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Research Article

Woman Microfinance in Indonesia: Present Status and Future Direction

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Abstract

Microfinance has broadly been used to alleviate poverty and empower women in Indonesia. Many studies have already examined the microfinance performance but mostly on the basis of a client versus non-client comparative method. In this study, we measure the outreach of and impact of microfinance on poverty alleviation through random sampling of poor households. A case study was conducted at the district of Purbalingga to assess the most widespread woman microfinance in Indonesia, Savings and Loans for Women (*Simpan Pinjam Perempuan*, SPP). While the SPP has a good repayment rate and asset growth, its performance in poverty alleviation is low. Only 18 per cent of the respondents ever benefitted from the SPP, which indicates low outreach to the poor. The impact on income generation and development of social capital as well as empowerment of the poor is weak. The causes are limited fund, lack of prioritisation to the poor and inexistence of assistance to loan utilisation. Institutionally, the SPP is not connected to the local government. These create a low sense of belonging and fund allocation from the local authorities. The continuity of the SPP requires a closer institutional linkage with the local government and bank institutions in order to have better assistance and budgeting while maintaining informality of loan disbursement.

Keywords

Woman microfinance, poverty alleviation, rural development, local self-governance institutions

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Introduction

Microfinance is one of the key instruments for poverty alleviation in Indonesia, together with social protection programmes and community empowerment programmes. It is provided through microloans in bank institutions and establishment of saving and lending groups (The Asia Foundation 2014). The target for this key instrument is the poor, who nationally amounted to 80 million people, that is, about 10 per cent of the population (BPS 2016). Recently, clients of microfinance have been found to be about 50 million people, with 80 per cent of them getting loans from non-bank institutions (Bank Indonesia 2015).

In 2006, the Government of Indonesia introduced a microfinance programme named Savings and Loans for Women (*Simpan Pinjam Perempuan*, SPP). The aim of this programme was to provide alternative sources of loans, develop microenterprises and empower poor women. It was implemented on the basis of the approach of community-driven development, which provides control of decision-making to the community. The central government directly transferred grants to the community groups to be used as a revolving loan. It was important that the committee members must be women, who independently set the interest rate, screening method and the maximum loan for the clients. The norm of the SPP included administrative informality, being collateral-free, prioritisation to poor households and being free from external interference. The SPP was operated on the basis of voluntary membership. The committee maintained bookkeeping and submitted a report every month to a private supervisor (*Unit Pelaksana Kegiatan* [UPK]) stationed in every sub-district.

The SPP was claimed to exist in more than two-thirds of Indonesian villages, making it the most widespread woman microfinance in Indonesia. At the macro level, the financial performance was impressive. A report from BAPPENAS (2013) showed that SPP's total asset was about Rp 9 quintillion, whereas the profit reached Rp 335 billion. The repayment rate was 95 per cent, which was good enough for a kind of voluntary group based on informality. The SPP was also accountable, as less than 1 per cent of the grants were fraudulent. About 62 per cent of the SPPs had good reporting, asset growth and potential for further development. They did not perform the same way across Indonesia. The SPPs in the province of Central Java had a high financial performance, whereas those in South Sulawesi and West Nusa Tenggara had a low performance (MCRIL 2012).

However, the good financial performance of the SPP did not lead to a success in reducing poverty. Although the borrower reached 1.1 million clients, it was not clear whether they came from the poor. The SPP was claimed to develop business, improve fiscal resilience and decrease the existence of usurers (BAPPENAS 2012; Syukri et al. 2013), but the poverty rate still slowly decreased. The goal of the government to reduce poverty to 8 per cent of the population could not be achieved by 2014. Sutiyo and Maharjan (2013) once studied a before/after comparison in several villages and found that the impact was higher on asset accumulation rather than on income generation.

Some limitations were found in these studies, both methodical and contextual. Methodically, these studies relied on comparative assessments between clients and non-clients, which do not analyse the access of the poor to loans. This method left behind important questions of whether the clients come from the poor and whether they are benefitted by the SPP. Simply speaking, the portion of the poor that is to become the clients of the SPP is still an unanswerable question.

Contextually, there has been a recent change in the legal framework, which remains poorly discussed in the current literature. Initially, the establishment of the SPP and its sources of funding were initiated by the central government. In 2014, however, Law 6/2014 on Villages was enacted, which halted the transfer of grants from the central government to the SPP. A new budgeting system was applied, which made fund allocation for any programmes heavily dependent on the decision-making of local authorities. In the initial studies by Kushandajani and Alfirdaus (2019), it was shown that the responses of the local authorities to gender problems were low, and women empowerment was placed as secondary among the development priorities. The continuity of funding, supervision and legal status of the SPP are now uncertain and need a broader policy framework.

The aim of this article is to assess the existence, outreach and impact of the SPP on poverty alleviation and to discuss possible future directions under the new legislation. A new approach to understanding the impact on poverty is applied here. We chose not to apply the client versus non-client comparative method. We rather performed random sample selection from poor households so that the outreach of the SPP to the poor would be better described. This is a case study in a selected district.

Literature Review

Microfinance refers to financial institutions based on administrative informality, no collateral and a low transaction cost. Its aim is to help the poor obtain services inaccessible via conventional banks. These services range from micro-credit, savings, insurance, payment of transfer and pension. Microfinance mostly targets women because they show disciplined spending, careful investment and better repayment (D'espallier, Guérin, and Mersland 2011; Vonderlack and Schreiner 2002).

As a development tool, microfinance is unique. It conceptually merges psychological, social and economic empowerment into a single programme intervention. It offers the potential to create sustainable, cheap, reliable financial access. With good management, microfinance proved to have an organisational, managerial and financial capacity that enables functioning well over a long period of time, even enlarging the scope of services (Das and Guha 2019). It alleviates poverty by easing livelihood problems (Sutiyo and Maharjan 2013, 2014) and developing microenterprises (Tambunan 2014). It empowers the poor by developing norms, networks and frameworks of cooperation (Rankin 2002). Financial access makes women more confident in decision-making and issues of gender inequality (Rankin 2002; Vonderlack and Schreiner 2002).

The findings of studies around the world presented mixed results. In Bangladesh, microfinance improves the capacity, choices and cohesion of poor women suffering from the absence of identity and income. Norms and networks make women more resilient to deal with multiple problems (Kumar 2016). It increases consumption and housing in Ethiopia (Berhane and Gardebroek 2011) and improves health access in Tanzania (Janssens and Kramer 2016) and India (Saha, Kermode, and Annear 2015). Along with those success stories, the literature also raises some problems. In Thailand, the wealthy dominate committees and loans, which reduces benefits for the poor (Coleman 2006). In sub-Saharan countries, microfinance is both useful and harmful. It helps the poor raise income, but the interest burdens and disempowers women (Rooyen, Stewart, and Wet 2012). In Bangladesh, recent studies raised concerns regarding the ineffectiveness of microfinance in reaching poor groups, as well as the fact that that it provides a financial market for the better-off group instead of the poor (Chowdhury, Ahmmed, and Hossain 2019).

In the literature, the performance of microfinance is assessed from two perspectives: financially (e.g., profitability and asset growth) and socially (e.g., outreach and benefit to the poor). There is a possibility of trade-off between financial and social performance (Abdulai and Tewari 2017; Nurmakhanova, Kretzscmar, and Fedhila 2015; Woller 2007). Providing loans for the poor has a risk of low return, which hampers the financial performance. Some microfinances may be financially successful, become larger and transform into formal institutions, but then they decrease priority to the poor. Simply speaking, the focus on financial performance may decrease the social achievement and vice versa.

Various methods of assessment have been compared, but none was free of weaknesses (Copestake et al. 2005; Widiarto, Emrouznejad, and Anastasakis 2017). Copestake et al. (2005) highlighted the importance of a timelier and sufficiently detailed method to generate information for a wider range of decisions. Widiarto, Emrouznejad, and Anastasakis (2017) argued that, to provide more useful insights, research should be conducted on a regional basis and combine qualitative and quantitative analyses.

Methods

This article is a case study on the district of Purbalingga in the province of Central Java. This district is among the poorest, and this province has the largest number of poor people. The SPPs in the province are cited to have the highest asset growth in Indonesia (MCRIL 2012). Administratively, this district consists of 18 sub-districts, which are divided into 239 villages. One village from each sub-district was randomly selected in this study (Figure 1).

The population of the district was 269,879 households. Three-yearly enumeration of the socio-economic condition of the households was conducted by a statistical agency to collect data on dwelling size and type of floor, wall and roof, as well as landholding and access to electricity and clean water. These data were then analysed by the government as a proxy of income, which in 2015 resulted in a list of 100,281 households categorised as poor. According to the government, these are the people predicted to have an income of less than US$2 purchasing power

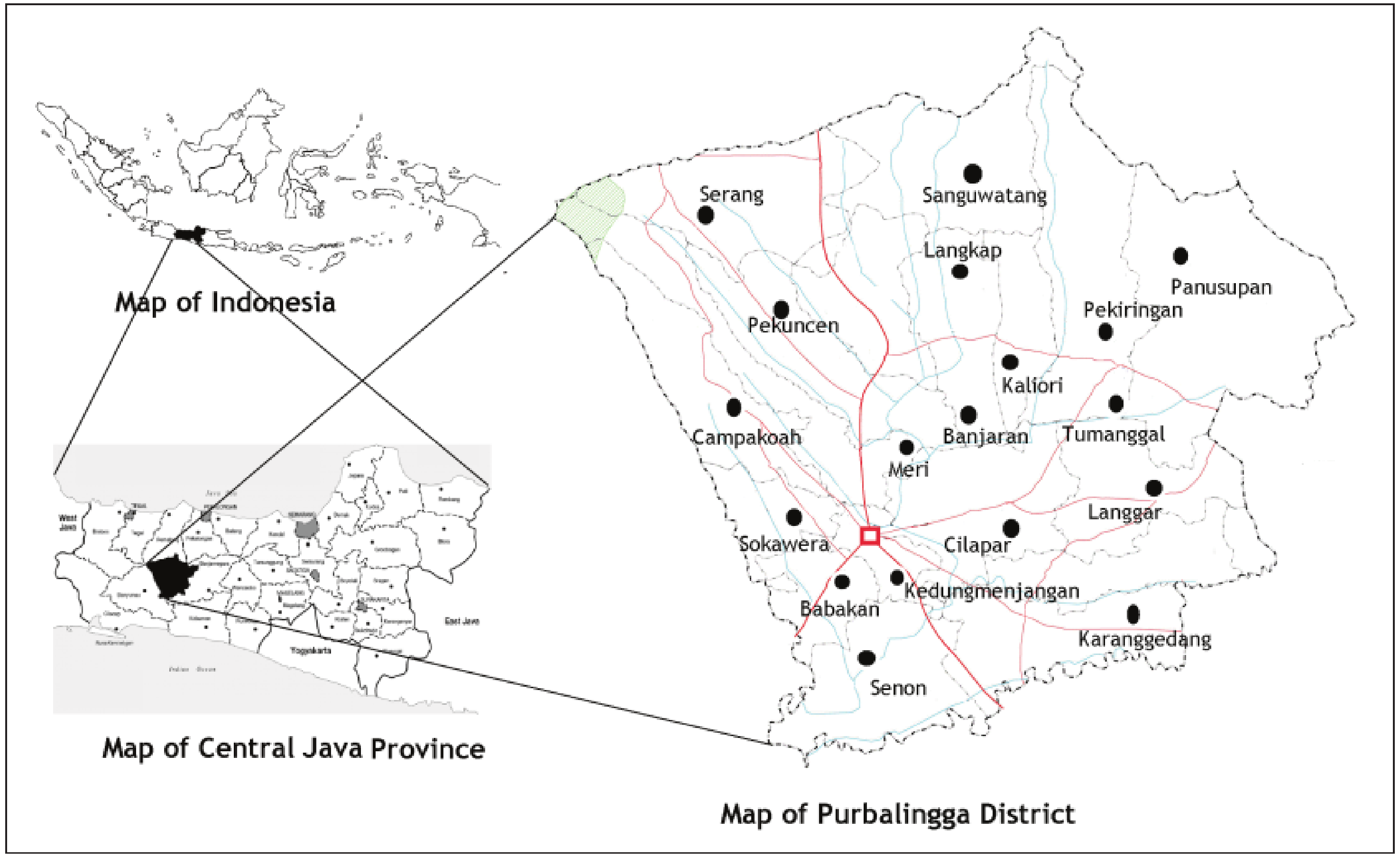

Figure 1. Map of Purbalingga Presenting the Study Villages (black dots): Kedungmenjangan; Babakan; Senon; Karanggedang; Langgar; Tumanggal; Cilapar; Sokawera; Meri; Banjaran; Campakoah; Pakuncen; Kaliori; Langkap; Serang; Sanguwatang; Pekiringan; Panusupan

Source: The authors.

parity (PPP) per day. This is basically the official list of poor people used by the government to distribute various social assistance programmes. The respondents of this study came from this group of households. The names and addresses of the poor were accessed at the Unified Database of Poverty in the local planning office (BAPPEDA). From this list, 36 poor households were randomly selected in each study village, totalling 648 respondents for this study.

Data were collected through two rounds of fieldwork from July to August 2015. First, 18 trained enumerators were employed to distribute questionnaires. Second, close investigations, in-depth interviews with local authorities and the community and observations were conducted by the first author. The first author also accessed the budget document of village government to calculate the fund allocated for microfinance.

This article employs a qualitative technique with descriptive statistics. In addition, the authors complied with the principles of research ethics. Prior permission was obtained from the related government office to gain access to the confidential data of the list of the poor people in the district and to use these data only for research purposes. The identity of the informants has been changed so as not to reveal their real names.

Results

Socio-economic Conditions of the Respondents

Female household heads constituted 11 per cent of the respondents. Most respondents had elementary education and work in agriculture. Landholding was usually less than 0.5 ha, and most respondents needed additional non-farming income to meet their daily needs. A substantial portion of the households had disabilities, illnesses, children under 5 years of age and students, which meant that they are in need for health and education services. Yet, social protection programmes, which provided them with free access, did not cover all the respondents (Table 1).

On average, the monthly expenditure was Rp 1,363,271. Nearly 64 per cent of the money was spent on food necessities, especially rice, tobacco/cigarettes and vegetables. The remaining 36 per cent was spent on non-food necessities, especially education, *kondangan*[1] and house repairs (Table 2).

The daily wage of labour was Rp 50,000 on average. If a labourer works for 30 days per month, he earns Rp 1,500,000. This amount is enough to meet household needs. Yet, working continuously every day is quite difficult, and jobs are usually available only during land preparation and harvest season. In cases of emergency, there is no other option but to borrow money to meet the needs.

Existence of the Savings and Loans for Women

SPPs existed in each study village, delivering loans, whereas savings, insurance and other forms of financial services have not yet been provided. More often, the committee comprised relatives or close people of the village head. When

Table 1. Socio-economic Conditions of the Respondents (2015)

Condition	Number	Percentage
Female household heads	71	11
Poverty level[a]		
• Very poor	291	45
• Mediocre poor	162	25
• Near poor	195	30
Elementary education or less	609	94
Age of household heads		
• ≥60 years	190	29
• <60 years	458	71
Occupation		
• Agriculture	250	39
• Labour	203	31
• Business	52	8
• Services	24	4
• Other	95	15
Having cropland <0.5 ha	629	97
Households with special conditions		
• Disabilities	31	5
• Illnesses	102	16
• Children under 5 years of age	200	31
• Students	363	56
Beneficiary of social protection programmes		
• Subsidised rice for the poor (*Raskin*)	627	97
• Health insurance for the poor (*Jamkesmas*)	605	93
• Conditional cash transfer (*Bantuan Langsung Tunai*)	484	75
• Unconditional cash transfer (*Programme Keluarga Harapan*)	128	20

Source: Field survey, 2015.
Notes: [a]Attributed poverty level refers to the Unified Government Database (*Basis Data Terpadu Kemiskinan*). 'Very poor' means equivalent to an income of less than US$1 purchasing power parity (PPP) per day. 'Mediocre poor' means equivalent to an income of US$1–1.5 PPP per day. 'Near poor' means equivalent to an income of US$1.51–2 PPP per day.

established in 2006, it lacked preparation and socialisation. The village's head often unilaterally appointed the committee from among relatives or whoever available to perform the work. The involvement of the poor and ordinary villagers in the committee was not the main priority of the village head. Consequently, the committee rarely comprised poor women; it rather comprised those with better education and social status. Despite the existence of the SPP throughout the study villages, 23 per cent of the respondents did not know it among their neighbours.

Table 2. Household Expenditure of the Respondents (2015)

Category of Expenditure	Monthly Average (RP)
Total spending	1,363,271
• Food necessities	873,017
• Non-food necessities	490,254
Three largest food necessities	
• Rice	246,172
• Tobacco and cigarettes	119,249
• Vegetables	94,042
Three largest non-food necessities	
• Education	105,007
• Gifts for neighbour ceremonies (*kondangan*)	71,336
• House repairs	71,289

Source: Field survey, 2015.

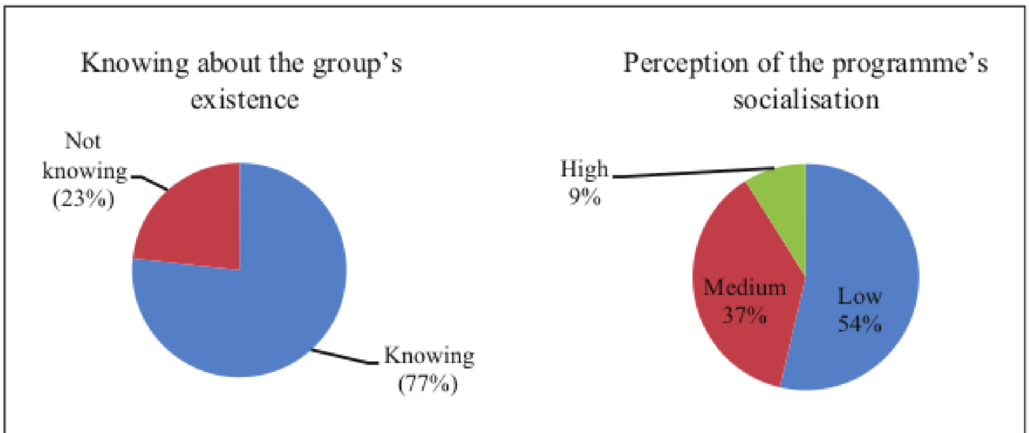

Figure 2. Perception of SPPs' Existence and Socialisation
Source: Field survey, 2015.

This indicates that this programme was not well informed to the community. Most respondents (54%) perceived that the socialisation of the programme was low (Figure 2).

The capacity of the committee to manage grants and increase asset was moderate. For illustration purposes, in the sub-district of Kejobong, 13 villages got Rp 3.8 billion in 2006. By 2015, the asset was Rp 4.4 billion, which means an increase by 16 per cent from the initial capital. Internal and social control made the repayment rate high and the fraud low. Account or bookkeeping in the SPP group was moderately maintained. Administrative reports were quite good, submitted to the supervisor (UPK) in the sub-district every month. An evaluation by district offices in 2013 showed that, among 18 UPKs in the district, 55 per cent were institutionally well functioning, whereas 45 per cent were having some kinds of weaknesses in repayment rate and asset growth[2]. Laws were enforced to minimise corruption. Cases of funding corruption were found in 2010, and the perpetrators, comprising three committee members, were punished in court[3].

The other sources of loan in the study villages consisted of personal lenders, like neighbours or family and institutional lenders, banks and microfinance. Banks included Bank Rakyat Indonesia (BRI) and Bank Kredit Kecamatan (BKK), which are governmental banks specifically targeting rural people. They existed in the capital of the sub-district. Some cooperatives also existed and targeted the same market of banks. Some private moneylenders existed and offered loans in a door-to-door fashion. There were also revolving funds (*arisan*) attached in various community groups, like prayer and farmer groups, as a means to maintain attendance in monthly meetings. Members could access loans from these community initiative funds.

Each provider had a system of loans. Banks required collateral and administrative bundles for their clients. Private moneylenders required no collateral but had a higher interest rate. Cooperatives worked in the same way as the banks but with a smaller amount of loan. Microfinance relied on a system of trust, free of collateral and administration, but the fund was the smallest. Practically, the SPP did not compete with banks and cooperatives. The informality of SPPs, as well as their specific targeting of women, was their point of strength compared to banks and cooperatives. The real competitor of SPPs was private moneylenders, who were collateral-free and had higher loans.

Outreach to the Poor

Among various loan providers existing in the study sites, most respondents (63%) preferred to opt for microfinance, which included SPPs and *arisan*, if they needed a loan. This was the result of the informality system, close distance and fast loan disbursement (Figure 3).

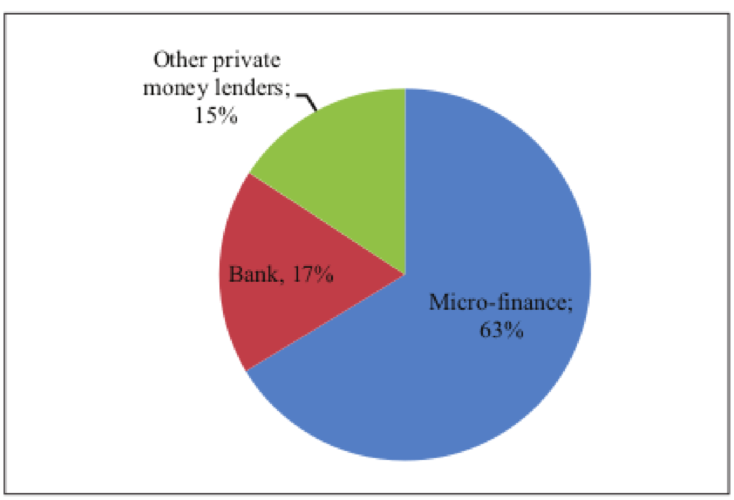

Figure 3. The Most Chosen Institutions to Borrow Money
Source: Field survey, 2015.

Among all 648 respondents in this study, only 18 per cent of them ever became clients of the SPP. The total amount of the loan borrowed from the SPP was Rp 1,900,000 on average. The remaining 82 per cent of the respondents never borrowed money from the SPP. The reason was mostly being afraid not to be able to pay in instalments timely. They were worried about being socially punished by the community if they fail to repay the loan. Various social punishments existed within the community. For example, the SPP's committee always announced the list of arrears in repayment during meetings. It allowed those attending the meetings to know these cases, and then these arrears would be a source of gossip among neighbours. In one case, the committee made a public announcement through the loudspeaker of a mosque, calling for the repayment of a loan from those regarded very stubborn to repay. This not only made the borrower very anxious to meet the community but also decreased her reputation. It created a bad track record that the neighbours would not trust her anymore for a loan.

Social punishment was considered by 38 per cent of the respondents before asking for a loan. Others did not know about SPP's existence or did not need a loan yet. Nearly 2 per cent of the respondents asked for a loan but got rejected because of the unavailability of funds or because they had a bad reputation. There is no information regarding the sizes of loans obtained from other sources. Based on interviews, most respondents avoided debts. Should they have a debt, it was for an emergency, like consumption, education or health cost, rather than for income generation. Cases of borrowing money to start a new business were not found; at best, some borrowed money just to supplement an already running business (Figure 4).

There was no significant association between the gender of the household head, age and poverty level and access to loans. The SPP still lacks the gender

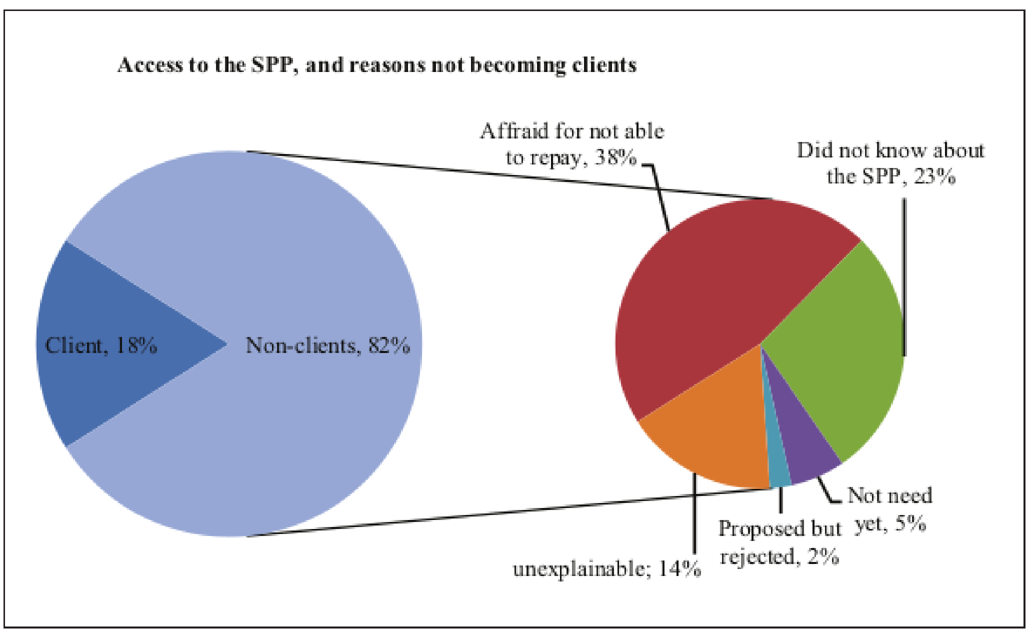

Figure 4. Access to SPP's Loan
Source: Field survey, 2015.

Table 3. Access to SPP's Loan by Some Socio-economic Indicators

Socio-economic Indicators	Access to SPP: Non-client (n = 531)	Access to SPP: Client (n = 117)	p-Value[a]
Gender of household heads			
• Male	465 (72%)	112 (17%)	0.011
• Female	66 (10%)	5 (1%)	
Age of household heads			
• ≥60 years	167 (26%)	23 (3%)	0.011
• <60 years	364 (56%)	94 (15%)	
Poverty level[b]			
• Very poor	235 (36%)	56 (9%)	0.264
• Mediocre poor	129 (20%)	33 (5%)	
• Near poor	167 (26%)	28 (4%)	

Source: Field survey, 2015.
Notes: [a]The chi-squared technique was applied.
[b]Attributed poverty level refers to the Unified Government Database (*Basis Data Terpadu Kemiskinan*). 'Very poor' means equivalent to an income of less than US$1 PPP per day. 'Mediocre poor' means equivalent to an income of US$1–1.5 PPP per day. 'Near poor' means equivalent to an income of US$1.51–2 PPP per day.

dimension when delivering loans to clients, which means that the committee did not prioritise female household heads (Table 3).

The poor outreach of the SPP was not due to competition with other microfinance institutions, but rather a result of the weaknesses of both supply and demand. On the supply side, the committee focused more on smoothing repayments rather than on poverty alleviation. They did not prioritise the poor, female household heads and loans for income generation. Screening emphasised clients' capability of repayment, which then favoured the non-poor more. The committee perceived the SPP more as a mandatory programme from the government, and that low repayment was believed to discontinue the grant transfer in the following years. The role of the UPK in assisting the SPP was limited. So far, the UPK emphasised administrative reports and control of assets rather than the outreach and utilisation of loans. These were incarcerated by the fact that the members of the UPK were not honoured by the government, but by the profit created by the SPPs. These made them very concerned about repayments rather than focusing on poverty alleviation.

On the demand side, proposals from the poor were low. As presented in Figure 4, 82 per cent of the respondents never accessed loans from the SPP. Many did not know about the existence of the SPP in the first place. Those who knew were reluctant to borrow money for starting a business. The poor were generally not risk-takers, and they focused more on what could possibly go wrong. For example, future uncertainties might cause their businesses to fail and prevent them from repaying the loan. Once there are non-performing loans, the total assets of the SPP would automatically decrease as there is no collateral system within it. If the SPP, as a government-sponsored programme, goes bankrupt or gets liquidated, they will be socially blamed for the problems. This social punishment, on the one hand, helped maintain a high repayment rate and, on the other hand, discouraged the poor from asking for a loan.

Demands towards the SPP came more from the non-poor, who were trusted to be able to repay their loans. Based on an interview, the poor sought a system of loans with informality, no administrative cost, low interest rate and more flexibility to reschedule repayments. The SPP was perceived as not competitive in terms of the interest rate, as it did not differ much from banks and cooperatives. It was also difficult to reschedule repayments as the committee needed to revolve funds to other borrowers. Many of the poor preferred borrowing money from *arisan*, which was another type of microfinance voluntarily managed by various community groups.

These above-mentioned problems of supply and demand are a result of more fundamental causes: weak socialisation, low understanding of the committee and inadequate deployment of grants from the government. All of these implied low outreach, and the SPP could not function well as an anti-poverty programme.

Impact on Poverty Alleviation

The low outreach of the SPP automatically implied a weak performance in terms of income generation for the poor. Among 117 clients of the SPP, most of them utilised loans for consumption (27%), followed by developing businesses (23%), education (16%) and health cost (3%). Only 15 people, accounting for 13 per cent of the clients or 2 per cent of the total respondents, used the loans to keep their businesses running. They ran small trades, with an estimated profit of Rp 24,300 a day on average. A larger part of the loan was used for life needs, personal needs and a wide variety of cash needs. This means that the social performance of the SPP to benefit the poor was limited. Lack of assistance to start a business prevented the poor from utilising loans for investment. No substantial efforts were made by sub-district units or governmental agencies to develop the business skill of the clients (Figure 5).

The SPP in the study sites did not show a good performance in developing social capital and empowering the poor. For example, although the committee and the poor lived in the same village and knew each other, this did not mean that the committee automatically prioritised the poor in loan disbursement. The SPP could not facilitate the community to establish a joint business. Either the committee or the UPK lacked the understanding needed to make loans functional for income generation. They could not develop a linkage between the SPP and the other financial institutions. While the SPP existed in each village, it operated independently with almost no connection to a similar SPP in the other villages. There were no events of skill training facilitated by the SPP in the study sites. Capacity development was experienced more by the committee, in which they could learn by managing a revolving fund, bookkeeping and enlarging assets.

While the impact on poverty alleviation was limited, other forms of impact were identifiable. First, the SPP played the role of a safety belt in dealing with financial insecurities. In other words, they helped safeguard the poor against economic vulnerabilities. Second, the SPP functioned as a means of developing

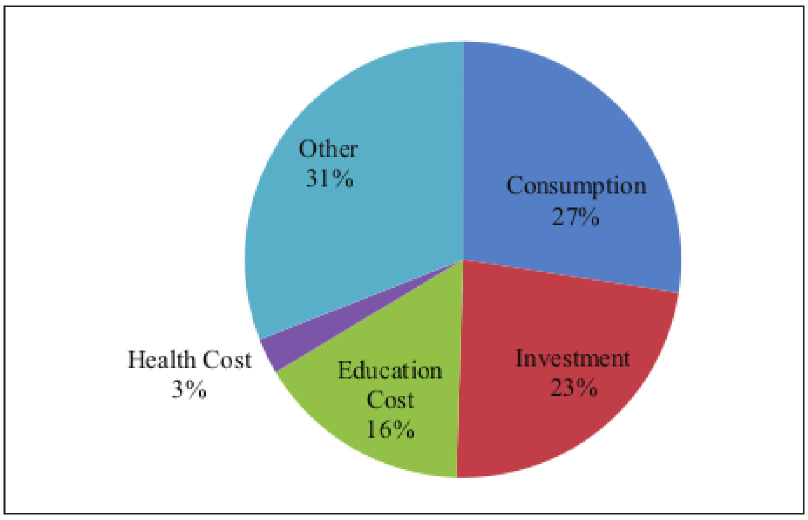

Figure 5. Utilisation of Loans by Clients

Source: Field survey, 2015.

discipline in repayments. The fact that many respondents were afraid of social punishment if they could not repay showed that repayment discipline existed in the community. Not stealing the group's money had been a tradition, especially among poor women. This discipline will be very useful in supporting the wide varieties of cooperation among the poor.

Perception of the Savings and Loans for Women

The perception of the poor to the SPP was moderate. Most respondents (82%) were not clients to and did not benefit from the SPP, whereas clients mostly stated to benefit highly. Considering the livelihood experience, most respondents (59%) moderately needed the SPP and most (81%) did not agree to terminate it. About 23 per cent of the respondents predicted that they will face difficulties in obtaining a loan without the SPP. Although the SPP had a low impact on poverty alleviation and its outreach to the poor was limited, most respondents wanted the programme to continue. They expected some benefits in the future and expected that the SPP will back up their livelihood uncertainty (Figure 6).

Despite the high expectation of the poor for the SPP to continue, recent changes in legislation made the future of the SPP dependent on the perception of the village government. The implementation of Law 6/2014 on Villages in 2015 halted grant transfers from the central government to the SPP. Funds were incorporated into a single grant named Village Grant (*Dana Desa*). Each village received about Rp 300–500 million a year, but most funds were spent on physical infrastructures. Among 239 villages in the district, only 77 (32%) of them invested in the SPP, with less than Rp 10 million[4].

The reason for not financing the SPP varied, for example, because the community prioritised the infrastructure building. The other reason was because the SPP had never submitted the report to the village government. Most village officers felt unconnected to the management of the SPP. They did not perceive the SPP to

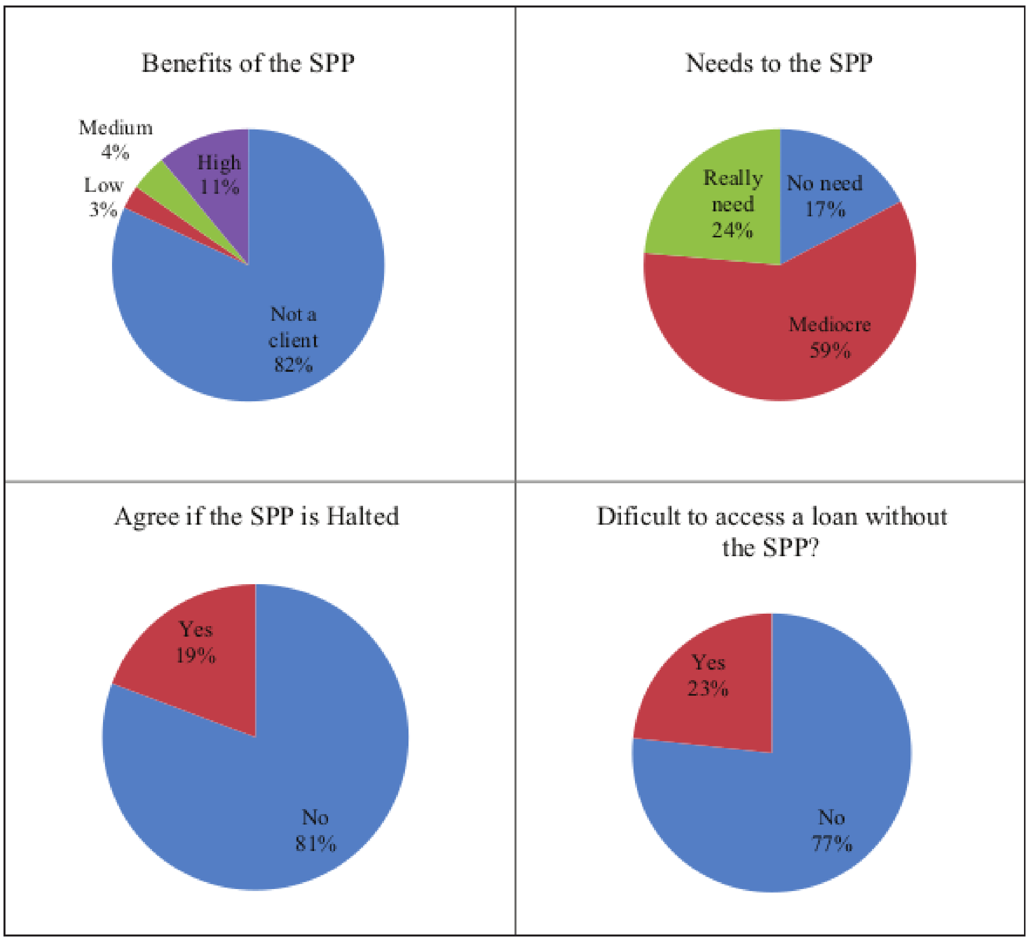

Figure 6. Respondents' Perception of the Existence of the SPP
Source: Field survey, 2015.

be their responsibility, and their sense of belonging was low. Bookkeeping was only given to the UPK. Without knowledge of the report and progress of the SPP, village officers were reluctant to allocate budgets. Mr Kadus, an officer in the village of Cendana, said the following[5]:

> In my village, there is a group of loan [the SPP] managed by our people. It is under the sub-district UPK, isn't it? So far, I do not know the report, who borrows the loan, who is good in repayment and who is not. If there is a profit, it is not given to the village... Therefore, our village head decided not to allocate funds for that group. We prefer to finance road maintenance. The outputs is more clearly visible.

Although the SPP received minimal support from village officers, the district government considered microfinance to be important in helping and empowering the poor. Within the current legislation that gave full discretion to the village government, no intervention could be made by the district. The district could just issue an official letter to the village governments containing a list of programmes as an option in village budgeting[6].

Discussion

The Present Status of the Savings and Loans for Women

Based on the socio-economic conditions as well as the pattern of expenditure, the SPP is needed not only for income generation but also for meeting consumption and other necessities. The SPP can maintain funds because of the functioning social punishments for the violators of loans. This social punishment improves the repayment rate and the growth of assets. However, limited socialisation and funding prevent the poor from accessing loans. The outreach was quite low, as only 18 per cent of the respondents became clients. The effectiveness of the SPP in accelerating poverty alleviation through enterprise development is challenged by the inexistence of further assistance to borrowers. Consequently, the SPP functions more as a safety net to deal with consumption insecurities. Supervision from the UPK emphasises the administrative reports of fund management. Without further assistance and empowerment for clients, the SPP only focuses on the repayment rate rather than on making loans functional in income generation.

This case study adds to the current literature arguing that microfinance has the potential to alleviate poverty (Rankin 2002; Tambunan 2014; Vonderlack and Schreiner 2002), but with significant challenges of small scope and financing. In Indonesia, although studies showed that the SPP benefitted its clients (BAPPENAS 2012; Syukri et al. 2013), the poor were not the largest part of those claims. By performing randomised sampling of the poor, this article presented new findings that many of the claims of SPP's benefits did not stem from the experience of the poor. Only 18 per cent of the respondents had access to loans, and only 2 per cent of the respondents could utilise them for income generation. The theoretical potentialities of microfinance to develop microenterprises (Tambunan 2014) cannot be completely realised. The SPP may be financially successful in enlarging assets, but it is not socially successful in terms of outreach and income generation for the poor. There is a trade-off in the SPP between financial and social performance in microfinance, as pointed out in the literature (Abdulai and Tewari 2017; Nurmakhanova, Kretzscmar, and Fedhila 2015; Woller 2007).

Despite all of these limitations, the SPP still plays an important role in preserving community discipline in repaying debts, maintaining trust in managing loans, providing loans only if needed and in preventing stealing government money in microfinance. Unfortunately, other types of social capital, such as networks and cooperation, are not yet the focus of the group. Some values of discipline generated by the SPP offer an opportunity to develop further cooperation among the poor.

The Future Direction of the Savings and Loans for Women

Long-term repayment rate and asset continuity of the SPP may not be of concern, but the impact on poverty alleviation must be increased. The future of the SPP can be discussed from three perspectives: funding, legal status and assistance. With regard to funding, although the repayment rate is high, the SPP is now facing a problem of limited funds. This hampers its ability to broaden the financial services for the poor. Additional capital is needed by the SPP in order to improve its capacity to provide larger amounts of loans to more clients. As the SPP is a government-sponsored type of microfinance, the main source of its capital is government budget. Currently, the status of the SPP as a community self-help group connected to a private supervisor instead of local government bodies has created a low sense of belonging from local authorities. Thus, the SPP should have a stronger legal status and institutional connection with village governments to obtain higher fund allocation from local budgets. This increase in legal status will improve the linkage between SPPs and banking institutions and broaden the scope of the provided financial services. A stronger institutional connection between the SPP and village governments is expected to solve the issues of limited supervision from local authorities and further assistance in loan utilisation.

In order to deal with the issues of funding, legal status and assistance as mentioned before, any policy for the future of the SPP in Indonesia should be in mutual accord with the main legal framework of rural development and village governments in Indonesia, which is Law 6/2014 on Villages. This Law has unified various funds for rural development programmes, including the SPP, into a single grant for village governments. The decision of budget allocation is now heavily dependent on the system of participatory budgeting within the local authorities.

There are three technical regulations contextually important for the development of any policy for the SPP. The first one is Ministerial Regulation 5/2015[7], which recommends that village governments prioritise funding for two programmes: infrastructure development and community empowerment. If the services of the SPP are expanded not only to provide loans but also to assist in the utilisation of funds in investments, then the SPP is said to be a tool of community empowerment. By doing so, the SPP will be prioritised in village budgeting. In this regard, it is important to mainstream microfinance as a strategy of community empowerment and to decrease the over-prioritisation of physical infrastructures in village budgets. This can solve the problem of low funding.

The second regulation is Ministerial Regulation 4/2015[8], which urges village governments to establish a commonly managed enterprise (BUMDes). BUMDes is required to manage local resources, empower the community and improve the revenue of villages. It is better for the SPP to transform into BUMDes so that its assets can be continuously managed. Only then will it have a legal status and its structure will be separated, but it will be under the general supervision of the village government. Any committee member can be the director of the BUMDes, who is directly supervised by the village head. It is also important to note that the legalising into BUMDes should not change the focus of the SPP to target the women. The primary objective is to organise poor women into a self-help group and empower them economically. Informality, low administrative cost and being collateral-free should be maintained by the BUMDes. Transforming the SPP into BUMDes means incorporating it into the village government administration, at which point local officers will automatically have a sense of belonging to the group. They will be more motivated to allocate budgets in the SPP. The legal status of the BUMDes also empowers the management and makes it stronger in dealing with issues of troubled debts.

The third regulation is Ministerial Regulation 3/2015[9], which regulates the implementation of assistance and supervision to villages. According to this regulation, assistance in the utilisation of funds, community empowerment and management of BUMDes can be conducted by either specially appointed consultants, district governments or by third parties, such as universities and non-governmental organisations. Assistance to the SPP can be delivered through these wide-ranging institutions and should address three fundamental problems: weak socialisation, low capacity to make the SPP a poverty reduction programme and inadequate deployment of grants. Socialisation about the SPP can be increased by involving village officers and local authorities in disseminating information. The capacity of the UPK and the committee can be improved through exposure visits to other SPPs successfully managing loans for poverty alleviation. Assistance from various stakeholders to the SPP to mainstream poverty alleviation in loan disbursement is needed. Inadequate deployment of grants can be increased as far as there is an increase in the sense of belonging of the village officers to the SPP. In order to make this happen, the SPP must submit reports and bookkeeping, as a means of accountability, to the village government.

The other measure for the SPP is to link the SPP to already existing banks with microcredit, such as the BRI or BKK. This link means that the SPP will develop a formal agreement with the bank to obtain more funds. Hence, the SPP becomes a client of the bank, managing loans from the bank to be disbursed again to the poor. In many cases, the poor have no collateral and are not accepted to be clients of the bank. With the cooperation between the bank and the SPP, the poor can obtain loans from the SPP while the fund remains from the bank. At the same time, the SPP still maintains its informality of administration and its collateral-free structure with its clients. Alternatively, the SPP becomes a channelling agent of the bank. As compensation, the bank gives the SPP a fee. This linkage with banks broadens the services of the SPP, not only in loans but also in insurance and savings. A similar cooperation is broadly practised in Indonesia, especially for insurance payment, vehicle credit and money transfer. The main challenges are the lack of information and understanding the link between the SPP and banks. Some facilitation from the local government is needed to make it successful.

Conclusion

The SPP, being the most widespread microfinance institution throughout Indonesian villages, has distinctive features of administrative informality and a collateral-free structure. It exists within the community; however, its limited socialisation prevents many of the poor from knowing about it. SPPs generally have good repayment rate and asset growth and are more favourable as loan providers compared to banks and private moneylenders. However, their outreach to the poor is low, as only a small number of the poor (18%) become clients and benefit from loans. Those borrowing from the SPP use the money mostly for non-investment purposes, which mainly include consumption, education and health. SPPs also do not function well in developing social capital and empowering the poor. The limited fund availability, the lack of prioritisation to the poor, the higher focus on repayment rather than the utilisation of money and the inexistence of further assistance to the utilisation of loans prevent the SPP from having an impact on poverty alleviation, especially in developing microenterprises and generating income. Despite these limited impacts, the SPP plays a functioning role in maintaining community discipline in debt repayment and accountability of fund management.

For the SPP to be more effective in empowering poor women and alleviating poverty, it needs a broader policy to strengthen its funding, legal status and assistance while maintaining its collateral-free system. Any policy for the future of the SPP should be within the framework of the main regulations of rural development and village government in Indonesia, which is Law 6/2014 on Villages. It is recommended for the government to transform the group into BUMDes, to mainstream microfinance in village budgeting and to provide sufficient assistance to the SPP to help the poor utilise loans for investment. Linking already existing banks with microcredit programmes will help the SPP increase its funds and broaden the scope of services provided.

The case of the SPP presented in this study should be a substantial reference for the formulation of a policy in regard to women microfinancing in other countries. A good financial performance like a high repayment rate and asset growth does not always create the same performance in alleviating poverty. Thus, there is a need for more policy instruments to make women microfinancing prioritise poor clients and to achieve good financial performance with a high impact on poverty alleviation. In addition, a policy is also needed to facilitate the linkage between microfinance and various stakeholders, such as the local government and local bank institutions, to increase the availability of funds and broaden the services provided.

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The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

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Notes

1. A tradition of presenting a gift in neighbours' life ceremonies like circumcision and marriage. These gifts may be cash, rice or snacks. When accumulated in a year, this constitutes a substantial portion of the spending of each household.
2. *Laporan Evaluasi SPP PNPM tahun 2013* (Evaluation Report of the SPP PNPM, 2013), accessed from the archive of the Local Planning Agency.

3. https://radarbanyumas.co.id/tiga-terpidana-pnpm-masuk-rutan-purbalingga/, accessed on 10 June 2018, 10:12 AM.
4. A documentary study on village budget documents in the Local Planning Agency (BAPPEDA) in Purbalingga.
5. Interview conducted on 10 August 2015 in BAPPEDA's office.
6. Interview with Mr Kasubbag, the district officer in charge of development planning, conducted in BAPPEDA's office on 10 August 2015.
7. *Peraturan Menteri Desa, Pembangunan Daerah Tertinggal dan Transmigrasi nomor 5 tahun 2015 tentang Penetapan Prioritas Anggaran Dana Desa* (Regulation of the Ministry of Villages, Development of Backward Areas and Transmigration 5/2017 on the Priority of Utilization of Village Grants).
8. *Peraturan Menteri Desa, Pembangunan Daerah Tertinggal dan Transmigrasi nomor 4 tahun 2015 tentang Pendirian, Pengurusan, Pengelolaan dan Pembubaran Badan Usaha Milik Desa* (Regulation of the Ministry of Villages, Development of Backward Areas and Transmigration 4/2015 on the Creation, Management and Dispersion of the Village Commonly Managed Enterprises).
9. *Peraturan Menteri Desa, Pembangunan Daerah Tertinggal dan Transmigrasi nomor 3 tahun 2015 tentang Pendampingan Desa* (Regulation of the Ministry of Villages, Development of Backward Areas and Transmigration 3/2015 on the Assistance for Villages).

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