The reality is rather different. It is true that in Javanese communities social pressure can push people to repay their debts. Loss of face is something that most people try to avoid at any cost. However, not everybody is equally sensitive to this. Asman, for instance remained unruffled under all the reproaches and accusations made by other Bujungese. It is the same fear for loss of face that restrains other members from visiting these defaulters and claiming payment. Other members complain publicly about defaulters, but they do not dare to go to their houses and risk an open conflict. This becomes even more difficult if the defaulter is older and more educated than those who are supposed to pressure him. In other words, repayment discipline depends much more on the shame of the borrower than on the pressure actively exercised by other members.

Interestingly, the notion of group liability was never really accepted by the members of Manunggal. The members who had repaid their loan completely did not understand why they could not receive their deposits back, and those who had repaid until their remaining debt equalled their deposits expected that they were even with the bank. They saw their savings at the bank as individual savings and not as part of a collective deposit. One member said that she knew about the group liability: "What Bank Shinta Daya means is that we have to ask him to repay his debt, not that we are responsible for it." Steinwand (1997:17) also signals problems with group

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40 Group liability as a system applied by the PHBK program is successful in forming a security on loans for the Bank Shinta Daya, but it does not increase the chances of survival of the *simpan pinjam* involved. The system makes sure that if loans are not repaid the Bank Shinta Daya has a first claim on instalments that have been made, before
liability, which is hard to enforce from the outside once a group starts to default. Thus, contrary to what is often assumed, the use of group liability in Microfinance programs is in conflict with Javanese cultural notions about mutual responsibility and loss of face.

People who are insensitive to social pressure can also be found in fully local *simpan pinjam* without outside linkages and present problems there as well, but there are reasons why this problem is bigger in linkage groups. The first reason is that the linkage groups deal with bigger loans and therefore attract more people who are looking for a financial advantage. Moreover, the larger the debt, the more tempting it is to withstand social pressure. A second, delicate, reason is that those who are insensitive to social pressure are usually the ones who have more relations with people and organisations outside the 'community', and who consequently feel more independent of judgement by their neighbours. It is precisely those people with whom development programs like the KUD and the PHBK-project tend to come into contact. New *simpan pinjam* are not approached through some sort of public campaign but sought out primarily through personal networks of employees of banks and NGOs. People who hold key positions between the banks and NGOs of the PHBK-project and the *simpan pinjam* thus become brokers of knowledge and contacts. Therefore they have to be accepted as members of the organisation. Asman's reputation disqualifies him from most local *simpan pinjam*, but the people who wanted to benefit from the services of Bank Shinta Daya had to cooperate with him.\footnote{The PHBK-project fails to take into account the emergence of such broker positions within the framework of the project. This can be recognised for instance from the fact that evaluation studies are based primarily on interviews with the members of the organising committee and the members that they select, even though they may very well have objectives that are opposed to the objectives of most ordinary members. "[E]very group was represented by two or three members of the management committee. The interviews were conducted by trained field workers or supervisors of participating self-help promotion institutions" (Koch and Mulyantini, 1993: 392).}

This already brings us to the second fundamental problem, which does not seem to be fully appreciated in the PHBK-project. The social configuration of a *simpan pinjam* fundamentally changes when it is linked to an outside agency. Simultaneously, the jointly held moral ideas regarding repayment and responsibility change as well. In a fully local *simpan pinjam* the entitlements of other members. In the case of UKK, where 7 million rupiah of instalments have not yet been paid, the first 5.5 million rupiah is borne by members themselves through their savings in the bank, and only the next 1.5 million rupiah have to be borne by the bank. The system minimises the risk for the bank itself.
the individual members borrow money from all the other members, and borrowers have a direct moral responsibility to the others to repay. In the case of an outside linkage the other members are only hurt in an indirect way. In this way it becomes easier for defaulters to portray their loan as an individual affair and to downplay their debt as a personal misunderstanding between them and the bank. Shame is considerably less when the debt is to an outside bank than when it is to the neighbours.

Along the same lines, members consider the bad debts of others to be none of their business as long as they themselves have paid. In fully local *simpan pinjam* the members of the board are held responsible for default problems. They make great efforts to prevent such problems or solve them as soon as possible, so that their personal reputations are not damaged by the affair. In the case of a linkage it is easier for them to put the blame on the bank or the project, that way saving their own face. The whole situation is aggravated by the large degree of uncertainty of the situation. As the group starts, it is not clear whether and how repayment is going to be enforced. There are rules, but it is another matter whether the Bank Shinta Daya can stick to them, and it is also not clear how much power the bank has. It is not certain how other members are going to behave in the changed situation. The appearance of new members creates an uncertain situation, but even old members might have been 'fishing' for higher loans all the time - altogether a very unpredictable setting. For these reasons, I feel that the ultimate objective behind linkage projects, that is, increasing integration while preserving embeddedness (in Woolcock's terms (1998:182-7), is basically an unattainable ideal.

I do not mean to suggest that practitioners are never aware of this. Chris Soebroto of PLAN/Foster Parents recognises this problem in his own organisation: "If we come, there is a new intervention. This always changes the character of the relations between the members. I know of an example where one member did not pay back his loan. He was not thrown out of the group, but simply stayed in. He argued that the money that he had received

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42 This can be understood in the terms of a compartmentalising of default. De Swaan (2000: 292-3) has explained for an entirely different context how socially unacceptable behaviour can become condoned in specifically bounded situations. An act of default, which is not an option in entirely local self-help organisations, can be accepted and even appreciated with linkage groups. For this to happen it was necessary that the Bank Shinta Daya be portrayed as a bad organisation, which was trying to take advantage of members of Manunggal.
was a gift and not a loan. The discussion was never settled. If things like that happen a lot, mutual trust can be damaged and the group can fall apart." It is also interesting to note that Seibel and Parhusip (1991:247) themselves noted that it might be easy to upset the institutional balance of financial self-help organisations by inserting outside programs. Strangely enough, this awareness was not incorporated in the project design. The least they could have done was to encourage gradual expansion of the financial activities of borrowing groups, for the required trust to emerge (Anthony, 1998), as well as listening carefully and adapting to the way the project was received by participants (Shipton, 1994:304).

Then why, in spite of these criticisms, do many other linkage groups appear to perform so much better? Why is Bujung so exceptional? Or is it not so exceptional? So far, no qualitative in-depth studies have been conducted on the implications of linkage for simpan pinjam. The evaluation studies provide apparently reliable information about the financial results of the groups, but have shortcomings with assessing the impact on individual beneficiaries. Most information on individuals is derived from interviews with the organising committee, the program brokers who have an interest in a positive evaluation, and members who have been selected by them (Kerstan and Mulyantini, 1993:6). It is also possible for internal problems to occur, such as unfair distribution of loans, in successful simpan pinjam. If the brokers of a linkage simpan pinjam are clever entrepreneurs, unlike Asman, they will do their best not to kill the goose that lays the golden eggs. Continuous positive financial results of the group ensure them of prolonged access to cheap credit. Decades of cheap loan programs have created an atmosphere in which people feel entitled to utilise these schemes for personal gain. People like Asman are not exceptional in Indonesia, and the employees of the banks and NGOs engaged in the PHBK-project are in no position to check on an internal monopolisation of the provision of loans by the organising committee.