

Building Community Independency and Social Stability through Micro, Small and Medium Businesses in Garut, West Java

A partnership between Chevron Indonesia and the Association for Advancement of Small Business (PUPUK)

Poverty and the Millennium Development Goals/MDGs

The Central Bureau of Statistics (BPS) recorded that the poverty headcount ratio at national poverty line in Indonesia by September 2013 has reached 28.55 million people or 11.47%, an increase of 0.48 million people compared to the poverty headcount in March 2013. BPS data further explained that the number of poverty headcount in urban areas has increased 0.30 million people from 10.33 million in March 2013 to 10.63 million in September 2013. Meanwhile, in rural areas the number increased 0.18 million people (from 17.74 million in March 2013 to 17.92 million in September 2013). This figure has not reached the target set by the government through the Millennium Development Goals for 2015 of 7.55%.¹

Various policies and programs have been introduced to overcome the problem in poverty. One of the strategies to eradicate poverty is to empower micro, small and medium enterprises (MSME) administered by the government and private institutions. MSME empowerment is not only expected to eradicate poverty and to create employment opportunities but also to make an impact on the social and political stability.



A group of youth and housewives turning plastic wastes into handicraft products. © PUPUK 2013

SUMMARY

Chevron and the Association for Advancement of Small Business (PUPUK) partnered in a program called "Income Generation Project for Forestry Community" (IGP4Com) from 2009 to 2013. This program focused on economic empowerment in areas where Chevron operates, namely Samarang and Pasirwangi sub-districts, Garut Regency, West Java Province. The main beneficiaries of this program were mostly vulnerable groups, such as, housewives, farmers, and youth of 17-24 years old. The four intervention focuses were (1) development of integrated farming system, (2) strengthening of micro finance institution, (3) development of

processing business and industry, and (4) community creative center ("Center"). The four interventions were interrelated and supported the business continuity by the community in the long run. In implementing the partnership, Chevron supported the funding, while PUPUK provided the training and technical advices on developing micro, small and medium enterprises (MSME).

As of the end of 2013, among other program's achievements: (1) 278 housewives and farmers have received integrated farming training, (2) the Micro Financial Institution had gathered 800 members, with a distributed loan of Rp. 525 million, and 95% repayment success rate (3) more than 4,000 community members received training on MSME; and (4) the Center has successfully established 47 new business groups consisting of 675 housewives, 700 farmers, and 168 youth, and resulted in producing 125 kind of products from its nurtured groups, (5) transaction of nurtured groups has increased from Rp. 203 million in 2011 to Rp. 3 billion in 2013.

The success of their partnership was based on the nature of integrated activities, starting from farming, processing of agricultural product & handicrafts, packaging and marketing (through micro credit). In terms of program sustainability, Chevron and PUPUK have decided to develop integrated and eco-friendly centers for economic activity, such as strengthening the cooperatives, development of business center for processed food, and the development of Ciburial to be the first culture-based tourism village in Garut area. Based on the observation of both partners, the program also benefitted in reducing social unrest as the result of economic growth from the improved business either on-farm or off-farm¹ owned by the community groups.

THE PARTNERS



Human Energy™

Chevron (www.chevronindonesia.com) is the biggest oil, gas and geothermal company which has been operating for over 90 years in Indonesia.

Chevron plays a pioneering and leading role in the development of oil, gas, and geothermal projects in the country. Chevron's operations in Indonesia are located in Riau-Sumatra, East Kalimantan and West Java. Chevron started its geothermal power operation in West Java in 1990 to produce renewable energy for approximately 4 million homes in Indonesia.

Chevron has partnered with many NGOs to implement community development programs around Indonesia by building emergency care units for pregnant mothers, establishing the system of "Alert Village" (*Desa Siaga – Siap Antar Jaga/Ready to Take and Stand-by*) for expectant mothers, strengthening community-based business groups, establishing farmers' associations to turn idle lands into crops, forest and environment conservation, constructing schools and polytechnics in Riau and Aceh, and aids for natural disaster and earthquake victims.

Since 2009 Chevron has included communities as major partners in the implementation of a variety of programs, recognizing the importance of building its business by working with government and local community.²



P.U.P.U.K
perkumpulan untuk peningkatan usaha kecil
the association for advancement of small business

The Association for Advancement of Small Business/PUPUKⁱⁱ

(www.pupuk.or.id) is a non-profit organization focuses in

Local Economic Development which attempts to develop the micro, small and medium enterprises (MSME). Established in 1979, through the Small Industry Development Program initiated by the Chamber of Commerce and Industry (KADIN) West Java Province and business groups, academicians and economists (*Lembaga Pembinaan Sosial Masyarakat/LPSM* or Community Development Social Institution activists); supported by a German donor agency, Friedrich-Naumann-Stiftung (FNST).

This organization is headquartered in Bandung, West Java (the headquarter is also functioning as the main office of the Secretary General of PUPUK) with four representative offices in Tegal (Central Java), Special Region of Yogyakarta, Surabaya (East Java), and Makassar (South Sulawesi). Its vision is to strengthen small businesses which will generate independent and tough entrepreneurs in encountering economic competition. Among other activities that PUPUK conducted are general management training, business development consultancy, establish business facilities and networks with relevant parties and conducts various market research and policies to support the MSME activities. Several programs ever conducted were "One Village One Product"ⁱⁱⁱ industrial cluster, and inclusive business model developments that provide access for small entrepreneurs to economy facility resources (such as credit, market, and technology).

In addition to Chevron, PUPUK had also worked with other companies such as PT. Aneka Tambang/ANTAM, Semen Gresik, Indofood and PT. Kaltim Prima Coal to administer various economic programs including agribusiness, processed food, tourism and creative industry. While cooperation with donors such as European Union, JICA, AusAID, Ford Foundation and international NGOs were focused on local regional economic development in various sectors and policies supporting entrepreneurship.

INITIATING THE PARTNERSHIP

Before deciding on its partner, Chevron conducted a social mapping study to map social issues and explore community needs living around operational areas. The study conducted in 2007 suggested intervention/activities focusing on empowering the economic sector in consideration that Garut is the second largest poor population region in West Java Province.³

The next stage, based on the assessment, Chevron then identified a local organization/partner that has experiences in community economic development with an operating region in West Java. Out of four identified organizations, PUPUK was selected as the partner based on the considerations of its track record or success ratio and its ability to implement the micro, small and medium enterprises program (MSME).

As an initial step of the partnership, in 2008 Chevron and PUPUK established cooperation through a pilot project in youth empowerment creative industry in T-shirt business. Activities conducted encompassed the technical production of T-shirt, screen printing (*sablon*), design, marketing and branding^{iv} in Sukaresmi Sub-district, Garut, West Java.

IMPLEMENTING THE PARTNERSHIP

After one year of implementing the pilot project, Chevron and PUPUK agreed to bring up the cooperation in a long term project called "Income Generation Project for Forestry Community" (IGP4Com). This program focused on economic development for the surrounding community implemented from 2009 until end of 2013. This program was conducted in five villages, namely Barusari, Padaasih, Pasirkiamis, Padamulya and Padasuka villages, distributed in two sub-districts (Samarang and Pasirwangi), Garut, West Java. The main beneficiaries of the program were housewives, farmers and youth of 17 years and above.

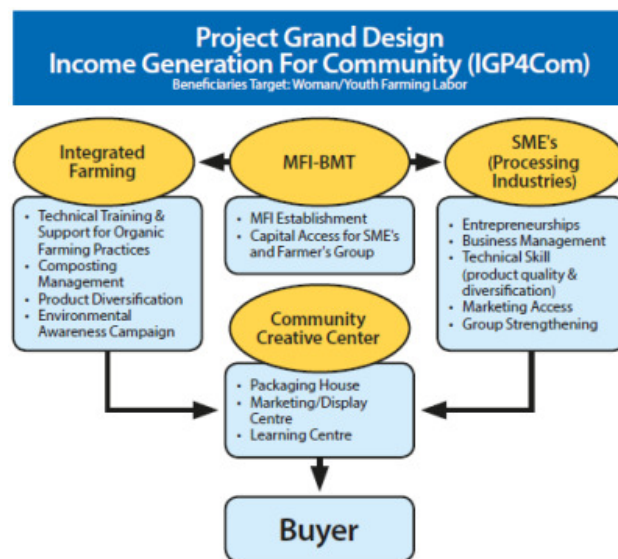


Diagram 1: Scheme of Income Generation Project For Forestry Community (IGP4Com) program.

Under the IGP4Com scheme above (see diagram 1), Chevron and PUPUK agreed to focus on four activities on empowerment, those activities were the following (1) integrated farming, (2) micro financial institution, (3) development of business and processing industry, and (4) community creative center. The four interventions are interrelated and supporting the business continuity in the long run.

The integrated farming development started in 2009 with the objective to build the farmer's skill in increasing their income through cooperatively-managed sheep breeding, preparing compost from sheep dung and organic waste, farming various organic vegetables, and applying technology in converting sheep waste into biogas for household cooking. In these activities, PUPUK played a role in facilitating with other experienced institutions such as the University of Garut (UNIGA) and local Social Office to provide technical assistance in developing integrated farming and with Sinergi Pembangunan Foundation (YASIP) for biogas management. This integrated farming program was expected to reduce expenses on fuel (biogas) and to increase family income through making compost and farming organic vegetables. The total beneficiaries from this intervention was 278 housewives and farmers.

In the micro financing institution/agribusiness empowerment, Chevron facilitated the establishment of a cooperative titled *Baitul Maal wat Tamwil* (KBMT) Berkah Darajat in 2010 to distribute business loans to target beneficiaries. PUPUK provided technical assistance to cooperative administrators (finance and management) so they could have the necessary skills to run the cooperative professionally.

Chevron then provided savings and loans funds distributed to members and community who need their service, either individuals or business groups. The range of credit loans for individual business was between one to two million Rupiah but could be increased specifically for promising business proposals. Return payment was done either daily or weekly. The business group receives the similar loan as the individual of 1-2 million Rupiah with joint liability where members share the risks associated with taking on additional debt. The provision of micro credit through these business groups was also one of Chevron and PUPUK's strategies to suppress bad credit. The key to the success of micro credit lied in the ability of Cooperative Coordinator in building communications with its creditors. The better the communication, the better the returning rate.

Since its establishment through 2013, KBMT Berkah Darajat was able to gather almost 800 members, with total loan distributed reaching Rp. 525 million, and with net profit of each member around Rp. 450 thousand per month and returning rate of 95%.⁴

In developing the MSME business and processing industry, PUPUK applied good hygiene practices in the processing and packaging of food to ensure the safety when consumed. In addition, PUPUK also provided trainings not only on the method to make processed food starting from recipes, packaging, and storing; but also on marketing aspects such as calculating basic selling price, determining product of excellence, understanding market/consumer segments and distribution process for every product put on sale. The beneficiaries from this intervention was 4,000 community members from the housewife groups and productive youth.

Community creative center (Center) is a learning center for community members on business management and entrepreneurship. Center was established in 2011 as a catalyst of all economic development activities within the intervention area. But later on Chevron transformed the Center to become a formal body of a Cooperative in October 2012, as one of many ways to prepare the community heading towards independent business. This Samarwangi Cooperative provided business services such as packaging as well as marketing display for MSME^{vi} products, and business coaching either in product development, management, or market access to community groups including youth and housewives. In addition as a training center, the Cooperative also functioned as the outlet center for various targetted MSME products in the region.



A member of the community group is making cassava chips in Sukarakyat. © PUPUK 2013

Chevron provided space by renting it for the first two years (2011 and 2012). But on the third year and onwards, the Samarwangi Cooperative and PUPUK should be able to continue and pay the rental from the fees of their services rendered (marketing and coaching). PUPUK's role was in providing technical coaching such as trainings and consultancy on how to manage business properly from the start until the marketing process. In such coaching, PUPUK provided staff with different skills, such as food/drinks/handicrafts management, business management, product certification and many others.

Since its establishment until 2013, the Cooperative had generated 47 new business groups consisting of 675 housewives, 700 farmers and 168 youth with an approximatey of 125 group products. The products of these target groups varied largely and were divided into several commodities namely processed food (chips, mushroom, etc.) and handicrafts (batik, waste recycling), cultivation (agriculture and cattle farming), marketing, and services (eco-tourism village and motor repairs).

RESULTS

Until the end of 2013, the program has achieved the following: (1) total beneficiaries of 278 housewives and farmers from integrated agriculture intervention; (2) KBMT Berkah Darajat gathered 800 members, with loans distributed reaching Rp. 525 million, and net profit of each member was Rp. 450 thousand per month, and 95% returning rate; (3) more than 4,000 community members were trained on MSME; and (4) Samarawangi Cooperative had successfully generated 47 new business groups consisting of 675 housewives, 700 farmers and 168 youth, with an approximately 125 products produced by the support groups; (5) Increased transaction in support groups from 203 million in 2011 to 3 billion in 2013.

IMPACT

Based on the observation by the two partners, due to the increased of the ownership of off- and on-farm by community groups, it had an impact on the declining of social unrest. Some of impacts of the program that have been documented are⁵:

1. The growth of new businesses absorbed 795 workers or equal to 2.36% of 33,679 working-age population within the intervention area.
2. Compared to between 2011 and 2013, there was an increased transaction from 203 million to almost 3 billion due to the increased number of business group, expansion of market access and transaction value.
3. The emergence of new business groups in creating various processed foods such as oyster mushroom *rendang*, banana *dodol*, various chips; and new business services like aluminium handicrafts, and motor vehicle repair shop.

CHALLENGES AND LESSONS LEARNED

The key to successful partnership was the involvement of local partners in the program. Chevron requested PUPUK to establish partnerships to work with local NGOs in the implementation of IGP4Com program such as providing technical trainings in business management, management, bookkeeping and administration, and procurement of equipment.

In addition, the success of partnership was also based on the nature of integrated activities from agriculture farming, processing of agriculture product and handicrafts, packaging and marketing (micro credit).

One of the biggest challenges in implementing the program was the cases on several ownerships and land rights disputes within Chevron's operating areas. In this regard, Chevron gave more focus on farmers empowerment rather than dealing with the land dispute issue. Farmers who worked on cultivating land around Chevron's operation areas were trained on commodity shift (from planting potato to coffee) to protect the soil texture. Increased agriculture production activities by using uncontrolled land may reduce the

level of soil fertility and decreased the stability of geothermal pressure required to produce energy.

PLANS AND EXPECTATIONS

Important issue that comes to surface at the end of the program is program's sustainability aspect. To respond this issue, Chevron and PUPUK have planned to build integrated and eco-friendly economic activity centers and expected to achieve self-reliance. These activities are:

1. Develop processed food business product centers such as banana and mushroom centers to expand the marketing range but quite accessible to farmers with limited plot of land.
2. Develop Ciburial eco-tourism village in Sukalaksana village, Samarang sub-district which is high likely to be the pioneer in cultural-based tourism business in the Garut area.
3. The Samarawangi Cooperative is planning to establish new unit in travel and tour guide business in Ciburial Village.

Footnotes

- i. On-farm activities are the whole process directly related to agriculture cultivation, such as sowing, insemination, fertilizing, feeding, pest and disease control, harvesting, etc. While off-farm activities are the marketing process of agricultural produce, such as processing of harvests, selling, etc.
- ii. PUPUK stands for *Perkumpulan untuk Peningkatan Usaha Kecil* or the Association for Advancement of Small Business in English.
- iii. One Village One Product is a business activity in one region to select a product distinctive and unique to the region and develop it to a globally accepted standard by utilizing local resources.
- iv. Branding is a marketing practice in creating a trade mark, symbol or design that identifies and distinguishes one product against the other.
- v. KBMT is a micro financial institution operating under the Syariah/Islamic principle.
- vi. During its initial establishment, the Samarawangi Cooperative was in Padasuka village, Pasirwangi sub-district, Garut Regency. But in the early 2013, the Cooperative was moved to Tarogong sub-district. The moving was deliberately to expand the outreach of consumers and market, as Tarogong lies on the main corridor of business and tourism from Bandung to other cities in the eastern part of Java, such as Garut, Tasikmalaya and others.

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About this Case Study

This is one in a series of case studies based on presentations by partners at sessions of the Health and Business Roundtable Indonesia (HBRI). HBRI is an activity of Company-Community Partnerships for Health in Indonesia (CCPHI), a project funded by Ford Foundation.

This case study is based on presentation made by Deden M. Idhani, (Team Manager Policy Government and Public Affairs Chevron Garut) at the 23rd session of the Health and Business Roundtable Indonesia (HBRI). Dian Rosdiana, CCPHI Communication Officer prepared the study in consultations with Chevron and PUPUK.

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