# BOOK REVIEWS

*Rural Credit between Subsidy and Market: Adjustment of the Village Units of Bank Rakyat Indonesia in Sociological Perspective*. By Leonardus T. Schmit. Leiden Development Studies no. 11. Leiden: Faculty of Social Sciences, Leiden University, 1991.

The provision of rural credit and its impact on the development process has been the subject of much debate which has recently flared up again, and L.T. Schmit has added a very thorough and thought-provoking study to add substance to this debate.

The argument centres on the "strategic change" in Indonesian economic thinking around 1984 when the "earlier ideological vision of a non-capitalist future" (p. 126) was dropped and the "vision of a cooperative Indonesian society" (p. 5) enshrined in the 1945 constitution was re-interpreted. In more concrete terms, which are subjugated to a thorough analysis, this means a change from a subsidized credit system to a credit system based on market conditions.

Leo Schmit starts with a historical flashback to the colonial popular credit system between 1895 and 1942, which provides a valuable overview, especially for those who do not have access to the Dutch historical sources. The following three chapters then analyse the various stages of the credit system since the founding of Rakyat Indonesia in 1946. The central argument is presented in Chapter 4 on the adjustment of the village unit network of Bank Rakyat Indonesia (BRI) between 1980 and 1984 and the consequences of the new deregulation policy of 1983.

Instead of repeating some of the very detailed sets of data, several questions regarding the validity of the argument will be raised. Leo Schmit cautiously but firmly states that the BRI restructuring programme

was successful (p. 263). Whereas under the subsidized credit schemes that were supposed to favour small and middle farmers, arrears in repayments amounted to 40–50 per cent, outstanding loans amounted to only 5 per cent after 1984. This apparent success was, however, connected with a complete shift in the composition of clients who received credit. Under the new scheme, 70–90 per cent of clients were in trade and processing and no longer in farming, that is, in direct agricultural production. To a certain extent this might reflect the shift in the economic composition of especially the Javanese rural economy, where off-farm employment has been on the rise. On the other hand, it could be asked whether favouring traders, many of whom would be "middlemen", is really such a great achievement. Bank Rakyat Indonesia certainly has managed to transform itself from an administrator of government funds to a rural bank that is now able to turn in a profit, but the long-term impact of this new policy on farming is still to be seen. According to the recent poverty assessment report of the World Bank (1990) rural poverty has been reduced considerably during the 1980s. The World Bank interprets this as the thundering success of deregulation and a market-oriented policy of the Indonesian Government which has followed World Bank prescriptions. The increase in rural income is clearly visible and brought out in many micro-studies done by sociologists and anthropologists though perhaps not as even and all-encompassing as the *World Bank Report* suggests. But can success be seen that quickly? Has the deregulation of the rural credit system, as analysed by Leo Schmit, done the trick in only four to six years, or is the increase of rural welfare not the belated result of subsidized credit redistribution to farmers and the BIMAS (Bimbingan Massal, or "mass guidance") programme? Leo Schmit does not provide a clear-cut answer to this question as he looks at the scene from the point of view of the BRI.

The interesting question, how the shift in policy was made possible, is answered by Leo Schmit by providing an analysis of a shift in the power of strategic groups within the banking system. An emphasis on collective appropriation was replaced by an emphasis on individual and corporate appropriation. The overall political consequences of this shift had not been followed up but will undoubtedly emerge in the struggle

in connection with the forthcoming presidential election.

Leo Schmit has written an interesting compendium on the rural credit scene in Indonesia which has occupied the imagination of Dutch administrators and scholars since Boeke returned from his colonial post in Indonesia to express his frustrations in failed rural credit schemes in his well-known theory of the dual economy. The "oriental society" bias has been thoroughly eliminated in Schmit's book, which provides a balanced and well-researched report which makes good use of the work and thinking of leading Indonesian economists. The study will be an important source-book for all further studies on the monetary system of Indonesia.

HANS-DIETER EVERS

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HANS-DIETER EVERS is Professor and Head, Sociology of Development Research Centre, Bielefeld University.