Analysis of Increasing The Savings of The Poor Through The Community Empowerment Programme

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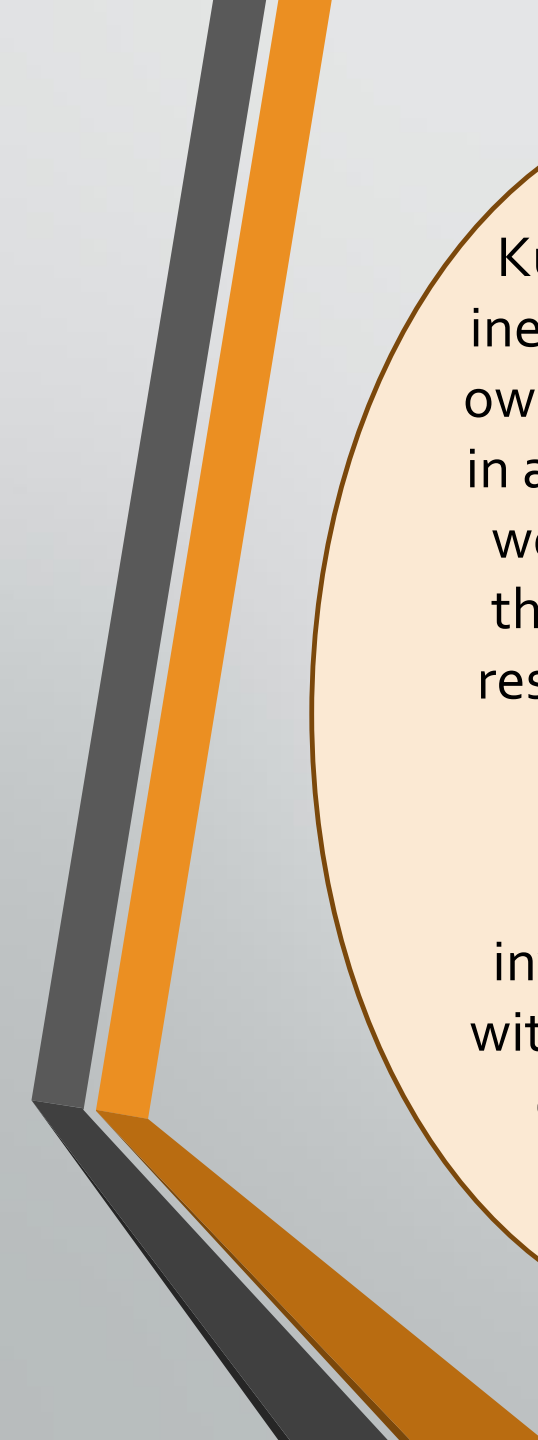*Doctoral Programme in Economics University of Diponegoro*
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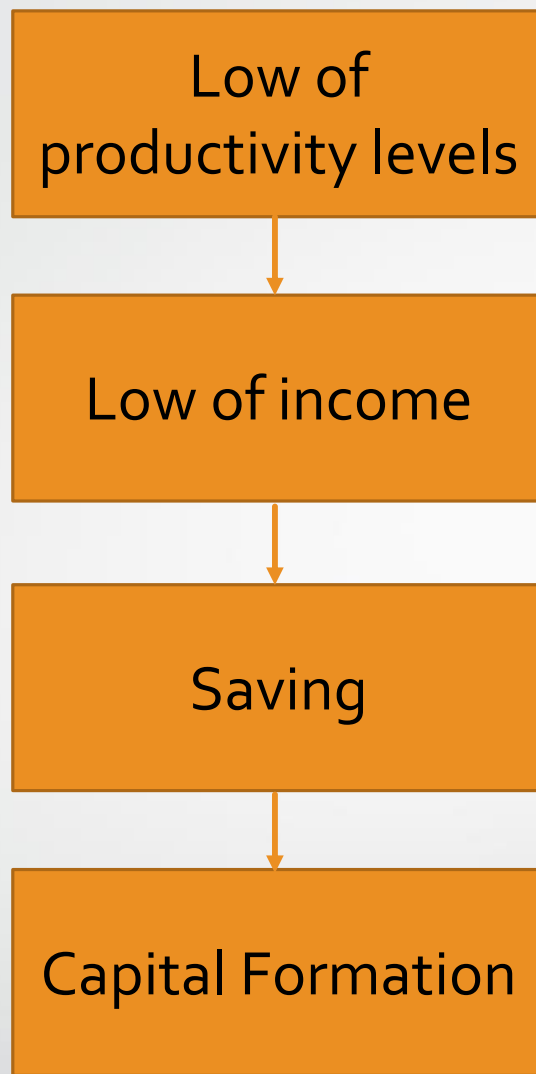
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Introduction

Capital becomes one of the requirements in businesses. This is often not owned by groups of poor people so they can not able to run their businesses. Many factors can causing poverty. It is quite difficult to determine which factors are the real cause.
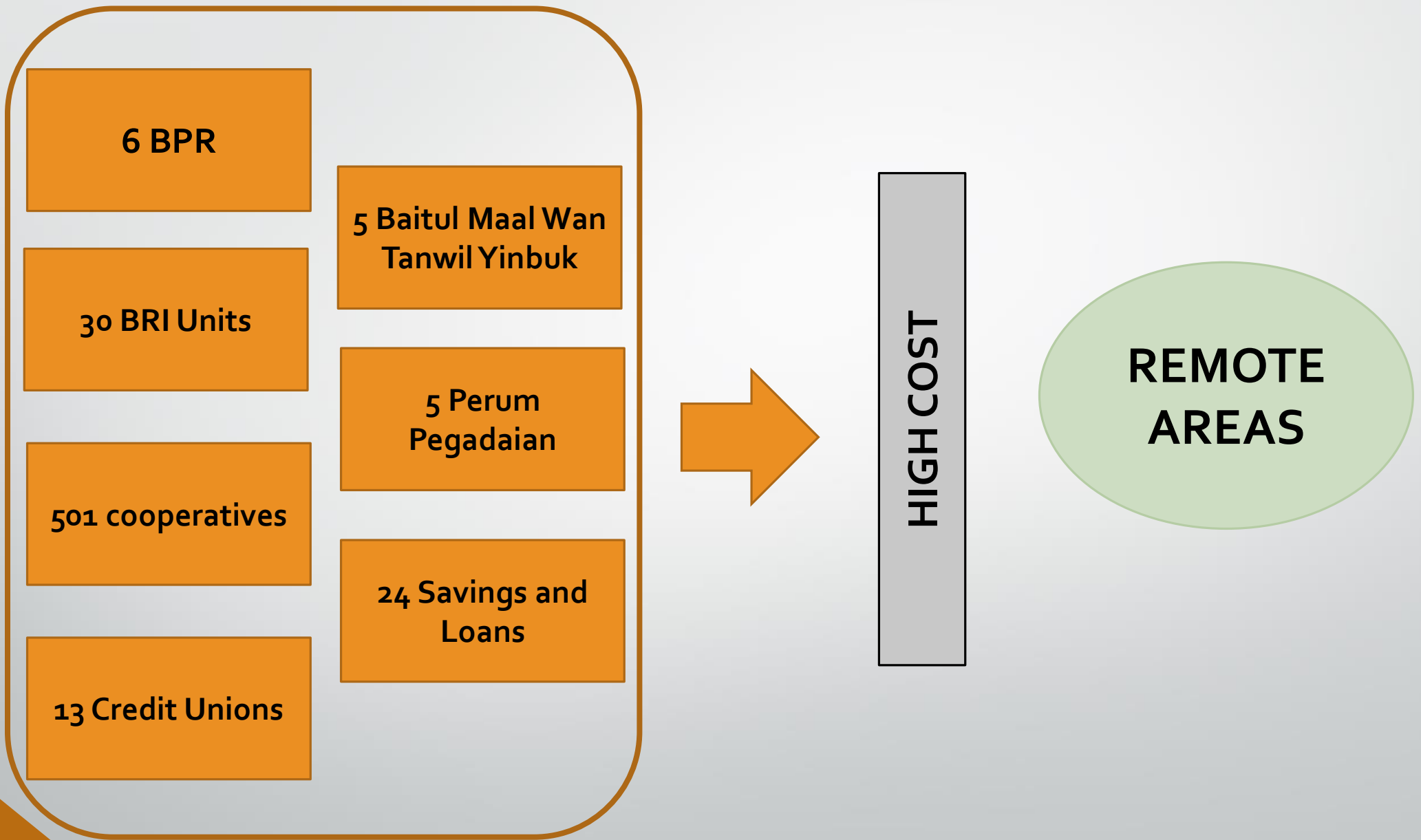
The Cause of Poverty

Kuncoro (2000) : the inequality of resources ownership. Differences in access and capital as well as differences in the quality of human resources could affect productivity and wages. For poor countries, low investment together with low income levels cause the limited market area

Nurkse (1953) told that the circumstances which create barriers to the creation of capital formation could cause poverty. In developing countries, the low of savings rates and investment incentives make it impossible to establish high levels of capital.

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┌─────────────────────────┐
│         Low of          │
│    productivity levels  │
└─────────────────────────┘
             │
             ▼
┌─────────────────────────┐
│      Low of income      │
└─────────────────────────┘
             │
             ▼
┌─────────────────────────┐
│         Saving          │
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             │
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┌─────────────────────────┐
│    Capital Formation    │
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For poor countries, both of low investment and low income cause the poverty. According to Nurkse (1953) the circumstances which creates barriers to capital formation can lead to poverty. Thus, the developing countries which their low savings rates and investment incentives makes that impossible to establish high levels of capital.

6 BPR

5 Baitul Maal Wan Tanwil Yinbuk

30 BRI Units

5 Perum Pegadaian

501 cooperatives

24 Savings and Loans

13 Credit Unions

HIGH COST

REMOTE AREAS

(Landiyanto, 2007 and Bank of Indonesia, 2014)

National Programmee for Urban Community Empowerment (PNPM Mandiri Perkotaan) which was originally called the Urban Poverty Programmee (P2KP).
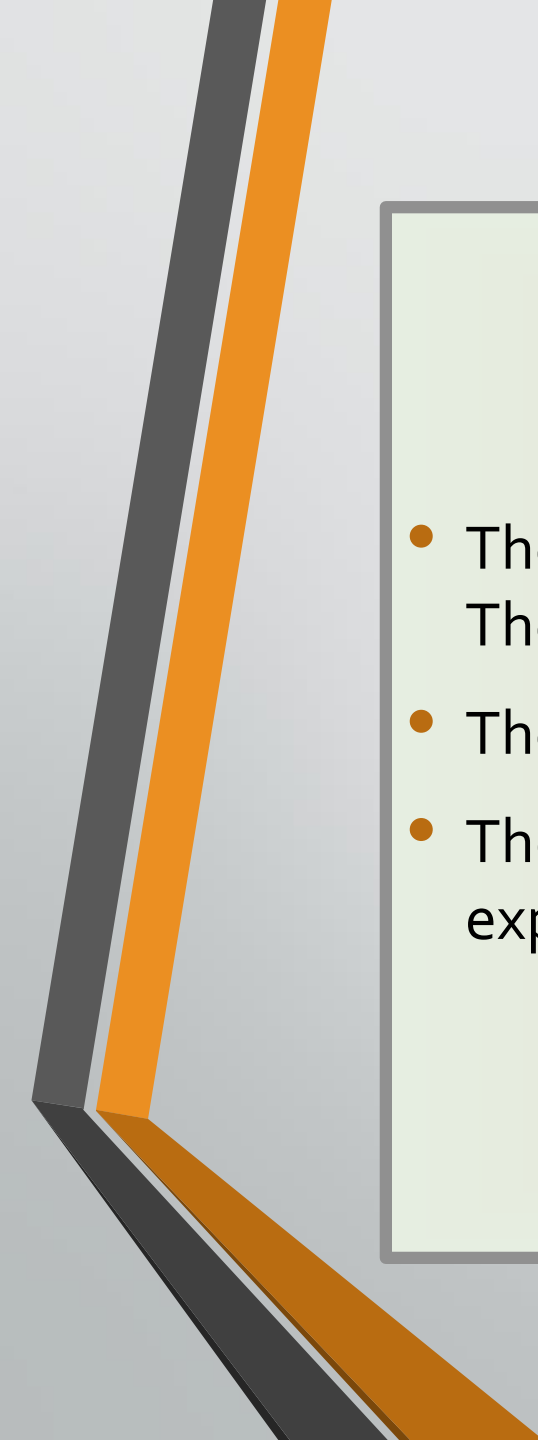
empowering the community.

poverty alleviation

- This approach will empower the community to recognize the problems in developing and helping themselves and their group to be better condition.

The Urban Poverty Programmee has three main activities namely infrastructure, social and economy (Tridaya).

Sources of funds come from direct public funds, government expenditures (APBD), the private sector, NGO's and other sources.

There is a **revolving loans** in the economy, which is micro-loans to the poor in certain urban villages.

- Each loan contains **a risk of non-repayment**, which covers by **a reserve of loan**. This reserve is formed every month according to the quality of the group of borrowers. According to Bank Indonesia's regulation 13/26/PBI/2011, the risk reserve for collectibility is at least 0.5 percent of the loan balance for good borrowers, at least 10 percent for less smooth, 50 percent for the doubtful group and 100 percent for the bad.

- The allowed collateral in PNPM Mandiri is in the form of joint liability only. The groups must deposit savings, principal installments and loan services.

- The next loan is served if the borrowers have savings.

- The facilitation and monitoring process are undertake by facilitators, experts and the community.

Province of Papua :

- Percentage of the poor was 31.52 percent by 2014
- Higher than the average of Indonesia's poor which was 10.96 percent (BPS, 2015).

Jayapura city :

- Percentage of poor population was 16.19 percent
- Has been implementing Urban PNPM Mandiri since 2008

Hedam Village in Heram District :

- Close to the center of government and economy
- 62, 45 percent of the 13,868 people were high school and junior high school level
- Dominated by traders, transportation services and home industries

According to Boediono (2005), to detect the impact of loans consist of 3 levels with such variables :

1. Household level (increase in household income, income diversification)

2. Business level (increase of business income, fixed assets, labor)

3. Individual level (increase of savings individual, future planning and self-esteem).

The aim of study :

to examine the effect of revolving loan program on poverty alleviation in urban areas. Are revolving loans and business income able to increase the savings of the poor?

Method

- Data were collected by questionnaires on 67 respondents from 205 population. These respondents comes from 44 community self-help groups in 2012-2014.

- Those 67 respondents was selected by Stratified Random Sampling. The samples with the following business details in Table 1 :

Table 1. The Economy Activities of Respondents

	Amount of Respondents
Trade	35 households
Service	22 households
Industry	10 households

- The results analyzed by Ordinary Least Square method on model below :

$$Y_i = \boldsymbol{\beta_0} + \boldsymbol{\beta_1} X_i + \boldsymbol{\beta_2} Z_i + \boldsymbol{e_i} \tag{1}$$

Y_i = saving of respondent –i ; X_i = revolving loan of respondent -i; Z_i = business income of respondent –i

Table 2. Operational Definition of Variables

Revolving loan	Business Income	Saving
Revolving Loans used for extensification activities as well as the intensification of productive enterprises, which are owned by household as members of community self-help groups.	Revenues earned from business results. Retrieved from total sales for a month minus total cost for a month.	The amount of deposits that are routinely performed by the participants and counted for a month.

Central Bureau of Statistics (BPS) defines poverty with the standard of food and non food poverty line. The food poverty line is the value of consumption expenditure of food equivalent to 2100 calories per capita per day. Non-food poverty line is the amount of rupiahs to meet minimum non-food needs such as housing, health, education, transportation, clothing and other goods/services.

Poverty

Discussion

A. Description Analysis of Respondents

- At most in trading business (52.24 percent), service business (32.84 percent) and home industry (14.92 percent).
- Female respondents (58.21 percent), especially in service business and home industry. While the trade is mostly run by men (60 percent).
- Dominated by primary school graduates (43.28 percent), especially on trading business. Junior high school graduates (40.30 percent), high school graduates (11.94 percent) and college (4.47 percent).
- Dominated by family dependents of 2-3 people (65.67 percent)
- Business income at least Rp. 300.000 up to above Rp. 800.000/month.
- Saving ranging from Rp. 20,000 up to Rp. 100.000 (after following the program)

B. Regression Analysis

According to Table 4, the result shows that revolving loan and income significantly have a positive influence on saving (at α = 0,05). Yet, there are other variables may determine the saving because just 64,6 percent saving can be explain by revolving loan and business income.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	22.80667	2.920808	7.808345	0.0000
X	1.65E-06	7.32E-07	2.248778	0.0280
Z	3.18E-05	3.88E-06	8.191636	0.0000
R-squared	0.638877			
F-statistic	56.61237			
Prob(F-statistic)	0.000000			

Conclusion

- **Revolving loan significantly have a positive influence on saving.** It may be the good sign for reducing the poverty. Although there may others variables due to the complexity of poverty problems.

- The revolving loan in Hedam Village provides to poor households that have small businesses. And the majority of the recipients are women.

- Most of households must cary 2-3 member of their family.

- In addition, the education level of the poor mostly primary and secondary school. Therefore, by the commitly assistance of PNPM Mandiri facilitators, such revolving loans can influence the savings of the poor.