

Asian Dialogue on Oeconomy  
Case Study Series No. 2009-08

**Perspectives on Solidarity Economy: Case Study of Self-Help  
Group in Melikan Village, Central Java**

**by Bina Swadaya Foundation**



**Coalition of Socially Responsible Small & Medium  
Enterprises in Asia  
Quezon city, Philippines**

## Table of Contents

Foreword	2
Abstract	3
Introduction	4
The Need for a Holistic Approach to Poverty Alleviation	5
The Kelompok Swadaya Masyarakat (KSM)	5
The Rural Poor and Microfinance	6
The Margi Rejeki (Way of Wealth) Self-Help Group	8
The Journey of Margi Rejeki	10
Key Performance Indicators of Margi Rejeki	13
Conclusion	16

## Foreword

After having ushered in the Asian Solidarity Economy Forum (ASEF) in Manila (2007) and Tokyo (2009), the Coalition of Socially Responsible SMEs in Asia (CSRSME Asia) is reaching a new plateau and currently faces new challenges and a qualitatively different kind of environment. At the global level, systemic crisis has intensified poverty and inequality. Food prices have escalated and increased the incidence of hunger, pushing many more people into absolute poverty. Contraction of trade and manufacturing drove more people into vulnerable employment, increasing unemployment/ underemployment and diminishing household incomes

The global crisis has wreaked havoc on domestic economies. High cost of inputs, lack of fair credit, & lack of access to wholesale market have discouraged farm production. Controlled by profiteering private traders, the agricultural marketing system is stacked against farm producers and urban consumers who themselves are fragmented. People as a whole lack unity and the political will to advance towards a sustainable and socially responsible economy.

Acting on its vision towards a compassionate, solidarity-based economy, the CSRSME Asia espouses the notion of building an alternative economy by bringing together various socio-economic stakeholders in a continuing dialogue and cooperation. It has organized and/or supported Learning Journeys in several countries (e.g. Indonesia, India, Japan, Nepal, Malaysia, Philippines, Singapore, and Thailand) to engage various stakeholders in the challenge of rethinking the economy.

Against this backdrop, the CSRSME Asia with funding support from the Charles Leopold Mayer Foundation (FPH) and in collaboration with some Universities and a host of civil society organizations in Asia, has called for an Asian Dialogue on Oeconomy on a broader scale with the aim of broadening the understanding of alternative economies and how to deal with the new environment in the coming years through sharing of research studies, reflections, and proposals.

“Perspectives on Solidarity Economy: Case Study of Self-Help Group in Melikan Village, Central Java,” by Bina Swadaya Foundation is one of the case studies currently being circulated among contributors and subscribers to the Asian Dialogue on Oeconomy. It is hoped that the Asian Dialogue on Oeconomy will help build a robust exchange of information and experience sharing that could impact the development of solidarity economy initiatives in Asia and beyond.

CSRSME Asia  
Quezon city, Philippines

## **ABSTRACT**

This paper is prepared to shed some light on Bina Swadaya's community development approach that has evolved through the years since its establishment in 1967. Having been established with clear objectives of helping the poor, Bina Swadaya uses every possible opportunity to uplift the poor.

Bina Swadaya started its operations with a platform of people's economy for a more equitable growth process. It then went on organizing farmers into affinity groups called Self-Help Groups to facilitate the delivery of technical assistance.

To illustrate Bina Swadaya's approach towards community transformation, a case study of Margi Rejeki Self-Help Group is made. Members of Margi Rejeki could not access credit from the bank because they did not have collateral and the amount of loan they needed was too small for the bank to even consider.

Today, Margi Rejeki Self Help Groups have access to credit. The present case study tells the story of how they have succeeded in attracting working capital for their enterprises.

## 1. Background

Indonesia is an agricultural country, although it is less so now than in the past. During the early period of the country's independence under Soekarno's administration (1960-1967) the majority of the people lived in the agricultural sector. In 1961 up to 73% of the labor force was employed by the agricultural sector (in Java 68.80%). Agriculture contributed the largest share of 47.36% to Gross Domestic Product. But, ten years later – in early 1970, under the administration of Soeharto, the contribution of the agricultural sector dropped to 31.07%, and labor force absorption dropped to 65.8% (in Java 60.9%) <sup>1</sup>.

Indonesia's economy grew throughout the more than 30 years of the New Order administration. Per capita GDP increased from US\$70 (US\$1 = Rp.149) in the early 1970 to US\$1000 (US\$1 = Rp.2,342) in 1996. The real annual GDP grew to an average 7% from 1987 – 1997 and many analysts acknowledged Indonesia as an industrializing economy and a developing market <sup>2</sup>. This development increased Indonesians' welfare as marked by the decrease in the number of poor people from 60% of the total population of 131.1 million in 1976 to 11% of the total population of 179.4 million in 1990.

The economic gains, however, ended in 1997 when the financial crisis swept through Asia. The Indonesian rupiah was depreciated. According to the Asian Development Bank, exchange rate which was Rp.2,909 to the dollar dropped to Rp.10,014 to the dollar (average rate in 1998). Income per capita dropped from US\$ 1,077 in 1997 to US\$ 469 in 1998. This phenomenon was believed to be the result of economy development which neglected people empowerment.

**Table 1.**  
**Indonesia's Economic Development Indicators, Year 2005**

Socio-economic indicator	
1. Population, in millions	220,6 million
2. Population growth	1%
3. GDP, US Billion	US \$ 287.2 million
4. GDP growth rate	5.6%
5. Literacy rate	89.0 %
6. Poverty rate	109 million (49%)

Source: World Bank 2005.

<sup>1</sup> The data comes from various sources, among others: Bank Indonesia, ADB, and Daan Marks in International Institute of Social History – June 2005.

<sup>2</sup> Memorandum to President Megawati and Cabinet members; #609 Government Reform in Indonesia; 19 November 2002, Governmental Reforms to re-attract Foreign Investment

## 2. The Need for a Holistic Approach to Poverty Alleviation

Economic growth as shown by various macro economy indicators has not in fact touch the biggest part of the economic actors of Indonesia. The informal sector dominated by microenterprises, especially the agricultural sector which is perceived to be the traditional sector, is systematically marginalized. Poverty is believed to be systematic and structural and it is much influenced by the dominant culture of politics, economy, technology, and social relations.

The hugeness of the poverty problem leads people to the conclusion that only the government could eradicate poverty. The tendency to regard poverty alleviation as an entirely government responsibility is one of the biggest problems faced by Indonesia. Typically, government policies tend towards a top down approach and regard the target beneficiaries as needing external help. The government approach relies heavily on what it considers to be competent and well educated people and shuns the participation of the people themselves in the design and implementation of development programs. On the other hand, the community itself does not have any reliable institution which has the capability and track record in designing and implementing development programs.

Realizing that poverty is very complex, *Bina Swadaya* came to the conclusion that only a holistic approach to poverty alleviation is feasible. *Bina Swadaya* understood as well that poor people are weak because they have no access to credit from formal financial institutions. The poor could not provide collateral as required by banks. Although the agricultural sector as a whole contributes substantially to national income, the financial capacities of individual farm households are constrained by the seasonality of their small income. Consequently, poor farmers go to the moneylenders for their credit needs and they end up being exploited. *Bina Swadaya* always has determined that organizing farmers into self help groups is the best way to assist them.

## 3. The Kelompok Swadaya Masyarakat (KSM)

The history of *Bina Swadaya* can be traced to the birth of *Ikatan Petani Pancasila (IPP)* or *Pancasila Farmer Association* in 31 December 1958. Later this association transformed into the *Yayasan Social Tani Membangun (YSTM)* or *Peasant Socio-Economic Development Foundation* in 24 May 1967. This foundation came to be known as *Bina Swadaya*.

From the start *Bina Swadaya* chose its area of work on poverty alleviation in the rural villages, mindful of its mission to inspire the have-not and the marginalized people to overcome their problem. Most households living in the villages were small farmers who faced the problems of land scarcity and structural poverty. They started as farmers with small land, and later they became farmers without land. They could not live from the produce of their farms anymore and they depended on off- farm income. In this sense, the informal economy sector became the solution to landless farmers as well as those who do not have opportunities for other jobs. They relied on skills and crafts that were passed on from their families over generations. They are self-employed and operating production oriented home-industries.

Bina Swadaya introduced the membership-based rural community organization movement called *Kelompok Swadaya Masyarakat (KSM)* or Self-Help Group (SHGs). The KSM follows the basic principles of community development, namely: people centered development, multi-level dialogues, and partnership, *Bina Swadaya* provided the SHGs with training, and technical support. It helps the KSM members identify and formulate community projects. It also provides capacity building support to empower the KSM.

*Kelompok Swadaya Masyarakat (KSM)* is a generic term which is often used to name various institutions in poor and neglected communities. They need to organize themselves and develop social capital as a means to survive. In general, the KSM has the following characteristics:

- Founded by a group of people who work together in social economy matters,
- Grown and developed by – from - and for the members.
- The number of members is limited to 20 – 30 per group to maintain the group's dynamic and interaction among members.
- Membership based and not capital based

Three important things are inculcated in the management of KSM, namely:

#### *1) Open-mindedness*

KSM members are encouraged to foster cooperation in their activities and to generate and discuss new ideas. They need to open their minds to opportunities of up-scaling their business enterprises.

#### *2) Solidarity in generating income*

The orientation of KSM members must be maximizing solidarity towards generating income while minimizing organizational politics. KSM members are encouraged to devote more time and efforts on building up their assets base by developing their household economies and business enterprises.

#### *3) Democratic and participatory governance*

KSM members are encouraged to attend the regular meetings and contribute to the organization development of their self-help group by practicing transparency and getting actively involved in the participatory project planning, implementation, and evaluation.

### **4. The Rural Poor and Microfinance**

To be effective, development among the poor requires the existence of appropriate institutions and mechanism for facilitating dialogue and collaboration among development organizations, including government agencies and civil society organizations. In this regard, *Bina Swadaya* often initiates dialogues among concerned agencies and organizations to promote and support the development of self-help groups in poor communities.

Between 1972 and 1982, Bina Swadaya, in its capacity as the national focal point of NGOs in Indonesia, undertook dialogues with the Indonesian government at all levels to tackle the farm credit situation. In that period, the distribution of agricultural credit in villages grew 28% per annum, but the portion that went to agricultural production actually decreased because the allocation shifted to trade, industry or service that were operated outside the agricultural sector.

Bina Swadaya argued that the rural poor could not be separated from the micro-enterprise sector. Many of them are engaged in off-farm activities which is characterized by self-employment, absence of accounting records, serving mainly a localized market, and largely subsistence in nature. According to the government's Poverty Alleviation Committee, micro-entrepreneurs are defined as 'owner or micro-scale entrepreneurs in all economic sectors with total maximum wealth of 25 million rupiah excluding land and building. Further, according to Indonesia's State Ministry of Cooperatives & Small and Medium Enterprises, the distribution of enterprises by size in 2006 was as follows:

<u>Type of Enterprise</u>	<u>Number</u>	<u>% Distribution</u>
• Big Enterprises	40,000	0.08%
• Medium Enterprises	680,000	1.50%
• Small Enterprises	1,680,000	3.57%
• Micro Enterprises	43,000,000	94.84%

Clearly, almost all enterprises in Indonesia are 'microenterprises'. According to the Badan Pusat Statistik (Bureau of Statistics), the major difficulties faced by microenterprises are: access to fund resources for working capital (34.55%), access to raw materials (20.14%), and marketing (31.70%). Their sources of financing are: personal funds (i.e. reinvestment of working capital) – 90.36%; loan from informal sources – 3.20%; personal funds and loan from informal sources – 6.44%; and bank credit – 18.79%.

The above analysis led Bina Swadaya to understand why micro-credit is relevant for the poor people, while at the same time the existing banking system has not met the credit needs of village people especially because banks continue to require tangible collateral (or the obligation to provide guaranty in the form of land titled or vehicle's ownership certificate) for bank loans. Moreover, banks considered the microloans as costly and time consuming.

In 1988, Bina Swadaya succeeded in assuring Bank Indonesia of its capability to implement *Hubungan Bank dengan Kelompok Swadaya Masyarakat (KSM)* or the SHG Linkage Banking Program - after 100 meetings. Cooperation was built among Central Bank Indonesia, Bank Rakyat Indonesia (BRI), GTZ and Bina Swadaya. The credit scheme made it possible for the KSM to access credit on behalf of groups by maintaining people's savings in designated partner banks at the minimum 20-25% of the total credit proposed, and using '*tanggung renteng*' mechanism or joint or group liability as substitute collateral. This program was considered successful and still going on at present with excellent rate of repayment.

Bina Swadaya called the SHG Linkage Banking Program as a model approach that integrates both the components of Community Empowerment through the KSM

and the Microfinance approach. It was a collaboration that blends both formal and non-formal institutions which in the past nobody could believe it can be done. The SHG Linkage Banking Program enabled the poor to have credit access from formal financial institutions.

In addition to the SHG Linkage Banking Program, Bina Swadaya developed other microfinance models, viz:

- *Saving led microfinance*. Loanable funds are sourced mainly from members' saving. This microfinance model is generally practiced by Self-Help Groups, Credit Union, Coops. And the like.
- *Credit led microfinance*. Loanable funds are sourced from a third party, usually a donor. The *Badan Kredit Desa – BKD* (Village Credit) and *Bina Swadaya* adopt the *ASA Model* of Bangladesh to serve the poor especially in slum areas.
- *Microfinance-oriented Rural Bank*. Bina Swadaya implements micro banking through its 5 Rural Banks. These rural banks provide loans to micro and small enterprises. Borrowers are not required to form a group, they obtain individual loans by following the bank requirements

## **5. The Margi Rejeki (Way of Wealth) Self-Help Group**

To further illustrate the work of *Bina Swadaya* at the grassroots level, the case of Margi Rejeki is highlighted in this study. Margi Rejeki is a self-help group of ceramic producers in Melikan Village, Wedi Mayoralty, Klaten District of Central Java. Margi Rejeki's vision is to increase the living standards of the people in Melikan Village through its community development activities. The Melikan village is surrounded by Merapi Volcanoes and Pegunungan Seribu, and lies about 75-160 m above sea level

Majority of the members of Margi Rejeki depended on the earthenware handicraft business. Ceramic making is the center of people's life in Melikan village. Notably, 5 residents of the village were not pottery makers, and they also had no better job nor better income compared to the pottery makers. This can be an indicator that pottery making is the only way not to be an unemployed person in Melikan because there seems to be no access to other jobs.

The average income of the Margi Rejeki members was US\$178, although this was not the income of the whole family. This income largely came from ceramic production. Ceramic makers depended on orders they obtained, hence their income could fluctuate during the entire year.

### *Unique Technology*

The Melikan pottery maker uses a unique pottery device that deviates from the traditional flat potter's wheel. In Melikan, the pottery makers use a slanted wheel. Melikans believe that the slant wheel was introduced in the year 1700. It is made of teak wood or Mahoni wood plate with a diameter of 35-40 centimeters and as thick as 5-6 centimeters. The slant position to the front part of potter's wheel enables the women to sit in a modest way while moulding ceramics, without having to sit with

their legs spread apart.

In 1985, customer demand began to shift towards modern and decorative ceramics. Prior to this period, Melikans used to produce traditional earthenware to meet daily needs of local households such as water jugs. In 1988, Japanese Professor Mr. Chitaru Kawasaki from Kyoto Seika University Japan lived in Melikan village and taught the craftsmen to add glazier to the ceramic. He also helped them promote their products overseas.

Prof, Kawasaki also introduced the flat potter/peller wheel which enabled the craftsman to produce a ceramic with a height exceeding the 30 centimeters maximum height possible with the use of the slanted wheel. Prof. Kawasaki's technology enables the wheel to rotate five times faster, and which allows the craftsman to produce ceramics as thin as 0.3 centimeters, in comparison to the slanted wheel's 1.0 centimeter.

### *Process of Production*

The villagers' occupation as pottery makers is conditioned by the fact that the village geographically is close to a clay-rich forest. People believe that the clay from the forest contains oil so that it produces potteries with good quality (refined, soft, and strong). Villagers get clay from the forest using carts so that they do not do it individually. They usually work with others and if they have money they will buy it. The cost for one cart of raw clay is between 84 cents to 1.12 US\$ depending on the distance between the forest and the house.

The clay gathered is then put under the sun to be refined later using a mould machine which they rent for US\$ 1.12 per cart. The capacity of a mold machine to process is 15 carts of clay. The villagers used to rent the mold machine in groups from Mr. Trianto, an exporter who was a former member of Margi Rejeki.

The local pottery industry does not employ people from outside of the village. They are self employed. When there is an order for export they pay workers or sub-contract the order to a chosen partner. During the interview, 5 respondents were working on an order and they employed 2 – 10 people as workers. Workers are hired on the basis of their skills in making certain items (specialization) and there is no employment priority given to members of Margi Rejeki. Usually the exporter requires pottery makers to submit completed product every week whereas 5 – 6 days are needed to prepare ceramic: 2-3 days for drying (depending on the weather) and 3 days for incinerating.

For one time baking, 5–7 carts of raw materials are needed and the cost for one time incinerating is around 31US\$. For those who do not have *incinerators*, the rent of an incinerator for one time baking which needs 3 days is 1.02US\$. Potters who dedicate themselves to the making of potteries and ceramic need more raw material than those who work on ceramic only but their net income is lower. Further study is required to determine whether this means that their working hours are longer or whether it is a matter of different jobs although both spend the same length of time.

## *The Products*

Three kinds of ceramic products produced by the villager

- The simplest and most traditional form of product such as water jug, piggy bank, and other household earthen appliances. The production of these kinds of potteries uses the slanting wheel. And today only old women produce this kind of products.
- Decorative and painted ceramic known as “Kasongan” model. There are several models of products and most of them are products for decorative use such as pots, vases, or souvenirs. The design is modern but they do not require refinement because their surfaces will be covered with colorful paints or other materials such as dried banana tree bark. The buyers are not solely from the hamlet or nearby town but also as far as Jakarta and Surabaya
- Terracota ceramics are prepared using the vertical wheel or plate, the design is modern, requires perfect form and refined surface. This kind of product is mostly for export. the terracotta pieces are mostly decorative items like teapots, bowls, plates, vases and other interior decorations.

## **6. The Journey of Margi Rejeki**

There were at least 6 self-Help groups in Melikan at the time of the study: Cahyo Mulyo, Sido Mukti, Sedyo Mulyo, Andum Rejeki, Sejahtera, and Anugrah. It is part of Javanese culture for people to have social gathering for gossiping and chatting, as a result of which many kinds of indigenous groups sprung to life in the village including rotary saving groups. These groups mostly exist for social purpose rather for economic.

The story of Margi Rejeki can be traced to two village hamlet leaders - Mr. Puji and Mr. Sukamdi who were members of Sido Mukti. The villagers used to ask both of them for information about the SHG Linkage Banking Program. They wanted to obtain loans from the bank like what Sido Mukti did. Being ceramic producers, the villagers needed cash to produce and they had particular pattern of spending in producing their goods. Cash was required for molding the clay and for buying fuel to bake the half-finished products. Only producers with hired labor need cash daily, but for this type of producers usually they have contract orders from importers and they received down payment from them.

Willing to help their fellow villagers whom they knew for quite a long time, Mr. Puji and Mr. Sukamdi decided to help the villagers form a new self-help group called Margi Rejeki on April 7, 1989. At the start, Margi Rejeki members asked Mr. Puji to be the SHG leader and Mr. Sukamdi as the treasurer because no one among the other 14 members felt capable of undertaking these responsibilities. The monthly regular saving was set at US\$ 0.18 per member.

About 18 years later, in 2007, Margi Rejeki has grown into 38 members consisting of 10 females and 28 males. Accumulated loan disbursements by BPR from 1989 to 2006 to Margi Rejeki amounted to US\$5,280. The accumulated regular savings of members amounted to 1,220.75US\$. There were two kind of credit, long-term

for 12 months and short-term for 60 days. The short term loan was managed by the SHGs using the members' own accumulated saving fund, while the long-term loan was availed from the BPR using the SHG Linkage Banking credit scheme.

It was the SHG policy not to increase its members except for the purpose of replacing a family member who is a member of the SHG. The group arrived at this policy because it was difficult to conduct monthly meeting and find a meeting place with too many members.

### *Marketing of products*

The marketing of ceramic products varies. Some products are marketed directly to the closest cities such as Bringham Market in Yogyakarta, the town of Magelang, even to Jakarta and Surabaya. People who sell to exporters said that coffee cups and saucers are mostly exported to Switzerland and Italy, while vases and pots are exported to Europe, Holland and Germany. In the past, ceramic producers marketed their goods jointly because they had to pay heavily for transporting their goods to the cities. Nowadays they do not need to transport their goods because buyers come to have transactions with them and they pay on the spot. Partners who have been working with them for tens of years can either ask them to send the goods or come to take the goods by themselves. Exporters usually offer a contract of 9 to 12 months and they get goods every week. Observing the variety, makers now do not market their goods in one place.

Sukamti (44 years old) is a mother of 3 children and has 2 grandchildren. She got married with Supono (50 years old) twenty-seven years earlier. She joined the Margi Rejeki SHG in early 1989 together with the other 13 members. She was also a member of 3 other SHGs. Having the skills in making fine ceramic in various designs, Sukamti dedicated herself to refined ceramic making. Initially, she worked as ceramic labor specializing in the making of small petrol lamps. In one day she could produce 300 lamps. For this she got a salary five times bigger than that of other workers.

Ceramics made by Sukamti was sold to traders who brought the items to Bali. When interviewed, Sukamti said she got an order from an exporter who sells the items in the U.S. When she had many orders, she hired workers. When asked whether the workers come from the same group, she said that the choice of workers is usually based on their skills, although in general they came from the same village. When asked why she did not sub-contract the order, she said that she preferred working alone to avoid conflicts. In addition, she could work pursuant to her wishes considering that she had been cheated in the past by her partner who stole her designs and orders.

Margi Rejeki has not ventured into joint marketing with their members. This is because buyers deal with the producers individually. Nonetheless, Margi Rejeki members would like to have a joint showroom or bazaar for their products where buyers can come and transact business. Margi Rejeki members have seen what

the government has done for the Anugrah group. The latter received billions of Rupiah to support their production and marketing of ceramics. To this end, members of Margi Rejeki wanted to register their informal association as a cooperative.

### *Finance for Production and Marketing*

Margi Rejeki Self-help Group was formed because the members felt that they needed an alternative source of finance. The perceptions of members about the financing program of their own SHG are reported below.

### *The Group is an alternative financial institution*

Of 26 respondents, 18 people said that they joined the group in the first year of its formation. In other words they been members of the SHG for 17 years and only 1 member joined the group for 5 years because he took over his father's membership. When asked the reason for their membership, they agreed to express that their reason for joining is to have an access to the capital because at that time it was very hard to get a loan from banks while the available credit was from money lenders who charged 5 – 10% interest rate per month. Nowadays, they can access various credit lines from banks, from BRI (People's Bank) which is a state bank that charges a fix interest of 1.5% per annum. For short term loans, members turn to their own SHG which disburses small loans amounting to US\$ 11 to US\$ 22.

### *Credit regulations were determined in a meeting of members*

Prior to applying for a credit line, members discussed credit regulations that would be implemented especially on interest rate and maturity date. So was the amount of credit to be applied for by each member, then they put it down on the loan application form. Ongoing credit lines are of 12 months pay back term and installments are to be paid every month during the group's monthly meeting. The rate is implemented at 3% flat annually and the group gets a margin at 0.5% because the group's credit lines came from ARTA SWADAYA Bank which charges an interest rate at 2.5% flat annually. The income derived by the SHG from the interest rate differential is used to finance the operation of the group and also to increase the group's capital.

Arta Swadaya Rural Bank, which is located in Klaten, creates a credit line on the account of the SHG against a social guarantee which is the mutual responsibility of the SHG members. The SHG can access this credit line with the recommendation from an NGO, which in this case is the Bina Swadaya Foundation. The amount of credit granted to the group is 4-5 times the amount of the group's savings. The group's savings is then frozen in the bank.

Four respondents claimed that they do not have any loan from the Group but two of them admitted that they have loans from BRI individually. They borrowed US\$ 674 and US\$ 337 respectively with the reason that the group's capital is not enough for all members whereas their need for capital is relatively high. So, after considering their ability to provide collateral for accessing bank's credit lines using the formal banking standard, they accessed credit lines individually.

Two respondents said they did not borrow money from the group because they were aware of their economy capability. They were worried that they would not be able to pay installment on time.

The rest (21 people) got loans between US\$ 56 to RUS\$ 337 and in general it was their fifth loan. Some said that it was their 10<sup>th</sup> loan.

Aside from getting loans from the group, 15 people (of the 21 people) also had loans from Public Bank at Rp.86.5 million. The credit was accessed individually through the standard banking requirements among others: paying provisions and submitting collateral in the form of land certificate. Regarding interest rate, generally the credit is a special loan specifically for small scale business people with an interest rate of around 2% per annum.

#### *Participation of Members in Providing Capital to Poorer Members*

There are 3 kinds of participations that can be taken by members in providing capital. Aside from credit lines from banks, the group also had a saving and loan activity the capital of which comes from the accumulated savings of the members plus interest earnings of the group. The credit term is 2 months and different considerations are applied. For loans at Rp.100 thousand the term is 60 days and when paid back must be at Rp.107 thousand (interest is Rp.6 thousand and social contribution is Rp.1 thousand).

Another way by which members help poorer members is to authorize the group to use the savings and the profit of the group to write off members' bad debts (mutual responsibility). A third measure is for a member to waive his/her rights for loans so that the amount can be used by other members who have greater need for it.

### **7. Key Performance Indicators of Margi Rejeki**

#### *Members Obligations and Responsibilities*

In its Act of Association, it is stated that the SHG was formed as a group of people, and each member was expected to observe regulations that they set out namely:

- Attending a regular monthly meeting
- Saving a sum of money every month

The group began its saving and loan activities using the accumulated amount of members' savings as its initial capital. At this stage, the regulations of the SHG were enlarged to include provisions on:

- Paying loan installment on time
- Willingness to follow 'joint-responsibility' mechanism
- Willingness to help the group in conducting claims against members who do not pay their installments on time.

In its first year of operations, the number of members increased especially when people learned that the SHG was giving out loans to members without collateral

The number of members increased to a peak of 50 in 1993, but in subsequent years this gradually decreased to 38 members.

#### *What the Group Means to Members*

Twenty-four respondents have joined the group longer than 12 years (15 people have joined the group for 17 years), 2 people with most recent memberships have joined the group for 5 and 7 years.

As regards their reason for joining the group, 18 people said they were interested in joining the group because they saw how the Sido Mulyo Self-help Group had developed and grown well and their benefits derived by members through their solidarity to help the weak. Meanwhile, 8 respondents said they became members because initially friends or relatives encouraged them to.

Respondents view the SHG as a place to gather (8 people), a place to share information (1 person), as a source of financial assistance (25 people), and as a means for helping the weak (1 person).

#### *Group Management*

Margi Rejeki has daily caretakers which consist of Chairman, Treasurer, Secretary, and public relations officer who are elected every 2 years. Eight respondents admitted that they were once caretakers (3 people are still active), they said that replacements were conducted at random and so far there have been two replacements of chairman.

One respondent who joined the group since its formation withdrew from his post as treasurer because the person felt that his Primary School education (did not even graduate) was not enough so that he got difficulties when attending the bookkeeping training held for the group.

The main topic discussed in the group's meeting focused on financial activities, namely payment of installments, arisan (a traditional activity in which members collect money regularly to be claimed by one member each time of collection), and short term loan. There was no discussion related to activities to conduct production or joint marketing. However, the members talked about their business outside of the meeting's agenda. Moreover, all members of the group were actually also members of other groups (most of the members were also members of 2 to 5 other groups) because, that way, in their opinion, they could socialize with people from other villages.

#### *Attendance of regular monthly meetings*

As regards the presence of members in monthly meetings, 9 people claimed that they have always been present, 13 people said that they have almost always been present, and 4 people said that they seldom attended. The reason for absence was that they were out of village or they had different activities to do but 1 person said that he was absent because he could not bear sitting for a long time (during meeting in the village people do not sit on chairs but on mats). Some respondents

also made the observation that absences were partly caused by members' inability to pay their loan installment.

#### *Schedule of monthly meeting*

The schedule of monthly meetings changes every year depending on the distribution of loan from a third party so that the date of meeting is determined one day prior to the date of installment. As regards installment payments, 6 people admitted that they once were marked as having arrears but actually they were only late in paying their installments. The Klaten area experienced a terrible quake which claimed thousands of lives. This affected the local economy badly so that the Self-help Group decided to give a grace period of 2 months to its members.

#### *Pooling of Savings*

In general, members do not think much about their savings because the amount of Rp.2.000 a month for savings is regarded as so small that members regard their savings as lost notes. The members' accumulated amount of savings from mandatory deposit per September 2006 is Rp.12 million. The composition of the savings is as follows: 2 people have savings the amount of which is less than Rp.250 thousand; 21 people have savings the amount of which is between Rp.250 thousand to Rp.500 thousand each, and only 2 people have savings the amount of which is over Rp.500 thousand. The amount of savings is actually used as a base for the group's distribution of dividend.

#### *Social contribution*

The group gives contribution at the amount of Rp.50.000 to any member who gets sick and must be hospitalized or that his family member died. Eight respondents during an interview admitted that they got social contribution from the group even though the amount is not significant. However, the group could not give contribution to its members who were victims of the May 2006 quake.

#### *The Group's contribution to the villagers*

All respondents who were interviewed agreed that the group is known in the village even the local government is aware of its presence. Answering a question on what the group has given to the society, respondents said that when monetary crisis took place the group distributed 10 kg of rice to each family although the rice was actually meant to be distributed to members only. In addition to that, the group also contributed cement when the village road had to be repaired.

#### *The Relation between the Group and the people in Melikan*

When asked whether respondents have ever represented the group to attend a meeting called for by village authorities, all respondents said that they have never done that because there has never been any invitation to the group. What happened was the local authorities formed a new group called Anugrah and this group has received various governmental aids for potters.

Respondents have once received an aid from Mr. Kawasaki, a Japanese professor, who was very much interested in the specific process of production using the slanting wheel. Working together with Tokyo University and Surakarta State University while living in Central Java, Prof, Kawasaki had studied the development of ceramics in Melikan. He gave trainings to potters on design and finishing. In addition, he gave contributions in the form of vertical wheels and modern incinerators. The vertical wheels made many men work diligently in addition to the fact that vertical wheel is well suited for the production of more refined ceramic. Aids in the form of building materials were also made available to make modern incinerators. At present almost all respondents have incinerators and only two people said they rented other people's incinerators.

### *The Group's survival*

In the opinion of members, the group already has enough amount of capital and they receiving dividends from the profits generated by the group. In the previous year, the members received Rp300 per Rp1.000 savings so that if a respondent had a savings at Rp100.000 he would have received dividends amounting to Rp.30.000. Any doubts some members may have on the viability of the group are not strong enough at this stage to prompt them to leave Margi Rejeki.

Reflecting on the reason for the decreasing number of members of the SHG, the Chariman of Margi Rejeki said that those who were unable to pay their past due loans were the ones who have not been showing up in the Group's meetings. Consequently, the members in good standing take over the responsibility of paying the past due installments. This, as a matter of course, decreases the amount of dividends supposedly received by members because the dividend is distributed at 20% of net profit. However, the chairman explained that the existence of the Group is precisely to help those who are weak, for they see with their own eyes that the failure to settle debts is mostly caused by the failure of their businesses.

## **8. Conclusion**

The self-Help group is a community-based organization on very basic level. It is also often called a first-tier organization. Most members are original residents of the area where it is formed. Its task is to promote self-help among members so that they will achieve self-reliance and no longer depend on assistance from third parties.

This study analyzes the experiences of 26 out of 38 members Margi Rejeki Self-help group in their effort to overcome common problems. Margi Rejeki members were facing financial difficulties especially so because they had no access to bank credit for working capital. The group was set-up as a mutual guarantee associaton with the particular goal of serving as a "social collateral" as a substitute for the tangible collateral required by bank.

The SHG also serves as a coping mechanism of the poor in order to survive economically. Respondents to the survey for this study said that the main benefit of the SHG was to enable them to have access to bank credit. This proved to be a

significant achievement in view of the members' dependence on exorbitant moneylenders in the past.

Margi Rejeki was not instrumental in bringing about joint production or joint marketing, although there were instances that bank credit made it possible for members to undertake joint purchase of raw materials.

Margi Rejeki succeeded in promoting people's solidarity through the pooling of members' savings. Although the total amount saved by the members were not substantial compared to their loan requirements, the accumulated savings of members had been instrumental in meeting their short term liquidity requirements.

The SHG has also succeeded in instilling the discipline of loan repayment among the majority of its members. The SHG has inculcated among its members to pay their loan installments on time as required by the rural bank, and so as to keep open the access to bank credit. Some members had to pay for the cost of maintaining such discipline. In fact, 5 members had to withdraw their membership because of their failure to repay their loan. In this context, the SHG has succeeded in shifting the credit risk from individual member's responsibility to collective responsibility.

Another solidarity indicator revealed by the members was how they supported each other in crisis situation. At least 2 respondents admitted that they gave up their rights to get credit from the group simply because the Group fund was not enough to meet the credit requirements of all members of the group. So they decided not to borrow from the SHG and went instead to borrow from the government bank. It must be pointed out, however, that privilege to borrow from the bank could not have been granted to the SHG members were it not for the excellent track record of the SHG itself. The bank uses the SHG's track record on loan collection and repayment as a basis for granting individual loans to its members.

It is arguable that the most important contribution of the SHG was to serve as a social solidarity group in the sense that it refrained from punishing members who were delinquent in repaying their past due loans. It was precisely to help members restore their good credit standing that the SHG established its short term loan fund that was financed by the savings of the members themselves. This mechanism proved to be well supported by the members as it provided a means by which they could protect their credit records with the bank.

Margi Rejeki is still quite far from building the so-called 'Solidarity Economy'. Based on the survey results, the group members were aware that the local government officers were not cooperating with them properly. Rather, the local government officers were trying to deprive them of their access to bank credit. The SHG members also observed that another group was being assisted on a large scale by the government, and this made it difficult for Margi Rejeki to compete with the said group.

Notwithstanding these difficulties, it has been observed that in the last ten years, the craft industry has shifted from a "side job" of people to being the main job of the

village. The introduction of modern ceramic design has transformed the village's ceramic industry from one that was traditional in orientation and functional in nature, to one that is modern and artistic. The market has also changed substantially, from one that was oriented locally to one that is export-oriented.

These changes occurred slowly over time, but their impact on the organization development of the SHG has been tremendous. The group members are aware of the problems that now beset them individually and which also confronts the SHG itself. They are aware of their inexperience and lack of knowledge and skills in dealing with their common problems concerning organized collective participation. They have set their sights on converting their SHG into a cooperative. It is hoped that the acquisition of the legal personality of a cooperative will provide the SHG members a new platform for building their community economy as a solidarity-based economy.