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

by

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ABSTRACT

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

FORMAL CREDIT AND RURAL DEVELOPMENT

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

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tribution of the supposed benefits of technological modernization was not a cause of concern. It was generally assumed that in the long run the positive effects of sustained growth in output would trickle down to all areas and all groups, leading to widespread improvement of rural conditions. Along these lines of thought, it was argued - that the rural poor could be brought into the mainstream of development through supervised credit programmes (Von Pachas, et al., 1985, p. 1).

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

These changing views on rural development directly affected the perception of the development role of rural credit. Previously, credit provision was simply seen as one of the tools available to tackle the problem. Cheap and abundant credit was seen as essential to promote the widespread use of new inputs and technologies. However, as Muller has stated, "the burden placed by the dynamic development may be substantial, since requirements may be large in absolute terms and built upon a very small base" (1986, p.313). In practice, loan default problems were often serious. As one of the consequences at the supply side, collateral for credit provision generally became the norm. Often, the poorest segments of the rural population could not comply. Rather than improving the general rural income levels, rural credit, therefore, in creating benefits the better-off farmers. In many rural areas, the indebtedness of small farmers and the biased credit provision ultimately contributed to processes of polarization of society and the marginalization of large groups. Nowadays, it is seen increasingly accepted that credit is much more than a tool to enable farmers to adopt innovations. For instance, it is pointed out that the seasonal income pattern of rural economic activities necessitates the rural population to finance their expenses in slack times from savings or from sources like loans. Furthermore, attention is drawn to the need for credit arising in poor harvest years, or under conditions of unusually high expenditure required for both planned or unforeseen purposes. These may include marriage, religious festivals, taxes, school fees and financing of purchased inputs or extra labour on the one hand, and the incidence of illness, death, natural disasters and the like, on the other (OIFAM, 1987). In addition, authors argue that in many countries, due to the population pressure on arable land, the rural population is increasingly forced to seek employment and income opportunities outside agriculture. This also affects the need for credit. In most cases, obviously, these cash needs will have to be met by external financing. The new interpretation regarding the developmental role of rural credit seem to imply that of one particular, i.e., the increase of agriculture output, let alone the repayments rates, only. Furthermore, following these views, it is clear that standard packages are to be replaced as they frequently do not address the needs. Local conditions may differ from one area to the other, while the geographical location towards markets may vary substantially, necessitating an area specific programme. Similarly, the condition to use the credit for a specific purpose or through the provision of credit in kind (fertilizer, seeds, medicine) may be acceptable.

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

SOME GENERAL CHARACTERISTICS OF RURAL CREDIT IN INDONESIA

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

Since the early 1970s, in comparison to many other developing nations' rural parts, Indonesia's rural areas have been relatively well served with formal small scale credit. Most of the programmes have offered funds at subsidized interest rate to stimulate rural economic activity. In the late 1980s, formal credit was supplied to the rural population through three different institutional set ups. The most important one is the Bank Bali Kita Indonesia (BBI), or People's Bank of Indonesia. The bank is state owned and functions since the mid 1980s. An extensive network of regional offices, close to three hundred branch offices and some 3500 village units, which are located in sub-district towns, besides numerous credit provision programmes. Since the addition of the largely unsecured credit component of BIMAB in 1984, Kredit Umum Pedesaan (KUPEDES) or general rural credit programme, makes available cash on a short term basis to farmers and non-farmers both for exploitation as well as investment purposes. In 1988 close to 1.4 million borrowers were involved in the lending scheme. The schemes performance is reported as well
with rather limited arrays rain's. Furthermore, the bill handles other, single pur-
pose commodity-specific credit programs mostly with concessional interest rates (SMCP), or Permanent Working Capital Credit Programme the Kredit Invest-
ment Programme for Repayment, Rehabilitation and Export Credit Cooperatives as the most important programmes.

Another important channel for credit supply is the Ministry of Cooper-
vatives' system of village cooperatives (KUS). The 7400 units at subdistrict level
Kusak (KUS) or Petty Trading Credit programme and the scheme for small farmers
moderately. For these programmes the funds are channelled through BHI offices.
For KUS, in special projects a general, credit performance is rather poor and village
Programmes in Indonesia found that few KUSs are to provide savings and
published external evaluation report of the QTA-46 project.

The Ministry of Cooperatives is also responsible for the running of the
being set up in this content. Since 1975, a new programme has been introduced to a
PPKR (Pusat Pelayanan Kredit Koperasi Pedesaan) Cooperative Rural Savings
projects QTA-28 and QTA-46, funded by the Netherlands government. Under this programme, groups of households or kampungs, may receive loans for
introducing group responsibility or joint liability among borrowers instead of as
which the Yugoslav Special Province.

The Regional Development Bank or Bank Pembangunan Daerah constitutes
the third type of institutional structure active in the sphere of rural credit provision.
It is a commercial bank owned by the Provincial Governments under responsibility
also handled by the KUS, such as KIK and KMPF. The bank may be involved in
region-specific programmes. Examples here are the Rural Credit Kewatan
(BRRK) or Kecamatan Credit Organization which has been established in 1970 and
the NPZ or Regional Savings Institution in West Java, the LPR and Subdistrict
Credit Institutions in East Java, and the LPR and Subdistrict Savings Institutions in West
Sumatra (Kern, 1986).

Along with the Agricultural Census of 1980, in the early 1980s Government
credit has been provided to approved one-sixth of all agricultural households.
On basis of data on landownership or borrowers, it appeared that the poor-
ly by other groups within the rural economy show a rather more poorly researched.
Especially the effects of the gradual change in policy in the late 1980s from single
purpose credit at sub-economic rates towards the provision of multi-purpose credits
with higher interest rates, in order to allow the banks to operate on a more business
like basis and facilitate the mobilization of rural savings by offering attractive
interest rates, are underestimated as yet.

CHARACTERISTICS OF THE STUDY AREA

Bantul is one of the five districts in Special Province of Yogyakarta, Central Java. It is located south of Yogyakarta City and it is one of the most densely popu-
lated districts in Indonesia. In this highly rural area of some 207 square km not
less than 885,476 inhabitants (1988) try to eke out a living. These figure imply a
population density of 3047 persons per square km. The District Bantul is subdivided in
17 subdistricts or kecamatan. Although limited in area, Bantul district is show-
ing substantial internal variation in terms of both agro-physical and socio-economic
conditions (Husans & Stoffijn, 1989 & 1990). Two distinct farming systems are
present, viz. irrigated rough cultivation and dry land or regen agriculture. The
roughs predominate in the central part of the area; the dry land system prevails in
the eastern and western parts (Map 1).

In contrast of this study three subdistricts have been selected: The
Kecamatan Bambanglipuro and Sendukatan in the deltaic, intensively irrigated
lowland-central section and the kecamatan Dlingo in the eastern, topographically
rough, region, largely irrigated upland area. Kecamatan Bambanglipuro has
been selected as the subdistrict representative for the category in which more than
36 percent of all land is irrigated land in the category 10 to 36 percent. Dlingo
is situated in the zone with less than 10 percent irrigated land (for further details on
the regionalization of Bantul District see: Huisman & Stoffijn 1989). The overall
population densities of respectively 1576 and 1529 persons per square km, while
Dlingo scores 953 in this field. The contract becomes even more spectacular when
the density of inhabitants per square kilomter of farmland is given: Those figures
are 3110, 6038 and 6323 persons per square kilometers for the respective sub-
districts. Economically the subdistrict are very different as well. In Bambanglipuro
and Sendukatan, only 40 percent and 34 percent of the heads of household have
agriculture on their own farm as the primarily active on his own land. Figures for the
total economically active population confirm this pattern: In rough zone, secondary
and tertiary sector activities form a main source of income for, respect-
ively, close to half or even the majority of those active, viz. 46 and 54 percent. In
Dlingo on the other hand the figure shows a modest score of 13 percent.

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

THE PROVISION OF RURAL CREDIT IN BANTUL DISTRICT

Formal credit in Bantul district is supplied by the three institutions as
described in the previous paragraph, viz. the Bank Rakyat Indonesia (BRI), the Ko-
The BRI or People's Bank of Indonesia provides services through its branch office in the regional headquarters and via 200 offices or village units, located in the various rural service centers in the kecamatan (see Map 1). The branch office has been established in 1955; the village units have been founded from 1969 onwards. In that year, three units were opened for services provision in the irrigated lowland kecambanas of Banjarsari, Pandak, and Banjarsari. Previously, further expansion of the number of village-based offices was anticipated. The branch office in Baturu township performs a comprehensive set of banking operations, while the representative office in the service center carries out more limited tasks. The main BRI office supplies credit in the context of a number of programmes, which comprises KMPF, or Permanent Working Capital Credit Programme, the PMS, or Micro Investment Credit Programme, the PPKP, or Credit for Rehabilitation, Professional Development and Expansion of Export Shores Programme, the KIT, or Local Investment Credit Programme and the Credit Programme for Civil Servants. Furthermore, the BRI branch office is involved in the channeling of government funds to KUD via the Cooperative Credit Programme.

Loans in the form of cash money are mostly available to the households through the working capital credit (KMPF) and small scale investment credit (KIS) schemes. The loan size ranges from the minimum of 100,000 rupiah. In order to obtain credit from the BRI main regional office an applicant is required to follow a lengthy procedure, the completion of which takes at least one month for a new borrower. A proof of the availability of a collateral has to be presented. This normally consists of land or house ownership certificates, but occasionally also car or motor cycle ownership documents may be accepted. Both repayment schemes as well as interest rates vary. For short-term credit, i.e. credit to be repaid within 24 months, interest rates (1993) varied between 15 to 27 percent per annum, depending on type of arrangement. These include the Large Investment Credit (KLI) and Credit for Civil Servants. Long-term credit, with a maximum loan period of 5 to 8 years, carries an average interest rate of 15 percent annually. The Permanent Working Capital Credit (KMPF) and the Small Scale Investment Credit (KSK) fall into this category.

Since 1984, credit provision by Village Units BHRAs mainly falls within KUPKDG, or the General Rural Credit Programmes. In addition, the village units may be involved in kecamatan-specific credit provision schemes, as carried out by the representative offices of line departments, such as, for instance, the Department of Agriculture, the Department of Cooperatives and the Department of Industry. Occasionally, international donor agencies may also channel their project or programme credit can be identified, i.e. exploitation credits and investment credits. Both types are in the short-term category, with loan periods between 3 months and two or three years respectively for exploitation and investment credits. Interest rates charged amount to 1 to 1.5 percent per month, proof of collateral is required and the maximum loan size per borrower varies over the offices. The regional headquarters of the BRI have set guidelines for maximum amounts of credit per kecamatan, according to the estimated strength
poorly endowed with natural resources, the maximum amount is 2 million rupiah; while in some of the kecamatan in the fertile swale zone up to 5 million rupiah can be obtained through the relevant village unit of BRI.

(2) The second institution involved in credit supply is the KUD, the village cooperative organization, which is represented by one unit in each kecamatan. In addition to a number of agro support functions it carries out tasks in the sphere of financial services in Bantul district. These include small credit programmes, a saving and loan programme, and, similarly to BRI in, the KUD is involved in special projects. A national credit programme, for example charged to KUDs, is the KCK, the Small Traders' Credit Programme and at least or partly the KUT or Farm Credit Programme. The KCK Programme is providing small traders with working capital with a maximum of 50,000 to 100,000 rupiah, depending on the kecamatan concerned. The interest rate amounts to 1 percent, while the maximum lending period is two months only. The KUT or Farm Credit Programme does not function yet in the study area, i.e. Bantul district. This is due to the failure of the KUD in the various kecamatan to fully repay the loans provided to them in the past in the context of the BIMAS programme (see also Hirose, 1986; Kusman and Scocca, 1988). The responsible factors include high defaults among the participants, organizational problems, and, possibly, leakage or funds. The credit in context of the saving and loan programme usually carry interest rates of 1 to 2 percent per month, the amounts are modest and the maximum loan period is 12 months.

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

The PPRC or BPR in Yogyakarta Special Province was transferred from the project P4A-5C to Bukopin in 1987, and it thereby became a regular part of Bukopin's services in this area. Loans are channelled through KUD and are given to groups (or kelompok) of 50 to 80 persons. There are already 11 KUDs in Yogyakarta province which carry out this programme, two of which are in Bantul district, viz. KUD Kotoagejo and KUD Bambanglipuro. Each KUD already gives loans to 26 kelompok. The loan period is 6 months, with interest rates of 18 percent per year. One member of a kelompok obtains approximately 100,000 rupiah (US$ 60) in each transaction.

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

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

### TABLE 1: CREDIT USE PATTERN (1988) PER SOURCE PER STUDY AREA

<table>
<thead>
<tr>
<th>Source</th>
<th>No.</th>
<th>KID</th>
<th>KPD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bantul District Office</td>
<td></td>
<td>2,500</td>
<td>510</td>
</tr>
<tr>
<td>- Users (abs. figure)</td>
<td></td>
<td>6,800</td>
<td>825</td>
</tr>
<tr>
<td>- Amount per h.b. (in KID)</td>
<td></td>
<td>2,400</td>
<td>1,400</td>
</tr>
<tr>
<td>Kecamatan Banjarsari Office</td>
<td></td>
<td>1,500</td>
<td>53</td>
</tr>
<tr>
<td>- Users (abs. figure)</td>
<td></td>
<td>360</td>
<td>114</td>
</tr>
<tr>
<td>- Amount per h.b. (in KID)</td>
<td></td>
<td>555</td>
<td>100</td>
</tr>
<tr>
<td>Kecamatan Banjarsari</td>
<td></td>
<td>1,000</td>
<td>600</td>
</tr>
<tr>
<td>- Users (abs. figure)</td>
<td></td>
<td>300</td>
<td>27</td>
</tr>
<tr>
<td>- Amount per h.b. (in KID)</td>
<td></td>
<td>200</td>
<td>5</td>
</tr>
<tr>
<td>Kecamatan Ngargowo Office</td>
<td></td>
<td>1,500</td>
<td>53</td>
</tr>
<tr>
<td>- Users (abs. figure)</td>
<td></td>
<td>360</td>
<td>114</td>
</tr>
<tr>
<td>- Amount per h.b. (in KID)</td>
<td></td>
<td>555</td>
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<table>
<thead>
<tr>
<th>Source</th>
<th>No.</th>
<th>KID</th>
<th>KPD</th>
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</thead>
<tbody>
<tr>
<td>Kec. Banjarsari</td>
<td>60% (n = 72)</td>
<td>24% (n = 45)</td>
<td></td>
</tr>
<tr>
<td>Kec. Surakarta</td>
<td>28% (n = 30)</td>
<td>18% (n = 30)</td>
<td></td>
</tr>
<tr>
<td>Kec. Dlingo</td>
<td>12% (n = 15)</td>
<td>10% (n = 20)</td>
<td></td>
</tr>
</tbody>
</table>

Source: BASES II + II Data

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

The information as collected shows that both farming and non-farming households are represented among the credit users. For the farming households, the actual size of the indebtedness seems not to be an important factor in the use of formal credit. However, data clearly indicate that, as also observed elsewhere in Indonesia, tenant farmers and fixed labours are proportionally underrepresented in proportional basis. The survey data also reveal that the age of the applicants for credit is usually above 50; applicants below thirty years of age are a rare phenomenon. However, from this observation the conclusion is not justified that the rural credit users are the older persons in the rural communities. Since the documents showing proof of available collateral like land and house ownership (financially) remain registered under the name of the household head until his death, credit is applied for in his name. The head's children, his spouse or his relatives, may be the actual users of the credit. This possible difference between applicant and user of the credit obviously implies that data as available in the files of the credit sources, or data obtained from reasons-like exercises may be of limited value to obtain insight into the personal characteristics of credit users. Through in-depth interviews of 28 credit users an attempt has been made to gather such information. Although the number of interviews conducted has been rather modest, providing careful research of the data, the qualitative information gathered does not seem to support the assumption that rural credit users are usually found among the relatively better educated persons in the rural community. However, as also reported by Kasyno...
and Collier (1986), there is an indication that the households with higher educational standards usually manage to obtain the bigger loans.

THE APPRAISED NEEDS FOR RURAL CREDIT

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

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

structured; in the medium term the investments could be repaid. In the low land area the situation is different. Due to presence of elaborate irrigation systems, harvest takes place throughout the year. Consequently, local markets are experiencing a rather regular supply of food crops.

CONCLUSIONS AND RECOMMENDATIONS

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

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

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

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

In providing formal credit in context of a rural development effort at lower levels of administration such as a district, the differences between areas and the diff-
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RURAL SMALL SCALE INDUSTRIES AND REGIONAL DEVELOPMENT

A Case Study From Bantul District, Special Province of Yogyakarta

by

Wen Stoffler

Agnas Sutanta

ABSTRACT

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

Attention is also paid to the linkages of those small scale industrial units with other units and sectors. Based on the main characteristics and the function of those rural small scale industrial activities, a distinction is made between basic and non basic activities. A short description is given of the most important government programmes in the sphere of small scale industrial development. It is concluded that policy makers have given insufficient attention to the differences within the sector. As a result, most of the small scale industrial units are deprived of the programmes which are specifically designed for them.

INTRODUCTION

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

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