

Coping Humanitarian Crisis and Building Community Resiliency:
A case study of Muhammadiyah microfinance program after earthquake in
Yogyakarta 2004, Indonesia.
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Background

Natural disasters are a recurrent condition in many part of the world and an infrequent but devastating occurrence in others (Parker and Nagarajan:2007). Almost one million people were killed by natural disasters during the past decade and the number of people hit in general by natural disasters “grew from 135 million in 2006 to 200 million in 2007”, as it is reported by the Centre for Research on the Epidemiology of Disasters (CRED). The impact of disaster varies from one region to another. However, natural disaster can be doubly catastrophic for the global poor who are largely farmers that their prosperity and livelihoods are tied directly to the land (Tucker, 2007).

The aftermath of natural disasters pose a challenge for governments as well as communities particularly in developing countries where resources are limited. Often, recovery process turns into long and painful efforts. Wu and Lindell state that recovery period is a time with immense potential for confusion on actions and activities which meet the needs of the victims (2004, p.63). However, in many cases the recovery period offers an opportunity to strengthen local organizational capacity to facilitate economic, social and physical development long after disaster (Berke, 1993:93) with or without supports from outside sources.

The effect of disaster is rarely uniform across poor households and affect in a number of ways. First, the disaster might affect the household's ability to earn income as their place where they sell the product and services were also affected. Second, poor households might face increased expenditure as essential commodities such as food might have increased dramatically due to high demand and/or short supply. Also, they often have to face health crises that may result in increased expenditure. In other cases, if income earners are injured or sick or if income earners have to take family who are injured or sick, they might not be able to work and get income as well. Third, the disaster might have caused damage or destruction of income generating assets such as crops, livestock, tools of trade and other equipments. Loss of these assets will have a long-term impact on the ability of the household to generate income if the household does not have funds to replace these assets. Also, disaster might have caused damaged to household assets where they have to replace household necessities (Mathison:2006, Parker and Nagarajan:2000, Srinivas:2007).

For low income people in developing countries who mostly do not have insurance, saving or immediate sources, they cope disaster by many different ways such as 1) reducing household consumption which often taken by reducing food intake; 2) making distress sales of physical assets, including livestock; 3) sending family members to search for work in less-affected areas; 4) drawing upon savings—held either in the form of cash or non-cash assets; 5) borrowing money from family, informal sources, or microfinance institutions; and 6) using

remittances (Parker & Nagarajan: 2000, Mathasan:2000, Srinivas:2005). Households may use those options in combination or in sequence depending on the type and size of disaster, and the type and magnitude of assets held by households (Parker & Nagarajan, 2000:1).

The dependency on borrowing money from informal sources as well as microfinance commonly occurs in developing countries. Srinivas states that 40 to 90 percent of all economic activities happen informally; 30 to 70 percent live in informal settlements, and more than 40-60 percent of economic investments take place using informal credit/finance (2007). Therefore, in the path to recovery, informal sources and microfinance can play a powerful part. CGAP (2000) describes that “microfinance institutions have been tirelessly providing and coordinating emergency relief, and a few are beginning to help local communities to reconstruct homes” and provide capital for informal sector jobs and informal enterprises which are significantly important for poor people.

Considering the significance of microfinance in the recovery process, this paper will elaborate economic recovery after the Yogyakarta and Central Java earthquake in May 2006. It will focus on a case study of Muhammadiyah microfinance program based on a field work that had been conducted during the Yogyakarta earthquake relief and recovery process from June 2006 - January 2007. Muhammadiyah is the oldest and one of the largest faith-based and non-profit organization in Indonesia. It has 28 million members and has branches down to the grass root level. The past five years the organization has extended its roles in providing services for emergency and recovery response. In Indonesia,

the country that experienced extensive natural disasters, the involvement of NGOs in preparedness and emergency response has increased. These involvements contribute to the recovery process as a whole. Shaw and Katshuichiro state that the roles of civil societies, NGOs and volunteers have taken center stage in pre-, during and post-disaster scenarios in different parts of the world (2004). Therefore, it will be useful to elaborate how Muhammadiyah organization provided support for relief and recovery process particularly in delivering livelihood program after the earthquake that struck more than 20 districts in Yogyakarta and Central Java.

Microfinance: serving the poor and generating economic activities

Microfinance is the provision of relevant and affordable financial services to poor households that do not have access to the services offered by “traditional” financial institutions, and concerns with credits and savings (Mathison, p.2). Some microfinance institutions have developed from existing community-based savings and loans cooperatives and rotating savings and credits associations (ROSCAs). Others microfinance institutions have evolved out of the revolving loan programs of charitable non-government organizations, including faith-based organization which offers loans to help beneficiaries develop income generating activities. In Indonesia, in early 1980, microfinance institution was established by central government in the form of village bank that provide small credits to small scale businesses in the village area.

There are some differences between microfinance institution which institutionalized like Village Bank in Indonesia, Grameen Bank in Bangladesh, or ACCION's BancoSol in Bolivia (Bhatt and Tang 2001) and microfinance which is not institutionalized such as ROSCAs and saving and loans groups (Fand and Ke, 2006). The institutionalized microfinance is structured and some of them still require collateral. Meanwhile ROSCAs and savings and loans cooperatives are non-structured and voluntarily base. The coordinator is selected by members of the group or members offer voluntarily and take turn to be coordinator. In these ROSCAs, each contributes a predetermined amount into a collective pot which is then given to one member. The latter is then excluded from receiving the pot in the future meetings, while still being obliged to contribute. The meeting process repeats itself until each member has received the pot. There is substantial variation among microfinance institutions/ROSCAs as to the frequency of the meetings, the amount of contribution, the number of members and the way the order of the winners is determined (Anderson, 2002:964).

However, there are similarities in microfinance institutions which are extensively practiced in developing countries. First, microfinance is quick and flexible, which mean that the procedure to get loans and credit is simple, not requesting collateral and the repayment methods are flexible. Second, microfinance is localized and close to communities. Most people in rural areas in developing countries do not have access to transportation. Proximity to recipients who need immediate source is very important. Third, microfinance has been active among most vulnerable people, and has also provided services to receive

remittances from relative and friends (Srinivas: 2007) and the most important character of microfinance especially in ROSCAs and cooperative systems is the social network among community (Fadiga: 24). These characteristics have proven in sustaining microfinance institutions for decades and successfully help poor people to meet their needs when they cannot get access from the formal as well as modern financial system.

Economic recovery after the 2006 Yogyakarta Earthquake: Muhammadiyah microfinance program

The earthquake that hit Yogyakarta and Central Java Province in Indonesia in May 27, 2006, had a magnitude of 6.3 left widespread destruction, killing at least 5,782 people, and severely injuring another 38,568, and leaving 1,1 million people without shelter. More than 127,000 houses were destroyed and an additional 451,000 were damaged in the area. The affected areas suffered an extensive damage to economic assets and infrastructure as well as social life.

Many NGOs alongside with government and international organizations, involves in relief and recovery process. As one of the largest social organization in Indonesia, Muhammadiyah participated by forming task force and emergency response in different level. This organization has been extensively extended its mission to take a role in disaster related task since Tsunami 2004 that hit Sumatera severely. Muhammadiyah had the ability to move as its structure similar to government structure with more than 28 million members, 33 branches

and 20,000 groups at the grass root levels. The institution such as thousands schools, hundreds hospital/clinics, more than 400 micro-finance institutions (MFIs) and thousands rotating savings and credits associations (ROSCAs) also help in responding natural disaster that frequently occur in Indonesia, the organization

During the 2006 earthquake Muhammadiyah set up a task force for relief and response. The organization received funds from many different donors. One of them is from Australian Government which provided \$ 1 million for emergency response. The response covered health activities, water supply and sanitation, education and children center, providing temporary housing and also community development program which some of activities were providing place for community to gather and to initiate recovery process.

Although economic recovery had not been included in the preliminary plan and agreement for the emergency phase, the Muhammadiyah task force proposed and delivered microfinance program as it was needed and demanded by communities in affected areas. They saw throughout the relief process that generating livelihood activities for low income households could speed social and economic recovery.

Working with the Muhammadiyah women wing organization, "Aisyiyah" at the provincial level, the task force then developed microfinance activities in the most suffered areas in six sub districts in Yogyakarta and Central Java Provinces. The microfinance program was not only intended for providing grants for replacing damaged tool and equipment and providing revolving funds for

restarting businesses, but also intended for developing and strengthening support system to guarantee the sustainability of the program.

This program targeted women and female householders as low income women mostly work to support their families and loans that extended to women usually benefit all the household members. In addition, women have limited access to formal bank and financial institution. Many of them rely on microfinance or informal institution like ROSCAs or saving and loans group which benefit them not only financially but socially. Kellee S. states that “Men generally don't participate in rotating savings and credit associations because they think that it's too bothersome to deal with such complex procedures for small sums of money. Women have more time on their hands to organize such [credit] associations... the monthly meetings also give them a chance to socialize with one another” (2000:143). In addition, the program also targeted to recipients who operated micro-enterprises as well as home-based economic activities which have turnover from 100,000 to 500,000 per day (equal to US \$10-50).

Process and Mechanism

To start the program, the Muhamamdiyah task force and Aisiyah at the provincial level held meeting with Aisiyah branches at the district level to perform rapid rural appraisal. The recipients were selected within groups which facilitated by Aisiyah at the grass root level. The following table shows the number of recipients based on their economic activities:

Table 1: Microfinance recipients and type of economic activities

Economic activities	Number of recipients
Tempe/Tofu production	34
Food stalls/porridge	60
Snack/fried food	40
Vegetable seller	22
Prawn cracker production	44
Chicken and catfish farming	6
Traditional herbs	2
Embroidery/sewing	26
Used goods retailers	8
Ceramic production	2
Total	244

Source: Muhammadiyah report (2007)

Then, training was conducted for facilitator and coordinators of the groups in order to increase their capacities and capabilities in serving communities needs and run the program effectively. Participants were enhanced to subjects such as group facilitation, understanding microfinance characteristics, problems and challenges of small enterprises, and administrative issues. To improve the small scale enterprises, other training was also implemented for recipients to gain their entrepreneurship skills such as cash-flow management and marketing. Participants were also encouraged to share their experiences.

Following the training, the Aisiyiah branches and group leader then held meeting with the recipients to decide on funds disbursement. Some branches operated microfinance using the existing form of microfinance institution such as savings and loans group/cooperative and rotating savings and credit associations (ROSCAs) which in Indonesia is called *Kelompok simpan pinjam* and *Arisan*. This type of associations is very common in the regions and has been practiced within Aisiyiah organization. In this association, a group of individuals, live in the same community, and each individual know each other, hold a routine meeting

that can be weekly, biweekly or monthly. Many women in the regions are member of the Aisyiyah organization and some only participate in the Aisyiyah's activities such as attending religious gather, food bazaar, and village festivals.

Unlike the commonly practice in ROSCAs system, in this program, every member did not have to contribute money. Funds were provided by Aisyiyah/ the Muhammdiyah task force. Each sub district received 30 million rupiah (equal to US \$3,000) which then distributed to several groups. To assure all members received funds, facilitators who already trained were responsible in managing loans or credits among its member. This process was important for ensuring recipients repay their loans in time in order to be able to be expended for revolving funds, where it can reach more victims in the area. Most recipients understood the objective and agreed upon a consensus that the program will precede minimum borrow to allow maximum lending outreach. The ground rules was set up in the early meeting and determined by the members of each group.

Each recipient who attended training and group meeting was given grants around 100,000 rupiah (equal to \$ 10) to replace broken equipments and tools. In addition to grants, each participant also received loans or credits as of 300,000 rupiah (\$ 25-30) for restarting their businesses which were interrupted by the earthquake. In the process, instead of distributing grants for replacing damaged equipments, many groups decided to use the grants for adding capital for loans and credits in order to reach more people.

In the meeting, each group set up repayment period based on their consensus. Many groups decided that the repayment process were starting the

third month after they received money. However, considering the demand on sources, some groups decided to ask their members to repay a month after receiving loans/credits.

Challenges for Muhammadiyah microfinance program

As a big organization, people have enormous expectations toward Muhammadiyah. However, Muhammadiyah is a voluntary based-organization, where sources are raised from internal members. When members at grass root level are affected by disaster, they can only rely on sources from Muhammadiyah members in other areas, which might not be enough to meet the large demand for people in the affected areas.

Another challenge was the facilitators or coordinators in ROSCAs and savings and loans cooperatives were also victims of disaster. They sometime had a conflict of interests in distributing funds and dealing with the recipients. The third challenge was related with the problem of human resources within the organization. Besides having lack of facilitators as they have to meet their own recovery needs, there were also problem on having more skillful staffs to facilitate trainings for recipients, particularly at ROSCAs and savings and loans program, as it operated voluntarily. Some of leaders and coordinators have lack capacities in recording and monitoring the process. As a result, there are difficulties in tracking repayment records of their members. The problem sometime also occurred when facilitator remained living in temporary housing;

they misplaced their record and had to rely on the honesty and integrity of the individuals or groups.

In addition, many agencies and donors considered economic recovery is not priority in emergency/relief phase. Therefore, there were only limited sources that can be used for economic recovery program. In fact, the program had been added in the proposal agreement with donors.

However, despite challenges, the program shows that there are positive impacts to the community. In six months, the clients who received loans and credits were able to restart their economic activities which help their household to recover. In addition, there were a growing number of beneficiaries. This occurred as a result of good repayment rates which generate revolving funds that can be used for accelerating recovery as a whole.

Lesson Learned and Conclusion

Microfinance has contributed an increasingly constructive role in recovery process. It demonstrates the ability to speed up economic recovery by supporting poor people who are affected by major disaster or crisis. It gave significant impacts particularly for women who have less access to loans and credits even during the normal situation. In addition, recognizing the existing groups and social network was very important as those are a social capital that can enhance resiliency and lessen people vulnerability. From the case study it shows that the establishment of long-term relationship between individuals and

Muhammadiyah/Aisyiyah organization contributes in increasing resilience of the community that affected by natural disaster.

In managing microfinance program, skillful and availability of human resources are keys to providing timely response to recipients of funds. Strong microfinance institutions, in this case Aisyiyah/Muhammadiyah organization at the grass root level are better place to provide relevant and helpful services to beneficiaries which in a short term will help a livelihood and economic recovery and in the long-term can bolster the resilience community. Finally, it may result a significant difference if economic activities are integrated in the emergency plan.

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