

Community Currency Systems and Credit Unions



Staff and Visitors to Mendasar Credit Union.



Tri Tunggal Credit Union and Farmer's
Cooperative Offices.

A Visit to Mendasar and Tri Tunggal Credit Unions, Yogyakarta Special Area, Central Java, Indonesia July 29 – August 2, 2000

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Introduction

Mendasar and Tri Tunggal Credit Unions are two of 35 Credit Unions in the Yogyakarta Special Region of Central Java. On July 31st and August 3rd, Ferry Yuniver and Stephen DeMeulenaere of Yappika, accompanied by Ngatidjo of the Regional Credit Union Coordinating Body or "Bekatigade" visited these Credit Unions, and 6 others, as part of a program to introduce a new type of credit mechanism, called Community Credit Systems, or simply, CCS to these communities.

But first, we simply wanted to spend some time with the Credit Union management and members, learn about the community and take some pictures to help us, and you the reader, to gain some insight into community economic life in the rural areas surrounding Yogyakarta. Yogyakarta is a special region, politically because it is governed by a modern and widely-admired Sultan, culturally because it is considered the center of Javanese culture and its close proximity to the ancient and massive temples of Borobudur and Prambanan, socially because it is Indonesia's University City with around 100 Universities, and environmentally because of its proximity to the southern Indonesian Ocean, and wide diversity of geo-climatic zones. However, we are most concerned here with what makes the Yogyakarta area economically special.

Yogyakarta itself is a bustling city, focused on education, tourism and culture. Outside of Yogyakarta, it is primarily rural and agricultural. Although diverse, both urban and rural communities are still suffering from the Asian Economic Crisis which swept through much of Asia, and is still lingering around Indonesia.

In order to develop appropriate and effective economic responses, we need to look at a wide variety of factors. You will see what these particular factors are in our discussion with the members of these two Credit Unions.

These two Credit Unions and the community around them, of the six we visited, are outstanding in many ways. This is why the Indonesia Community Credit Systems program of Yappika chose them to host the first two pilot projects in Indonesia.

What Are Community Credit Systems?

Community Credit Systems (CCS) are systems that operate in parallel to a Credit Union's operations. However, they use a separate set of accounts, and a parallel medium of exchange.

Rather than withdrawing Rupiah, which has been extremely scarce during the last three years of Monetary Crisis, they withdraw Community Coupons. These coupons circulate within, and only within the community just like Rupiah. Unlike loans, these coupons are withdrawn by members, on the promise to return that value, not simply to the Credit Union, but more importantly to the other members of the Credit Union.

Mendasar Credit Union, Giri Sekar Village, Panggung Sub-District, Kidul Mountain District,

On July 31, 2000, we visited Mendasar Credit Union to speak with its management, staff and members. First, we paid a visit to the Village Administrator to present our program to him. With us was Pak Ngatidjo (Pak means "father" in Indonesian) from Bekatigade, who has worked with Mendasar and the other Credit Unions for many years. He helped to turn our Indonesian explanations into Javanese language so that the villagers, who only speak Indonesian outside of their community, could understand.

Giri Sekar Village

Giri Sekar Village is about 60km. from Yogyakarta, a long climb up steep mountain roads to one of the plateaus on Kidul Mountain. It covers a wide area, and is divided into 9 hamlets. Although it rains heavily during the rainy season from October to March, it is extremely dry during the "winter" dry season from April to September. The population of the village, residing on farms in the area, is about 7000. There are 1,380 families in the village.

Cassava roots drying in the afternoon heat.



It is a clean and quiet village, accessible only by rough rock-surfaced roads. Electricity only recently arrived to the village. Drinking water is provided by rain during the rainy season, saved in giant 5000 liter concrete containers that collect the rain from the roofs of homes. Those that don't have these containers must purchase their water for drinking, washing and bathing.



Lush rice fields in the lowlands



Lush rice fields in the lowlands.

Life in the Village

We visited the home of Pak Sugai, one of the elders of the village, to learn more about the way of life of people there. He is a healthy man of 70 years, a born farmer of many different types of crops. As we spoke, he rose from his chair to shoo away the chickens that were pecking at the vegetables he had laid on the floor earlier to clean for dinner.

Pak Sugai told us the community culture before 1970 was quite different than today. The staple diet was the cassava root, but with government and foreign assistance their agriculture production was greatly improved and expanded to include corn, better rice and tapioca. However, in 1997 a new problem arose, the Asian Monetary Crisis.

One aspect of local culture that has put an increased strain on the community, and on the elderly, is festival activity. Each time there is a festival, invitations are sent out with an expectation that all who receive an invitation will come. Each person must bring 20,000rp per person (\$3 US). Whereas formerly they could bring food in place of money, now the host of the party is only cash. What was formerly a form of cultural social reciprocation has now become monetarized, and Pak Sugai says that there are some people in the community who host parties like it was their business. In the context of an economic crisis, this has become an impossible burden for many people. Pak Sugai and his wife receive about 20 invitations per month. He wishes there was some way he could afford to attend them all.

However, he said there are still strong cooperation activities such as "gotong royong" (traditional mutual aid)



Pak Sugai in front of his home.



The water delivery truck en route.

with which new houses are built, crops are harvested. He said there is still some barter going on, although he found that he often forgot who he gave something to, and who owes him what, or who promised that someone else would give something to him in return if he did not need what the other had.

Having lived through the colonial years under the Dutch, having fought in the liberation war against Japan and Holland, having lived through the 1965 overthrow of Sukarno and the Suharto era, Pak Sugai has

seen a lot. He remembered the Dutch Guilders that were the national currency during the colonial era, he heard about other currencies that circulated on other islands during the struggle for Independence.

As a farmer, he wished there was a method for collecting produce for sale in Yogyakarta, and a way of storing rice and other produce for sale at other times of the season. As it is, he has to sell his produce when the buyer arrives at his home.

He has only one water 5000L water tank at his home, and in the late dry season he has to buy a 5000L shipment for 70,000rp (\$10 US). He hopes to add another tank to the outside of his house so that he doesn't have to spend such a big portion of his income (25% or more per month) on water.

Mendasar Credit Union

Mendasar Credit Union has 697 members, and 70 million Rupiah (\$10,000 US) in Assets. Founded in 1990, Mendasar is the amalgamation of 9 home-based Farmer Savings Groups, initiated by PLAN International during the 1980s. As there is no electricity, all 700 accounts are maintained by hand on ledger books. There is no computer or telephone, and there is no phone line to the village. However the office is large, clean and well-supplied. A large Bulletin Board displays the full monthly account summary of the Credit Union. Members must save a minimum of 1000rp (15 cents US) per month in their account, and in addition to other savings, adds 3 million Rupiah per month to the Credit Union's assets.

Mendasar Credit Union's Monthly Statement is posted for all members to see.

Others raised chickens, goats and cows. Those whose land was good for growing Soya bean produced tofu and tempe (fermented soybean patties) at their home. Others made fried snacks and prepared dinner dishes for door-to-door sale.

Pak Tubandyono is the manager of the Credit Union. He talked about how, from 1986 to 1996, PLAN International supported several development activities in the village, building offices for the Village Administration and for community meetings, and working in the education, social and economic sectors. It was a successful program that eliminated many problems.

He told us that the primary economic activities were vegetable cultivation, primarily done during the rainy season, with some dry ground crops grown during the dry season. Aside from farming, some villagers produced charcoal for barbecued chicken (satay) sold in food stalls in the city, services such as personal care, natural medicine, local transportation.

The three main problems for him were access to water, storage of harvested crops and transportation. The villagers are heavily dependent on external water supply during the dry season. Although they could save as much as 20,000L of rainfall per home during the rainy season, very few homes had more than one 5000L container. Secondly, as there are no storage facilities for agricultural produce, farmers are forced to sell directly when the buyer arrives on site, thus being forced to accept the offered price. Thirdly, the poor quality of roads and miniscule incomes of people forced them to walk great distances, and travel in the back of gravel and produce trucks that passed through town.

Tri Tunggal Credit Union, Imogiri Village, Bantul Sub-District, Kidul Mountain District

On August 2, 2000, Pak Ngatidjo and Stephen visited Tri Tunggal Credit Union. Unlike our visit to Mendasar Credit Union, this was organized as a formal meeting and discussion. It was attended by 16 people, 8 women, 7 men and one child.

Imogiri Village

Imogiri Village is much closer to Yogyakarta than Giri Sekar, located in the plains at the base of the mountain which leads to Panggang Sub-District. Although it shares many similarities, there are also some significant differences. The village is at a much higher level economically than the other places we visited. Most people are engaged in home or private businesses. Farming (tobacco, fruit, vegetables, rice), animal husbandry (cows, chickens, goats), the small-craft industry (leather, batik, puppets) is very large, supplying international markets. The clay roofing tile and woodcraft (furniture & carving) industries are also large. Towels and mattresses are also produced here, as well as other textile industry. There is a wide range of available goods and services. Most people travel by bicycle as the roads are good and most facilities are accessible. Otherwise, they primarily use public buses and motor-scooters.



Participants in the meeting and discussion. The Village Head has his back to the camera.

Although social costs are also high, they are not as high or comprise the majority of spending. The standard of education and living is much higher. Roads are excellent quality, and not crowded with traffic. Cycling is very common.

Tri Tunggal Credit Union

Tri Tunggal was formed from the merger of 3 smaller credit unions in 1998, which were formed out of savings groups initiated by PLAN International in 1985, as in the case of Panggang. Next to the Credit Union office is a small Farmer's Cooperative building, and extensive unused space inside the credit union. Tri Tunggal has 280 members, and 80 million Rupiah (\$11,000 US) in assets. Although there is electricity,



Tri Tunggal's Organizational Structure and Rate Schedule. Note picture of President Gus Dur .

Their Monthly Summary is posted for all to see.

the office does not have a computer, nor does it have a telephone. Electricity is only used for lighting. The Credit Union is managed by Mrs. Sunu Pomo, a dynamic and influential individual in the community.

The Meeting and Discussion

Pak Ngatidjo started with describing the system of alternative payment at the local level, for developing the local economy from within, not from without as is normally done in the development process. However, he stressed that we must recognize the need for those from outside who have information, support and experience. Stephen is working with Yappika to help show us the path, in the same way those from PLAN International did before, and then we are alone on our journey of self-development.

All of you recall the Krismon (monetary crisis) that started some 3 years ago. What was the price of chicken then? The price of a pack of Gudang Garam clove cigarettes? The price of a dress? The price of a meal? How much do these things cost now? Have our incomes risen to match the increase in prices? Why are prices still so high relative to incomes? Everyone agrees that our incomes have not kept pace with price rises.

I would like to introduce you to Stephen. Stephen has worked in several countries, including Thailand, Mexico and Argentina, and these systems are operating in many more, about 25 countries worldwide. What we would like to do is start this

program here in the Yogyakarta area with two Credit Unions in the Bekatigade Network. Ngatidjo asked Stephen to explain what we are intending to do.

"What we want to do is issue another type of money only for use within the community, to facilitate savings in Rupiah, while keeping enough money circulating in the economy. We can do that by having another type of money", Stephen said.

We can say some things about this concept we can call Community Currency Systems. First, that it increases efficiency, which means greater profit and income for those who participate. National money is scarce, local money is not. Secondly, the money stays local and strengthens and protects the community. Thirdly that it is a simple system to manage, fully democratic and transparent. Fourthly, that it matches well with the credit union principles, design and process, sharing many of the same goals.



Villagers admiring the Thai Bia community currency. Manager Mrs. Sunu Pomo is seated at center.



Villagers admiring the Mexican Tianguis Tlaloc.

Pak

Ngatidjo showed examples and explanation of the Mexican 'Tlaloc', the Thailand 'Bia', the Canadian 'Toronto Dollar', the Senegal 'Bon', the Argentina 'Credito' and other samples. He made reference to the use of parallel currencies (US Dollar, Dutch Guilder, Japanese Yen) that is often accepted in place of Rupiah in tourist areas, and to the use of local currencies during the Indonesian struggle for independence against Holland and Japan (1945-50). Some participants quickly offered a number of other examples of parallel currencies used in Indonesia, including a currency circulating through the Islamic boarding schools.

This money functions just like a credit card, except that instead of using a card we will use a printed coupon. Those of you who have businesses may be familiar with credit cards, debit cards and traveller's cheques. He described how these types of money function.

After our presentation, the participants asked the following questions:

1. How do we set up trades using the new currency?

We will start with the existing credit union membership base, and listing our offers and requests for trade using the local currency. We will set up a bulletin board

and/or a marketplace to support trading. We then talked about the use of markets in Mexico, Argentina and Senegal.

2. Would it be possible for someone to manipulate the money supply?

The Village Head raised the concern of manipulation of the money supply, as there are many provocateurs working to destabilize the country through counterfeit and economic force. In reply, Stephen said that the amount of money in circulation is always known, so misuse of the system is easy to spot. It is possible to make a cheap, secure, "counterfeit proof" currency. As the money will be used for local purchases, it's unlikely that there would be sufficient benefit from counterfeiting to make it worthwhile. If people are that skilled, they would benefit more by counterfeiting national currency. So although technically possible to counterfeit the currency, it would be very unlikely anyone would want to.

3. What is the National Law regarding Community Currencies?

The Village Head asked about the law regarding local currencies in the country, and wanted to be sure of legal certainty and permission from the government before lending his support to the system. Pak Ngatidjo replied that Visa, American Express, BCA and other institutions don't need permission to issue credit, and didn't expect the system would need to. However, we would inform each level of government about the program and ensure that the system would follow existing laws, because to operate the system in contravention of the law is not appropriate.

Community Currencies are operating legally, and often with government support, in 35 countries worldwide. The few problems that have occurred with government have been related to other areas such as social welfare. When the government is properly socialized on the purpose and use of the system, they are very much in support.

4. What are the benefits to businesses?

As business-oriented activities are more common in this village, being able to access local resources for local value-adding and then resale outside of the community would increase the profit to the business. Being able to use local money instead of cash would increase cash flow and thus strengthen day-to-day operations. Cooperating with the community to improve the overall economic climate would reap many spin-off benefits of direct and indirect benefit to business.

5. What if Local Money is Destroyed, Lost, Stolen, Burned?

The person who lost the money can file a report and be reimbursed for what is lost. However some safeguard would be needed to prevent this from becoming a "habit".

6. Why not start this program at the regional level first?

The business members wanted to trade with others in other communities. Why not start with a provincial or regional system first? We replied that the goal of this program, as with credit unions like Tri Tunggal that were formed from home-based savings groups, was to develop the local economy from the ground up. It wouldn't be a good idea to try and work our way downwards in the process. Rather, we'll start local and work our way up. We aim to develop a regional, provincial and perhaps even national network.

7. Can we exchange local currency for Rupiah to make non-local purchases?

This type of system would be possible but often results in weakening the capability of the system. It only works with convertible currencies. It's better to say that local should be used to replace national currency, allowing people to save their national currency for non-local purchases. That kind of system is easier to manage, at least in the first stage.

If we were to introduce a convertible currency in addition to a non-convertible community currency, we would have to find some way of discouraging people from converting their money unless they really wanted to, such as by charging 10% on exchange.

8. If I have no Rupiah, only local money, how do I get Rupiah money from local?

The only way would be to buy products with local money to sell to the outside market for Rupiah. Otherwise, we aren't producing money-making miracles with this system.

9. Can non-members of the system/credit union use local currency?

Yes anyone can choose to accept or not accept the local currency. However, only members would be able to issue currency to themselves as credit. Non-members, in the case of a convertible currency, would only be able to convert their Rupiah for community currency.

Community Asset Analysis

The participants in the meeting are engaged in the following Activities:

Handicrafts, including souvenirs, leather work for puppets; Textiles, including batik, woven mats, mattresses, towels and clothing; Tree cultivation including ironwood, teak, mahogany and bamboo; Wood production including furniture, window frames, doors and decorative carving; Clay roofing tile production was another business engaged in by the husbands of two of the female participants.

The participants estimated that they spend 20-50% of their monthly income on their children's education (transportation, food, compulsory uniforms), 30% on food they cannot produce themselves, 15% on social obligations, 15% on transportation and 15% on medicine.

We were deliberately brief and general in order to develop at first a general idea of the assets and needs in the community. As part of a pilot, the community's assets, both human and material, will be mapped in detail.

Conclusion

In our discussion with the members of these and other Credit Unions, along with the Village Head of each of these 6 villages, we learned about many issues, concerns and factors that will play a role in our design of an appropriate system for strengthening their community economy.

We learned that people are able to meet their basic needs and little more. From the photos, we can see they are a hard-working and diligent people. As a result of the Asian Economic Crisis, the money supply in these remote communities is not sufficient, and the value of the Rupiah has been fluctuating wildly, falling in value from 2800Rp/1 US dollar to 15,000Rp/1 US dollar at the height of the Crisis. Although improving, the Rupiah still fluctuates by as much as 1500Rp either way or by 15 cents US on the dollar. As farmers, they are unable to store their storeable produce such as rice, cassava and corn, and are at the mercy of the buyer. They do not have enough water, the wells and lakes are bone dry in the months of July, August and September, and the cost of water shipment is very high, even with emergency subsidy assistance from the Sultan's regional government.

Culturally, although relations between community members are peaceful, and Church and Mosque are often located side by side in each village, there is growing resentment by the have-nots in the community who want to see more reciprocation by the wealthier members of the community. Most agree that the cost of 'socialization' events is unbearable for many and a cause of cultural friction between families. Through government family planning programs, the population is stable or decreasing, with 1-2 children per female.

Economically, most individuals operate home-based businesses with no employees. In Imogiri Village, there are regular businesses, but in Panggang Village there are no businesses other than the Credit Union and home-based activity. The citizens of these villages have difficulty accessing means of production, credit, training and building facilities.

Environmentally, the area is clean and free of plastic garbage. Residents seem to be more aware of the need to centralize their garbage. However, garbage is burned, and there is very little composting activity. The use of chemicals is minimal, however there

is use of chemical fertilizer in some cases. Generally, fertilizer is animal or vegetable based.

Lastly, they would like a community currency that is potentially convertible, non-counterfeitable, and stable in value over the long term.