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**THIS THESIS IS SUBMITTED FOR THE DEGREE OF DOCTOR OF  
PHILOSOPHY**

**UNIVERSITY OF CANBERRA**

**MICROFINANCE AND POVERTY IN INDONESIA: AN  
ANALYSIS OF THE ROLE OF KUKESRA AND MKEJ**

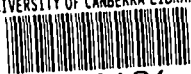
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## **Dedication**

I dedicate this work to my beloved wife and son who are my rock and my constant inspiration who supported me in my STRUGGLE

## ACKNOWLEDGMENT

First of all, I would like to thank my Lord and His Mother for the blessings bestowed upon me throughout the years of my study, without which my efforts would have been in vain. The challenges I faced during the years of my study would have taken my strength and efforts away had my courage and determination not been cemented by my faith in God, my Lord.

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## ABSTRACT

Following the success of the Grameen Bank in Bangladesh, Microfinance institutions (MFIs) which apply group-lending method through the medium of small credit have been regarded as a new and effective tools for poverty alleviation for the poor in many Less Developed Countries. This study analyses the role of two MFIs, namely KUKESRA, a government administered programme and Mitra *Karya* East Java (MKEJ) which is a privately managed institution in poverty alleviation in Indonesia. It examines to what extent these institutions have been successful in helping the poor, and improving the living standards of the recipients. Two alternative approaches, namely the institutionalist and the welfarist approaches, are used to examine the question of whether the poor benefited from the two programmes, followed by a comparison of the performances between the two.

Using data obtained from a sample survey of 393 respondents in the District of Malang in East Java, from December 1998 - June 1999, it was found that the differences in management, organisational structure, programme design, and the system of coordination, all resulted in differences in performance of the two MFI institutions studied.

It was found that both programmes increased the incomes of the recipients, but the impact of KUKESRA was much lower than that of MKEJ. However, KUKESRA had a greater positive effect on employment than MKEJ. Neither of the programmes resulted in a significant improvement in the consumption of basic needs of the recipients. Of the two approaches used in the evaluation of the programmes, a good performance in terms of outreach and sustainability under the institutional approach did not imply that the poor really benefited from the programme. It was found that the welfarist approach is much more appropriate in evaluating the effectiveness of MFIs in Indonesia.

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## GLOSSARY

Afdeelingbank	Bank Kabupaten [District bank] in Dutch Colony government.
AKSI	<i>Asuransi Keluarga Sejahtera Indonesia</i> (Indonesian Prosperous family's Insurance)
ASKBI	<i>Asuransi Keluarga Berencana Indonesia</i> (Indonesian Insurance for family planning).
AVB	"Algemene Volkscredietbank" the successor of <i>Centrale Kas</i> (see <i>Centrale Kas</i> below) in 1920
Badan Padi Sentra	Center for Rice Board
bank dagang desa	Village trade bank
bank tani	Farmers' bank
BAPPENAS	Badan Perencanaan Pembangunan Nasional (National Planning Board)
BARUGA	<i>Balai Rujukan Keluarga</i> (Forum of Family's Reference)
BCA	<i>Bank Central Asia</i> , one of the Indonesian private banks.
BEJ	<i>Bursa Efek Jakarta</i> (Jakarta Stock Exchange (JSX))
Besek	A kind of covered square basket of plaited bamboo
BI	<i>Bank Indonesia</i> (Indonesian Central Bank)
BIMAS	<i>Bimbingan Massal</i> , (Agricultural program to improve the productivity). This program also has some improvements such as <i>BIMAS Gotong-Royong</i> (Mutual Self-help), <i>BIMAS palawija</i> (including other crops such as maize, ground-nuts, sweet potato, cassava and soybeans), <i>BIMAS yang disempurnakan</i> (Completed BIMAS).
BKD	<i>Badan Kredit Desa</i> (Village Corporate Board including village bank and <i>lumbung</i> ).
BKK	<i>Bank Kredit Kecamatan</i> (Sub-District Credit Bank)

BKKBN	<i>Badan Koordinasi Keluarga Berencana Nasional</i> (Coordinating Board of National Family Planning)
BKKBN'S Welfare classification: KPS, KS I, KS II, KS III, and KS III+.	Keluarga Pra-Sejahtera, Keluarga Sejahtera I, Keluarga Sejahtera II, Keluarga Sejahtera III, and Keluarga Sejahtera III+ (Pre-welfare, Welfare I, Welfare II, Welfare III, and Welfare III-plus respectively).
BMS	<i>Balai Mitra Sejahtera</i> (Forum of prosperous partners)
BNI 1946	<i>Bank Negara Indonesia 1946</i> (the National Bank of Indonesia 1946)
Boedi Utomo	A political movement struggling for Indonesian independence from colonialists established in Surabaya
BRI Unit Desa	<i>Bank Rakyat Indonesia Unit Desa</i> (Village Units of Indonesia People's Bank)
Bangga Suka Desa	A movement to create a feeling of pride for living in rural village.
Centrale Kas	Central Funds, the institution that played a role as central bank in the Dutch colony government.
cultuur-stelsel	The system of forced cropping introduced by the Dutch colony government in 1830 that all farmers had to grow cash crops and less food. As a result, many in Java starved.
Demas	<i>Demonstrasi Massal</i> . The procedure introduced by the Bogor Agriculture Institute in order to improve agricultural production.
Gerakan Keluarga Sejahtera Sadar Menabung	Saving awareness for prosperous families
gotong royong	Community self help
Gerakan Pembangunan Keluarga Sejahtera	The prosperous family development movement
IBI	<i>Institut Bankir Indonesia</i> (Indonesian Banker Institute)
IDT	<i>Inpres Desa Tertinggal</i> (Presidential instruction for helping the poor villages)
INKESRA	<i>Investasi Keluarga Sejahtera</i> (Investment for welfare family)
INMAS	<i>Intensifikasi Massa</i> (Rice Intensification programme introduced in 1967).
Inpres	<i>Instruksi Presiden</i> (Presidential Instruction)



INSUS	<i>Intensifikasi Khusus</i> ('Special Rice intensification' programme and subsequently became the 'New Insus' or well-known as 'Supra-Insus' in 1982.)
JABOTABEK	Jakarta, Bogor, Tangerang and Bekasi
Kabupaten	District (administrative unit below province)
Cadrer	Trained or un-trained person who acts the mediator or the hand lengthening of BKKBN to always keep in touch with local people.
Kartu Anyoman Kesehatan	Health Protection Card
KB	<i>Keluarga Berencana</i> (Family Planning Program).
KCK	Kredit Candak Kulak (Credit extended to small middlemen)
Kecamatan	Sub-districts (administrative unit below district)
Keputusan Presiden or Keppres	Presidential decree
KFM	<i>Kebutuhan Fisik Minimum</i> (Minimum Physical Needs)
KIK	<i>Kredit Investasi Kecil</i> (Small business loans)
KKB	<i>Klinik Konsultasi Bisnis</i> (Clinic of business consultation).
KKU	<i>Kuliah Kerja usaha</i> (lecture on business practices)
KMKP	<i>Kredit Modal Kerja Permanen</i> (subsidised loan programme for small business)
KTP	<i>Kartu Tanda Penduduk</i> (residence Identification Card)
KURK	<i>Kredit Usaha Rakyat Kecil</i> (Productive Credit for poor People),
Lebaran	The day of celebration at the end of moslem fasting month
LKMD	<i>Lembaga Ketahanan Masyarakat Desa</i> (Village social activities group)
LPK	Lembaga Perkreditan Kecamatan (Sub-District Credit Institution)
LPN	<i>Lumbung "Pitih Nagari"</i> (A local traditional Microfinance intitution in Sumatera)
LPPI	<i>Lembaga Pengembangan Perbankan Indonesia</i> (Indonesian Institute for Banking Development)

Lumbung	Rice credit institution for helping people in crisis time such as in planting season or in <i>paceklik</i> (food shortage). It has some variants such as <i>Lumbung Cooperatives</i> , <i>Lumbung Desa</i> (Village <i>Lumbung</i> ), <i>Lumbung Miskin</i> ( <i>Lumbung</i> for the poor).
MFIs	Microfinance institutions
MKEJ	Mitra Karya East Java (MKEJ or Mitra Karya)
naib	Mosque official or deputy of local religious.
new-start	Those who started their businesses in the period after receiving the loan from KUKESRA or MKEJ
NGO	Non Governmental Organisation
Oendang-Oendang	See UU
paceklik	Period of food shortage
Pakjan 1990	January Policy Package 1990
Pamong	Village administrator
Pancasila	The <i>five-principle</i> foundation
Parindra	<i>Partai Indonesia Raya</i> (Great Indonesia Party)
Pelaju	<i>Petik, Olah, Jual, dan Untung</i> (picking, processing, selling, and getting profit),
Pemaju	<i>Proses, Kemas, Jual, dan untung</i> (processing, packaging, selling, and getting profit)
Pembantu Bupati	Vicar of the head of the district
Pikul	A traditional measure where a <i>pikul</i> equals 62.5 kg.
PKK	<i>Pendidikan Kesejahteraan Keluarga</i> (program at village level to educate women on various aspects of family welfare).
PKS-PPK	Pembangunan Keluarga Sejahtera dalam rangka Peningkatan Penanggulangan Kemiskinan (Development of prosperous families for poverty alleviation).
POKJANIS	Kelompok Kerja Teknis (team work)
Posyandu	<i>Pos Pelayanan Terpadu</i> (all integrated health services post)
PP	Peraturan Pemerintah (governmental regulations)

PPLKB, PLKB, PKB	PPLKB ( <i>Pengawas Petugas Lapangan Keluarga Berencana</i> or the supervisor of the PLKB) and PLKB ( <i>Petugas lapangan Keluarga Berencana</i> or Facilitator of family planning Program) BKKBN attributes differently: PLKB and PKB ( <i>Petugas Keluarga Berencana</i> ) for the staff having no degree and for the staff holding a degree, respectively. Since PLKB and PKB do the same function, we ignore the distinction and use PLKB for both.
priyayi	Belonging to upper class in Javanese society
PROKESOS	<i>Program Kesejahteraan Sosial</i> (The Program for Social Welfare)
PROKESRA	<i>Program Keluarga Sejahtera</i> (The Program for Welfare Household)
Puskesmas	<i>Pusat Kesehatan Masyarakat</i> (local governmental clinics)
rembukan	<i>Rembukan or Rembuk</i> is the meeting in group of members in MKEJ program.
REPELITA	Rencana Pembangunan Lima Tahun (Five-Year-Development Plan)
SAKERNAS	National Survey of Labour Force
SDI	Yaron's Subsidy Dependence Index
slametan	A type of social obligations
SPL	Subjective Poverty Line
SSBM	<i>Swasembada Bahan Makanan</i> (the program of 'Self-sufficiency of food')
SUSENAS	National Survey of Social and Economic Indicators
TAKESRA Blokir	Compulsory saving in TAKESRA Scheme
TAKESRA/ KUKESRA	<i>Tabungan Keluarga Sejahtera/ Kredit Usaha Keluarga Sejahtera</i> (Saving/Credit Schemes for Welfare Family). Sometimes it is called TAKUKESRA.
tanggung renteng	Joint liability
tape	Fermented cassava
UBN	Unsatisfied Basic Needs a measure for the lack of basic needs consumption.

UKKPS	<i>Usaha Peningkatan Pendapatan Keluarga Sejahtera</i> (The program for increasing the incomes for welfare families)
UPPKA	<i>Usaha Peningkatan Pendapatan Keluarga Akseptor</i> (The program for increasing the family planning acceptors' incomes)
UU	Undang-Undang (Ordonancies)
UUD 1945	The Indonesian constitution
Volksbank or Volkscredietbank	Popular credit bank in Dutch Colony government.
Volkscredietwezen	Popular credit system in Dutch Colony government
YDSM	<i>Yayasan Dana Sejahtera Mandiri</i> (Foundation that manages the fund of Takesra and Kukesra),
Zakat	Moslem religious donation for the poor particularly in the month of Ramadhan