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Gintingan in Subang : an indigenous institution for sustainable community-based development in the Sunda Region of West Java, Indonesia

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Citation

Saefullah, K. (2019, April 30). *Gintingan in Subang : an indigenous institution for sustainable community-based development in the Sunda Region of West Java, Indonesia*. Leiden *Ethnosystems and Development Programme Studies*. Retrieved from <https://hdl.handle.net/1887/72202>

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Cover Page



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Issue Date: 2019-04-30

CHAPTER VI SUSTAINABLE COMMUNITY-BASED DEVELOPMENT IN INDONESIA

This chapter attempts to elaborate the evolutionary concept and practices of sustainable community-based development in Indonesia, starting from the elaboration of the progress of development in Indonesia and the country's struggle to alleviate poverty, including the critical examination of microfinance roles in development. The chapter then discusses the establishment of integrated microfinance management by Slikkerveer (2007; 2012), its approach and implementation in Indonesia and a further approach of an Integrated Community-Managed Development (Slikkerveer, Baourakis & Saefullah 2019).

6.1 The Progress of Development in Indonesia

6.1.1 Income and Disparities

Indonesia has been highlighted as a well-performing country, particularly among its neighbouring countries. Following a negative economic growth rate of -6.65% between 1998 and 1999, the country accelerated into positive economic trends, with an average economic growth rate of 4-5% between 2000 and 2009 and 5-6% between 2010 and 2016. The country has shifted dramatically from a mainly agriculture-based sector, to service and manufacturing-based sectors. Between 1950 and 1960, the agricultural sector was the largest in the development of the country with about 51%, followed by the service sector with 36% and the industrial sector with about 13%; this structure transformed into the industrial sector with 47% and the agricultural sector with 15%, while the service sector remained stable at 38% in its contribution to the country's economy. The country has successfully reduced the incidence of poverty, with a declining poverty level from about 40% (using the International Poverty Line) or 20% (using the Indonesia Poverty Line) in the year 2000, to respectively about 6.8 % or 10.2 %. Such progress has shown that the development of Indonesia can be considered to be on the right track (*cf.* Elias & Noone 2011; IMF 2016; Indonesia Investments 2018).

Economic growth of the country is increasing and the incidence of poverty has also successfully been reduced; however, income inequality is also rising. The disparities among the rich and the poor become larger. The Gini coefficient of Indonesia, which was around 0.30 in 2000, has increased to 0.41 in 2013, indicating that growth over the past two decades has benefitted only one-fifth of the richest people in Indonesia, leaving behind the remaining four-fifths of the population. As shown in the following Figure 6.1, a recent report by the World Bank of Asia and Pacific underscores that about one-third of the people of Indonesia are categorised as economically secure while the other two-thirds are categorised as vulnerable to poverty. One-third of the inhabitants are categorised as 'economically secure' and 'middle class' while the other two-thirds of the inhabitants are categorised as 'extremely poor', 'moderately poor' and/or 'economically vulnerable'. The World Bank 2014 Report on 'Public Perceptions of Inequality' concludes that most Indonesians felt that economic growth is only benefiting certain groups of people and that income is 'very unequally' or 'not equally at all' distributed. About two-thirds of the respondents were willing to accept a lower economic growth in exchange for higher equality in the economy (*cf.* Hofman, Rodrick-Jones & Thee 2014; World Bank 2014, 2017).

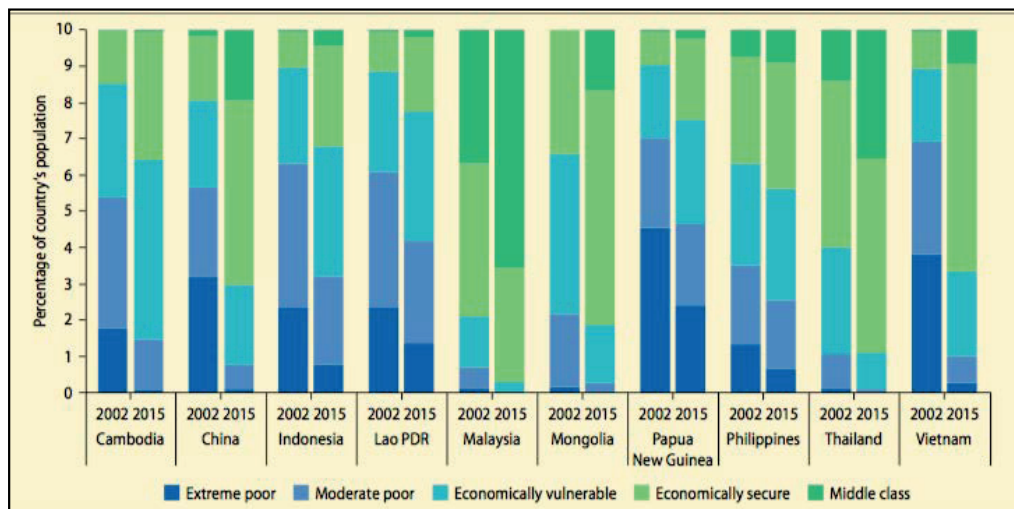


Figure 6.1 Population Distribution by Economic Classes and Countries, 2002 & 2015.

Source: The World Bank (2017).

6.1.2 The Alleviation of Poverty

Since development is a multidisciplinary phenomenon, approaching poverty requires more comprehensive views. It involves many aspects of the society, from economic to health services, education, as well as cultures (Morduch & Haley 2002). The recent definition of poverty by the World Bank extended the conventional definition of poverty with income measurement, to a more comprehensive notion, including lack of opportunities, capabilities, a sense of voicelessness and vulnerability to external shocks (*cf.* World Bank 2000). In Indonesia, poverty reduction was never explicitly discussed as a policy recommendation in any official documents before the end of the 1990s, particularly until the monetary crisis hit the country in 1997 and caused economic turmoil in Indonesia with a significant increase in poverty incidents. In 2001, the government of Indonesia formed the inter-ministerial Poverty Reduction Committee in order to implement holistic and integrated plans and actions in poverty reduction. Under the coordination of this committee, all the stakeholders at the national level prepared an Interim-Poverty Reduction Strategy Paper (I-PRSP), a road map for the development of the *Strategi Nasional untuk Pengentasan Kemiskinan* (SNPK) or National Strategy for Poverty Reduction. Based on that paper, the government made poverty reduction a priority in the short-term and medium-term national plans. The *Rencana Pembangunan Jangka Menengah* (RPJM) or the Medium-Term Development Plan, for instance, provides a broad strategic direction for the government over the five years of the development programme. The RPJM incorporates the SNPK and addresses the growth-related aspects of poverty reduction. Across the history of the Indonesian economy, Indonesia has made significant progress in reducing poverty since the 1970s. The period from the late 1970s to the mid 1990s is considered one of the most 'pro-poor growth' episodes in the country's economic history. Through various development policies and programmes, such as better food security, agricultural development, investment in education, health services and infrastructure, the number of people living in poverty decreased from 54.2 million (40.1%) in 1976 to 34.5 million (17.7%) in 1996 (*cf.* Bappenas 2016).



Illustration 6.1 Housing Conditions of a Poor Family in Subang, Indonesia.
Source: Saefullah (2012).

Over the last 20 years, half of those who have moved out of poverty have done so by moving to non-agricultural work, primarily in urban areas. As elaborated earlier, the country has survived with poverty reduction, by decreasing the poverty level from about 40%, using the International Poverty Line in the year 2000, to about 6.8 % in the year 2016 (*cf.* Bappenas 2013, 2016; Indonesia Investments, 2018). However, as shown in Figure 6.1, the condition is still considered vulnerable. The rural area is the most vulnerable group of people, which are prone to poverty. Rural poverty in Indonesia is almost double that of the urban poor. As shown in Figure 6.2, about 14.72 % of the poor people live in rural areas, in comparison with 8.60 % living in urban areas. There are some challenges which are being faced by the government of Indonesia in reducing poverty: 1) High population growth; 2) Farmers without land; 3) The poor without collateral; 4) Migrant poor villagers; and 5) Marginalised people as caused by development projects.

The government has prepared comprehensive plans, policies and actions for poverty alleviation in Indonesia, starting by creating a Strategic Policy in the Middle-term Development Plan (RPJM), followed by a government policy for poverty reduction, and implementing stages in the poverty reduction programmes. To implement such plans, the government of Indonesia has established *Tim Nasional Percepatan Penanggulangan Kemiskinan* (TNP2K) ('National Team for The Acceleration of Poverty Reduction'), under the Presidential Regulation Number 5/2010. The team, which is coordinated by the Vice President of Indonesia, integrates many ministries which are related to the poverty reduction programmes, with aims to accelerate the attempts to reduce poverty in Indonesia through the following strategic programmes: 1) Enhancing social protection; 2) Improving access to basic services by the poor; 3) Community Empowerment; and 4) Inclusive Development.

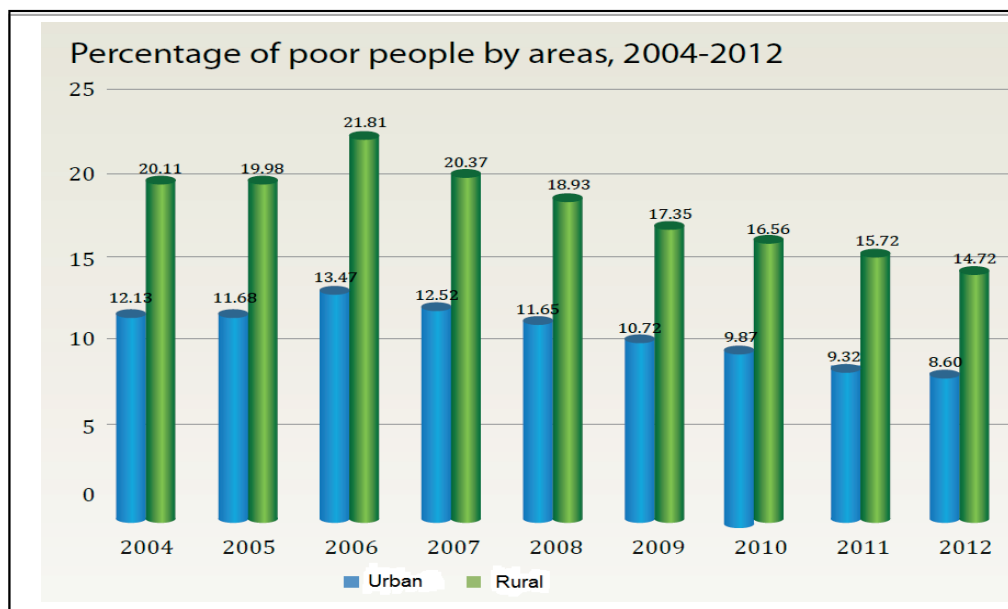


Figure 6.2 Percentage of Poor People by area in Indonesia 2004-2012.
Source: Bappenas (2016).

Concerning the Strategic Policy in the Middle-term Development Plan (RPJM), the Government of Indonesia has set up a ‘Four-Track Development Strategy’ which has four development agendas in poverty alleviation: pro-growth, pro-job, pro-poor, and pro-environment. To achieve the objectives of Indonesia’s ‘Four-Track Development Strategy’, the government has also made a strategic policy related to the poverty reduction programmes in Indonesia. There are two policies regarding the poverty alleviation programmes: 1) government policy for poverty reduction; and 2) affirmative policies for poverty reduction. Both policies are shown in Figure 6.3. Concerning the macroeconomic policy, the country divides the policy into four clusters of programmes: 1) Cluster 1, which focuses on the family-based social assistance programmes; 2) Cluster 2, which focuses on community empowerment through the *Program Nasional Pemberdayaan Masyarakat (PNPM) Mandiri* or ‘Mandiri National Programmes for Community Empowerment’ programmes; 3) Cluster 3, which focuses on the empowerment of small and micro-enterprises (SMEs); and 4) Cluster 4, which focuses on the pro-people programmes.

To support the macroeconomic policies, the government applies affirmative policies for each cluster: 1) Cluster 1 will be supported by an alleviation of economic burden and improvement of the life quality of the poor; 2) Cluster 2 will be supported by an increase in the capacity of the poor in their involvement in the development process; 3) Cluster 3 will be supported by the increasing savings and ensuring the sustainability of business; and 4) Cluster 4 will be supported by providing low-cost basic facilities for the poor through the implementation of coordinated sectoral activities in certain regions. The four clustering programmes in poverty alleviation programmes which are planned by the government of Indonesia are basically targeting the poorest, the poor and the near-poor households in the first cluster, poor communities of sub-districts in the second cluster, SMEs in the third cluster, and declining disparities among marginalised groups of people in various sectors in the fourth cluster (*cf.* Figure 6.3).

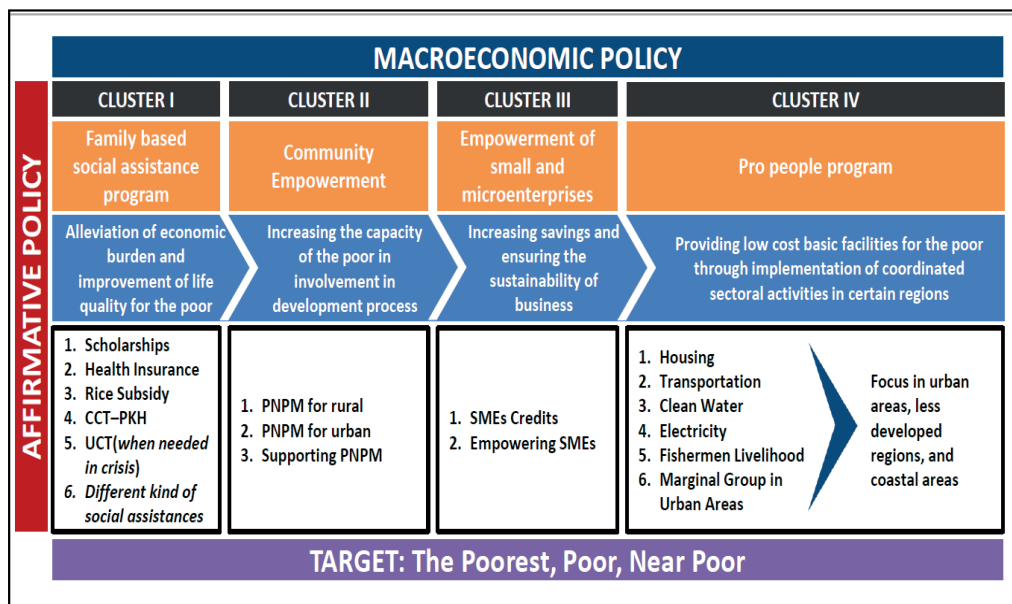


Figure 6.3 Government Policy for Poverty Reduction in Indonesia.
 Source: Bappenas (2016).

6.1.3 Microfinance and Its Inadequate Roles in Development in Indonesia

The various programmes for poverty reduction in Indonesia have given rise to various institutions that contribute in the development programmes. One of the institutional contributions is the establishment and the operations of microfinance institutions. The role of microfinance institutions, in fact, has been recorded as contributing to the development of Indonesia, from the the end of the 19th century and the early 20th century, through the work of Schmit (1994). The paper elaborated the earliest role of microfinance in Indonesia from 1895 until 1935. The paper documented the ‘people credit bank’ which served microfinance services during that period of time, started by the establishment of People Priyayi Bank of Purwokerto by Rd Wiriaatmadja in 1895, a Javanese government official who first built the bank to help his friend out of debt. After the reorganization of the bank into a cooperative bank through Dutch administration in 1897, the institution then reached more people at the bottom line of the society. In the rural areas, the operations of the bank were assigned to *Village Bank* (Java) and *Nagari Bank* (Sumatra). After the independence of Indonesia, in 1946 the bank was tranformed into Bank Rakyat Indonesia (BRI) and became a state-owned commercial bank in 1950 and its operations mainly serve rural people with micro and small capital, which then became a trademark of the bank. In 1984, the Village Units were restructured into more commercial institutions and independent management. Since then, the institution operated as a profitable institution and became one of the world’s largest microfinance network systems, even though the village units are managed by commercial banks (*cf.* Schmit 1994; Ismawan & Budiantoro 2005). Microfinance institutions in Indonesia can be divided into two types, based on its organizational types and legal framework : Bank Institutions and Non-Bank Institutions. This type of a bank as a microfinance institution is supported by the Indonesian Law on Banks no 10/1998 which allows commercial banks to provide services in the community level. Futhermore, the ‘non-bank institution’ is divided into

two: formal institutions and non-formal institutions. The formal non-bank type of microfinance institutions are supported by the Indonesian Cooperative Law no. 25/1992 and the Indonesian Law No. 1/2013 on microfinance. Unfortunately, the informal type of non-bank microfinance institutions have no legal support in their operations (*cf.* Akatiga 2001; Ismawan & Budiantoro 2005; Saefullah 2011).

Some empirical researches have been done to evaluate the microfinance roles in poverty reduction in Indonesia. Some of those works were done by SMERU (2005) on the impact evaluation of the Sulawesi Agricultural Area Development Project (SAADP) in Central and Southeast Sulawesi, the documentation of Ismawan and Budiantoro (2005) on the linkage programmes during 1998 to 2001 between banking sector with NGOs, as initiated by the Central Bank of Indonesia (BI), Germany Development Agency of GTZ, BRI, and Bina Swadaya Foundation, the research by Rahmat, Megananda & Maulana (2006) on the role of microfinance in poverty reduction in Bandung, Indonesia, and the study of Brower & Bijkema (2002) on the evaluation a microfinance Programme by the Center for Community Services of Parahyangan Catholic University in the area of Bandung District. All those works have confirmed positive contributions of microfinance schemes in poverty alleviation, particularly to the economically-active poor and micro and small enterprises.

However, those researches concluded that the poorest of the poor have not yet lifted up through the several microfinance-based programmes. The evaluation of whether those groups of people were lifted up with regard to their welfare had no strong evidence. While microfinance seems to be successful according to its outreach in distributing microcredit and assistance, the impact analysis of the target groups however remained in question. Such positive impact assessment of the microfinance are criticized by Bateman (2010). The positive figure of the SAADP project as reported by SMERU (2005), for instance, criticised the existence of moral hazard in the assessment, considering that the SMERU Research Institute study on the SAADP assessment was funded by the World Bank who financed the SAADP project. Bateman (2010:35) stated that *"you do not bite the hand that feeds you"*. It is not surprising that the report of the SAADP project did not explain the conditions of the extreme poor group of people accommodated by the project. Microfinance then becomes 'exclusive' to poor people and failure in reducing poverty among the group of the poorest of the poor still remained neglected. The World Bank's publication in 2009, entitled *The Moving out of Poverty Study*, reveals the result of the study across fifteen countries in Africa, East Asia, South Asia, and Latin America involving more than sixty thousand interviews with the poor. The study concludes that *'Microcredit can help the poor subsist from day to day, but in order to lift them out of poverty, larger loans are needed so that the poor can expand their productive activities and thereby increase their assets'*. The result is not convincing that microfinance could lift up the poorest of the poor. Concerning the sustainability of microfinance institutions, the study of Allen (2007) concluded that of the 100,000 MFIs currently estimated to be operating in the world, only 3-5 % were financially self-sustaining. The conclusion is similar to the findings by Seibel and Agung (2005) on their study of Islamic Microfinance Institutions in Indonesia. Their study concluded that, while Islamic banking tends to raise their assets, the performance of microfinance institutions tends to deteriorate. The Islamic Rural Bank tends to be stagnant while Islamic Cooperative Microfinance Institutions (BMT) decreased significantly. Out of 3000 institutions operating in the 1990s, only 20% of them were sustained in 2005. Nevertheless, Duvendack *et al.* (2011) concluded that various impact assessment methods of microfinance, including the use of *Randomized Control Trials (RCT), Pipeline Designs, Natural Experiments, and General Purpose Surveys*, surprisingly indicated that no convincing impact has been found of microfinance on the well-being of poor people. The study has also shown that there were low validity impacts of the change in well-being and any outcome variables. In addition to that, Karnani (2007) concluded that microfinance misses its mark. Karnani stated that microfinance

does not cure poverty, and in some instances microcredit makes life at the ‘bottom of the pyramid’ worse. Furthermore, Roodman (2011) stated that “*On current evidence, the best estimate of the average impact of microcredit on the poverty of clients is zero*”. Finally, the recent study by Banerjee & Jackson (2017) highlighted the critical evaluation in the role of microfinance as a form of poverty reduction. As for Indonesia, the study of Syahrizal & Machdum (2016) concluded that the credit repayment of the clients who borrowed their money from the government microfinance institutions is considered bad, and which is caused by internal and external factors of the clients. In response to the criticism, Slikkerveer (2015) points to the fundamental delusion in the current roles of microfinance for poverty reduction by drawing attention to the growing distance they engender between, on the one hand, microfinance as a commercialized industry focused on investing share-holder capital for profit in middle-class enterprises and business companies, and on the other hand, the poor and extremely poor, who, in fact, are marginalized and excluded from benefitting from these kinds of services as the ‘non bankable’ segment of the population. The failures of microfinance roles stem from the basic incompatibility between the neo-liberal ideology and the humanitarian solidarity movement and could only be bridged by the transformation towards a solidarity economy, based on approaches to increase peoples’ quality of life mainly through humanitarian *not-for-profit* policies (cf. Seibel & Agung 2005; Karnani 2007; Bateman 2010; Duvendack *et al.* 2011; Roodman 2011; Slikkerveer 2015; Banerjee & Jackson 2017; Conversation 2018).

6.2 Integrated Microfinance Management and Integrated Community-Managed Development

6.2.1 Integrating Culture and Development

The exclusion of the poorest of the poor or the extreme poor from microfinance has been the major criticism on the microfinance role in poverty reduction, including in Indonesia. As highlighted by Woodley *et al.* (2006) as well as Loeffelman (2010), the absence of the ‘cultural dimension of development’ can be considered as the factor causing the unsuccessful roles of microfinance in poverty alleviation. The work of Warren, Slikkerveer & Brokensha (1995) earlier documented empirical evidence of how various cases in Indonesia justified the importance of having an emic approach in development which is based on the incorporation of culture. For instance, in the irrigation system, indigenous people of Bali, Indonesia use an indigenous water management system, named *Subak*, which has been implemented for many centuries in Bali. *Subak* is an indigenous association of farmers in Bali, established by the community to manage the irrigation for paddy fields, guided by the Balinese cosmology of *Tri Hita Karana*.

The implementation of the system involves three dimensions of development: social, cultural and material. The cultural dimension involves the norms, values, as well as ways of thinking, which are used by the Balinese in the implementation of *Subak*. *Hinduism* and Balinese *Tri Hita Karana* are the basic norms which are used by the Balinese. It can be seen in the existence of small temples on the paddy field, which has philosophical and religious meaning as well as some kind of function in the *Subak* system. The cultural dimension in the *Subak* system confirms the importance of cultural inclusion in the development plans and processes (cf. Warren, Slikkerveer & Brokensha 1995). The social-economic dimension of *Subak* involves the social and economic activities related to the implementation of *Subak*. It supports the production of paddy in an indigenous way by maintaining the social interactions among the people, in this context farmers and indigenous traditions (*lembaga adat*).

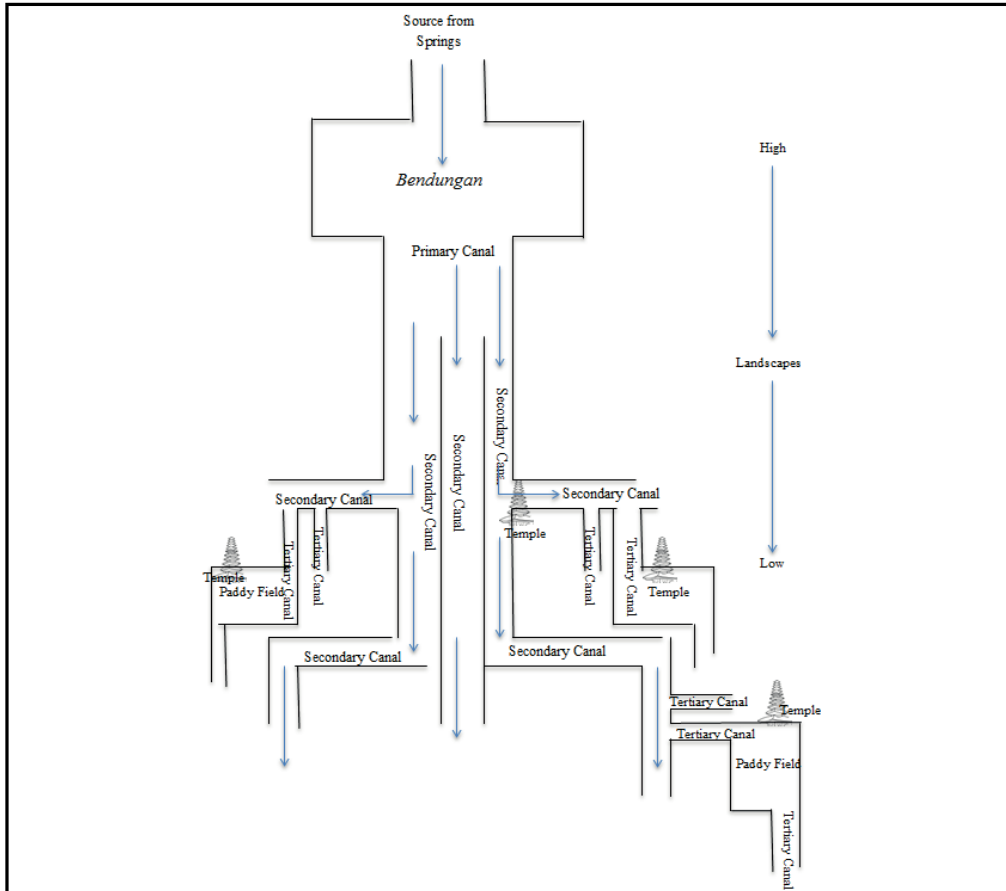


Figure 6.4 Illustration of the *Subak* system in Bali.
Source: Illustrated by Saefullah (2017).

The material dimension of the system involves the management of natural resources in *Subak*. Water, paddy and soils including landscapes are managed to implement *Subak* in such a way as to be guided by cosmological beliefs. As mentioned in *Rajapurana Ulun Danu Batur* Vol. II, 24 28 b.1: 'Because the Goddess makes the waters flow, those who do not follow her laws may not possess her rice terraces'. This principle follows the law of nature of water which flows from a higher landscape to the lower ones. The incorporation of the landscape principle has also been accommodated in different ethno-cultural groups in Indonesia. It is also known from history that the Sundanese culture in West Java has also been influenced by Hinduism from Bali (cf. Geertz 1983; Soebadio 1985; Lansing & Kremer 1993; Warren, Slikkerveer & Brokensha 1995; Sunaryasa 2002; Lansing, Schoenfelder & Scarborough 2006). The example has shown that the cultural dimension cannot be omitted in the development programmes in Indonesia. Article 32 of the Constitution of the Republic of Indonesia, *Undang-undang Dasar 1945*, explicitly stated that 'the State shall develop the National Culture of Indonesia'. The National Culture of Indonesia in this context is the culture that emerges as a product of the minds of all the people of Indonesia, including hundreds of indigenous people and cultures in Indonesia (cf. Warren, Slikkerveer & Brokensha 1995; Baharudin 2018).

6.2.2 The Newly Approach of Integrated Microfinance Management and Integrated Community-Managed Development

As elaborated in Chapter II, the paradigm of Sustainable Community-Based Development highlights the importance of the people of a society to develop themselves with their institutions to manage and utilise their resources in order to reach human well-being in a sustainable way. Also it underscores the strong indigenous institutional roles in the plans, policies and implementations of sustainable development at the community level (*cf.* Bergdall 1988; Korten 1990; Warren, Slikkerveer & Brokensha 1995). The absence of integrated approaches in the implementation of modern institutional programmes such as microfinance, have contributed to the slow improvement in poverty reduction and development in Indonesia, including the reduction of inequalities among the people. As an effort to achieve Sustainable Community-Based Development, Slikkerveer (2007) highlights the importance of approaching poverty reduction with a new perspective based on integration. By integrating various aspects, Slikkerveer (2007) argues that there are 4 strategies which need to be implemented in combating poverty. They are as follows: 1) There should be an integration process of community initiative in the microfinance management and development, policies and regulations. The involvement of local institutions, agencies from the economy, education, and health care services should be taken into account; 2) There should be comparative research in different countries and regions in the effectiveness of the MFI in alleviating poverty, to understand more about the lack of bottom-up approaches in microfinance; 3) There should be a model development of all integrated factors in microfinance to create more inclusive microfinance roles, which includes social, medical, and educational facilities together with the cultural dimension of the society; and 4) There should be a development project on education and training in which an innovative curriculum on integrated microfinance management can be delivered to the new cadre of microfinance managers and players. It is expected that those cadres will be building inclusive financial institutions in Indonesia, rendering the realisation of alleviating poverty and empowering people more effectively.

While Ledgerwood (1998) has divided two approaches in poverty reduction – the minimalist (financial) approach and the integrated (financial and non financial) approach – Slikkerveer (2007; 2012) further substantiated the integrated approach by introducing the concept of ‘Integrated Microfinance Management (IMM)’ which aimed at the integration of all services provided by the local institutions which operate the development in various related sectors (economy, socio-culture, communication, education and health) by accomodating local people’s perspectives and participation. According to the IMM approach, the traditional community institutions will be functionalised to act as a local centre from where the various envisaged community-based services will be planned, implemented, monitored, as well as guided to the needs of the local population, particularly the poor and low-income families. The integrated microfinance manager represents the manager of these local institutions, as he or she comes from the communities. The IMM Manager will also play the role of mediator between local, regional and national policies, projects and programmes, which encompass the participatory provision and referral of the 5 interrelated sectors of community-based services: inclusive finance, health, education, communication and socio-cultural services. According to Slikkerveer (2012), the IMM Manager will basically play a leading role in sustainable community-based development (*cf.* Figure 6.6). Linking up with the experience of various forms of community development which have been initiated over the past decades, such as the *Integrated Rural Development* (IRD), the *Community Learning and Development* (CLD) and the *Community Capacity Building* (CCB), as well as the recent approaches of the *Community-Driven Development* (CDD), the IMM approach proposes to give more power to local decision-making processes and control over the local resources management to indigenous peoples and communities with a view to

incorporating peoples' participation in sustainable community-based development. Warren, Slikkerveer & Brokensha (1995) have amply illustrated that embarking on the integration of indigenous knowledge systems as the expression of the cultural dimension of development in various settings promotes local participation as a major prerequisite for attaining sustainable community-based development, which is considered as a form of an integrated community-based poverty reduction (*cf.* Warren, Slikkerveer & Brokensha 1995; Slikkerveer 2012).

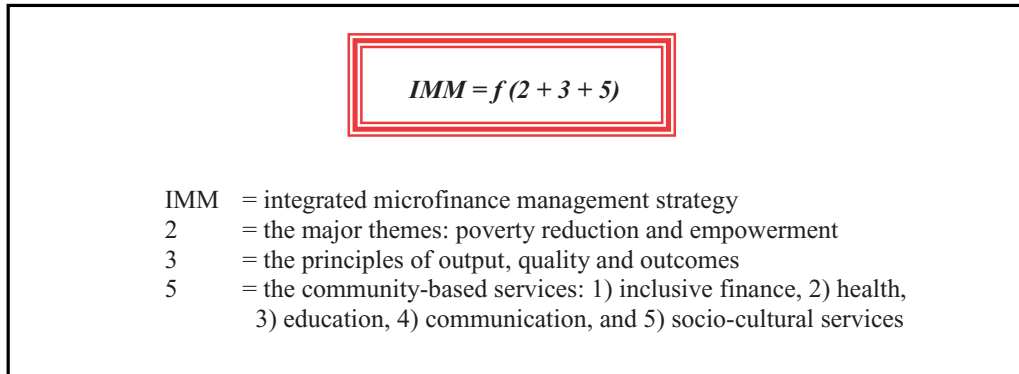


Figure 6.5 The IMM Formula.

Source: Slikkerveer (2012).

It is not surprising that after the financial turmoil of the late 1990s, the government of Indonesia made an effort to empower rural communities in order to tackle the problem of poverty in an integrated and sustainable manner by the introduction in 1998/1999 of a national programme implemented at the community level. The programmes were the *Program Pengembangan Kecamatan* ('Kecamatan Development Programme') (KDP) focusing on community development in the rural areas and the *Program Penanggulangan Kemiskinan di Perkotaan* ('Urban Poverty Programme') (UPP) which were focusing on community-based development in the urban areas, and lately the National Programme of Community Empowerment (PNPM) Mandiri. Those programmes, funded by the World Bank (2015) in the form of a soft loan to the Government of Indonesia, have been planned as poverty alleviation programmes by empowering the community and promoting participation in development. However, some studies have also highlighted the various shortcomings in the implementation of the programmes (*cf.* Bappenas 2013; World Bank 2015).

The community-driven development or community-based development has given opportunities to community institutional systems to contribute to the development process at the community level. While the Integrated Microfinance Management (IMM) approach is largely focused on poverty reduction through the provision of a comprehensive set of integrated community-based services, encompassing not only inclusive financial, but also medical, educational, communication and socio-cultural services, the new approach of Integrated Community-Managed Development (ICMD) is dedicated to attaining sustainable development through the integration of local and global systems of knowledge and technology, including plans, policies and practices among all sectors of the community through capacity building and participation at the village level. Both IKS-oriented approaches are rather innovative as they embark on strategising the often disregarded indigenous systems and institutions in order to strengthen their shared objectives of community participation, capacity building and local governance (*cf.* Slikkerveer 2016; Slikkerveer, Baourakis & Saefullah 2019).

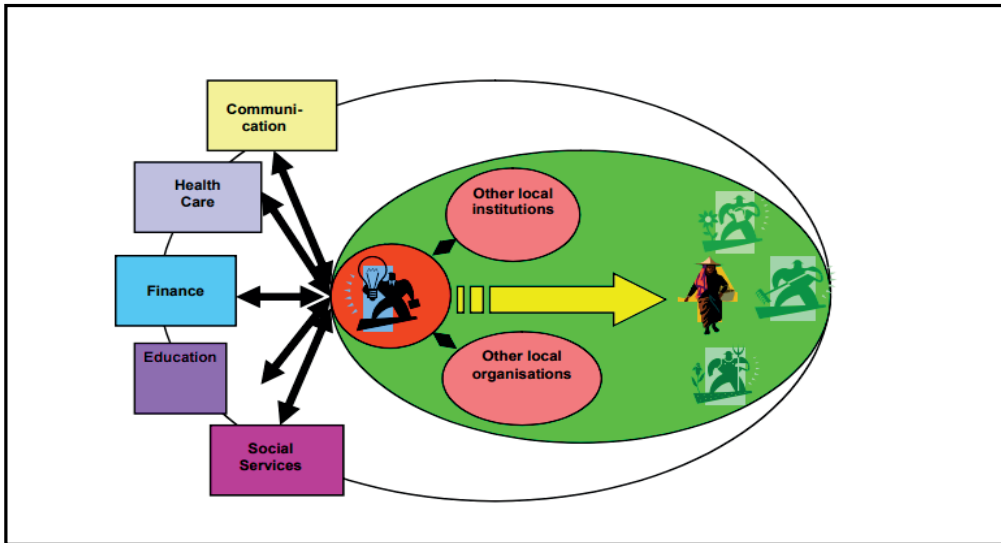


Figure 6.6 A Schematic representation of the IMM Manager.
Source: Slikkerveer (2012).

6.3 The Practice of Plural Community Institutional System (PCINS)

As elaborated in Chapter 2, the Plural Community Institutional Systems (PCINS) are playing an important role in development. The community-based type of institutions, which are mostly operating at the local level, provide local participation in the development of Indonesia. These Community-based Institutions have also played important roles in reducing transaction costs in the economy, improving services to people, empowering people through entrepreneurship, as well as in attempts aimed at poverty alleviation (*cf.* Warren, Slikkerveer & Brokensha 1995; Seibel 2008; Eicher & Garcia-Penalosa 2006). This section will elaborate some practices of the existing Plural Community Institutional systems in Indonesia, which have contributed to the development of Indonesia, including the poverty alleviation programmes.

6.3.1 The Practice of Traditional Community Institutions (TRCIN)

As the country has hundreds of ethno-cultural groups across more than seventeen thousand islands, Indonesia has numerous indigenous community institutions, which have been contributing to the local developments of the country. Some of them are as follows.

Lumbung Pitih Nagari

Lumbung Pitih Nagari (LPN) is an indigenous institution at village level (*nagari*) in the West Sumatera province, practiced by the people of the *Minangkabau* ethno-cultural group. The institution is initiated, built and operated by the local people to improve the socio-economic condition of the people in every *nagari* (village). The establishment of LPN was supported by the local government Law No. 13/1983. The assets of LPN are collected from the people in the community at village level, and the money accumulated is used for the socio-economic purposes of the *nagari* people. The implementation of LPN is supported by the leader of *nagari* by involving himself as *non physical collateral/intangible collateral*. As reported by Basa (2001),

the progress of LPN has grown rapidly as the institutions have improved the socio-economic conditions of the people. There were about 521 LPN established in West Sumatra out of 543 *nagari* in 2001. However, the progress was challenged by the implementation of the new banking regulation in 1998. According to the law, the institution should adopt the banking system. As a result, all the existing LPN have to be transformed into 'BPR-LPN'. Since then, only 20 out of 521 LPN are still operating and only 51 out of 71 'BPR LPN' are still self-sustained, since the institution has problems in the new operations (*cf.* Basa 2001).

Gintingan

Gintingan is implemented mostly by the people of Subang in West Java and other people in the northern area of West Java. The details of this institution will be elaborated separately in Chapter VII, in relation to the Sundanese people, cosmology, culture, and practices.

Perelek and Jimpitan

Perelek is a traditional mechanism of mutual help in the local community where people in the community raise funds for public/community needs by asking each household to contribute by giving a certain amount of goods/money periodically. Initially, every house in the community will put a money box (made by bamboo) in front of their house. The result of this mechanism is rather impressive since the institution has already been recorded as a successful story. The study of Kasumaningrum & Saefullah (2018) has recorded that the institution of Perelek has successfully improved the redistribution process of peoples' resources and increased the well-being of the people through its contribution to various social needs. A similar institution to Perelek is *Jimpitan* and *Sumbangan*, implemented in Central and Eastern Java (*cf.* Kasumaningrum & Saefullah 2018).

Lembaga Perkreditan Desa (LPD)

Lembaga Perkreditan Desa (LPD) is an indigenous microfinance institution which is owned and governed by the customary village (*desa adat*, *desa pakraman*) and is fully integrated into Balinese culture. The integration is governed by the provincial law of Bali which is owned, financed and governed by the customary village (Siebel 2008). LPD is owned and operated by the customary village which means that all the activities held by LPD including the transactions between residences of the village with the LPD are part of implementing their religious beliefs and cultural conservation. The operation of LPD has almost similar practices with LPN in West Sumatra; however, the LPD has a stronger attachment with the customary/local tradition (*adat*). The *bendesa* really involves the head of the village as well as the board of LPD. It means that when the people in *banjar* or *pakraman* have certain socio-economic problems, LPD will intensively take care of the problems by assisting them. The same case applies with the problem of repayment. The *bendesa* as the head of the village will also be involved in solving the problems to make sure that the LPD will sustain it in the long term. The sustainability of LPD will affect the sustainability of the village. In general people will feel ashamed if they could not perform well with the LPD. The tradition has made the LPD one of the success stories of indigenous institutions which could integrate the economic activities with the socio-cultural activities of the people in the community (*cf.* Seibel 2008).

Indigenous Water Management of Subak

As elaborated in an earlier section, *Subak* is an indigenous water management system in Bali, based on the indigenous cosmology of the Balinese people, *Tri Hita Karana*. The system has been practiced by the Balinese for many generations and is sustainable in supporting the water irrigation system of the farmers and preserving the biodiversity in Bali (Warren, Slikkerveer & Brokensha 1995).

6.3.2 The Practice of Transitional Community Institutions (TSCIN)

Cooperative Organisation

A Cooperative Organisation is a local institution which is established by the people, managed by the people, and the activities are focused to fulfil the needs of its members. The institution is categorised as a transitional institution as it combines a bottom-up initiative by the people with the law which is regulated with the establishment and the operation of a cooperative organisation. The operation of a cooperative organisation is under the regulation of the Ministry of Cooperative, Small and Medium Enterprises of Indonesia.

Bina Swadaya

Bina Swadaya is a community-based institution established by Bambang Ismawan in the 1970s, and has been supported as a community-based institution all over Indonesia. *Bina Swadaya* is an acronym of *Badan Pengembangan Swadaya Masyarakat* referring to a *Community-based Mutual Aid Organisation*, and is one of the largest Non-Government Organisations (NGO) in Indonesia. As an organisation which supports the empowerment of communities, the main purpose of its establishment has been the initiation of a 'bottom-up' development approach, which provides various services to many self-reliant communities, particularly farmer communities in the rural areas (cf. Ismawan & Budiantoro 2005; Slikkerveer, Baourakis & Saefullah, 2019).

Kopontren and Baitul Maal wat-Tamwil (BMT)

The *Koperasi Pondok Pesantren* ('*Kopontren*') and *Baitul Maal wat Tamwil* ('*BMT*') are two Islamic cooperative institutions, which integrate two financial institutions based on Islamic values, involving the daily practices of Muslim Indonesians. While the *Kopontren* was a unique institution in Indonesia as its operations relate to the operation of *Pesantren* (Islamic Boarding School), the *BMT* was an adapted form of the *Baitul Maal* institution which evolved during the Islamic expansion of the 7th century, with an additional role of *Tamwil* ('Investment'). Both institutions have contributed to the development of Indonesia, particularly in the Muslim communities, and describe the history and development of both institutions. According to Islamic law, the operation of *Kopontren* and *BMT* should follow the ideal of the social order of brotherhood and solidarity (cf. Dhofier 1982; Inkopontren 1997; Saefullah & Effendi, 2019).

KDP, UPP and PNPM Mandiri

The *Kecamatan Development Programme* (KDP) and the *Urban Poverty Programme* (UPP) were both community-based institutions which were combining the 'bottom-up' initiatives of the people in the community with supporting funds and supervision from the government. The programmes were implemented after the crisis of 1997 and continued until 2008. The programmes were then replaced by the *Program Nasional Pemberdayaan Masyarakat* (PNPM) Mandiri, with a similar idea to the earlier institutions until 2013 (cf. Bappenas 2013; Slikkerveer & Saefullah, 2019).

6.3.3 The Practice of Modern Community Institutions (MDCIN)

There are some examples of modern community institutions in Indonesia. They are as follows:

BRI Unit Desa

As mentioned earlier, *Bank Rakyat Indonesia* (BRI) is the oldest banking institution in the country. Established as a modern institutional bank, encompassing *Unit Desa* ('Village Unit') and *Badan Kredit Desa* ('Village Credit Unit'), the bank has served the communities for more than a century, supporting the people of Indonesia, particularly in the rural areas and agricultural sectors. The description of *Unit Desa* (UD) as a well-known unit of BRI which has provided

credit services to the micro-enterprises since the 1970s, shows that the unit later became formalised through cooperation with the Government of Indonesia with the aim to support the *Revolusi Hijau* ('Green Revolution') programme to achieve self-sustained food security through increased agricultural production. The evolutionary process of BRI is described from its original objective of providing services to local communities, particularly in the rural areas, to its present global orientation on the financial markets, like most other large commercial banks today (*cf.* Feekes 1993; Rachmadi 2002; Seibel 2005; Saefullah & Mulyana, 2019).

Bank Perkreditan Rakyat

The *Bank Perkreditan Rakyat* (Rural Bank) is a community micro-banking institution which operates at a sub-district level. The operation of BPR is regulated by the Indonesian Banking Law. The main activities of the rural bank are providing savings and borrowing services to the people in the community. The principle of operation of the rural bank is similar to the practice of the commercial bank; however, the scope of its operations is limited to the sub-district level.

Lembaga Pemberdayaan Masyarakat (LPM)

The *Lembaga Pemberdayaan Masyarakat* (LPM) is the community institution which is established by the administrative government at the village level. The main function of LPM is to prepare short-term, middle-term and long-term development plans for the village. The structure is determined by the village administration based on the annual election. The proposal of the development plan will be brought by the administrative leader of the village (*Lurah/Kepala Desa*) to the higher level to be negotiated with the higher level of the administrative government through a mechanism named '*musyawarah perencanaan pembangunan* (musrenbang)' (special meeting for development planning). At the meeting, the proposal for the development programmes of the village will be determined for approval. If the proposal is approved, then the central government will allocate the budget to support the proposed programmes.