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FORMAL RURAL CREDIT FOR RURAL DEVELOPMENT IN BANTUL DISTRICT, SPECIAL PROVINCE OF YOGYAKARTA : PROVISION, USE AND NEEDS

by
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ABSTRACT

After outlining the shift in interpretation of the concept and objectives of rural development since the mid-1960s, the main consequences of the new role assigned to formal credit in the desired rural transformation process are explored. Against this background, some general characteristics of rural credit provision in Indonesia are summarized. Subsequently, the study deals with the present-day role of formal rural credit in the process of rural development in a densely populated, but internally heterogeneous district south of Yogyakarta city. The credit supply system in the area, the actual use of credit by the house holds in the various agro-physical zones, and the appraised needs for credit in these subdivisions are presented. The text concludes with recommendations for a policy of rural credit provision which is better attuned to the socio-economic circumstances as present in the geographical setting of this part of central Java, Indonesia.

FORMAL CREDIT AND RURAL DEVELOPMENT

Since the 1960s, the concept and objectives of rural development have been recurrent topics of extensive discussions, both at congresses and in literature. The concept itself proved to be elusive : Many different definitions have been formulated, reflecting a divergence in views. The various ways of thinking about rural development over time largely parallel the changes in ideas regarding development problems in general. For more than two decades after the Second World War, growth economics has dominated the development scene. The most important indicator of development was the Gross National Product per capita. Similarly, rural development was mainly seen as a process of increase were to be promoted through various government-initiated intervention efforts. The attainment of rural development was thus considered to be a sectoral, technological challenge. The actual dis-

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tribution of the supposed benefits of technological modernization was not a cause of concern. It was generally assumed that in the long run the positive effects of sustained growth in output would trickle down to all areas and all groups, leading to widespread improvement of rural conditions. Along these lines of thought, it was argued "... that the rural poor could be brought into the mainstream of development through supervised credit programmes" (Von Pischke, *et al.*, 1983, p.1).

In the late 1960s and early 1970s new questions regarding the meaning of rural development were raised. It had become clear that often agricultural production volumes had grown as a consequence of interventions, but that income distributions patterns, unemployment rates and living conditions in the rural areas, had not improved, or had even worsened in some countries. The main focus of rural development policy rapidly changed from the mass inducement of agriculture production increase to a diverse set of aspects. This also implied that much more attention was paid to the social structures and the related rural power relations and the position of the rural population in the economy and society as a whole. Consequently, the process of change required became increasingly recognized as multifaceted and far more complex than previously assumed. The interpretation of rural development gradually changed towards the view that it is characterized by a transformation process in rural areas leading to a sustained improvement of the economic and social life of all segments of the resident population. In this way, the rural population's resource position, employment and income levels, their access to economic as well as social services and facilities and the rural welfare for all groups, became recognized parts of the realm of rural development.

These changing views on rural development directly affected the perception of the development role of rural credit. Previously, credit provision was simply seen as one of the tools available to tackle the problem. Cheap and abundant credit was seen as essential to promote the widespread use of new inputs and technologies. However, as Mellor has stated, "the burden placed by the dynamic development may be substantial, since requirements may be large in absolute terms and built upon a very small base" (1966, p.313). In practice, loan default problems were often serious. As one of the consequences at the supply side, collateral for credit provision generally became the norm. Often, the poorer segments of the rural population could not comply. Rather than improving the general rural income levels, rural credit, therefore, in creasingly benefitted the better-off farmers. In many rural areas, the indebtedness of small farmers and the biased credit provision, ultimately contributed to processes of polarization of society and the marginalization of large groups. Nowadays, in literature it seems increasingly accepted that credit is much more than a tool to enable farmers to adopt innovations. For instance, it is pointed out that the seasonal income pattern of rural economic activities necessitates the rural population to finance their expenses in slack times from savings or from sources like loans. Furthermore, attention is drawn to the need for credit arising in poor harvest years, or under conditions of unusually high expenditures required for both planned or unforeseen purposes. These may include marriages, religious festivals, taxes, school fees and financing of purchased inputs or extra labour on the one hand, and the incidence of illness, death, natural disasters and the like, on the other (OXFAM, 1987). In addition, authors stress that in many countries, due to the population pressure on arable land, the rural population is increasingly forced to

seek employment and income opportunities outside agriculture. This also affects the need for cash. In most cases, obviously, these cash needs will have to be met by external financing. The new interpretation regarding the developmental role of rural credit seem to imply that of one yardstick, i.e. the increase of agriculture output, let alone the repayments rates, only. Furthermore, following these views, it is clear that standard packages are to be rejected as they frequently do not address the needs: Local conditions may differ from one area to the other, while the geographical location towards markets may vary substantially, necessitating an area specific programme. Similarly, the condition to use the credit for a specific purpose or through the provision of credit in kind (fertilizer, seeds, biocides) may prove to be undesirable.

Against this background, this article firstly looks into the general characteristics of rural credit provision in Indonesia and secondly into the present-day rural credit supply at the district level in Java. After outlining the characteristics of the study area, the District or Kabupaten Bantul, it describes the provision system. Furthermore, information is given as regards the use of credit by the rural households. In this way, it is attempted to arrive at an assessment of the extent in which the modern interpretations regarding the developmental role of rural credit are reflected in the provision system as present at this administrative level in Indonesia.

SOME GENERAL CHARACTERISTICS OF RURAL CREDIT IN INDONESIA

In rural Indonesia, both informal and formal credit play important roles within the rural economy. Informal credit provision is taking place via transactions among relatives and acquaintances, via social associations and groups and via the private moneylenders. The latter form of informal credit provision is undertaken on a commercial basis. Various types of arrangements exist, most of which are characterized by high interest rates. Nevertheless, this segment of the informal credit market is able to maintain its position in the rural financial system. Moneylenders are omnipresent throughout the rural areas, work fast and thresholds for the capital starved peasants are largely absent.

Since the early 1970s, in comparison to many other developing nations' rural parts, Indonesia's rural areas have been relatively well served with formal small scale credit. Most of the programmes have offered funds at subsidized interest rates to stimulate rural economic activity. In the late 1980s, formal credit is supplied to the rural population through three different institutional set ups. The most important one is the Bank Rakyat Indonesia (BRI), or People's Bank of Indonesia. The bank is state owned and functions since the mid 1960s. An extensive network of regional offices, close to three hundred branch offices and some 3600 village units, which are located in subdistrict towns, handles numerous credit provision programmes. Since the abolition of the largely unsuccessful credit component of BIMAS in 1983, Kredit Umum Pedesaan (KUPEDES) or general rural credit programme, makes available cash on a short term basis to farmers and non-farmers both for exploitation as well as investment purposes. In 1988, close to 1.4 million borrowers were involved in the lending scheme. The scheme's performance is reported as well

with rather limited arrears ratio's. Furthermore, the BRI handles other, single purpose commodity-specific credit programmes mostly with concessional interest rates for the borrowers. Among these, one finds the Kredit Modal Kerja Permanen (KMKP), or Permanent Working Capital Credit Programme, the Kredit Investasi Kecil (KIK) or the Small Scale Investment Credit Programme and a Credit Programme for Rejuvenation, Rehabilitation and Expansion of Export Crops, as the most important programmes.

Another important channel for credit supply is the Ministry of Cooperatives's system of village cooperatives or KUD. The 7480 units at subdistrict level are supposed to handle the micro loan scheme for petty traders, Kredit Candak Kulak (KCK) or Petty Trading Credit programme, and the scheme for small farmers the Kredit Usaha Tani (KUT) which furnishes loans to farmers for specific commodities. For these programmes the funds are channelled through BRI offices. Furthermore, the KUD may be involved in savings and loan programmes and, similarly to BRI, in special projects. In general, credit performance is rather poor and arrears ratio's above 20 percent are reported. A recent evaluation mission on Credit Programmes in Indonesia found that few KUDs are able to provide savings and credit schemes on a sustainable basis. In this context, data is derived from an unpublished external evaluation report of the QTA-46 project.

The Ministry of Cooperatives is also responsible for the running of the BUKOPIN, or Cooperative Bank. Presently, a system of representative offices is being set up in this context. Since 1979, a new programme has been introduced to a number of KUDs in some provinces in Indonesia. The programme, known as PPKKP (Pusat Pelayanan Kredit Koperasi Pedesaan) or Cooperative Rural Savings and Credit Programme was developed by the bilateral technical cooperation projects QTA-28 and QTA-46, funded by a grant from the Netherlands government. Under this programme, groups of households or *kelompok*, may receive loans for specified productive purposes. It is meant to serve low income rural households by introducing group responsibility or joint liability among borrowers instead of collateral. The system is presently being expanded and is operative in five provinces, among which the Yogyakarta Special Province.

The Regional Development Bank or Bank Pembangunan Daerah, constitute the third type of institutional structure active in the sphere of rural credit provision. It is a commercial bank owned by the Provincial Governments under responsibility of the Ministry of the Interior. In addition to some of the programmes which are also handled by the BRI offices, such as KIK and KMKP, the bank may be involved in region-specific programmes. Examples hereof are the Badan Kredit Kecamatan (BKK) or Kecamatan Credit Organization which has been established in 1973 and boasts 497 units with 2600 village posts in Central Java, the LPK or Subdistrict Credit Institution in West Java, and the LPN or Regional Saving Institution in West Sumatra (Kern, 1986).

According to the Agricultural Census of 1983, in the early 1980s Government credit has been provided to approximately one-sixth of all agricultural households. On basis of data on landownership of borrowers, it appeared that the poorer farmers had relatively less access to credit supply (BPS, 1984). Data on credit usage by other groups within the rural economy shows a rather more poorly researched. Especially the effects of the gradual change in policy in the late 1980s from single

purpose credit at sub-economic rates towards the provision of multi-purpose credits with higher interest rates, in order to allow the banks to operate on a more business like basis and facilitate the mobilization of rural savings by offering attractive interest rates, are unexplored as yet.

CHARACTERISTICS OF THE STUDY AREA

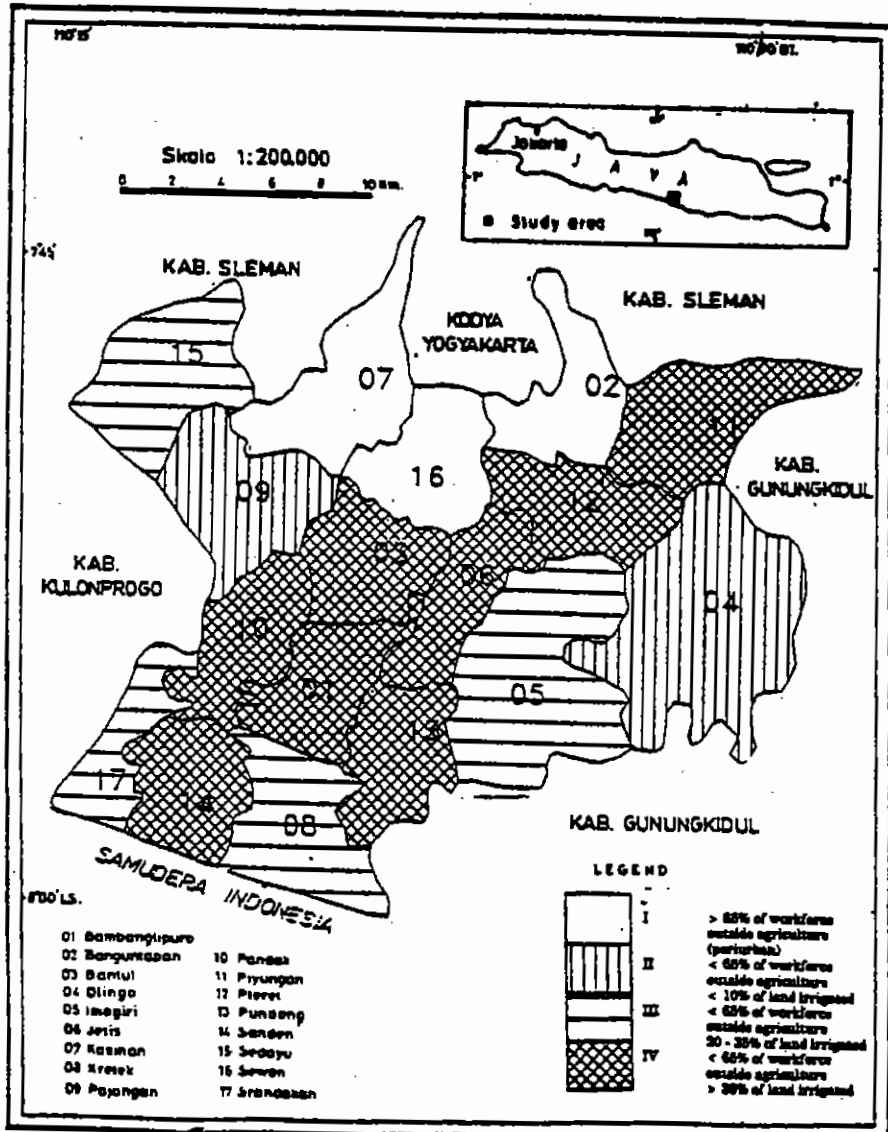
Bantul is one of the five districts in Special Province of Yogyakarta, Central Java. It is located south of Yogyakarta City and it is one of the most densely populated districts in Indonesia : In this largely rural area of some 507 square km not less than 682,476 inhabitants (1986) try to eke out a living. These figure imply a population density of 1347 persons per square km. The district itself is subdivided in 17 subdistricts or *kecamatan*. Although limited in size, Bantul district is showing substantial internal variation in terms of both agro-physical and socio-economic conditions (Huisman and Stoffers, 1988 & 1989). Two distinct farming systems are present, viz. irrigated *sawah* cultivation and dry land or *tegalan* agriculture. The *sawahs* predominate in the central part of the area; the dry land system prevails in the eastern and western parts (Map 1).

In context of this study, three subdistricts have been selected : The *Kecamatan* Bambanglipuro and Srandakan in the fertile, intensively irrigated lowland-central section and the *kecamatan* Dlingo in the eastern, topographically rough calciferous, largely unirrigated upland area. *Kecamatan* Bambanglipuro has been selected as the subdistrict representative for the category in which more than 36 percent of all land is irrigated land in the category 10 to 36 percent. Dlingo is situated in the zone with less than 10 percent irrigated (for further details on the regionalization of Bantul District see: Huisman & Stoffers, 1988). The overall population densities of respectively 1679 and 1509 persons per square km, while Dlingo scores 583 in this field. The contrast becomes even more spectacular when the density of inhabitants per square kilometer of farmland is given : These figures are 3110, 6253 and 1333 persons per square kilometer for the respective subdistricts. Economically the subdistrict are very different as well. In Bambanglipuro and Srandakan, only 40 percent and 34 percent of the heads of household have agriculture on their own farm as the primarily active on his own land. Figures for the total economically active population confirm this pattern : In *sawah* zone, secondary and tertiary sector activities form a main source of income for, respectively, close to half or even the majority of those active, viz. 46 and 54 percent. In Dlingo on the other hand the figure shows a modest score of 13 percent.

As regards the secondary income sources, the picture is just the opposite: In Bambanglipuro and Srandakan most of those working in additional income generating activities are involved in agriculture. In Dlingo, the dry land unit, additional occupations are largely found in the sphere of handicrafts, carpentry and trading.

THE PROVISION OF RURAL CREDIT IN BANTUL DISTRICT

Formal credit in Bantul district is supplied by the three institutions as described in the previous paragraph, viz. the Bank Rakyat Indonesia (BRI), the Ko-

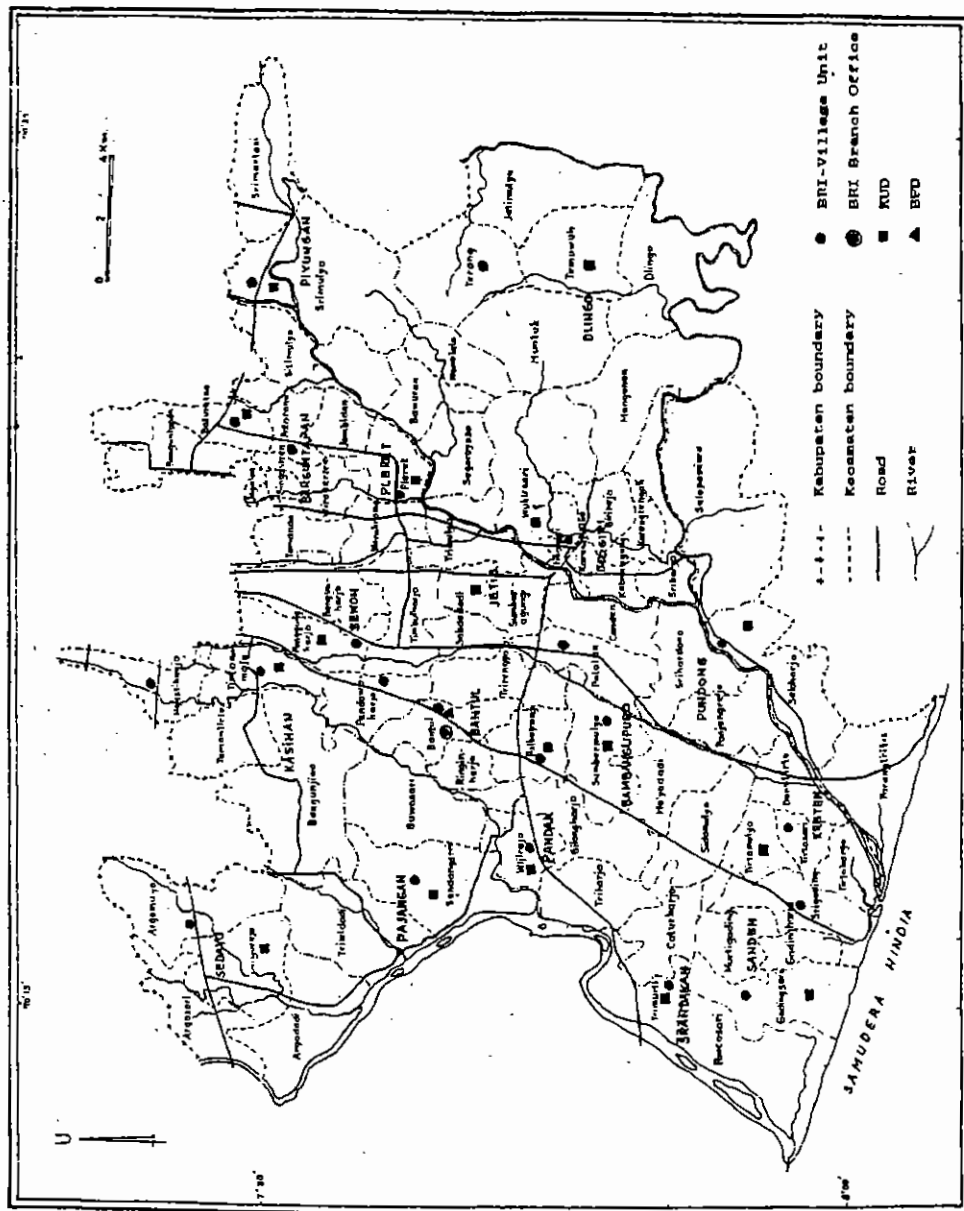


perasi Unit Desa (KUD) and the Bank Pembangunan Daerah (BPD).

(1) The BRI or People's Bank of Indonesia provides services through its branch office in the regional headquarters and via 20 desa or village units, located in the various rural service centers in the kecamatan (see Map 2). The branch office has been established in 1965; the village units have been founded from 1969 onwards. In that year, three units were opened for services provision in the irrigated lowland kecamatan of Bambanglipuro, Pandak and Sanden. Presently, further expansion of the number of village based offices is anticipated. The branch office in Bantul township performs a comprehensive set of banking operations, while the representative offices in the service centres carry out more limited tasks. The main BRI office supplies credit in context of a number of programmes, which comprises KMKP, or Permanent Working Capital Programme, the KIK, or Small Investment Credit Programme, the PRPTE or Credit for Rejuvenation, Rehabilitation and Expansion of Export crops Programme, the KIB or Large Investment Credit and the Credit Programme for civil servants. Furthermore, the BRI branch office is involved in the channelling of government funds to KUD via the Cooperative Credit Programme.

Loans in the form of cash money are mostly available to the households through the working capital credit (KMKP) and small scale investment credit (KIK) schemes. The loan size ranges from the minimum of 100,000 rupiah. In order to obtain credit from the BRI main regional office, an applicant is required to follow a lengthy procedure, the completion of which takes at least one month for a new borrower. A proof of the availability of a collateral has to be presented. This normally consists of land or house ownership certificates, but occasionally also car or motor cycle ownership documents may be accepted. Both repayment schemes as well as interest rates vary. For short term credit, i.e. credit to be repaid within 24 months, interest rates (1988) varied between 15 to 27 percent per annum, depending on type of arrangement. These include the Large Investment Credit (KIB) and Credit for Civil Servants. Long term credit, with a maximum loan period of 5 to 8 years, carried an average interest rate of 12 percent annually. The Permanent Working Capital Credit (KMKP) and the Small Scale Investment Credit (KIK) fall into this category.

Since 1984, credit provision by Village Units BRIs mainly place within KUPEDES, or the General Rural Credit Programme. In addition, the village units may be involved in kecamatan-specific credit provision schemes, as carried out by the representative offices of line departments, such as, for instance, the Department of Agriculture, the Department of Cooperatives and the Department of Industry. Occasionally, international donor agencies may also channel their project or programme credit can be identified, i.e. exploitation credit and investment credit. Both types are in the short term category, with loan periods between 3 months and two or three years respectively for exploitation and investment credit. Interest rates charged amount to 1 to 1.5 percent per month, proof of collateral is required and the maximum loan size per borrower varies over the offices. The regional headquarters of the BRI have set guidelines for maximum amounts of credit per kecamatan, according to the estimated strength



Map 4. Spatial Distribution of Formal Credit Supply Points
Kabupaten Bantul

poorly endowed with natural resources, the maximum amount is 2 million rupiah; while in some of the kecamatans in the fertile sawah zone up to 5 million rupiah can be obtained through the relevant village unit of BRI.

- (2) The second institution involved in credit supply is the KUD, the village cooperative organization, which is represented by one unit in each kecamatan. In addition to a number of agro support functions it carries out tasks in the sphere of financial services in Bantul district. These include small credit programmes, a saving and loan programme, and, similarly to BRI in, the KUD is involved in special projects. A national credit programme, formally charged to KUD, is the KCK, the Small Traders' Credit Programme and at least on paper the KUT or Farm Credit Programme. The KCK Programme is providing small traders with working capital with a maximum of 50,000 to 100,000 rupiah, depending on the kecamatan concerned. The interest rates amount to 1 percent, while the maximum lending period is two months only. The KUT or Farm Credit Programme does not function yet in the study area, i.e. Bantul district. This is due to the failure of the KUD in the various kecamatan to fully repay the loans provided to farmers in the past in the context of the BIMAS programme (see also Birowo, 1986; Huisman and Stoffers, 1988). The responsible factors include high defaults among the participants, organizational problems, and, possibly, leakage of funds. The credits in context of the savings and loan programme usually carry interest rates of 1 to 2 percents per month, the amounts are modest and the maximum loan period is 3 months.

KUD credit is generally available through a simple procedure to those borrowers who are members of the cooperative concerned. Collateral is not required. Membership of the KUD in the various research kecamatan amounts to approximately one third of the farming households only.

The PPKKP programme in Yogyakarta Special Province was transferred from the project QTA-46 to Bukopin in 1987, and it thereby became a regular part of Bukopin's services in this area. Loans are channeled through KUD and are given to groups (or kelompok) of 50 to 80 persons. There are already 11 KUDs in Yogyakarta province which carry out this programme, two of which are in Bantul district, viz. KUD Kotagede and KUD Bambanglipuro. Each KUD already gives loans to 20 kelompok. The loan period is 6 months, with interest rates of 18 percents per year. One member of a kelompok obtains approximately 100,000 rupiah (US\$ 60) in each transaction.

- (3) A third institution involved in formal credit supply is the BPD or Regional Development Bank. It has at present one office in the district, situated in the district headquarters. This office in Bantul town has opened its doors in March 1988. In contrast to BRI and KUD's activities, the bank operates on full commercial basis and it provides a wider range of financial services. These include some of the programmes as also carried out by the BRI, such as the KIK, Small Investment Credit, and the KMKP, Permanent Working Capital Credit. For these programmes the procedures are similar to those of the BRI. However, the minimum size of loans usually is higher.

THE USE OF FORMAL CREDIT BY RURAL HOUSEHOLDS

The previous section has indicated that both the number of credit supply points and the range of credit programmes in Bantul district is rather substantial. This paragraph aims at providing insight into the involvement of households in credit use through the various institutions and their programmes. The information given is specific per research kecamatan, in order to assess to which extent the characteristics of the rural economic base and the related socio-economic conditions are reflected in the credit-use pattern.

TABLE 1. CREDIT USE PATTERN (1988) PER SOURCE, PER STUDY AREA

	BRI	KUD	BPD
Bantul District Office			
- Users (abs. figure)	2,500	n.a.	510
- Total amount (in '000,000)	6,000	n.a.	825
- Av.amount per h.h. (in '000)	2,400	n.a.	1,600
Kecamatan Bambanglipuro Office			
- Users (abs. figure) ^{a)}	1,500	1554	n.a.
- Total amount (in '000,000)	500	53 (KCK) 114 (PPKKP)	n.a.
- Av.amount per h.h. ('000)	333	34 (KCK) 100 (PPKKP)	n.a.
Kecamatan Srandakan Office			
- Users (abs. figure)	1,000	600	n.a.
- Total amount (in '000,000)	300	27 (KCK)	n.a.
- Av.amount per h.h. (in '000)	300	45 (KCK)	n.a.
Kecamatan Dlingo Office			
- Users (abs. figure)	1,100	241	n.a.
- Total amount (in '000,000)	150	5 (KCK)	n.a.
- Av.amount per h.h. (in '000)	136	21 (KCK)	n.a.

Source : Detailed Study, 1988.

^{a)} for KUD : Users may participate in both type of credit programmes.

The figures presented in table 1 show the absolute figures for the various institutions and their respective service areas, and given an indication of the differences in magnitude of the operations of the BRI and KUD. Furthermore, the low incidence of credit use, as well as the relatively modest amounts involved in Dlingo - the dryland kecamatan, as compared to the sawah dominated subdistricts, become clearly visible.

These latter aspects are further confirmed and specified by the data from the Bantul Socio Economic Survey (BASES I and II) as carried out by the Regional and Rural Development Planning Programme of the Faculty of Geography, Gadjah Mada University, in 1987 and 1988. In this survey, encompassing 700 rural households, questions have been included as regards the actual appropriation of

tween productive and non-productive appropriation at the level of a rural household, often a unit in both consumptive as well as productive sense, is not easy to make. In the survey, the questions, therefore, merely specifically addressed the main appropriation of the loan obtained per household.

It appeared that in Bambanglipuro and Srandakan approximately 65 percents, or two thirds of the credit using households are allocating the loans mostly for income generating or productive purposes. In Dlingo, 80 percents or four-fifth of these units reported such allocation of funds obtained. The proportional involvement of households in credit programmes per study area and the relative figures for productive use are presented in Table 2. It appears that in kecamatan Dlingo, credit is not as common as in the other sub-districts, reflecting a somewhat lower degree of commercialization of agriculture and the less diversified rural economy in that area.

TABLE 2. FORMAL CREDIT USE : RELATIVE INVOLVEMENT OF HOUSEHOLDS PER STUDY AREA

	Appropriation for All Purposes	Appropriation mainly for Income Generating Purposes
Kec. Bambanglipuro	40 % (n=72)	24 % (n=46)
Kec. Srandakan	28 % (n=39)	18 % (n=38)
Krc. Dlingo	13 % (n=39)	10 % (n=31)

Source : BASES I + II Data
n = number of respondents

The information as collected shows that both farming and non farming households are represented among the credit users. For the farming households, the actual size of the landholding seems not to be an important factor in the use of formal credit. However, data clearly indicate that, as also observed elsewhere in Indonesia, tenant farmers and farm labourers are proportionally underrepresented on proportional basis. The survey data also reveal that the age of the applicants for credit is usually above 50; applicants below thirty years of age are a rare phenomenon. However, from this observation the conclusion is not justified that the rural credit users are the older persons in the rural communities. Since the documents showing proof of available collateral like land and or house ownership normally remain registered under the name of the household head until his death, credit is applied for in his name. The head's children, his spouse or his relatives, may be the actual users of the credit. This possible difference between applicant and user of the credit obviously implies that data as available in the files of the credit sources, or data obtained from census-like exercises may be of limited value to obtain insight into the personal characteristics of credit users. Through in-depth interviews of 28 credit users an attempt has been made to gather such information. Although the number of interviews conducted has been rather modest, necessitating careful treatment of the data, the qualitative information gathered does not seem to support the assumption that rural credit users are usually found among the relatively better educated persons in the rural community. However, as also reported by Kasryno

and Colter (1986), there is an indication that the households with higher educational standards usually manage to obtain the bigger loans.

THE APPRAISED NEEDS FOR RURAL CREDIT

Credit is playing an important role in the households in Bantul district. The enormous pressure on the land and the fragmented nature of the land resources necessitate intensive cultivation practices. This implies a constant need for purchased inputs and investments in irrigation networks. Increasingly, the population is forced to find an income outside agriculture. For these activities some initial capital is normally required. Furthermore, investments are needed in education and other fields. As the annual per capita income in Bantul is only marginally above the subsistence level, suggesting the virtual absence of a regular income surplus in many households, external sources of financing have to be mobilized. Frequently, the loans are obtained on an informal basis.

As is the case for other areas of Indonesia, information on the use of informal credit in Bantul is rather scarce. Conversational interviews with a number of key informants suggest that informal lending is very important in the area. In most cases on which some information could be obtained, the interest rates are far higher compared to those in the formal sphere. Hard data, however, are extremely difficult to gather, especially due to the sensitive nature of the information. In some cases known to one of the authors, even the adult members of the same household are not informed about the details or even the existence of informal credit arrangements in which the head or his spouse may be involved. The widespread use of comparatively expensive informal credit in the area suggests that the interest rates as such are not the most important threshold hampering a further expansion of formal credit arrangements. Consequently, the various forms of accessibility of formal credit ought to become points of attention of policy makers in rural development. These forms include physical accessibility, the user's ability to overcome distance, and the social accessibility. This latter type refers to the requirements a potential user has to fulfill before a certain good can be obtained. In this respect one may think of requirements which have been set by the institution concerned. Obviously, the satisfaction hereof is directly related to the socio-economic position of the individual concerned. In the other words, the access situation is determined to an important extent by the user's resource position. In our study area, which is limited in size and boasts a rather efficient system of public transport, social accessibility seems to be far more important as a factor in the involvement of households in credit programmes than the former one of physical accessibility. It has become clear though that the differences between the various subdistricts as regards the relative involvement of households in credit programmes, require attention to the social accessibility problem on a micro regional, i.e. location specific basis. A closer look into one of the area specific aspects may illustrate this point: Especially farmers in the dry upland area may benefit from investments in the storage facilities. Frequently, the total harvest has to be sold immediately after reaping. Later on in the year, food has to be bought. Since local prices vary substantially over the year, relatively low during harvest time, and climbing to higher levels in the course of the post harvest period, a substantial loss of cash takes place. With credit some storage could be con-

structed; in the medium term the investment could be recouped. In the low land area the situation is different. Due to presence of elaborate irrigation systems, harvests take place throughout the year. Consequently, local markets are experiencing a rather regular supply of food crops.

CONCLUSIONS AND RECOMMENDATIONS

The developmental role of formal rural credit at the district level in Bantul can be enhanced substantially. Although the range of credit provision programmes as carried out by the various institutions involved, as well as the number of available supply points is considerable, the use pattern of credit by households does suggest room for improvement both as regards certain areas as well as in a socio-economic sense.

In the dry upland area, but also, albeit to a lesser extent, in the sawah zone, the farming households who own land and a house built on it, cannot always furnish the type of documentary proof of available collateral required to obtain loans. Landless, or virtually landless farming households, comprising the poorest substrata among the population, usually live in simple dwellings and are not able to come up with any type of collateral at all. Their access to most formal credit sources is therefore virtually nonexistent. Furthermore, as Kern (1966) has shown, small farmers and entrepreneurs may have to face other obstacles in credit application, i.e. the transaction costs. These comprise two types, viz. transportation costs and the costs of forsaken income. The former type of costs play a more important role in the topographically rough upland area with its rather limited road network as compared to the well served lowlands. The second type, the opportunity costs, are often substantial in both areas. Usually, at least for a new borrower, the credit application procedure requires that the borrower report in a person to the relevant office up to five times, always during inconvenient office hours. The BRI village units in the research area, for instance, close at noon. As the applicant may have to wait for hours each time, many workdays may be lost. Obviously, this is especially problematic for the poorer groups among the applicants.

Apart from the problems related to costs and collateral, borrowers may face constraints of psychological nature. Especially the semi-literates and the illiterates often do not feel sufficiently confident to start an application procedure.

Information as presented in this study suggest that interest rates as such are less important than access matters. Subsidies to supply cheap credit may better be diverted to measures directed at social accessibility improvement. A first step may be the introduction of simpler and efficient application procedures and of flexible rules, tailored to the socio-economic conditions prevailing in an area. As part of the development policy aiming at the improvement of access to productive resources for all and the related strengthening of the households' economic base, the abolishment of collateral requirements for selected groups responsibility arrangements may prove their viability. Furthermore, experiments in linking up credit provision with the attendance of simple financial management courses may be carried out to test their impact on default rates.

In providing formal credit in context of a rural development effort at lower levels of administration such as a district, the differences between areas and the dif-

ferent needs among socio-economic groups have to be recognized. Also in this field, policy design and implementation require coordinated efforts of local planning boards (BAPPEDA), the relevant service departments and village level participatory organizations such as the LKMD.

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RURAL SMALL SCALE INDUSTRIES AND REGIONAL DEVELOPMENT A Case Study From Bantul District, Special Province of Yogyakarta

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ABSTRACT

In last two decades, the small scale industrial sector, due to various reasons, has increasingly received attention from Indonesian policy makers. In the research area, rural small scale industrial activities play an important role, yet in a varying way. Production factors like labour and capital as well as the degree of localism are used to illustrate the differences in character.

Attention is also paid to the linkages of those small scale industrial units with other units and sectors. Based on the main characteristics and the function of those rural small scale industrial activities, a distinction is made between basic and non-basic activities.

A short description is given of the most important government programmes in the sphere of small scale industrial development. It is concluded that policy makers have given insufficient attention to the differences within the sector. As a result, most of the small scale industrial units are deprived of the programmes which are specifically designed for them.

INTRODUCTION

This article is the third one in a series of articles written by staffmembers of the Faculty of Geography at Gadjah Mada University, Yogyakarta. The newly established department for the Rural and Regional Planning at this faculty, is presently carrying out a long term research programme regarding rural and regional development planning efforts in Bantul district. The general aim of this research programme is to make an inventory and analysis of development plans and programmes in selected subdistricts in one of the DIY's districts against the background of these units development potentials and constraints, in order to assess the

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