

SIX MONTH UPDATE

KOMPIP/REAL MEDICINE FOUNDATION  
"COMMUNITY SAVINGS" PROJECT  
Mlese Village, Klaten City, Central Java, Indonesia  
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Drafted and Submitted By Nicholas Taranto

*The community savings program is the beginning of a much more long-term, and what I think is a positively exciting, approach to bringing people out of poverty.*



The author with Mrs. Radinem, a recipient of a US\$20 loan in her new sundries shop, and Mr. Supadmo, the fund treasurer for RT 8

**ABSTRACT:**

This past October, the Real Medicine Foundation (RMF) issued a US\$10,800 grant to Yayasan KOMPIP (YK) to expand YK's TRT or "community savings" project in Mlese Village, Central Java. Since dispersal, the grant has already directly impacted over 1,000 individuals. The RMF grant has stimulated a multiyear process of economic growth that will actively fight poverty and redevelop the community, damaged in a May 2006 earthquake. In Mlese Village, where over 99% of homes were partially or entirely destroyed, the RMF grant has begun to serve as a direct catalyst to revitalizing the community and returning village members' lives to normal. Much progress has been

made, but many thousands of villagers in dozens of neighboring communities are still waiting for assistance.

#### KOMPIP

Yayasan KOMPIP (YK) is a Solo, Central Java-based non-governmental organization (NGO) committed to facilitating the democratic process and alleviating poverty on a grassroots level. YK has a proven commitment to developing community economic sustainability, working with marginalized peoples, and promoting the democratic process.

Since 2003, YK has developed and expanded a unique version of micro-lending which the organization calls *Tabungan Rukun Tetangga* (TRT, or neighborhood community savings). Through a three-step process, YK has begun to implement what it calls a "third fiscal devolution" of resources directly to RT (*Rukun Tetangga*, or neighborhood) from the organization. The three-step process is as follows:

- 1) Poverty information system (PIS) mapping for each RT. Information on household income, education, health, and shelter is gathered and compiled at the community level.
- 2) Work-plan development for each RT. Priorities and location-specific plans are developed.
- 3) The allocation of a "stimulus grant" or *hibah*. Grants to each RT are usually in the amount of between 500,000 and 3 million Rupiah or US\$50 and 300.

#### MLESE VILLAGE

Mlese Village is an amalgamation of nineteen neighborhoods (RT) located ten kilometers or six miles from the mid-sized city of Klaten, Central Java. In the aftermath of the May 24, 2006 earthquake, forty-one villagers from Mlese were found dead. Over 99% of the village's houses were either severely damaged or destroyed, making the per capita destruction worse than Banda Aceh's in the 2004 tsunami.

In October, community members reported that they required employment more than assistance with housing or treatment for mental trauma. In October, the author recommended that RMF use YK's TRT program to facilitate the economic revitalization of Mlese. RMF issued a US\$10,800 grant to KOMPIP, which has been fully executed and distributed within Mlese.

#### THE GRANT AND LOANS

Half of the grant to each RT is used for training. Hartono, a recent college graduate in finance, spent three months living in Mlese. He has metal screws in his spine resulting from a childhood motorbike accident. Hartono, despite oftentimes visible discomfort, still stayed in the village for three months while his training program was brought to conclusion. Hartono facilitated mentorship for over one thousand people in nineteen communities. Akbar, the KOMPIP CEO, told me "He is a superman."

Hartono conducted three community meetings for each RT and three village-wide meetings. The three meetings on the RT level, while comparatively expensive, are essential. The first meeting was used to introduce the concept and to nominate and select an RT fund manager. The second meeting was used to register members and to establish borrower candidacy – to prioritize based on need. The third and final RT meeting was used to distribute the loans.

Each RT determines its own set of rules and regulations. After the initial grant from KOMPIP to each RT, fund members contributed a primary additional sum, ranging from 5,000 Rp to 10,000 Rp. Each subsequent month, fund members continue to contribute varying sums, averaging 1,000 Rp or US\$.10 per person, dependent on RT regulations/stipulations. This initial contribution and monthly fee means an ever expanding "kitty" regardless of successful interest repayment. Fund members can borrow up to 1 million Rp or US\$100 for emergencies, although most loans do not exceed 500,000 Rp.

In Mlese, 1029 households total 3280 village members. As the charts in "Data Analysis Reported" (not included here) show, there are currently 1059 fund members from Mlese. This translates into an average of over one fund member per household. 73% of the borrowers are male.

In the four months since loan distribution to community members, three borrowing cycles have been completed. Respectively, the cycles saw borrowing by 336, 107, and 87 fund members totaling 530 individuals, or over 50% of registered fund members.

Returns on monthly interest and repayment for the first complete cycle were over 99% (334 of 336 fund members). There are sustained meetings on the RT level, conducted by the fund manager and treasurers, once per month or once per Javanese month (35 days). Repayment rates and time frames depend on RT policy. The average time is four months, with interest rates of 3%. A 5% management fee is used to compensate the manager and treasurer for each RT.

Throughout Mlese, community members average per capita income of 11,400 Rupiah per day – or a little over a dollar per day. The largest grant issued was for 800,000 Rupiah to begin a brick production operation. The smallest grant was 50,000 for a vegetable seller. Any larger than 800,000 or 1 million Rupiah (US\$80 to 100), and community members become afraid of an inability to repay – it is just too much money for someone living on one dollar per day. Dr. Kevin from RMF offered a US\$1,350 grant to be split between three people. They turned it down – they knew they would not be able to repay. Micro finance means micro sums, what to Western observers would barely cover the cost of filling up an SUV.

## ASSESSMENT

I had some questions: How do we make sure the loans are self-sustaining or used for self-augmenting causes – for micro enterprise as opposed to traditional borrowing for food and bills? What does the community do to promote on-time payments by all borrowers? What does membership require?

In Mlese, accompanied by Akbar and two other representatives of KOMPIP, we visited the head of the village (*kepala desa*). Indonesian rap blasted from a window-rattling stereo, chickens pecked at scraps of corn husks, naked bulbs hung from the exposed terracotta roof. Where there was rubble six months ago, there now stands a tile roofed, brick-walled house with glass windows and a cement floor.

As the *kepala desa* told us, community borrowers have until the end of their proscribed term to repay, even if their installments are staggered or uneven. If after the stipulated time period, the borrower has still not repaid, the sense of Javanese shame will be employed. The tardy borrower will be subjected to public questioning. "I would rather sell my TV than let that happen to me," reported the *kepala desa*.

"We have already experienced some success with the fund," he continued, "but will have to wait one or two years to see how effective it is." He went on to describe how the community members are still in a phase of great need, where the loans are being used to satisfy simple needs (food, school, clothing, etc. – see below). In RT 1, five of nine members have borrowed to buy food – obviously there is still a great need for the most essential items and aid. In RT 5, only one member borrowed for food. The rest have used their loans to fund new or extant enterprises.

Members are chosen by RT managers based on the most extreme need for assistance. For those who have moved beyond disaster and have begun to use the loans to fund micro enterprises, there has been an impressive track record of success.

<b>Neighborhood 01 Sub Village CANDI</b>			
<b>NO</b>	<b>NAME</b>	<b>Size of Borrowing</b>	<b>Purpose</b>
1	Ajar	100,000	Food logistics
2	Mur Jumat	100,000	Food logistics
3	Sapto	100,000	Food logistics
4	Sukianto	100,000	Food logistics
5	Sumardi	200,000	Agriculture support
6	Yadi Martoyo	200,000	Food logistics
7	Hadi Suparto	500,000	Cake selling
8	Ny. Wandu Wiyoto	500,000	Food selling
9	Suharno	300,000	Tailor
		Rp 2,100,000.00	

<b>Neighborhood 05 Sub Village VI SIDO DADI PULOREJO</b>			
<b>NO</b>	<b>Name</b>	<b>Size of Borrowing</b>	<b>Purpose</b>
1	Gito Tukinah	50,000	Food logistics
2	Lasimin	200,000	Agriculture support
3	Punijo	787,000	Goat farming
4	Rubimin	500,000	Goat farming
5	Satimin	200,000	Goat farming
6	Sukarno	500,000	Recycled material seller
7	Sukino	450,000	Goat farming
8	Supadmo	300,000	Agriculture support
9	Suwanto	450,000	Goat farming
10	Tukimin	603,000	Goat farming
		4,040,000	

#### MRS. RADINEM AND THE SUKIMANS

Mrs. Radinem is a sprightly fifty years old. Before the earthquake, she owned and operated a sundries shop that was destroyed. For the six months before the loan dispersal, she had no steady income, and spent her days sleeping, chatting, and eating at friends' houses. She borrowed 200,000 Rupiah (about US\$20) to rebuild her sundries shop. With two payment periods left, Mrs. Radinem has almost fully repaid. She now makes 50,000 Rupiah per day by selling soft drinks, shampoo, soup, and chips.

According to Akbar, "The most important things we do is social preparation. Accountability, planning, and transparency. Making sure everyone who borrows understands their commitments."

The sheer number of "food logistics" borrowers is worrying, but the *kepala desa* felt confident, and the data show, that the borrowers are more than capable of repayment. The Sukiman family, whom we visited shortly after the grant dispersal in November, borrowed 500,000 Rupiah for agriculture production. Mr. Sukiman is a bricklayer, and his wife works as a tobacco picker. "Almost everyday our spending is higher than our income," Mr. Sukiman told me in November. Between two dollars for food, seventy cents for the children's pocket money, and monthly school, books and uniform fees, the family was living in a perpetual cycle of debt and poverty.

Mr. Sukiman was one of the first people to join the Mlese Community Savings Program, funded by the Real Medicine Foundation. He hoped that by borrowing money from the fund, his family could pay back their debt. He realized that paying back loans by taking another loan was extremely risky. Thus, his family planned to take their loan in order to open a vegetable stall at their house. Fifteen years ago, Mr. Sukiman attempted a similar venture. Unfortunately, his efforts failed due to what he calls "the careless purchase of non-essential goods."

Rini, their vocationally trained daughter said, "Now I am grown up and able to manage money. I have learned well in school. I will help my mother and father to manage the money when we open our vegetable stall."

"We need mentoring from RMF and KOMPIP in this effort so that we will not fail again," Mr Sukiman said in November.

Now, three months after his family's fifty dollar loan, Mr. Sukiman is able to hire laborers to rebuild his house while he still works in Yogyakarta and his wife and children manage the vegetable business. They are not rich, and they never will be, but they have escaped the cycle of debt.

A fifty dollar loan, a ticket out of extreme poverty.

Akbar sees his role as providing the local and national governments with a successful model of rural community and economic development. If his program succeeds – as it looks like it will, judging from the Mlese success and that of other villages with longer running programs – it could become an example for all of Central Java, and beyond. This is all part of Akbar's vision of community-centered capitalism and his broader "third fiscal devolution."

The community savings system merits comparison with the age-old anecdote of the beggar who asks for food. You could give him a fish, or you could give him a pole, tackle, and bait. Community savings, what could be written off as too easy and simple and effective to be true, is not just a fish. It is the full package.

Mlese is just one of several thousand villages in Central Java. Community savings works. RMF can help move hundreds of thousands of additional people out of poverty by sponsoring additional projects throughout Java, and beyond.