

# **MICROFINANCE SERVICES TO RURAL GROUPS**

## **(An Experience of P4K)**

Ms. Widayati, P4K, Ministry of Agriculture

The Ministry of Agriculture, according to its mandate, has taken concern and effort to seriously create a progressive environment for rural areas and agriculture. This is to enable people in the economy to have a conducive climate and space to grow and develop. One of the special effort that is directly related to poverty alleviation and the empowerment of the people's economy is through the P4K project, in which the management is responsible for the agriculture human resources development body.

Small farmers and fisherman income generating project (P4K) is a special effort that is coordinated by the Ministry of Agriculture in partnership with **Bank Rakyat Indonesia** to facilitate and support poor families in villages. This will help to develop their life and increase their living standards.

P4K was developed as a response to the conditions in the 1970s. Development programs were acknowledged, providing many changes especially in opportunities that can be used by people to improve their well-being. However, for some others, they still live in backwardness, below the poverty line, and are unable to access the opportunities.

### **Two Approaches of P4K**

P4K use two approaches in dealing with rural poverty, namely (1). Human resource development through a series of small farmers and fisherman empowerment, and (2). micro finance to support the development of micro business dan economic activities among villagers' families.

1. The approach of human resource development/empowerment. The approach is defined as a sustainable process of i) investment in human resources to enhance the

productive capabilities, ii) the use of human resources to produce products, iii) community participation in using the benefit of development. The process is basically started by supporting the poor and encouraging them to be aware, confident, and believe in the potentials they have. The next step is to enhance the knowledge and skills of the poor accompanied by assurance of basic needs fulfillment that consist of income generating opportunities.

In this approach, P4K mobilize field facilitators that are agriculture extension workers in cooperation with communities supporting poor families to raise their awareness, develop their willingness, and strengthen their self confidence to enable them to tackle the poverty problems they faced. In the empowerment process, P4K mobilize 4,097 extension workers in 9,550 villages. The number of extension workers is 37,288. Therefore, there is a large potential to mobilize them as facilitators for poverty alleviation under the regional autonomy process.

There are several steps that are taken by the facilitators at the field. Firstly, they choose the locations (villages) with a high degree of poverty incidence, characterized by the poor population, lack of infrastructure and the lack of access to external economic growth sources. Secondly, the facilitators should help out in the participatory rural appraisal (PRA) conducted by the people to identify the poor households according to their criterias. Thirdly, they should facilitate and motivate the poor households to be willing to tackle the problem together through small groups consist of 5 - 16 persons (can be extended into 15 - 25 persons) based on their own affinity. Fourthly, they should also facilitate the capacity building process of the groups to enable group members to form their own groups. This includes building a shared vision, developing saving habits, starting and developing micro businesss that can increase their income. In addition, the network among the groups and MFIs that are owned and organized by them should also be strengthened.

The development of self-help groups have been proven as an effective instrument for the poor to break the vicious poverty cycle. The experiences showed that support to self-help groups provide opportunities for the poor to develop their self confidence. The groups dynamics allow for a learning process and sharing of experiences.

2. The approach of micro finance. P4K also tried to chance on the services, especially microfinance services, that are unreachable by poorhouseholds in the villages. Micro finance services are needed to mobilize savings from the poor and finance their economic activities which are done individually and in groups. In the short term, encouraging savings mobilization has proven to be effective in helping the poor to accumulate their working capital. However, in the long run, this will lead to an increase in their self reliance.

In partnership with BRI, it has developed a micro credit scheme with no collateral required. The interest rate is close to the market rate, which is 22.15% annually (1% flat rate monthly). BRI acts as the executive bank, with the power to accept or reject decisions under its authority. The decisions are made through several steps. When the credit application is sent to BRI using the RUA/RUB form, the bank will check the administrative letters. This is followed by on the spot checking by the account officer for : the existence and health of the groups, micro business run by the members, and feasibility of the proposed business development.

The credit scheme is designed with an education component and consist of various stages: i) the maximum amount is Rp. 500,000 per member, ii) the maximum amount is Rp.1,000,000 per member, iii) the maximum amount is Rp. 1,500,000 per member, and iv) the maximum amount is Rp. 2,000,000 per member.

Under this pattern, the implication of credit disbursement such as non performing loans becomes the responsibility of the bank. It is designed to familiarise small farmers and fisherman to the market mechanisms.

Through the two approaches, P4K tried to develop the system and mechanism of poverty alleviation that help secure job opportunities for the poor households in villages to be accessed. These job opportunities are used to increase their income and well-being.

### **The Need of Cooperation**

To enhance the quality of micro finance services to groups, cooperation in several aspects is necessary. The following aspects include:

1. financial services from the bank to develop members' business
2. legal support
3. applied technology
4. access to market

### **P4K's Lessons Learned of Micro Finance Services**

1. Credit as an empowerment tool need to be seen as a learning instrument of the groups in business development. Credit should follow the group's capacity development. The group need to show their capability to use the credit as working capital.
2. Group approach is an effective instrument for developing trust. By joining the group, the poor will have the ability to not only receive the credit, but manage it as well.
3. Micro finance services should include sustainable capacity building and empowerment.
4. A study showed that the association of groups can act as the embryo of MFIs. They have the potential of self financing and generate capital that secure the benefits received by its members. The association need to be encouraged to form a cooperative as their legal body.