MICRO-FINANCE
INDONESIA

HISTORY, PRESENT SITUATION AND PROBLEMS OF THE VILLAGE CREDIT SYSTEM

(1897 -1932)

by

Thomas Anthonij Fruin

Translation of an original article in Dutch, published in 1933

Translated and edited by:

Klaas Kuiper

1999

CONTENTS

PREFACE AND ACKNOWLEDGEMENTS

1. Preface

Why translate an article of 1933?
Mainly for three reasons:

- to make a historic document available to a wider micro-finance and social banking audience;
- to show that micro-finance and social (welfare) banking activities are not something of the recent past;
- to provide lessons from the past that may be of relevance today.

At the end of the nineteenth century and the first part of this century thousands of officials were active in micro-finance activities in Indonesia, which was at that time under Dutch colonial rule. These activities fell within a new "welfare policy", which started around the turn of the century. They were started and run by both the colonial administration as well as Indonesian officials and individuals, although with different objectives. (1)

It resulted in an institutionalized system with apex organizations (The *Volkscredietwezen* Service (Popular Credit System Service) and the Central Fund (*Centrale Kas*)), to support, stimulate, control and supervise the various credit suppliers: popular credit banks, village banks and village rice banks (*lumbungs*).
The Central Fund also acted as a "central bank" for the popular credit banks; the latter acted as lenders to and deposit takers of the village credit institutions and village council treasuries. The Central Fund and the Service merged in 1920.

In 1934 the popular credit banks and the Central Fund merged into what was called the *Algemeene Volkscredietbank ("AVB")* (General Popular Credit Bank) with Thomas A. Fruin as its first president, which bank is the predecessor of today's Bank Rakyat Indonesia (BRI).
Fruin had launched the idea for such a bank already in 1926 and published an official proposal in 1931 in the monthly popular credit system magazine. Fruin's vision was to have all micro-finance/social banks and the merged Central Fund/ Popular Credit Service combined in one "social bank", leaving the cooperative banks into private hands. The village banks, however, never became part of the AVB-bank, although they were supervised and controlled by it, a system that still existed in the 1960's when BRI supervised the village banks that had survived.

In 1994 the Development Cooperation Information Department of the Netherlands' Ministry of Foreign Affairs published an English translation of Fruin's "provisional manual for the credit business of the General Poplar Credit Bank" (*AVB-bank*) of 1935. (2)
This publication also contains an overview of the history of the popular credit system (*Volkscredietwezen*) in Indonesia during the period 1895-1935 by Schmit. (1)

Popular credit banks were usually located in small towns at district or sub-district level. The popular banks had the status of "philanthropic associations", were supposed to nurture the cooperative movement, and provided larger and more complicated (agricultural) loans than the village credit institutions. The first popular bank was started in 1895 and their number had increased to over 90 by 1930.

The village credit institutions (village rice bank and the village bank) were the most decentralized credit institutions, owned and managed by the village.

The number of village banks increased from 300 in 1906 to 5,582 in 1932.
The number of village rice banks increased from 250 in 1897 to 12,424 in 1912, and decreased thereafter to 5,582 in 1932.

The village banks mainly supplied short-term and small loans to households and micro-entrepreneurs, either for productive or consumption purposes, with weekly repayments. They were typical micro-finance institutions.

In 1929 the 5,986 village banks made 3.3 million loans with a value of 45 million guilders (See translation notes as to the value of a guilder). Add to that the rice loans from the 5,682 village rice banks amounting to 1 million quintals (1 quintal = 100 kilogram) of rice to 1.1 million borrowers in the same year and compare that to the number of villages and inhabitants.
According to the population census of 1930 there were 13,266 villages with 24,914,007 inhabitants in Java and Madura.(3)
Even when taking into account that some borrowers would borrow more than once a year, it becomes clear from these figures that this institutionalized system had a large coverage in the rural areas, reaching a large percentage of villages and rural households.

The operational costs of the village banks in the period 1925-1930 were 3.8% of the amount disbursed and those of the rice banks in 1930 were 11 kilogram plus 52 cents per quintal of rice lent.
The fact that these village institutions were profitable (e.g. 4.2 % of the amount disbursed in 1921) and that they also kept large deposits in the popular credit banks (10 million guilders in 1931 in Java and Madura alone) makes it even more interesting.

But it had taken a long time to get that far and much had to be learnt by trial and error. Fortunately, there was a monthly magazine, started in 1913, that allowed those involved in the popular and village credit institutions to express their opinions, to report on experiments, to make suggestions etc. Thousands of pages with their opinions, objectives and discussions make, even today, very interesting reading.

In spite of various attempts to make the popular and village credit system a cooperative one, there were only 110 cooperative financial institutions in 1928. Arguments about high interest rates and other "objectionable" practices of the village credit institutions also featured and seem to be hardly different from what is heard today, almost a century later (and usually too by "outsiders")!

This article by Fruin of 1933 gives a good overview of the history and problems of the village credit system, an overview with lessons learned being implemented continuously and new problems arising all the time. Interestingly, some of these lessons learned were also taken into account when I was assisting BRI in 1969 in designing the first "village units" pilot project in Yogyakarta province. (4)

Fruin (1890-1964) was in a good position to write the article. He had joined the "*Volkscredietwezen*" Service in 1920 at the request of Boeke, who was the (cooperative) "Advisor" of that service. From 1921 to 1922 he deputized for Boeke and in 1923 he became deputy-advisor.

In 1924 he became assistant-director of the Central Fund and later that year its director, a job he held till he became the first president of the "*Algemeene Volkscredietbank" ("AVB")* in 1934, a bank which he had been promoting for a number of years.

Translating the article has been an onerous task. "A lawyer by profession, Fruin sought accuracy of expression in complicated phraseology and convoluted sentences" I wrote in the preface to the translation of his manual in 1994. (2)
The same applies to this article, the difference being that the manual was translated by a professional translator and this article by myself.

This is an unabridged version of the original article and some statements in the article may today look a bit old-fashioned or colonial. But that's part of history too. The reader should be aware that the article was written when Indonesia was still a Dutch colony. The term "government" thus refers to the colonial administration, while Fruin was a colonial civil servant of the social-democratic school.

The original text contains a number of references to Dutch publications or to footnotes. To simplify reading the English translation of these publications has been given in the text and the original Dutch title of the (not translated) publication in the annexed references. In addition, there are some translation notes from the editor in the annex. Fruin's text contains many data, some of which have been summarized in tables following this preface.

2. Acknowledgements

I would like to thank Johan Leestemaker and Emmanuel Ochola for their valuable comments on the first draft, Leo Schmit for his assistance in tracing the annexes and providing some background data and the research section of the Ministry of Foreign Affairs (DCO/OZ) for their assistance in having this article printed.

Doorn, June 1999

Klaas Kuiper
Editor

3.TABLES

sources: Schmit (1), Fruin (2) and this publication

Table 1: Number of *lumbungs*, village banks and popular banks in Java-Madura (1897-1932)

year	*lumbungs*	village banks	popular banks	
1897	250			(Purwokerto district only)
1906	7,424	300	33	
1910	12,542			
1911			70	
1912	12,424	1,336	75	
1914	12,206			
1916		2,133		
1919			84	
1920		1,987		
1921	9,033			
1925	6,453	4,307	89	
1926	6,182			
1928	6,071	5,569	90	
1929		5,666		
1930		5,986		
1931	5,682	6,144	91	
1932	5,582			

Table 2: *Nagari* banks in Sumatra, (1911-1929)

year	*nagari* banks (number)	total amount disbursed (NLG)	amount disbursed per bank (NLG)	clients per bank (number)	average loan (NLG)	average per client per year (NLG)
1911					max. 5	
1912					max. 10	
1913					max. 100	
1915	523	379,000	2,085	145	14	20
1922	182	2,816,000	8,115	250	21	32

Note: for value of the NLG see the translation notes at the end.

Table 3: Performance data of all *lumbungs* (rice banks) in Java-Madura, (1897-1932)

year	*lumbungs* (number)	loans (number)	disbursed (quintal)	average loan (quintal)	rice and cash capital (quintal) plus	(NLG)
1897	250					
1906	7,424					
1910	12,542					
1912	12,424					
1914	12,206					
1921	9,033	1,344,000	1,023,000	0.76		
1925	6,453					
1926	6,182					
1928	6,071					
1931	5,682					
1932	5,582	1,100,000	1,062,000	0.98	1,321,000	9,439,000

Note: one quintal is 100 kilogram

Table 4: Average data per *lumbung* in Java-Madura, (1912-1932)

year	rice capital (quintal)	disbursed (quintal)	loans (number)	arrears (quintal)	cost per quintal disbursed (kilogram) plus	(NLG)
1912	144					
1913				8.0		
1921		119	156	27.0	12.47	0.60
1930			195		11.00	0.52
1931			195	3.3		
1932	235	190	195		11.00	0.58

Table 5: Performance data of all village banks in Java-Madura, (1906-1932)

year	(a) village banks (number)	(b) loans (number)	(c) total disbursed (NLG)	(d) total outstanding (NLG)	c/d (ratio)	interest % of c (%)	profit % of c (%)	total capital (NLG)
1906	300							
1912	1,336							
1915					5.8			
1916	2,133							
1917	2,107			1,250,000				
1919					5.8			
1920	1,987	530,529	8,113,000	1,356,000	6.0			
1921	2,261			1,911,000		8.5	4.2	
1924						8.7	5.0	
1925	4,307			5,461,000		8.3		
1926					6.0	7.6		
1928	5,569					6.4	2.8	
1929	5,666	3,254,000	44,964,000	8,049,000	5.6			
1930	5,986				5.3	6.7	3.0	
1931	6,144			5,382,000			2.0	14,341,000
1932	6,246			3,424,000				
1933	6,264			3,122,000				

Table 6: Average data per village bank in Java-Madura, (1917-1932)

year	(a) clients (number)	(b) disbursed (NLG)	(c) outstanding (NLG)	arrears (% of c)	average loan (NLG)	average per client per year (NLG)	operational costs (% of b)
1917	296						
1918	297						
1919	253						
1920	267	4,083	682	1.6	15		
1921	192					24	
1922					10		
1925							3.8
1929		7,936	1,421	0.5	14	41	
1930							3.8
1931						30	
1932	177		557	7.5	8		

Note: drop in number of clients between 1920 and 1921 possibly due to a change in the reporting system according to Fruin: up to 1920 number of registered members, after 1920 actual borrowers.

4. REFERENCES

1. L. Schmit: "A history of the "*Volkscredietwezen*" (Popular Credit System) in Indonesia (1895-1935)", in : see (2).

2. Th. A. Fruin: "Provisional manual for the credit business of the General Popular Credit Bank", edited by Klaas Kuiper, (translation from Dutch), published by: Ministry of Foreign Affairs (DVL/OS),
P.O. Box 20061, 2500 EB The Hague, Netherlands, 1994.

3. "Preliminary results of the census of 1930 in the Netherlands East-Indies, part I, Java and Madura, Table VIII: distribution of villages and their inhabitants as to size of villages", *Landsdrukkerij* (Government press), 1931, (data exclude Klaten and the major towns).

4. K. Kuiper and others : "Report to the Government of Indonesia on the Fertilizer Programme in Yogyakarta Province", Freedom from Hunger Campaign, FAO 89, Chapter VI (Agricultural Credit), FAO, Rome ,1973.

HISTORY, PRESENT SITUATION AND PROBLEMS OF THE VILLAGE CREDIT SYSTEM

(1897 -1932)

by

Thomas Anthonij Fruin

Translation of an original article in Dutch, published in 1933

Translated and edited by

Klaas Kuiper

1999

Original title:
"*Geschiedenis, huidige toestand en problemen van het dorpscredietwezen*"
by Th. A. Fruin
Published in : "*Volkscredietwezen*", vol. 22 (1933), pp. 445-504.

CONTENTS

HISTORY, PRESENT SITUATION AND PROBLEMS OF THE VILLAGE CREDIT SYSTEM

By: Thomas Anthonij Fruin

Chapter I. History and present situation

1. The cooperative plans of De Wolff van Westerrode.

   The village credit institutions were originally intended as popular credit institutions on a cooperative basis, the cooperative character being further developed as development progressed. De Wolff van Westerrode, the father of the Popular Credit System (*Volkscredietwezen*), was a great admirer of the Raiffeisen system and hoped that with the village credit institutions Java could also be brought to prosperity.

   "If the making available of agricultural credit in Java is desired by its people, is to be in line with its needs and be educative, then this must come from small village banks, managed by the most intellectual and respected persons in the villages, completely acquainted with the needs and the creditworthiness of its clients, able to appraise the urgency of each requested loan and to control the correct use of the funds and products issued. Only from such local banks, tied together by a central popular credit bank, which also acts as a fund for savings, current accounts and deposits and for regulating the lending of the village banks (that is transferring funds to banks with shortages from banks with surplus funds), does the reporter see any benefit for agricultural credit in the future. As long as the population finds itself in its present situation of insouciance and remains under tutelage, the role of the popular credit bank shall be prominent, but when the situation improves the relationship with the village banks can become closer until in the end when they will have merged together". (1)

2. The failure of De Wolff's *lumbung* (= rice bank) system.

   De Wolff's intention to set up village credit institutions came only partly to expression in his first attempt. The 250 *lumbungs* he started in Purwokerto, their rice capital being formed by the *dakat* (= *dzakat* or *zakat*, a religious contribution, ed.) were all administered and managed by village committees consisting of the village head, the village clerk, the village priest and two persons being "solid and distinguished farmers" appointed by the sub-district *naib* (= deputy, ed.) The general supervision was restricted to the Local Government Administration and the daily supervision by the earlier-mentioned *naib*. This supervision was insufficient.

   The "non-civil servant" members of the committee appeared no more than non-entities, the real leadership was in the hands of the village head.
   The committee members benefited themselves at the cost of the institution and in many cases belonged to the group of village moneylenders.

On page 241 of his earlier-mentioned overview De Wolff gives his opinion on this as follows:
"Because only with a few exceptions are there honorable persons in a village who want to work with dedication for the uplifting of their people and for the public interest, any reform of the local society is made extremely difficult."

"Mayor Raiffeisen also had to face stupidity, conservatism and a multitude of powerful and monopolistic loan sharks and in addition with a population brought up with an egoistic ideology since birth. However, he as well as his successors, succeeded in establishing cooperative village institutions, because in each municipality there were at least some persons with sufficient education and unsuspected honesty, who, inspired by the splendor of the intended reform, were willing to take upon them the task of leading and managing it, and who felt sufficiently awarded only by the success of their efforts".

"A local Raiffeisen or Wollenborg, however, is still to be born in the Javanese village, and as long as he does not appear, there must be continuous and thorough supervision, accompanied by strict action against mismanagement and it should be attempted to complement the lack of dedication and the desire to serve the public cause".

3. The *lumbung* system in Cheribon.

The Cheribon system, set up by Resident J. W. Mesman in the period 1901 to 1904, served as an example for the further expansion of the village credit system. Although Mesman believed that the *lumbungs* had the largest potential for improving economic conditions of the population, he also believed that that future was still far away.

He was of the opinion "that the existence and further development of the village rice banks does require strict regulation of the management of the enterprise and a systematic organized supervision".
Besides, it was shown in the regional reports of 1903 and 1904 that an effective and continuous supervision was inevitable to ensure the development of the institution and to protect it from "dishonest practices, favoritism by committee members and harassment by the village heads".

The *lumbungs* set up by Mesman in 1901 started with a rice capital raised by holders of rice fields and with a management consisting of the village head, the village clerk and a representative of the stakeholders, not belonging to the village administration, as an "obstructionist". A special inspectorate was not immediately present and supervision was confined to government officials.

The obstructionist soon worked out to be no good at all and was dispensed with; the village administration and the management of the *lumbung* actually merged. Two years after the start the bookkeeping was transferred from the management to professional staff, the so-called representatives. In 1904 they also appointed *mantris* (= supervisors, ed.) for the supervision of the *lumbungs* in Cheribon.

4. The "Instructions" of 1906.

The foundation for setting up *lumbungs* are the "Instructions for the formation, organization, management and supervision of the village credit institutions" (2), issued by H. Carpentier Alting, Inspector of the Internal Agricultural Credit System, and which used the Cheribon example.

Pages 17 to 21 read as follows: "The way a *lumbung* is being established is normally the result of discussions held between Administration officials, upon which the village head, in consultation with the villagers, requests the latter to set up a building by way of funds, materials and labor and stimulates them to deposit or donate rice".

"Is the resulting institution now the personal property of those who assisted in its set up? No; the building maintains its purpose, even if some of the founders have moved or died; the rice stock also remains undivided and the interest earned remains within the *lumbung*".

"There is no distribution of profits and no exercise of property rights by the individual villagers, although the village council has the right to discontinue the institution and to distribute the rice stock, as long as the competent authority does not limit or annul this right. The management is done by the village administration or by others under the instructions of the village head and is under the supervision of government staff".

"Often the *lumbung* is constructed on a piece of land owned by the village council. Sometimes, the working capital is fully or partly financed from funds belonging to the council".

"The *lumbung* or the village credit institution can be regarded as an institution established by and for the community and therefore belonging to it. The fact that not all villagers have donated rice does not alter this statement. The original contribution, if donated, was a present to the community; the contribution in the form of a deposit did not give the holder any ownership rights in the *lumbung*; in fact, the relation to the institution is not different from anyone holding a deposit in a bank ".

"Another reason which makes it necessary to regard the institution as being owned by the village council is that the public authorities are authorized and bound to concern themselves with an institution owned by the village council, just as they may interfere in other affairs at village level such as the village police and village public works; however, government cannot be involved with the management of a private institution which is owned by individuals".

"However, one should not lose sight of the fact that the aim should be to limit Government intervention in the village credit institution and to educate the village council so that it can do without such intervention.
Only those that are completely unaware of village affairs and the character of the locals can propose that there is no need for an effective central supervision and general direction".

"It is obvious that the villagers cannot organize a credit institution; also that those called to management positions, i.e. the most eminent in the village, require supervision so as to prevent them from neglecting or damaging the institution, as is clear to those that have witnessed the implementation and compliance of village regulations".

"The future of the *lumbungs* should not be put at risk by untimely theories so as to remain popular, and they should be managed and regulated carefully.
No coercion is to be used in setting up a *lumbung*; however, once established by the village, it has a need for and a right to a judicious tutelage by the authorities".

"In addition to the higher level institutions supported or established by the Government, the village institution has to be the basis of a credit system organized by the central government authority and not an institution belonging to special persons. (It is obvious that special institutions such as *lumbungs* owned by the churches etc. are also possible)".

"The village institution is a cooperative in so far as it is based upon the cooperation of villagers as such, provided that this cooperation is the result of a decision taken by the council to set up such an institution.
Automatically the authority of the council, i.e. the village head supported by the members of the council, is an important factor because the village head is accountable for his actions to the Government.
Nevertheless, the management can be delegated to part of the village administration, even to other village officials, just as the care of maintaining village irrigation works is delegated to a specific person".

"The institution is a village institution; it is the village administration that acts as prosecuting party against debtors in arrears and that is responsible for the stocks and funds deposited in the *lumbung*".

"The institution does not need to be a separate legal entity; the legal personality of the village administration is sufficient".

"The future will tell whether the village credit institution or a more centralized financial institution is best for the people; possibly this will depend on local circumstances, just as was shown in Europe, where the village bank proved to be more suitable for small farmers, whereas an institution run as a business was better suited to the gentleman-farmer".

"No matter what happens, next or in the midst of opportunities that will be implemented, the village institution has a right of existence".
"A central institution that brings a substantial capital to the people has the danger that the natural means which the people possess to buy the necessary, i.e. its labor, leasing of land to farmers etc., will be neglected, and is dangerous because private capital is displaced and made redundant".

"The *lumbung* or village institution provides the safety that its work will not be accompanied by shocks, that the money is not made cheaper immediately but only over a longer period of time and not faster or slower than the local person requires, because the *lumbung* does not dispose of more than the people can save".

"The abuses under which the people suffer are largely due to their own limited development and imperfection; improvement of the social conditions cannot be achieved by only fighting existing wrongs but by removing their causes.
Cheap money is no cure-all, on the contrary, it is a disaster when not accompanied by ensuring that it is used sparingly and profitably in the knowledge that it must be repaid from future earnings".

"For that reason the village institution is useful because it does justice to the existing though latent capabilities to give the people a more humane existence by combining forces and by its own efforts and some sacrifice, and to spread income from agriculture and other business more evenly over the year.
It is the duty of the civil servants to take the initiative and to ensure that developments remain on the right track."

5. Supervision of the village credit institutions by the Local Government Administration, assisted by special officials.

Because *lumbungs* and village banks were institutions of the local councils this logically meant that management and supervision remained in the hands of government officials and were not exercised by the popular credit banks as De Wolff van Westerrode had proposed.

The supervision of the *lumbungs* (the village banks were initially not important) was done by government officials assisted by *mantris* (supervisors, ed.).
In addition, starting in 1905, a corps of regional officials (deputy-controllers) were made available by the Government.

6. The rise and decline of the *lumbung* system.

The Popular Credit System was very fashionable during the first decade of this century. Government officials who wanted to leave something of value to their region established popular credit institutions. In 1911 the island of Java counted already 70 regional popular banks, in 1910 already 12,542 *lumbungs*, which number remained almost the same until 1914 (12,206).

The expansion of the *lumbungs* went faster than the available staff for administration and control could cope with. The result was that a number of institutions went astray and had to be closed down.

In addition, many *lumbungs* were started in areas where there was little demand for rice credit or where this type of credit could not succeed due to many crop failures. That resulted in small amounts of lending and high arrears resulting in closing down.

After 1915 one sees the number of *lumbungs* declining by several hundreds per year, which process accelerated in the period of austerity of 1922 and the following years. In 1921 there were only 9,033 *lumbungs*, in 1926 only 6,182; in the following years the decrease was slower and in 1931 there were still 5,682 institutions.

Middendorp's assumption that the *lumbungs* are "shut down artificially fast", is not correct. When a *lumbung* works well but cannot cover its costs due to its limited size, then the parties concerned are given the choice between increasing the interest rate or closing down.

7. Development of the *lumbungs* in a cooperative way proved impossible.

   The annual report up to June 1913 mentions the following: "In theory the village *lumbung* was supposed to be the result of cooperation and consultation of villagers and the regulations that governed those institutions should have been designed by the parties concerned. In actual practice it became totally different: all organic regulations had to be developed by trial and error by civil servants. Over time they had to regulate: the maximum stock, the sale of surplus rice, the deposit of the proceeds of the rice sales in the popular banks, a business fund, an insurance fund, salaries and the way a bookkeeper should be appointed, the maximum spillage, the interest rate to be charged and much more". Besides, the many irregularities led to an increasingly stricter control.

8. The rise of the village banks as suppliers of small and short-term credits.

   The village banks developed with more difficulty and slower than the *lumbungs*. In the "Instructions for the formation, organization, management and supervision of the village credit institutions", issued in 1906 (reprinted with minor changes in 1908) only one out of 24 paragraphs with standard regulations and some bookkeeping pro-forma's is dedicated to the village bank, which was also supposed to be a savings bank. In those days they envisioned that the *lumbung*, when there was a need, would also provide cash credit.

   It is curious that the standard regulation indicates that the repayment of loans should be in one or in monthly or longer periods, which shows that the village banks were intended for farmers in the first place, which is obvious and in line with De Wolff's thoughts mentioned in paragraph1.

   Nevertheless, it appears from the earliest available data that the 328 village banks in Java in 1907 used 4 to 6 weekly or fortnightly repayment periods.

A loan of 5,= guilders for example was repaid in 4 equal installments of 1,35 guilder, of which 0,10 was interest and 0,30 a compulsory deposit. The loan sizes were no more than 5 guilders or at the most 10 guilders. (See the translation notes at the end of this article for the approximate value of a guilder, ed.).

In some regions, according to the annual report, repayment was preferred in monthly installments, because not everywhere was it possible to earn money every week. Repayment as a lump sum already had proven to be less advisable.

The village bank became mainly useful for "the many female hawkers and small traders and the cottage industry". They existed mainly in major towns and other centers. In addition, 376 *lumbungs* (almost all in the districts of Cheribon and Pekalongan) issued cash credit. A subsequent annual report, ending September 1910, mentions that the small banks seemed less suitable for the major towns, because of the loose village cohesion; in addition, that they had succeeded in designing an administrative system that could be managed by a local person with some education.

After 1909/1910 the number of small banks increased faster; too fast an expansion was prevented because the people did not provide it with the starting capital. They had to borrow that from the popular banks.

Soon thereafter the compulsory deposits became more important, which, in addition to loans from the *lumbungs*, but even more so the profits made, formed the major part of their working capital.

9. Failed attempts to develop the village banks in Java and Madura in a cooperative direction.

The Advisor for the Popular Credit System, H. Carpenter Alting, issued a document with the purpose of "maintaining the legal character of the village bank as a council institution and of introducing cooperative principles, especially the sifting of persons that may and that may not borrow from the village bank (selection of borrowers by the committee). The aim of this is to stimulate the understanding of responsibility for the affairs of the village bank by the interested parties".

Connected to this was the recommendation "to implement the idea of converting the permanent deposits into shares. That measure forms an incentive to maintain interest in the village bank and to let it grow".(3)

Striving for a more cooperative development was put to the fore again when Dr J. H. Boeke, working with the Popular Credit System since 1914, is being transferred to headquarters, where in 1917 he issues excellent new "Instructions for the design, management and supervision of the *lumbungs*" (4) and also for the village banks. In the "Instructions" for the village banks it is attempted to give them as much as possible the character of an association.

It is stated there that: "It merits recommendation that every borrower be shareholder as well. The introduction of shares and the payment of a certain amount of interest thereon is by no means in conflict with the community character of the bank. The cooperation and interest of those who are involved will be stimulated. These measures soften the distinct character of the village bank as a government institution and they will assist in developing the principle of self-help".

And furthermore: "By limiting the affairs of the bank to the *admitted* village members and by requiring a financial participation from them, the bank will also have a cooperative character".

In addition, the "Instructions" recommend annual meetings of admitted borrowers, in which the members-shareholders will elect the management and will receive information about the business.

In the annual report ending July 1919 it is already admitted that "the method to stimulate borrowers to show an active interest in their institution by financial participation and interest income has to be regarded as having failed and that any feeling of co-responsibility for the operations is missing among the members, that every village bank will remain dependent upon the bank managers and a controlling and leading government".

That doesn't alter the fact that the report adds that the cooperative character of the village banks will be gradually developed.

In his reorganization memorandum of January 1921 Boeke, now Advisor, states that: "the cooperative principles will be introduced into the village credit institutions as much as possible", and he states on page 28 of the minutes of the Cooperative Committee of September 1921 that the Popular Credit System "is saturated with cooperative principles". A few pages later he states however: "One has tried to give these village banks a cooperative character as far as possible. One has introduced borrower registers and made admission dependent on the approval of the bank management; one has tried to increase the interest of the borrowers by compelling them to deposit funds in the institution, by giving them the choice to elect management with the village head as chairman and by prescribing an annual general meeting of members. But these efforts have virtually failed. The borrowers are usually fond of their small bank, they wouldn't like to miss it, but it is outside them, it is a gift of the Government, taken care of by the Government, received with gratitude and lost in resignation. The borrowers don't feel themselves responsible for it and will never voluntarily deposit funds with it."

Later, in 1929, Boeke also frankly admits that the Popular Credit System is not "saturated" with cooperative principles: "The suggestion made at the birth of the Popular Credit System that the credit system had a cooperative foundation was so strong, that, in spite of all deceptions, this idea remained for many years. Only gradually sober reality expelled those shrouds. Expelled they are and nobody who knows the organization and workings of the Popular Credit System shall dare to state that the cooperative principle has anything to do with it".

Popular credit banks as well as *lumbungs* and village credit banks are according to him "institutions, no matter how well they work, that have nothing cooperative and cannot be made to be cooperative without harming their character and possibly the foundation of their good and successful operations." (5)

10. Failure of the cooperative system on Sumatra's west coast.

In 1911 they started there with the set up of small *nagari* banks. The banks were established by the local councils that also appointed two managers (*hakims*) from among the heads and levied a head-tax of 1 guilder from every community member. Initially no more than 5 guilders were issued per borrower, to be repaid in 10 installments of 10 days, soon thereafter 14 days. That maximum was soon increased, first to 10 guilders, in 1913 to 100 guilders and sometimes more.

Agricultural loans with a lump sum repayment were also issued. In addition to the *nagari* banks, there were some popular credit banks with member-shareholders, often the same persons as the members of the *nagari* banks. The popular banks were managed by government officials and the heads of the community. These popular banks issued larger loans. However, they did not have their own agents and relied on the recommendations of the managers of the village banks.

This system was reconstructed in a cooperative way. In a meeting with all *nagari* banks present it was decided to establish a central bank using the Raiffeisen bank in Utrecht (town in the Netherlands, ed.) as an example: the Popular Bank Minagkabau, which should be the financial apex as well as the leader and supervisor of the village banks. The village banks became its members-shareholders plus (temporarily) individuals that had been shareholders of the popular banks, which had become branch offices of the Popular Bank Minangkabau.

The *nagari* banks should be the primary lenders as much as possible; the Popular Bank Minangkabau should in the meantime make the large loans.
The *nagari* banks kept their legal status as an institution of the local councils but that was only done because an appropriate legal cooperative status was lacking at the time. An inspector of the Central Raiffeisen Bank in Utrecht was invited to be the director of the Popular Bank Minangkabau, J. H. van Dranen, at present deputy-director of the Central Fund.

On January 1st, 1915 the Popular Bank Minangkabau started its operations.
In 1915 523 *nagari* banks had become a member. In the annual report of 1916 there are already complaints about arrears and fraud at the *nagari* banks. It was deemed necessary to establish a maximum working capital and a list of accepted borrowers for each small bank. In 1917 the collapse starts; more and more small banks have to be closed, all attempts to collect arrears amicably failed. A year later the link between the popular bank and the *nagari* banks is severed and the supervision of the latter is transferred to the heads of local government and the Popular Credit System Service.

"Experience has shown that official help and control are indispensable to preserve well-run small banks". It was decided to shut down 228 small banks. The popular bank stopped being dependent on the recommendations of the *hakims*, which system had shown to result in fraudulent practices and arrears.

The following years bring a rapid revival of the reorganized popular bank, similar to the popular banks in Java. In addition, shut-downs in the village credit system continued and Mr. Van Dranen, deputy-inspector of the Popular Credit System since 1920, succeeded to reorganize the *nagari* banks with the help of the Local Government Administration.

In 1922 the restoration started; the small banks are restricted in their freedom, the borrowers are disciplined as in Java; a cooperative character no longer exists; the 182 operating small banks issued in 1922 on average 2,085 guilders to 145 borrowers, equal to 20 guilders per borrower per year or 14 guilders per loan.
In 1929 the number of *nagari* banks was 347, lending on average 8,115 guilders to 250 borrowers, equal to 32 guilders per borrower per year or 21 guilders per loan. Almost all loans are repaid in 10 to 11 installments of 14 days; agricultural loans with lump sum repayment were given by only 26 banks in 1929 and by 3 in 1931, monthly loans by 2 banks in 1929 and 1 in 1931.

The experiments with loans for the growing of tobacco and potatoes, which started in 1926, were stopped because the borrowed funds were used for consumptive purposes such as clothing and taxes and this type of loans resulted repeatedly in fraud.

One difference with the small banks in Java has remained, namely, that it is not the village head that leads the small bank but two managers appointed by the *nagari*. This is possible because at Sumatra's west coast the village head does not have the same dominant position as in Java and is more of a primus (not necessarily the first according to local customary law) inter pares (of the heads) and has a *nagari* council next to him.

11. The development of the inspection service.

The control of the village credit institutions was originally implemented by *mantris* (supervisors) under direct supervision of government officials. Since 1905 the government officials were assisted by a corps of regional officials (deputy controllers). General management came from the Advisor for the Popular Credit System and his staff. In 1912 the "Popular Credit System Service" is established, which organization was changed (vide Government Gazette no. 121 of 1919) so as improve the level and relevance of the European controllers and to increase the powers of the Advisor.

The *mantris* were subordinate to the controllers and these to the Advisor.
Under the general supervision of the Local Government officials the Service became the controller and actual leader of the village credit system.

Meanwhile the powers of the Service vis-a-vis the credit institutions were in the air and a clear demarcation between the powers of the inspection service and Local Government was missing. This was rectified by the issue of regional regulations. (23)

12. Tightening up the inspection and stopping the expansion of the number of village banks in the period 1916-1920

The many fraudulent actions at the village banks resulted in the management (of the Popular Credit System Service, ed.) insisting that attention should first be directed at the preservation and improvement of the existing village banks and that the need for restraint in setting up village banks should be pointed out to government officials. Supervision was intensified significantly.
Boeke's "Instructions", as mentioned in paragraph 9, give excellent rules for administration, management and supervision.

The description of the register of admitted borrowers, which was intended to develop the cooperative character of the village bank by introducing a ballotage system, and which failed as such, was an excellent tool to avoid fictitious loans. That register, in which the fingerprints of all who want to borrow in future are recorded and in which new borrowers may be added only a few times a year in the presence of the supervisor, combined with the so-called "receipt book", makes it impossible for the managers of the village bank to feather their nest by fake loans: the fingerprints of the borrower in the receipt book must match those in the register of members.

Middendorp's wrath is directed against this register, which was introduced in the *lumbungs* in later years too. Why can't the village committee register the members itself in stead of waiting for the supervisor, he asks. The answer is: because the register has to protect the bank against dishonesty of this same committee. However, it is unnecessarily awkward when there are only one or two opportunities a year to accept new members. This has been changed in the new edition of the "Instructions" in 1932. The "Instructions" resulted in the introduction of standard bookkeeping and gave detailed instructions for management and supervision.

It is an irony that these "Instructions" with their excellent rules for administration, management and supervision and the resulting dependence and restrictions of borrowers and bank managers, are the same that wanted to strengthen the cooperative character of the institutions, as shown in paragraph 9. One cannot on the one hand expect that government officials curb freedom and on the other hand expect that borrowers regard the institutions as their own.

Meanwhile the intensification of supervision was not arbitrary but dictated by the facts. It worked out very well. As a result of the new measures the number of small banks in Java and Madura decreased from 2,133 to 1,987 between 1916 and 1920, the arrears from 89,000 guilders to 22,000 guilders and from 7.5 % to 1.6% of the amount outstanding.

The amount of money disbursed annually by a bank, however, increased in those years from 3,368 guilders to 4,083 guilders, the amount outstanding per bank from 558 to 682 guilders.

13. Compulsory saving.

The system of compulsory deposits and shares requires special attention. As mentioned already in paragraph 9 this system was intended to stimulate an active interest in the bank by those with financial ties to it, but has failed as such.
What's more, there was no need for the formation of operating capital because the banks could later borrow from the popular credit banks, many times also from the *lumbungs* or village treasury and, moreover, very quickly formed capital out of profits.

As a result the shares and compulsory deposits decreased between 1916 and 1920 from 600,000 to 322,000 guilders and disappeared completely later on.
The existing system in the eastern part of Java consisting of a system of compulsory savings with an annual pay-out of the total amount in the *puasa* month (Islamic fasting period, ed.) remained, a system which was very popular there and which was also introduced with the consent of the population in some regencies in Central Java in 1926. In 1931 more than one million guilders of such savings were refunded to the people in the *puasa* month. Voluntary savings found acceptance in only a few institutions.

14. The introduction of the principle of self-financing

The Government originally paid the bill for the services of the popular Credit System. On the other hand, the Central Fund, established in 1912, was based on the principle of self-financing, i.e. this institution paid the Government the costs of its civil servants and charged on her part the popular banks for the supervision carried out by it. This same principle was also introduced for the village credit institutions under the pressure of the need to cut spending mentioned in paragraph 11. (21)

As a result of this circular the regulations enacted by the Heads of the Regional Administration stipulated that the local councils could not engage in the credit business without the supervision of the Popular Credit System Service and with payment of costs. Important savings in the supervisory service as well as of other costs of the village credit institutions accompanied this. As a result, the expansion of the village banking system (see paragraph 15) and the introduction of the cost reimbursement obligation did not result in an increase in the interest rate nor did it block a decrease of the interest rate.

15. The strengthening the *lumbung* business and its present situation.

In paragraph 6 it was shown how the establishment of too many *lumbungs*, also in areas where these institutions were less suitable, had led since 1915 in a decrease of the number of institutions by the hundreds per year, leaving only 5,682 *lumbungs* in 1931 out of 12,542 in 1910. In later years the reduction of the number is much slower.

The vigorous *lumbungs* remained, which is reflected in the lending of the rice capital. The rice capital per l*umbung*, which on average was 144 quintals in 1914, increased to 235 quintals in 1932 (1 quintal = 100 kg, ed.).
The lending per *lumbung* increased from an average of 119 quintals or 0.76 quintals per borrower in 1921 to 190 quintals or 0.98 quintals respectively in 1932.
The 5,582 *lumbungs* of 1932 lent 1,062,000 quintals, more than the 1,023,000 quintals lent by the 9,033 *lumbungs* in 1921.
The number of borrowers assisted per *lumbung* was 156 in 1921 and their total 1,344,000. In the period 1929-1932 1,100,000 borrowers were assisted, with an average of 195 per *lumbung*.

As with the village banks, the supervision of the *lumbungs* was intensified.
Various measures that had been found useful at the village banks, such as the register of admitted borrowers, were later also introduced in the *lumbungs*.
This resulted in a sharp decrease in arrears: from a total of 93,000 quintals and an average per *lumbung* of 8 quintals in 1913 via 250,000 quintals total and an average of 27 quintals in the period 1918-1921, to 18,500 quintals in total and 3.3 quintals per *lumbung* in 1931.

The operational expenses, which amounted in 1921 to 12.47 kilogram plus 60 cents (per quintal lent, ed.), decreased gradually to 11 kilogram plus 52 cents (of which 16 cents was for supervision) in 1930, after a short period of increase as a result of the introduction of the obligation to refund the costs of supervision.
Since then a small increase of the monetary amount has occurred (up to 58 cents in 1932) as a result of the increase in the pension and social benefit contributions for the non-civil servant staff of the popular credit system.

The way in which the business of the *lumbungs* is being conducted has had no major changes over the years. Usually only once a year they lend in the months of soil preparation of the rice fields and in the *patjeklik* period (period of money and food shortage, ed.), whereas repayments occur after the rice harvest. In regions with more than one rice harvest per year they may lend sometimes two times.

The borrowed rice may be used for planting (as in Jember), elsewhere for consumption or is sold and used for rice cultivation or living expenditures. Repayment is done from the harvested produce or from *bawon* (salary paid in rice when working for someone else, ed.); they may also purchase the necessary rice for repayment of interest and principal.

During the formation of the *lumbungs* the interest charged was usually 50% of the principal and independent of the term of the loan.
In 1930 less than 1 % of the *lumbungs* charged this rate, 2.5% charged 40 and 45%, 33% charged an interest of 30 and 35% and 64 out of 100 *lumbungs* charged an interest of no more than 25%. Since then these rates have changed in an unfavorable direction as a result of the fall of the rice price, as a result of which some *lumbungs* incur a loss. The fact is that they have to pay their financial operating costs from sales of the rice received as interest payment less a part that is required to pay for spillage and committee salaries.

At the end of the financial year 1931/32 the *lumbungs* had a net rice capital of 1,312,000 quintals and 9,439,000 guilders (average 1,691 guilders) in funds, inventories and stores, of which 8,355,000 guilders were deposited with the popular credit banks. They therefore work not only with their own rice capital but also possess reserves.
These are for the construction of new stores in future or in case of disasters, such as floods, complete crop failures, fire etc., to renew the lost rice capital.

It is absolutely incorrect, as Middendorp assumes, that the large reserves have been created to provide the popular credit banks with cheap operating capital.
The officials of the popular credit system, who previously supervised and actually managed the *lumbungs*, saw themselves more as representatives of the interests of the village credit institutions and more as competitors rather than helpers of the popular credit banks.

The real cause of the large reserves is the wish to provide for the future of the institutions, to strive for a decrease in interest rates and to make future interest rate increases unnecessary.

The interest obtained on the deposits was equal to 27 cents per quintal lent in 1930/31. This compares with operational costs, including depreciation, of 59 cents. The deposit interest is therefore not to be sniffed at.

It is possible to cut down on the reserves by letting the *lumbungs* jointly carry the rather small risk of loss of the rice capital. The separate reserves of the different institutions can then be done away with. As a result several million guilders can then be transferred to the village treasuries. However, for a number of institutions such a decrease in reserve deposits might lead to an increase in their interest rate.

16. The development of the village bank system in Java and Madura after 1920 and its present situation.

After 1920 the number of village banks increased by several hundreds per year under supervision of the inspectorate (of the Popular Credit System ed.) and without harm to the well-being of their affairs; in 1931 there were 6,144 of them.
The amount disbursed increased from 8,113,000 guilders in total and 4,083 per bank in 1920 to 44,964,000 guilders total and 7,936 guilders per bank in 1929.

The amount outstanding increased from 1,356,000 to 8,049,000 guilders; the arrears decreased further from 1.6 to 0.5 % of the amount outstanding.

During the following years the economic downturn made a substantial reduction of the business necessary. The average loan decreased from 14 guilders in 1929 to 8 guilders in 1932, the number of loans from 3,254,000 in 1929 to 2,692,978 in 1932, the total amount lent to 20,508,000 guilders and the amount outstanding to 3,425,000 guilders. The arrears position, however, increased from 40,000 guilders or 0.5% in 1929 to 257,000 guilders or 7.5% in 1932.

The adjustment to the new standard of living by the people seems, as far as can be seen, now to have been completed. A further major decrease in lending or increase in arrears is not to be expected; on the contrary, a slow recovery can be looked forward to.

The operational costs in the period 1925-1930 were about 3.8% of the amount disbursed, that is less than in the period 1920/21 and in spite of the fact that these institutions have been repaying the costs for external supervision since 1922 (in 1930 0.8% of the amount lent).

In 1926 a circular letter was issued by the management of the Service (6) addressed to the controlling officers, indicating how the interest rate had to be lowered. The result of that was that the interest rate, which was 8.5% in 1921, 8.7% in 1924 and 8.3% of the amount lent in 1925, decreased in the following years to 7.6% in 1926 and 6.4% in 1928. After that, and as a result of the economic changes, it increased somewhat to 6.7% in 1930 and 6.8% in 1932.

The surplus of profits (income, ed.) over losses (expenditures, ed.) was 4.2% of the amount disbursed in 1921, 5% in 1924, 2.8% in 1928, 3% in 1930 and 2% in 1931.

In 1931 the village banks in Java and Madura had a net capital of 14,341,000 guilders of which 9,989,000 were deposited with the popular credit banks.
The vast decrease in the outstanding loan amount (in 1932 only 45% of that in 1928) has made that the already satisfactory relationship between capital and amount outstanding has now become disproportionate. The capital at present is more than four times the amount outstanding. Substantial transfers to the village treasuries will be effected in 1934, possibly up to 6 or 7 million guilders.

Some more variation has occurred in the methods of loan making by the village banks. After the consolidation in the period 1916-1920 it has been tried to change the usual pattern of repayment in 6 to 12 five-day or weekly periods, first, by allowing 5 to 10 monthly or five-week (=*lapan*) periods, enabling the disbursement of larger loans (30 guilders or more) and further by having larger loan amounts repaid in 20 to 22 weekly terms.

In the circular letter of 1926, referred to earlier (6), it was advised to offer more opportunities for monthly or *lapan* (=5 weeks) repayments, leaving the choice to the borrowers as long as they can prove that proper repayments will be made with the chosen method.

This circular also remained very cautious in respect of repayment in one installment after harvest. Village banks were only allowed this type of loans when they were intended to increase the farmer's productivity and it was warmly recommended not to increase agricultural lending before having consulted the (deputy) agricultural officer.

Starting in 1923, the annual reports categorize the outstanding loan amounts and disbursed amounts in weekly (5 or 14 days), monthly (or *lapan*) and other periods (i.e. harvest). Since 1926 they also provide a specification of the number of village banks according to loan terms and interest rates. These show that the percentage of loans with repayments on a monthly (or *lapan*) basis, which was only 16% in 1923, had increased to 26% in 1926 and to 37% in 1930. The corresponding percentages for harvest loans (lump sum repayment, ed.) were 1.8, 3.2 and 1.9 % respectively. (7)

In 1930 5,130 out of 5,986 village banks in Java and Madura had repayment in 6 to 11 periods of 5,7 or 10 days, 942 banks in 20 to22 weekly periods, 2,082 in 5 to12 periods of 28 to 35 days, 297 in one period of 5 to 12 months, 13 banks in Ponogoro had repayment in 2 to 4 periods of 3 to 4 months and 28 banks in Tegal and Pati in 10 to 11 periods of 14 days.

The short-term loans always remained paramount as is shown in the ratio between the annual amount disbursed compared to the total amount outstanding, this ratio being 5.5 in 1915, 5.8 in 1919, 6 in 1926 and 5.3 in 1930.

Important is the increase in the average loan amount. Unfortunately, figures are only available as of 1922 when the average was 10 guilders. Very gradually it went up during the following years up to 14 guilders in 1929, after which it decreased to 8 guilders under the influence of the inspectorate, as a result of the economic changes and the substantial deflation of the currency.

For the years prior to 1922 the amount could possibly be deduced from the known average annual figure per borrower, assuming that the number of times the same borrower borrows per year (in the period 1923-1931 about 2.8 times) has remained the same over time, an assumption that may not be too suggestive in view of the above noted constancy in the relationship between money disbursed and the amount outstanding.
Probably, however, the figures for the number of borrowers per bank and the corresponding average amount borrowed per year per borrower are not reliable for the period prior to 1922.
It is at least inexplicable why the number of borrowers per bank, being in the period 1917-1920 296, 297, 253 and 267 respectively, should suddenly have decreased to 192 in 1921 and remain at that level in the following years (it varies between 189 and 209 in the period between 1921 and 1929).

This sudden decrease in the number of borrowers is accompanied by a sudden increase in the average loan amount per borrower per year from 15 guilders in 1920 to 24 guilders in 1924, whereas the total amount disbursed per bank in 1921 (as well as in 1920) increased by 700 guilders.

It is not impossible, but unfortunately not verifiable, that prior to 1921 a number of regional reports have confused the number of borrowers, loans and persons with the number of (admitted, ed.) borrowers listed in the registers of members.

The average annual amount borrowed increased proportionally with the average amount borrowed, from 24 guilders in 1921 to 41 guilders in 1929, and deceased thereafter to 30 guilders in 1931.
After 1929 the number of borrowers per village bank also decreased to 177 in 1931.

That village banks would do more harm than good, as some people claim, is not substantiated by the research carried out. (8)
Given the static character of the village community, the credit supplied also has a static character, as Dr Cramer states correctly in his book about the Popular Credit System, that is, it does not serve the increase in production but only keeps it up.

Those who are entrepreneurial know to use the credit to increase their business. Such cases occur (see numbers 43, 62, 63 and 65 of (8)).
Usually, however, in addition to obtaining or increasing working capital, people borrow from the village bank because they (or their family) have increased expenses for tax payments, clothing, house and debt repayment and did not succeed to put aside the necessary funds for this in time.
The loan from the village bank then facilitates a cash purchase (which is cheaper than to buy on credit) without the borrower having to put himself into debt somewhere else under inconvenient conditions.

The research does show, however, that the village banks should guard against too large a loan amount. One can often not escape the impression that borrowers could have benefited sufficiently from smaller amounts.
The strong repayment discipline and the short terms, however, work as a brake on imprudent lending: he who can not manage the necessary repayments is permanently or temporarily excluded from future borrowing and will at least see a lowering of his loan size in future. He who can only repay with great difficulty will borrow less the next time so as not to fall in arrears.
It does not occur often, as is assumed, that in order to repay one borrows from neighbors and family, which is not bad, or brings goods to the pawnshop, which is more objectionable.

Still, there seem to be many borrowers who have difficulty in collecting the weekly repayment amount, thereby decreasing their working capital or going a day without food. It is also shown that as a result of the duty to repay, several borrowers are forced to work more than they would otherwise do.

17. History of supervision and control since 1922.

In line with Boeke's reorganization proposal of January, 1921 (9), the inspectorate of the Popular Credit System Service was officially merged with the Central Fund after Government's decree of March 11,1927 (Gazette no. 77) but had in effect been operative since mid-1924. Since that time the director of the Central Fund is the manager of one service that controls both the village credit institutions as well as the popular credit banks.

Gradually, the former existing dividing line between the two organizations was abolished so that in Java and Madura usually one and the same officer in a particular area controls both types of credit institutions.

In 1926 the control was tightened up and systematized by the introduction of a "Guideline for the control by the local official", in which it is also prescribed that this official, as well as the supervisor (*mantri*), should visit during their regular inspections some borrowers and buyers of the rice sold by the *lumbungs* and interview them on the loan, repayment, arrears and price paid. This contributes substantially in discouraging fraud.

In addition, new editions of the "Instructions" were issued in 1932 for both the *lumbungs* and the village banks. These describe and prescribe, especially for the village banks, several additional methods of control since the first edition.

Important is the application register in which prior to the lending the professional village bank clerk, independent from the village bank committee, enters the loan requests of that day in sequence of their size (the small ones first) and in which the committee registers its decision.
In case the cash money is inadequate for all requests, all requests are either decreased pro rata or, and that is the recommendation in the "Instructions", one or more large loans have to wait till the following business day.

With the help of this register one controls whether the committee takes care of additional business capital, which meets one of the objections of Middendorp.

The provisions about the formation of share capital and the annual meeting of the village banks have disappeared from the new "Instructions".

The creation of provinces and regency councils in Java and Madura transferred the power to establish rules for the village administration outside the town areas from the heads of the regional administration to the regency councils, with the exception of the decreed regulations for the council credit institutions.

The regional regulations in West-Java were accordingly substituted by decree no. 650 in 1925, which later came also into force in Central and East Java. This decree was in turn substituted by decree no. 357 in 1929.

These decrees are restricted to rules that protect the control and the financial administration and therefore deal mainly with the powers of the Central Fund.

The authority to enact further rules for the local council credit institutions, when needed, belongs to the Regency councils according to article 5, part 2 of the Local Council Ordinance, and when using this authority they should use a model designed by the Central Fund (see annex 1).
That model shows that the (village bank, ed.) management committee needs the approval of the local officer of the Central Fund for all important decisions, with the right of appeal to the Council of Delegates. In practice, the initiative for these decisions usually starts with the controlling officer.

The committee is only free from preventive supervision in the disbursement and collection of the individual loans, with the connotation that it is restrained by approved maximum loan amounts, interest rates and repayment conditions.

18. The financial relationship between the village credit institutions and the village.

Although *lumbung* and village bank are institutions of the village without a separate legal status, they have from the start been organized as separate enterprises with their own resources. The village treasury and the capital of the village credit institution have always been carefully kept separate.

Confusion was created in 1904 when the "Hints to be taken care of in the formation of village rice banks"(10), and issued to government officers, recommended that in discussions with the community one should point out the advantage of a *lumbung* "as a council institution and a creator of a council fund for various purposes".

According to these "Hints" a village fund could be created from some of the *lumbung* income, gifts and deposits, as well as "income from village properties such as income from the sale of village land" etc. as well as the sale of surplus rice. The fund could be used for the provision of credit in cash or in the form of materials, while part could possibly be used "for other council needs on condition that this should not keep interest rates high or increase them".

As a result, government officials initially created the impression among the people that the profits of these institutions would benefit the general needs of the village.

These "Hints" have been substituted by the earlier mentioned "Instructions" of 1906 in which the spending of *lumbung* or village bank funds for purposes outside their business is not mentioned, while the attached model regulation prescribes that funds not immediately needed should be deposited with a bank and the use of the surplus balance can only be used "for another village purpose" in case of liquidation.

"As a result of the opinion of one of the heads of the regional administration to use the profits of the village *lumbungs* and village banks for measures planned for the people, the Government informed that head that "the local council credit institutions may not be regarded as a means to provide for general council needs but must expressly be used to provide those with credit needs with the absolutely necessary amounts at the lowest possible interest rate according to circumstances". Thus said the director of Local Government in circular no. 939 dated March 30, 1910 to the heads of the regional government in Java and Madura.

The principle expressed in this letter has remained in force and was toned down in further circulars issued by the same authority (22) in that it was not regarded as contradictory that *lumbungs* or village banks with reserves larger than needed for their business and who had their interest rates low enough to safeguard their business, could deposit their surplus funds in the village treasury.

Articles 9 and 10 of decree no. 357 published in the Gazette of 1929 state about this matter :

Article 9

(1) A local council credit institution is being managed as a separate business, separate of the other assets of the local council; it may not serve as a means to satisfy council needs. The business may only have as its objective the lending for the absolutely essential needs of individuals or combinations of residents in need of credit, under the necessary safeguards and with an interest rate no higher than needed to ensure the covering of its costs and the formation of the business capital and reserve.

(2) Levies related to the membership of or the lending by the institution not benefiting the local council credit institution are not permitted.

Article 10

(1) Once every three years local council credit institutions that do not charge more interest to their borrowers than is strictly necessary to guarantee cover for its operational costs will transfer the funds not needed for the village credit business to the local council in accordance with rules to be set by Government decree.

(3) The assessment of the funds to be transferred according to this article will be effected by the council of delegates of the regency after consultation of the respective village councils and with agreement of the local officer of the Central Fund, and when no agreement is reached, by the Governor after consultation with the Advisor for the Popular Credit Service and Co-operatives.

The Government decree mentioned in article 10 is the decree of May 29, 1931 in Gazette no. 182. It reads as follows:

Article 1

(1) *Lumbungs* as referred to in the first part of article 10 of the above-mentioned decree will once every three years transfer that part of their net capital that normally appears on the balance sheet expressed in money, excluding the book value of store and inventory, which is more than the combined amount of:

a. the costs of a new construction of the *lumbung* and renewal of the inventory;
b. the value of at least one time and no more than two times the rice business capital, according to the average local rice price of the last three years.

(2) If during the past two years the interest on the reserve has been used for a necessary supplementation of the business income, then the amount mentioned in the first paragraph will be increased with as much as is needed to supplement the business capital by means of interest, unless the respective local council has taken a measure which allows the supplementation of income from the village treasury.

Article 2

Banks, as defined in the first part of article 10 of the above mentioned decree will once every three years transfer that part of their net capital which is more than:

a. the cost of constructing a new office, if needed, and for renewal of the inventory;
b. one and a half times the highest amount of loans outstanding during the past two years;

with the understanding that, as far as possible, a net capital remains of at least 1,000 guilders and that the transfer only takes place in case the largest amount of loans outstanding during the past two years was no more than 25% higher than during the two preceding years.

Article 3

The net capital that belonged to discontinued and liquidated *lumbungs* and banks will be transferred to the treasuries of the local councils with the understanding that when liquidating *lumbungs*:

a. a bank of the same council, will receive, if possible, an amount needed to raise the net capital of that institution being equal to the sum of the amounts mentioned under a and b of article 2;

b. in case there is no council bank, an amount of at most 1,000 guilders will be reserved for a maximum period of two years after liquidation, to be used as business capital for a bank possibly to be established, unless the Governor after consultation with the Advisor of The Popular Credit System and Co-operatives authorizes to reserve a larger amount.

As a result of this Government decree the *lumbungs* transferred 844,823 guilders and the village banks 616,946 guilders to the village treasuries in 1931. The figures for 1932 are not yet known.

It is planned to propose to cancel article 1(1)b from the Government decree and instead form a joint reserve for all *lumbungs* against the loss of rice capital.
As a result of this, and the decrease in the amount outstanding of the village banks (see paragraph 16), an amount of possibly 10 million guilders will be transferred by the *lumbungs* and village banks to the village treasuries in 1934.

19. Village credit institutions and the Popular Credit Bank.

Paragraph 1 showed that De Wolff van Westerrode had imagined that the village credit institutions would become the major credit suppliers to the people, connected by the popular credit banks as apexes. It was thereby assumed that the village banks would get a cooperative character and "would be managed by the most intellectual and respected persons in the villages, completely acquainted with the needs and the creditworthiness of its clients, able to appraise the urgency of each requested loan and to control the correct use of the funds and products issued". Reality has proved to be completely different.

For that reason the "Instructions" of 1906 already left unanswered the question whether the village credit institution or a more centralized financial institution would be the best.

The history of the village banks has shown that these institutions are only suitable for credit according to fixed models. That is obvious, because the village bank committees, no matter how well familiar with "the needs and the creditworthiness of its clients", have no understanding of the (Western) requirements that should be set for an adequate management of a banking business.

By "*frapper toujours*" (always knocking, ed.) one has succeeded slowly to impart into the managers that the appraisal of the acceptable loan size is in the first instance dependent on the possibilities of the borrowers to repay from their income and not from the value of their securities.

But the committees are not in a position to render account which credit needs should be really provided for and at what times repayment can and should be done. Without fixed schedules the credit business of the village banks would end up in chaos.

These schedules, with all kinds of other earlier mentioned restrictions, are also needed to protect the banks against embezzlement by its managers, in the first place the village heads.

A good understanding of the dangers that are threatening and the related impossibility for the village banks to grow outside narrow boundaries is given in the article by Margono Djojohadikoesoemo: "The future of the village credit system in Java and Madura". (11)

The danger of debt renewal, fictitious loans and other irregularities is also the reason why one can generally not entrust the village banks with the provision of agricultural credit.
Only when the structure of the local agriculture is not complicated, without a complicated crop rotation, can village banks provide small agricultural loans with repayment after harvest without great danger and, just as the *lumbungs*, lend in the same months and some specific other months, with repayment always in the same months, and there being some months between repayment and a next loan.

It has also been shown that the loans made by the village banks should not be large; when repayments are in 10 to 12 weeks the amount should be no more than 5 to 10 guilders, with longer repayment periods at most 10 to 25 guilders.

The village banks therefore render the provision of credit by the popular credit banks only partly superfluous. The average loan size in Java and Madura was in 1928/29 only 14 guilders against 65 guilders for the popular credit banks; in 1932 these figures were 8 and 43 guilders respectively.

The fear of earlier years of the popular banks for heavy competition from the village banks has been shown to be unfounded. Many of those in need of credit also prefer the popular credit banks for smaller loans because they do not want the village head to be involved in their financial matters and because the interest rate of the popular credit banks is lower; others cannot call upon the village bank because of a poor relationship with the village head.

In the first years of the expansion of the village bank system after 1920 the inspectors of the popular credit banks had often urged to leave the small loans, e.g. those below 25 guilders, completely to the village banks. These considerations have led Dr Boeke to give the word that "the decision which credit institution is to be preferred should be left to the choice of the individual". Therefore, "the popular banks may not oppose the growth of the village banks but should promote it". Not "however by withdrawal from the area of the village bank". (12) These principles are still being applied. A real cooperation between both types of institutions, however, never resulted.

It took management (of the Central Fund ed.) some effort to prevail upon the popular credit banks to take the right attitude towards the village credit institutions. Initially they charged the same interest rate as to individual borrowers (often 18% per annum!).

The annual report of 1922 is thankful that only 4 banks charge an interest rate higher than 12%; the majority asked 9 to 12%, which rate is the maximum indicated in the Government circular of 11 October 1922. (13)
The criterion of a maximum of 6% per year, set by management in 1926, has generally been accepted for several years.

Thanks to the same Government circular the interest paid by the popular credit banks on current deposits and cash of the village credit institutions was increased from 2 to 3-4% per year, which is an interest rate midway between the normal interest rate for annual deposits and that for current accounts.
The need to economize during the past period has led to several popular banks lowering this interest rate to 2% again, contrary to the advice of the Central Fund.

The popular banks have never been of paramount importance as lenders to the village banks because most village banks could obtain their starting capital from a *lumbung* or village treasury, occasionally from a sister institution, and they quickly built up their own capital.
In the period 1926-1929 the village banks in Java and Madura had borrowed 500,000 to 600,000 guilders from the popular credit banks; after 1930 this amount has decreased.

On the other hand, the deposited reserves of *lumbungs* and village banks, being 20 million guilders in 1930 in Java and Madura , in addition to those of the village treasuries, have become a more important part of the working capital of the popular credit banks. Together with the 16 million guilders of the village treasuries and the 15 million guilders net capital of the popular credit banks themselves, these are more than sufficient means for all the needs of the decreasing credit business of the latter institutions in Java and Madura. They are no longer in need of deposits from the general public.

It is mandatory for the village credit institutions to deposit their reserves and surpluses in the popular credit banks according to government decree no. 357 (Gazette 1929); the latter are obliged to receive these funds according to their regulations.

Especially for the village banks it is very convenient to have a current account relationship with the popular credit banks. It is necessary too because it is not desirable that they keep large cash balances. The regular sessions of the popular bank everywhere in their area make it easy for the managers of the village banks to deposit or withdraw funds. No other bank can provide these services.

The same applies to the village treasuries; although they have no obligation to do so, they use the popular credit bank as a depository. The transfer of *lumbung* or village bank reserves to the village treasuries therefore does not lead to changes in the working capital of the popular credit banks.

Chapter II. The criticism on the village credit system

1. *Lumbungs* and village banks are not institutions of the people or the village.

   Middendorp's and other critics' major objection to the present organization of the village credit system is that it is too awkward, that the committees of the village credit institutions, let alone the borrowers and the villages, have close to nothing to say and that as a result the institutions lack vitality, do not educate and that thrift is not developed. In addition, there are complaints about high costs and interest rates, small loan sizes and restricted loan types.

   These complaints have to be recognized as being correct. *Lumbungs* and village banks are indeed only institutions of the local councils in name.
   In reality they form a credit system managed by the Central Fund, in which the village heads and their assistants play the role of managers of the local offices, managers, whose real authority generally does not go beyond the issuing of individual loans within tight boundaries and with the obligation to ensure that the borrowed sums are repaid within fixed time schedules.

   This frank admission does not mean that I think it possible to have a fundamental change of the system (some improvement, yes).

   From previous paragraphs it has become clear that the pursuit of the management for more flexibility and more freedom of the institutions was always frustrated by irregularities and fraud and lack of insight by the committees. Prior to the present stiff organization no cooperation was experienced from the parties concerned too; informers in the committees to counterbalance the village head were shown to be useless. Given the position of power of the village head nothing else was to be expected.

   The only possibility I see for a real, vivid, own credit system in the village is in a cooperative organization. But not a half-hearted cooperative, no mixture between a government (village) institution and a cooperative condemned to failure, but a private organization, without interference from the village administration, Local Government or Central Fund; only with an official relation to the cooperative service.

   The official credit system could possibly help financially and administratively, if needed, but should not be the manager or supervisor.

2. Is it desirable to abolish the system of local council credit institutions?

   For the time being, as will be shown in chapter III, one should not expect co-operative credit organizations on a large scale in the interior.

For the time being one remains dependent on the village credit institutions, institutions that are not really institutions of the village.

One could try to face the consequences from this unavoidable fact by also letting go this type of village institution, in other words, to have the small and short-term credits taken care of by the popular banks.

For monthly and harvest loans that is definitely possible and already happens in villages that do not have a village bank. It would be very difficult, however, for the popular credit bank to provide loans with weekly repayments. And this type of loans is of paramount importance in the village banks.

In my opinion, the reason for the existence of the village banks lies in the many very small loans with short repayment periods. The village banks can do very useful work on condition that they limit themselves to that.
In every not too far off village there are several people who, if not regularly then now and then, engage in some form of trade, who need some money for a craft or cottage industry or supplement the capital of their small shop.
The village bank provides productive credit to these people. A few guilders per loan is sufficient for these purposes.

The villager, who often is not in a position to put money aside in advance, has a regular need for cash for consumptive though useful and essential purposes such as the purchase of clothes, small home improvements, giving sacrificial ceremonies as prescribed by traditional and folk religion and the payment of taxes.

Of course, it would be better if he learned to save, e.g. through cooperative credit and savings banks, and pay his expenses as indicated here from his savings, but as long he is not doing that the village bank does useful work.
One should not think that without a village bank such expenditures would not be incurred or would only occur after the necessary cash had been saved; they would go to the private moneylender or to the often remote pawnshop.

The village bank has the advantage, not taking into account that the others are often more distant and that the interest rate of the private individual is higher, that it forces the borrower to repay the sum lent in ten or more five-day or weekly periods, which amounts are so small that they can usually be paid from the income of the debtor.

The village bank only becomes harmful when the repayments are too large with the result that the borrower has to sell or pawn his possessions or to put himself into debt elsewhere to satisfy the village bank. If the village bank can avoid this problem by small loan amounts, then the village bank is a useful and educative institution, which does not lead to an increase of indebtedness but has a tendency to restrict it.

The slogan therefore should not be to abolish the village banks but to keep its loans small, no more than 5 to 10 guilders, whereas often 2 to 3 guilders may already be sufficient.

Concerning the *lumbungs*, there too exists the same lack of freedom as in the village banks. They are useful and not harmful as long as the majority of borrowers does have its own harvested rice, or rice received as payment for work, and does not have to purchase rice to ensure repayment. Generally, the institutions are appreciated.

Except when they can be substituted by real cooperative banks, the only justification for the abolishment of the local council credit institutions is in case the respective community no longer appreciates them, which automatically manifests itself in a decrease of the number of borrowers.

Paragraphs 15 and 16 of chapter I showed that the number of borrowers per *lumbung* per year increased from 156 in 1921 to 195 in 1929/32, while the number at the village banks remained stable between 189 and 209 in the period 1921 to 1929 and decreased to 177 in 1931 as a result of the depression.
The village bank business has stabilized at present (second half 1932) and it can be expected that the number of borrowers will soon reach the old level.

3. Replacement of the village head as bank manager.

   A question also raised in the past is whether the village head should not be replaced as leader of the *lumbung* or village bank by someone not in a position of power. The combination village head/bank manager often gives cause to iniquities.
   The good working of a village bank depends on the one hand on the authority of the bank manager over the borrowers and on the other hand on the Local Government inspectorate over the bank manager. This dual guarantee would be lost when a non-official person should replace the village head as bank manager. In the official village credit system the village head can therefore hardly be missed.
   The new bank manager too would possess a position of power by having this position with special service and Government behind him and could misuse that. That the village head would be a counterbalance to that can hardly be expected.

4. The capital policy of the village credit institutions and their high costs and interest rates.

   A common complaint, not so much from the interested parties but from concerned outsiders, is that the interest rates of the village credit institutions are very high. Paragraphs 15 and 16 show that the Service has tried, not without success, to suppress costs and to increase the income from deposits so as to make it possible to lower the interest rate. Meanwhile it is shown that nevertheless the capital of the institutions increased annually and that in respect of the interest rate decrease the lowest possible has not yet been achieved.

One could think about new institutions that still have to form capital but their number is too small to explain the net capital increase of 3% per annum of the amount disbursed.
The reason why most officials did not go far enough in lowering the interest rate is due to their fear to see a village bank making losses. Management of the Service has recently said that when as a result of the present conditions village banks and *lumbungs* suffer losses one is not allowed to assist in an increase of the interest rate as long as the net capital is sufficient. In addition measures will be taken to prevent unnecessary profit.

In institutions that work already completely with their own capital and that possess some deposited reserve, the interest rate should be made equal to the costs as much as possible, with the result that in one year losses will be incurred and in another year profits will be made. Interest rates should have minor increases only when losses exceed profits over longer periods.

Middendorp's criticism on the capital policy of the village credit institutions, however, goes even further. He seems not only to think that only deposited reserves are unnecessary but even holds the opinion that the village banks, just as the popular credit banks, could mainly be working with borrowed funds.

For the existing banks, with their ample capital, that would only be a disadvantage. For new small banks, the capital policy as intended by Middendorp would mean that the starting rate for weekly loans would be set at 6% of the disbursed funds and not 8% as at present.

Because banks working with borrowed funds may of course not operate at a loss and have to form some own capital, the result is that there should be a safety margin between estimated percentage costs and the interest rate, which is expected to be about 1 to 2% of the money disbursed, i.e. for weekly loans will be 5 to 10% of the amount disbursed, from which the interest to be paid on the borrowed funds has to be deducted.

Capital formation will therefore still occur but slower than at present, which means that it will take longer before the interest rate can be lowered from 6 to 4% of the money lent, a phase that is reached after a few years with a starting rate of 8%.

The system of Middendorp seems more lucrative for the popular credit banks, that would receive some interest on their loans to village banks, than for the village banks, whose borrowers benefit more from a policy of quick capital formation.

As already stated earlier, one should better watch that the interest rate is made equal to costs when a village bank is free from debts and has a small deposited reserve e.g. 10% of the amount outstanding.

Above we always talked about interest. In actual fact, the village credit institutions that work with their own capital, and that is most and ultimately all of them, do not charge capital interest but only ask for a fee for costs made.
When expressing these costs in a percentage of the average amount outstanding then one gets a very high "interest rate" but one then gives an incorrect impression.

The costs of loans with 10 to 12 weekly repayment terms amounted recently to about 4% of the loan amount given. For a loan of 6 guilders an amount of 24 cents (so called interest) is being paid therefore. For that not only the loan is disbursed and booked four times (in the application register, receipt book, debtors register and loan letter of the borrower, as well as noted in a file), and a fingerprint given and verified with the one in the members register, but in addition they twice book on 10 to 12 different opening days the payment of interest, compulsory savings amount or principal repayment.

This work is done by a committee of three persons and a professional clerk.
Furthermore, there is a strict control by the supervisor who in turn is supervised by the inspector and all are under management of headquarters.
All this administration and control has been shown to be necessary and resulted from practical needs. Is 24 cents too much for that?

When one converts this to a percentage of the average amount the borrower received, then one comes to an interest rate of 30 to 40% per year. High as this may seem it pales into insignificance beside the advantages it provides to the small trader or craftsman when the borrowed funds are used there. Thanks to a borrowed sum of 6 guilders one can earn several ten cents pieces a day in a small shop, in consideration of which it is of no importance whether the interest is half a cent or a quarter cent a day.

In respect of consumer credit the matter is somewhat different.

Because this type of credit does not increase the productivity of the borrower, the interest will reduce his income. Unless, which happened regularly during better times, the pressure to raise the funds for repayment forces the borrower to look for work and therefore income, as a result of which the loan, however paradoxical it may sound, did increase his income in spite of the costs to be paid.

Even if his productivity did not increase, one could still ask what the borrower would have paid if he had not been able to use the village bank but had to turn to others. When that other source is the pawnshop then on top of the interest there are usually costs for the intermediary, sometimes transport costs too.
When judging the cost of the village bank credit one should not forget that the borrower has the bank in his own village and avoids transport costs. A loan from a moneylender is, as is known, far more expensive. When the villager has to buy on credit due to lack of cash then he also pays a little more than 4% over the cash price.

The interest of the *lumbung* is usually 25 to 30% of the amount borrowed. The loan has a duration of only half a year. When one borrows from village moneylenders then one pays 100%.

If one had to purchase the rice, in the expensive period, then one paid before the large price slump of the past years, more than one would have received for one's rice in the cheap period after harvest. This rice price difference between the loan disbursement and repayment periods must be taken into account when judging the *lumbung* interest rate.

It is difficult to substantially decrease the high costs of the village credit institutions. The lending business has shrunk substantially, the costs of the village banks have substantially increased, relatively speaking. It will be very difficult to return to the old cost level of 4% of the amount disbursed.

The committees have to receive a reasonable remuneration for their efforts and time lost. As a result of the decrease in the volume of lending of the village banks, and the lower rice price in respect of the *lumbungs*, this remuneration has decreased automatically in accordance with the currency deflation, the remuneration being a percentage of the loan repayments.

On the other hand, the salaries of the clerks were increased under the influence of the Central Fund. In the past these people received 15 to 25 guilders (per month, ed.); later that was changed to 20 to 40 guilders (with increases of 2.5 guilders every two years).

During the past years most of the regencies have paid a permitted 20% of their salaries into the Pension and Allowance Fund of the non-civil servant staff of the Popular Credit System. At present a clerk of a village credit institution is paid 24 to 48 guilders per month, less the same deductions as in Government.

The supervisors (*mantris*) are recruited from amongst the clerks and are paid according to scale A6 of the Government. This is in accordance with what is usually paid to persons with a basic education and a certain responsibility.

Savings are at present being sought by opening two village credit institutions per day, more than is already done at present, which makes it possible for a clerk to serve 10 to 12 institutions, and by decreasing the number of supervisors and inspectors by increasing their areas. These possibilities are, however, limited, because in the period of austerity, when the principle of self-financing was fully implemented, a lot was already done in that respect.

5. Too easy credit.

Middendorp correctly points out the danger of consumer credit, an important part of the popular credit banks and the village banks, when supplied lavishly and easily. The interest paid on consumer credit lowers the income; easy credit also invites more free living than own sources would permit resulting in increased indebtedness of the person concerned.

This danger is restricted within narrow boundaries by the system of many periodic repayments combined with a strictly maintained loan discipline.
Random borrowing is therefore excluded because the debtor knows very well that he must repay regularly and that he will get into problems and run into trouble when he is unable to do so. That makes him cautious. Except when the solution is found in debt renewal by new loans taken by helpers.
To combat this, the village credit institutions have the rule that they will not start with disbursements before a certain hour prior to which repayments must have been received.
Repayments after that hour are not accepted and late-comers will be regarded as being in arrears. This again is one of those condemned and awkward measures of the control service that proved to be much-needed in practice.

The closing of the register of admitted borrowers is a restraint too on debt renewal and excessive credit. In addition, special attention is paid to repayment by others than the respective debtor and to a large increase in the amount lent by a village bank. The main issue remains that care is taken that loans are not too large (see paragraph 2 of this chapter).

That's why the loan sizes of the village banks had to be decreased proportionately to the lower income of the villagers as a result of the change in the world economy so as to avoid over-indebtedness.
It is possible that this measure has been applied stupidly by some civil servants; of course it had to be discussed with the committees and they had to be convinced (as far as possible!) and were not allowed to get out of it easily.

Middendorp's remark that it was not needed when there were no arrears is incorrect. When one waits till arrears appear, it's already too late, then the over-crediting has already occurred. That is the mistake made by various popular credit bank administrators, who thought the arrears position of their bank gave no reasons for change and who initially gave insufficient attention to the recommendations of the Central Fund in 1930 to decrease loan sizes and to continue with that even further in 1931 because in 1932 they expected a further decrease in income and reserves. Later the banks have been paying for this.

The view expressed in this paragraph therefor must lead to the opposite conclusion of what some critics propose: no expansion of the activities of the village banks by giving larger loans for longer terms but to keep these small banks with their non-professional managers within strict limits as has been argued already in paragraph 2 of this chapter and at the end of paragraphs 16 and 19 of chapter I.

In addition, one should guard against over-crediting by multiple loans from popular credit bank and village bank to the same person or family.
More about this in the next paragraph.

6. Cooperation between village bank and popular credit bank.
   The significance of the General Popular Credit Bank for the village credit system.

Middendorp has given a number of examples of persons that were at the same time in debt with the village bank and the popular credit bank. Unfortunately, he does not mention whether they had to repay at the latter institution on monthly terms or in one term after the harvest. After all, that makes a great difference.

It is very well possible to repay one loan weekly and an agricultural loan after the harvest; during soil preparation one then takes again an agricultural loan; the village bank loans serve the interim requirements and are also repaid in the interim period.

It is different when a village bank loan runs parallel with a popular credit bank loan repayable in monthly installments, because both have to be repaid from income: wage, garden income, trade, craft or home industry.
Then the repayments of the village bank loan of 10 guilders (per month 4.5 x 1 guilder) are as important as a 10-month loan of 40 guilders of the popular credit bank. The danger of over-crediting is great here, especially when the village bank supplies also larger amounts up to e.g. 40 guilders.

One does not achieve much by demarcating a limit above which the village bank will and below which the popular credit bank will not lend. That loan limit can be missed altogether on the condition that there exists cooperation between both credit institutions in such a way that as a rule no term loan will be given by one institution to a person that has a similar loan with the other institution. Furthermore, one should be aware of debt renewal.

The data on lending, repayments and arrears of both institutions should be regularly compared on a village-by-village basis.
It would also be very useful if the clerks of the village banks would accept the applications destined for the popular credit banks.

For a full cooperation it would be best when village bank clerks and supervisors (*mantris*) would be part of the staff of the popular credit bank and be under its management, as is the case in the Yogyakarta area.

My objections to an expansion of this Yogyakarta system have already been mentioned in my memorandum of October 1931. (14)
They are, that it is difficult to entrust the management of the village credit system in its present form to the administrators of the popular credit banks, that they or their deputies in their function of local controlling officer should be subordinated to the Central Fund. In actual fact they are not under its instructions but under those of bank management.

For that reason the administrator of the popular credit bank in Yogyakarta is always someone who previously was an inspector of the Central Fund and with whom good cooperation is guaranteed.

Another objection to the expansion of the Yogyakarta system is that officials of the Central Fund would again become only inspectors of the popular credit banks, a system that in the past gave unsatisfactory results and led to a large staff turnover. All these objections would fall away when a General Popular Credit Bank (*Algemeene Volkscredietbank, AVB*) would be established.

It is then the intention, as explained elsewhere (15), to restrict the external control of the bank offices to visits by the inspectors and to administrative spot checks on the efficiency and strict adherence to the internal control instructions. The transfer of the control over the village credit institutions to the local (*AVB*, ed.) offices will make it possible to abolish the inspectorate and keep only a few administrative controllers.

A not unimportant saving will be obtained because in the local offices (of the *AVB*, ed.) the control of the village credit institutions will be done by deputy-administrators, educated for that purpose, and under supervision of the administrators.

When the establishment of the General Popular Credit Bank (*AVB*) results in a good working relationship between the local (*AVB*) office and the village banks, then rules could be made that the General Popular Credit Bank leaves the small monthly and harvest loans, made according to fixed models, to the village banks, with guarantees against misuse by the managers of those institutions.
That may lead to savings and may stimulate the large institution giving more attention to larger and less standardized loans that take into account individual circumstances.

As indicated above the establishment of the General Popular Credit Bank is also important for the village credit system.

Chapter III. Village credit cooperatives

1. Advantages of cooperative credit.

   Like Middendorp I see the advantage of cooperative credit for the villager over other forms of credit (not only over the official but also the commercial credit when that exists in an organized way) in a new stimulation of the mind of the cooperators, at least when the cooperative is of a high quality.
   The wish to get out of financial difficulties by way of mutual help, moral as well as material, to become independent of moneylenders by educating each other in financial matters, and to jointly finance the remaining financial needs as much as possible, uplifts cooperators.

   Therefore it is self-evident that a real cooperative is in the first place a savings organization. The savings of the farmers loan banks in the Netherlands are considerably larger than the amount lent.

   The small farmer can also be stimulated morally, if he sees the need for it, to save in cash as he saves at present in cattle, jewelry, land or house.

   An advantage of a good cooperative is also that the credit can be so much cheaper because only a normal interest has to be paid on savings and the managers provide their assistance free of charge.
   In actual practice quite a lot is missing in this country as will be shown in paragraph 3 hereafter.

   The solution to the question of agricultural credit is expected to come from cooperative societies. After all, the cooperative members know each others' conditions, as a result know how much each of them needs for his business and is worthy of, and when is the most appropriate time to repay from the income of the business (see also the end of paragraph 6 hereafter).

   It is further necessary that a cooperative organization of agricultural credit is combined with the cooperative sale of agricultural produce and the cooperative purchase of fertilizers etc..

2. Problems with cooperative organization in rural areas.

   The lack of leaders is the largest obstacle for the creation of a cooperative movement in rural areas. In the village there are usually few dignitaries with a feeling for social matters, who have an understanding of cooperation and who would be in position to manage a small bank and issue loans according to correct principles.

   Middendorp mentions the teacher, but the village teacher is in view of his position in the village and his business understanding not the obvious leader.
   The lack of suitable leaders therefore is the main bottleneck in 9 out of 10 rural villages to start a cooperative organization and particularly to keep them at an appropriate standard.

Furthermore, outside the village too there are few intellectuals that feel called to take upon them the leadership of the cooperative movement.
Still, as Middendorp also states and experience has shown, no credit cooperatives of some scale can come without central organizations for their control and the introduction and maintenance of cooperative principles.
These supervisors can normally not be civil servants because for providing real leadership and supervision there needs to exist a mutual relationship of trust between supervisors and the managers of the local cooperative society.

The local intellectuals in the regency capitals remain sometimes also too distant from the villager. Until now the cooperation between intellectuals and village cooperators takes almost only place in or near the cities.

Finally, one should remember that even intellectuals are not yet versed in cooperative principles and that the reading of some brochures is not sufficient.
The organizers in the centers therefore have to gain more in-depth knowledge of cooperative issues and maintain regular contacts with the Advisor and his staff. The importance of this is not always recognized. The village dignitaries normally do not like the idea very much too. That is normally less the result of non-cooperation principles but more the wish to act according to their own views, combined with the justifiable feeling that those views could possibly be different from those of the Advisor.

3. The usual mistakes of wildcat credit cooperatives.

The two most fundamental shortcomings connected with almost every wildcat cooperative in this country are, first: that not the cheapest possible credit assistance is top of the list but that one aims at a profit for the shareholders and managers, and second: that one is insufficiently aware of the need of strict repayment of the loans taken from the cooperative. The wish to make a profit, of course, does not stimulate insisting on repayments.

A good example of the first mistake, given unintentionally, is the cooperative bank in Leles, as described by Middendorp. One finds there an interest rate of 36% per year. This rate should not be compared with those of the week-loans of the village banks, because this cooperative has monthly repayments, but with the interest rate of the popular credit banks for month-loans, which normally is 12 to 15%, occasionally 18%, per year. This cooperative is thus far away from making credit cheaper, in fact it is two to three times more expensive than the popular credit bank. Why is the interest rate so high?
Possibly because only 20% of the profit goes to the reserve fund but 30% is paid out to managers and board members and 50% to the members.

Although every member has to be a saver too, some have deposited more with the bank than others (as much as 100 guilders). Possibly the profits are divided pro rata as is usual; there is no mention of a fixed interest payment for the savings. This small bank therefore is more like a limited company than a cooperative society.

4. The small *Batak* banks in Karo.

The other mistake can best be illustrated by the village banks on the Karo plateau, regularly been held up as an example by Middendorp. These village cooperatives have a joint association where the managers of the small banks discuss their common interests and elect a central committee. Control is exercised by a supervisor employed by that association. The inspector in Kaban Jahe is advisor of the association but generally does not take into account the autonomy of the association and the small banks. The banks work with savings, not only from members and other villagers, but also accept deposits from outside, just as the large banking institutions. Some small banks in the lowland areas for example had to pay 12% per year to attract savings, the same rate as the banks in the Karo did! (later lowered to 6%). Otherwise its deposits would flow out to the Karo areas. Completely different situations than in Java therefore.

The Karo-*Batak* people possess a lot of economic sense and already participate fully in the money economy. (16)
The lending business of the Karo banks, however, is a sad affair. All loans have a stereotype repayment of one term of 5 months or longer. One does not investigate whether the borrower can repay the loan plus interest from his income during the five months, which also does not matter in the eyes of borrowers and bank managers, because it is common practice to repay the amount lent with the help of third persons who, to do so, have first borrowed from the bank. One repays these third persons from a new loan which one takes immediately after the repayment.
Debt renewal on a large scale and considered as a normal and accepted system!

After initially refusing control assistance from the Central Fund, this was accepted in 1930 when there had been serious cases of fraud.

The controlling officer, however, had to limit his visits to one or two per year and had to restrict himself therefore to random samples. His recommendations are only partly implemented, the administration is in such a state that a reasonable control is not possible and it is therefore impossible to say whether the financial affairs are in order. Field inspections are not done by the supervisor.
The control task has now been handed over to the Medan Popular Credit Bank because a more intensive control was shown to be badly needed.

In respect to combating debt renewal one does not wish to go further than the old measure that a new loan for the same person should be 20% less than his previous loan. It is still considered unnecessary, in spite of all the urging of the official of the Central Fund, to pay attention to the income of the borrowers and to harmonize this with the repayment periods.

A total of 686 legal claims were lodged against borrowers in arrears in 1931. Over-crediting is widespread.

5. Large scale substitution of village banks by cooperative societies not possible for the time being.

   The problems associated with a cooperative organization, as pictured in the previous paragraphs, makes one realize that Middendorp sees the issue too simply. A massive substitution of village banks by cooperative societies is not possible for the time being. Only after a good group of leaders, being in contact with the Advisor, has organized itself in a regency or sub-district, can it begin to start making propaganda for cooperative association in a few villages where there is suitable manpower, as well as try to convert already existing cooperative banks to sound cooperative principles.

   Because in the beginning the involvement with the new institutions or those to be converted has to be intensive, expansion can only be in phases until the right road has been found and until the example stimulates other villages to imitate.

   Middendorp's blame of the management of the Popular Credit System that it does not have the will to move the existing local council credit really into a cooperative direction, to confront it that it should make the official institutions cheaper and more flexible and be more in touch with the community and to have these institutions and the private institutions work closer together, that blame is incorrect and unjustified.

   First, the conditions for a cooperative organization must be present, private initiative must have been developed and only then can the management of the Service give its assistance. That assistance, however, can not be possible by having the local village credit institutions grow into cooperative banks. That was shown sufficiently in the first chapter.

   Boeke too, the pre-eminent propagandist of self-motivation and cooperatives, states in his article "Indonesian Popular Banks" (17): "In the present popular credit system the self-motivation hardly plays a role and it is not to be expected that this principle will ever be applied in any important way in the existing institutions".

   Boeke considers it a "sweeping conclusion" that is however "not (being) supported by facts" that the conversion of the former village banks in Surabaja into cooperative societies under the management of the Persatuan Bangsa Indonesia would lead to "this example being followed elsewhere and that gradually the village banks could be replaced by popular cooperative banks under national leadership". And further on: "The social class to which the village bank borrowers belong, the so-called small man, may not be considered for the time being for this. Its members generally lack the qualities of social understanding and a sense of self esteem, of individuality and a desire to be better off. Their limited education also means that they cannot control events". Then: "the village bank is still so firmly tied down to the administrative system of the village, in the monarchical and autocratic village structure, that a more democratic reform of its organization should end up in a comedy, a sham, a tragedy or a miserable decline".

6. Support from the Central Fund and the General Popular Credit Bank to the cooperative credit institutions.

   I want to state emphatically that the management of the Central Fund has no intention whatsoever to reserve the village credit system for the official credit organization; on the contrary, it wold strongly prefer to see the dead mechanism of the village banks replaced by modern credit cooperatives.
   It holds the view that everywhere where cooperative banks show that they can partly or fully take over the task of the local village credit institutions, the official institutions should have to withdraw.

   In respect of the village banks there already is a regulation on this matter made by the Central Fund and the Advisor of the Popular Credit System and Cooperatives. The respective circular of 9 May 1932 is appended; unfortunately, it did not have to be applied yet (annex 2). The publication may contribute to make it easier for the advocates of credit cooperatives to organize such cooperatives locally. When they do so with agreement of the Advisor and for good reasons then they can count on the full cooperation of the management of the Central Fund.

   I dare not guarantee that under such circumstances the respective popular credit banks will also cooperate. What has been shown so far, does not make one optimistic. However, when the General Popular Credit Bank (*AVB*) will be set up, it is duty-bound by article 2.1.a of its articles of association to withdraw itself from the area correctly served by a cooperative institution.

   Financial assistance from the Central Fund or General Popular Credit Bank can also be counted upon by providing loans to sound cooperative banks or associations. This type of assistance is at present already provided by the Central Fund. It also provides guarantees to popular credit banks for loans given by them to cooperative societies, loans that would otherwise have been refused without such guarantee.

   In good cooperative organizations, that are able to attract savings in sufficient quantities, however, the official credit assistance can be limited.

   Indirectly the official Popular Credit System can be of great use to the cooperative movement when the cooperative leaders want to make use of its experience. Already at present most of the wildcat cooperative banks have borrowed their administrative and repayment systems from the village banks or popular credit banks.

   The same applies to the cooperative banks in Surabaja and Malang, cooperative banks from converted village banks, registered with and under the supervision of the Persatuan Bangsa Indonesia. The advisor has the new staff of his service undergo a period of training at the inspectorate of the Central Fund.

   The Central Fund will allow the same facilities to be extended to any serious association or cooperative organization, when requested.

The "Instructions" for *lumbungs* (4) and for the village banks (2), the "Manual for the local controlling officer" (18), the "Introduction to the economy of the indigenous society" (19), and the "Main features of the customary law" (20) are available from the Central Fund at cost price for interested parties; subscriptions to the monthly magazine "*Volkscredietwezen*" (Popular Credit System) even below cost price at 3 guilders per year.

In my opinion the General Popular Credit Bank must be the pioneer of agricultural credit, although cooperative societies must bring the final solution to the agricultural credit problem. The simple fact that cooperators are farmers themselves and know each others' conditions is not in the least sufficient for an efficient distribution of credit for a somewhat complicated agriculture, that is to say guarantee a credit supply which is not static or leading to debt renewal.

The department of economics of the General Popular Credit Bank shall have to find, in cooperation with the local offices and the local agricultural officers, suitable credit methods, which can later be applied, where possible, by small cooperative banks, possibly financed by the General Popular Credit Bank, in a flexible way and with better adjustments to individual needs than is possible at a non-cooperative bank.

The significance of a well working, socially directed popular credit system for the cooperative movement, to be established by the creation of a General Popular Credit Bank, should not be underestimated as is evident from the foregoing.

Annex 1

The Council of the Regency…………………

Having listened to the local representative of the Central Fund.
Wanting to proceed to establish rules in respect of local council credit institutions, in accordance with and as a supplement to the ordinance of Government Gazette no. 357 of 1929.
Having paid attention to the earlier mentioned decree and to article 5 of the Local Council Ordinance as that article has been changed for the province of East Java, with exception of the townships, by ordinance no. 295 in Government Gazette 1928 establishing the province East Java.

Has decided to enact the following Regulations for the Local Council Credit Institutions in the Regency………………….

Article 1

1. Establishment and liquidation of local council credit institutions shall be done by a village decision, taken in accordance with article 6, sub 2 and 3 of the Local Council Ordinance.
2. This decision requires the approval of the council of representatives, having listened to the local representative of the Central Fund.
3. The local representative of the Central Fund is authorized to close down the business of a local council credit institution for a maximum period of one month; the council of representatives decides whether to extend this closure, having listened to the local representative of the Central Fund.

Article 2

The administration and the management of a local council credit institution as well as the control over its funds and assets is implemented and done by a committee appointed by the respective local council, taking into account any regulations established by that council, the regulations of this ordinance, ordinance no. 357 in Gazette 1929, the Local Council Ordinance and other legal regulations.

Article 3

Upon the recommendation of the local representative of the Central Fund the council of representatives is authorized to dismiss committee members for reason of inaptitude or neglect of duty, in which case new officials will be appointed by the respective local council.

Article 4

The fee for the work of the committees will be set by the council of representatives, having listened to the local representative of the Central Fund, within the limits of article 6 of Gazette no. 357, 1929, for each local council credit institution.

Article 5

The committee requires the written approval from the local representative of the Central Fund in respect of the following matters :
1. Setting the maximum amount that may be lent to one person;
2. Setting the interest rate and repayment conditions of the loans;
3. Writing off of claims;
4. Allowing borrowers to repay rice debts in cash;
5. Purchase of rice; purchase, sale and repair of movable assets; repair of buildings;
6. Selling rice on credit.

Article 6

1. The rice not needed for lending should be used annually by the *lumbung* committee to repay rice deposits, the balance being sold.
2. The time, the quantity and the minimum price for a sale require the approval of the respective district head or the sub-district head designated by him, making use of a format prescribed by the regional representative of the Central Fund.

Article 7

Against the decisions taken by the officials according to articles 5 and 6 the committee may appeal to the council of representatives, whose decision shall be final after having listened to the respective official.

Article 8

1. The rice spillage of a *lumbung* may not exceed 5% of the largest quantity present in a *lumbung* during that year.
2. Except in case of proven *force majeure* is the committee responsible to the council of representatives for a larger spillage, having listened to the local representative of the Central Fund.

Article 9

These regulations come into force with effect from ……(date)…………..

Explanation.

Ad art. 2	There is no need for the village to decide on articles of association. It is sufficient to have a village decision for the establishment, in which the composition of the committee is regulated; the rest is better left to the committee taking the existing legal regulations into account.
Ad art. 4	The fee mentioned here may not exceed the maximum set in article 6 of Gazette no. 357 of 1929, but may be less.
Ad art.5 to 7	The intention of this regulation is on the one hand to strengthen the responsibility of the committee and on the other hand to ensure a smooth settlement of affairs. To do justice to the former it is necessary that all matters indicated in article 5 should in the first instance be regulated by the committee, who shall record its minutes in a new "register of committee decisions". The local representative shall later indicate in this register whether he gives permission for these decisions. A smooth settlement of matters is achieved when one limits oneself to approval by the local representative of the Central Fund, without interference by all other authorities. The appeal to the council of representatives, however, puts the final decision into the hands of that council.
Ad art. 5, sub 5	Not mentioned here are the entering into credit agreements with the popular bank or other loans, purchase of land, and the purchase, construction and sale of buildings, because all these transactions are already regulated by article 11 of the Local Council Ordinance, stipulating a village council decision with ratification by the council of representatives for these matters.

Annex 2

CENTRAL FUND

Jakarta-Center, 9 May 1932

No. 1163/156

To:
All inspectors and local representatives
of the Central Fund.

One of the government officials in West-Java has raised the question about which attitude the village banks should take towards registered and regular supervised small cooperative banks in one and the same village in areas where the cooperative credit system has found acceptance.

Cooperative credit associations, as referred to above, exist at present only in limited numbers. With a few exceptions, they do not yet exist in villages which already have a village bank. The majority consists of converted village banks (towns of Surabaja and Malang) or is operating in villages which had no previous village banks or where these were closed down. As a result there is no direct reason to face the question posed.

It is a fact however that, among others as a result of the propaganda of the Cooperative Service, more requests for registration of cooperative credit institutions have been received recently. It is therefore not impossible that this will occur more than in the past in villages where there are already established village banks.

There are no reasons though to believe that this will reach such a magnitude that the local council credit institutions will be pushed aside as a necessary result. Nevertheless, it is recommended to indicate now how to act in such cases.

In the following course of action, to which the Advisor of the Popular Credit System has indicated his approval, the viewpoint always held by this side should be prominent in that one should not engage in competition with credit institutions that are a manifestation of the auto-activity of the people and that are functioning adequately.

Even when a village bank functions better technically, a cooperative may be preferred because it is independent and has its own development prospects. There are two possibilities that can arise when founding a cooperative credit association in a village which already has a village bank.

The first is, that next to the existing village bank there is a felt need for a cooperative that provides special loans (e.g. for agriculture), which the village bank cannot provide for technical reasons or which are not desirable. It is also possible that a particular section of the population prefers not to have relations with the village bank. One could think of the more affluent and more educated inhabitants of the villages in or near the larger towns for whom the more or less massive handling of those in need of credit by the village bank is an obstacle to turn to it.

Furthermore, the large number of inhabitants of a village can be a reason that a cooperative cannot satisfy the credit needs of all inhabitants, because a successful credit cooperative may have only a limited number of members.

In these cases there is therefore no single reason whatsoever for the village bank to withdraw. Both institutions, the cooperative as well as the council one, can supplement each other and do good work.

However, it is an absolute requirement that there be cooperation to avoid over-crediting and fraud. This can be achieved, among others, by a regular exchange of the names of borrowers and the amounts borrowed by them.

Even when the Advisor of the Central Fund has delegated the supervision and control of these cooperatives to others than officials of the Central Fund then that does not have to be an impediment to cooperation as indicated here.
After all, the Advisor can make this a condition when instructing private organizations (e.g. apex banks) or persons.

The second possibility is that a cooperative, as indicated above, aims to extend its operations to those that are carried out by the village bank. When the scope of the village bank is not too large for the cooperative (see above) it could then infringe upon the territory of the village bank.

It shall, however, still have to prove that it can perform its task adequately in relation to the credit needy population. Only then can the village bank finally withdraw.

To give an opportunity to the cooperative, when it has shown convincingly to have viability, the village bank can for a certain period, at least for one year, be closed without however liquidating it.
The capital has to be kept intact so as to put the village bank back into operation in case the experiment should fail or when the majority of the credit needy population indicates not to want the cooperative.

It is obvious that the decision to take this step should rest with the village. It is the duty of the local officials, in cooperation with the Local Government, however, to elicit such a decision from the village, just as in all other matters related to the village credit system.

When it is then shown that the majority of the voters is against the proposed measure, then the village bank will remain and one should proceed as indicated under the first possibility.

The Acting Director of the Central Fund
(signed) F.J. MULLER

REFERENCES

References in the original publication by Fruin are in the text or as footnotes; they are all in Dutch, they have been put here to simplify reading, (ed.).

1. W. P. D. De Wolff van Westerrode :"*Systematisch Overzicht, loopende tot ulto 1903"*,(Systematic Overview up to 1903), page 21.

2. H. Carpenter Alting: "*Aanwijzingen ten behoeve van de oprichting, de inrichting, het beheer van en toezicht op dorpscredietinstellingen*" (Instructions for the formation, organization, management and supervision of village credit institutions).

3. Quoted from the minutes of a meeting held in Magelang on 17-19 March 1913, attended by officials of the Popular Credit System.

4. J. H. Boeke: "*Aanwijzingen ten behoeve van de inrichting, het beheer van en het toezicht op loemboengs*" (Instructions for the organization, management and supervison of the lumbungs), 1917.

5. J. H. Boeke : "*Indonesische Volksbanken*" (Indonesian popular credit banks), in: "*Koloniale Studien*" (Colonial Studies), 1929, page 436.

6. See: "*Volkscredietwezen*" (Popular Credit Service,) September 1926, page 243.

7. J. H. van Dranen: "*Leeningstypen en achterstand bij desabanken*" (Loan types and arrears at village banks), in "Volkscredietwezen", December 1932, page 799.

8. "*Onderzoek naar de werking van de desabanken*" (Research in the operations of the village banks), in: "*Volkscredietwezen*" ,1929, pages 257 etc. and 376 etc..

9. See: "*Volkscredietwezen*", February 1921, page 37 etc..

10. "*Wenken, in acht te nemen bij het oprichten van desaloemboengs*", (Hints to be taken care of in the formation of village lumbungs), 1904.

11. Margono Djojohadikoesoemo: "*De toekomst van het desabankwezen op Java en Madoera*" (The future of the village bank system in Java and Madura), in: "*Volkscredietwezen*", November 1924, page 223 etc..

12. See: "*Volkscredietwezen*", September 1924, page 197 etc..

13. Government decree of October 11, 1922, annex no. 10172 in: "*Volkscredietwezen*", November 1922, page 211.

14. See: Fruin's paper Chapter III, paragraph 9 in "*Volkscredietwezen*", October 1931.

15. A.Th.Fruin: "*Antwoord op de tegen de reorganisatie van het volksbankwezen voortgebrachte bezwaren*", chapter V, paragraph 3 (Reply to the objections received on a reorganization of the popular bank system).

16. Middendorp: "*Het inwerken van Westersche krachten op een Indisch volk (de Karo-Bataks)*" (The influence of western forces upon an Indonesian tribe (the Karo-Bataks)), in: "*De Socialistische* Gids" (The Socialist Guide), April/May 1922.

17. J. H. Boeke: "*Indonesische Volksbanken*" (Indonesian Popular Banks), in: "*Koloniale Studien*" (Colonial Studies), 1929, page 420 etc..

18. "*Handleiding voor den plaatselijken controleerende ambtenaar*" (Manual for the local controlling officer).

19. "*Inleiding tot de Economie der Inheemsche Samenleving* " (Introduction to the economy of the local society).

20. "*Hoofdtrekken van het Adatrecht*" (Main features of the customary law).

21. B.G.S. 11 October 1922, no. 2829/III, appendix no. 10172 (annex no. 10172), published in: *Volkscredietwezen*", November 1922.

22. No. 180/B of 10 January 1916 and no. 9561/B of 13 September 1918.

TRANSLATION NOTES
by the editor

(ID) = Indonesian word
(NL) = Dutch word

1. Adviseur (NL): Advisor (of the Popular Credit System Service, which included the promotion of cooperatives).

2. AVB (Algemeene Volkscredietbank) (NL):
   General Popular Credit Bank, established in 1934; merger of Popular Credit System Service, Central Fund and 91 Popular Credit Banks and responsible for the supervision of the village credit institutions. Is a predecessor of today's BRI.

3. Batak (ID) : name for people of that area.

4. bawon (ID): salary paid in kind (rice) when working for someone else.

5. Centrale Kas (NL): Central Fund, responsible for the supervision of the popular credit banks (about 91 of them in 1932, the first one having been established in 1895 in Purwokerto); an apex institution established in 1912, managing surplus funds by investing in state bonds or financing popular banks in need of credit; also provision of guarantees for loans made by popular credit banks to village credit institutions. Entered in 1919 into a partnership with the Volkscredietwezen service.

6. dakat (ID): = dzakat or zakat, a religious contribution.

7. guilder or NLG (NL): Dutch guilder
   It is not easy to give the value of the Dutch guilder (NLG).
   Some indication of its historic value can be provided by the following comparisons (around 1930):
   a. The monthly salary of a village bank clerk varied from NLG 15 to 25, later 20 to 40 during the 1920's. In 1932 it was between 24 and 48 NLG per month;
   b. Jewelry for a wedding: 75 to 175 guilders;
   c. Water buffalo: 65 guilders;
   d. Farmer's living expenses (excluding own rice) : 30 guilders per month
   e. 100 cigars: 1.75 guilders;
   f. Cost of an annual subscription to the monthly magazine "*Volkscredietwezen*" was NLG 3, however, this was a subsidized rate.
   g. Present value (July 1999) : 1 US$= NLG 2.04.

8. hakim (ID): manager.

9. lapan (ID): 5 week period (= 7 Javanese "weeks" of 5 days).

10. lumbung (ID): lit.: village rice store.

11. mantri (ID): supervisor (of the Popular Credit System Service here).

12. nagari (ID): district or village in Sumatra.

13. naib (ID): deputy.

14. patjeklik (ID): period of money and food shortage (between harvests).

15. population statistics
    The majority of villages in Java had in 1930 between 1000 and 3000 inhabitants; about 200 villages had more than 4000 inhabitants, mainly located in West-Java.

16. puasa (ID): Islamic fasting period (Ramadan).

17. quintal (NL): 100 kilogram in Indonesia and the Netherlands. In the British and USA system 50 kilogram.

18. Volkscredietwezen (NL):
    (a) Popular Credit System Service; an autonomous government welfare service, established in 1912, responsible for all popular and village credit institutions as well as the cooperative movement.
    (b) name of the monthly magazine of the Central Fund; first published in 1913 under a different name; name changes in 1919 and 1928 and since 1931 this name.

Italics

All Indonesian, French and Dutch words, except names of regions and cities, have been italicized. For Indonesian towns and districts the current spelling has been used as far as known.

Source: http://www.gdrc.org/icm/country/kk-VILLAGE-BNKS.doc
Accessed on 11/11/2004