MICROENTERPRISE STOCK-TAKING:

THE FINANCIAL INSTITUTIONS DEVELOPMENT,

PUSKOWANJATI WOMEN'S COOPERATIVE,

MAHA BHOGA MARGA, AND YAYASEN DIAN DESA PROJECTS

INDONESIA

A.I.D. EVALUATION OCCASIONAL PAPER NO. 28

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FOREWORD

During 1988 and 1989, A.I.D. undertook a major stock-taking of its experience in microenterprise development. The stock-taking examined differing approaches and techniques that have been used in efforts to assist microenterprises, including alternative institutional delivery mechanisms. The study was designed to identify the patterns of A.I.D. project interventions that generate success, with the goal of establishing which were the most successful programs, institutions, and delivery techniques. It required an examination of the different types of microenterprises and of the way their problems differ, and an analysis of A.I.D. project approaches, to see which work best under which conditions.

The stock-taking included a conceptual overview paper of published evaluations that identified many factors that are important to project success. It also developed a conceptual framework for analyzing the types of problems microentrepreneurs face.

The stock-taking included field assessments of A.I.D. microenterprise assistance projects in 10 countries. These assessments provided an excellent opportunity to examine in a systematic, consistent manner a large number of project approaches operating under a variety of economic conditions.

The final part of the stock-taking was a synthesis, which pulled together the findings of the conceptual overview paper and the field assessments to develop lessons learned and recommendations for microenterprise assistance programs.

Indonesia was one of the 10 countries examined in the field assessments, and the assessment focused on the Financial Institutions Development, the Puskowanjati Women's Cooperative, the Maha Bhoga Marga, and the Yayasan Dian Desa projects. This assessment provides interesting insights on one approach to promoting microenterprise development. We think that those who are working on microenterprise programs in Washington and in the field will be able to draw on the findings of this report to help in the planning, implementation, and evaluation of other microenterprise programs.

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PREFACE

This report constitutes one part of a multi-country stock-taking exercise designed to summarize and synthesize what lessons have been learned about microenterprise development and about effective design and implementation of projects aimed at microenterprises. The report deals with Indonesia and draws lessons from the four projects that were analyzed.

The projects reviewed by the stock-taking team fell into two quite dissimilar categories. Three of the four are relatively small activities managed by nongovernmental organizations (NGOs) providing credit in two instances and training in the third. The fourth project is a large government-sponsored rural credit effort, managed through the formal sector. The stock-taking team undertook a field review of the three NGO activities and a desk audit of the Financial Institutions Development (FID) project. In the latter case, the existence of an institutional evaluation and other extensive descriptive material was adequate for describing the project.

The stock-taking team divided itself into two groups and each reviewed two projects. Each project review consumed roughly seven days including write-up. The team was in country for approximately two weeks in late 1988.

The stock-taking team would like to thank the staff of the A.I.D. Office of Voluntary and Humanitarian Programs for their excellent support and thoughtful insights. In particular, the team would like to express its appreciation to Victor Panjaitan and Tendy Mainardi who accompanied the team members and who assisted immeasurably in helping them understand the activities under review and the context in which they functioned.

Average U.S. Dollar/Rupiah Exchange Rate. 1981-87

Year	No. of Rupiah/Dollar
1981	450
1982	650
1983	700
1984	990
1985	1,100
1986	1.500
1987	1,640

SUMMARY

The Republic of Indonesia is a highly diverse country comprising an archipelago of more than 13,000 islands with a total land area of about two million square kilometers. Its estimated population in mid-1986 was 167 million, making it the world's fifth most populous country, and the world's largest Muslim country. Population is growing at about 2.1 percent a year.

Although rapid growth and supportive Indonesian government policies have helped achieve a marked reduction in poverty in the 1970s, an estimated one-third of the population remained below the absolute poverty line in 1984 and the situation has probably worsened somewhat since. The incidence of absolute poverty was significantly higher in densely-populated Java than in the other islands (32.2 percent versus 30.6 percent in 1984) and was particularly high in rural as compared to urban areas (41 percent versus 13 percent).

The government of Indonesia has undertaken a number of lending programs intended to provide small enterprises with access to credit. These have differed widely in design and performance and are described in this report. Otherwise, the rural and small enterprise sectors access credit from a number of informal sources, including family and friends, money-lenders, and various types of village-based savings and loan associations.

Microenterprise development is not a central objective of A.I.D.'s strategy in Indonesia. However, the 1989-1993 Country Development Strategy Statement does place central emphasis on the improvement of long-term sustainable employment and income generation. These goals are to be pursued through efforts to increase the demand for labor and raise the quality of the labor force. The strategy is to be implemented through four sub-goals, the most pertinent of which is that of supporting a more open, less regulated market and trade-oriented economy.

Given the abbreviated nature of this review, the stock-taking team was not able to develop informed judgments with respect to other private sector and/or donor initiatives in the microenterprise area.

The Financial Institutions Development Project (FID) was established by A.I.D. in collaboration with the Indonesian government in 1984 with the objectives of encouraging enterprise development, increasing productivity and generating employment opportunities in rural areas. Its purpose is to support the development of existing rural credit institutions that provide rural financial services at a reasonable cost, produce loan portfolios of employment-generating activities (primarily off-farm), and promote savings mobilization. The aim is to develop

locally oriented, self-sustaining financial systems that mobilize savings and extend credit. This experience should enable the development of policies, systems, and standards required to promote the growth of rural financial institutions. In 1986, the project was amended to include the sub-branches (Unit Desas) of the Bank Rakyat Indonesia (BRI), that provided rural credit. Thus, the project consists of two components, the Village Financial Institutions (VFI), and the General Village Credit Program of the Bank Rakyat Indonesia (KUPEDES).

A.I.D. assistance to the Village Financial Institutions program consists of (1) funds for capitalization; (2) commodities (vehicles and equipment) for participating Regional Development Banks (BPDs); (3) training inputs for Bank and Village Financial Institutions staff; and (4) technical assistance in institutional development by long-term resident advisers and short-term experts.

A.I.D. assistance to Bank Rakyat Indonesia focuses on: (1) assistance to branch operations in the development of an operational plan to ensure sound financial practices, and the availability of financial services in a self-sustaining system; (2) support for a high quality training system and the capacity to maintain it; and (3) improvement of the accounting, communications, and data processing to lower the cost of financial intermediation.

The Puskowanjati Women's Cooperative (PWC) is an umbrella organization of women's cooperatives located in East Java. It includes 29 member groups totaling 16,000 women and is the largest independent women's cooperative in Indonesia. Its stated purposes include: (1) encouraging women to join member cooperatives; (2) the provision of a savings and loan facility to- members; (3) increasing the income and employment of members; and (4) increasing participation of low income women in the activities and benefits of a cooperative.

A.I.D. has provided grant funding since 1984, initially through a registered private voluntary organization. Total assistance to date is $505,000, used to establish or expand revolving loan funds for member cooperatives (the majority of loan capital has come from A.I.D. funding) and to provide training to the staff of Puskowanjati Women's Cooperative and member cooperatives in the areas of management and financial administration.

Member cooperatives range in size from 90 to 3,600 with the largest employing a full-time staff of 42. Member cooperatives offer credit and a savings facility to individual members as well as training. The nature and extent of training appears to differ among the member cooperatives. In some instances, it is informal and voluntary and limited to training members in how to obtain credit, repay loans and handle their pass-books. Several member cooperatives offer more extensive training in basic business and accounting practices and charge a fee for these services. (PWC is itself planning to add a training capacity in certain technical areas.)

The purpose of the A.I.D. Co-Finance Project Grant to the Maha Bhoga Marga (MBM) microenterprise development program in Bali, is to provide partial support for credit and training activities. It targets microentrepreneurs to assist them in increasing their incomes from non-farm activities. The specific objectives stated in the grant agreement are:

(1) The capitalization of a revolving credit fund for small-scale entrepreneurs releasing them from dependence on high-cost credit from local money lenders;

(2) To assist small entrepreneurs build a strong credit history;

(3) The provision of credit with low transaction costs;

(4) The development and strengthening of Maha Bhoga Marga organizational structure and management capabilities;

(5) The provision of technical assistance to small-scale entrepreneurs to improve the management and development of enterprises; and

(6) The provision of training and seminars to entrepreneurs in small-business management to improve business management skills.

A.I.D. provided a grant of $179,641 to Maha Bhoga Marga in July 1987 for the microenterprise assistance program. Of this sum, $88,439 was set aside as a contribution to the revolving loan fund. The remainder of the grant was earmarked for support and institution-building costs.

When disaggregated by location, religious community, or sector of activity, there is much of interest to report on the MBM program. Loan size is small and loans are more primarily to trading enterprises.

Yayasan Dian Desa does not currently receive funding directly from A.I.D. for activities related to microenterprise development. In July 1986 it received a grant of $566,000 under PVO Co-Financing II to support rainwater catchment systems and related agricultural development activities. From 1985 through June 1988, however, Dian Desa served as part of the implementation team for the Central Java Enterprise Development Project (CJEDP), which was substantially concerned with small and microenterprise development.

Several aspects of the economic and social context within which Dian Desa has carried out its activities have already been discussed in previous project descriptions. Alleviating low incomes and underemployment among a large share of the Indonesian population are dominant themes in Dian Desa's efforts. In addition, Dian Desa perceives a substantial gap between the relevant technology available to the Indonesian economic and the level of technology actually utilized outside the formal industrial sector. Dian Desa sees its principal role as one of helping to bridge this gap, by applying (or developing) "appropriate technologies" to help lowincome populations increase their incomes and improve their living conditions. A final contextual element relevant to Dian Desa's recent activities is the deterioration of key aspects of Indonesia's natural resources, specifically the progressive destruction of mangrove which plays an important role in the economic and ecology of coastal areas.

FACTORS INFLUENCING PROJECT PERFORMANCE AND IMPACT

Contextual Factors

(1) A modest and predictably steady rate of inflation ranging from 8 to 10 percent per annum has permitted or at least not undermined the development of sustainable, locally-based credit institutions.

(2) The existence of a deregulated credit market at the local level has allowed grass-roots credit organizations to establish margin levels adequate to cover costs and, in some instances, generate a profit.

(3) The apparent absence of extensive and complex regulations or bureaucratic requirements at the small and microenterprise level encourages flexibility and adaptability on the part of microentrepreneurs.

(4) The business environment is perceived as having sufficiently profitable business opportunities that can cover the costs of credit and the risks of entry, and encourages the growth of small and microenterprises.

(5) The ability of informal microenterprises to graduate to formal sector banking is inhibited by the absence of clear, easily accessed linkages between credit mechanisms at the local microenterprise level, and the formal sector banking system.

Programmatic and Organizational Factors

(1) Credit, rather than technical assistance, is the focus of microenterprise assistance (except in the case of Dian Desa). This has helped to focus program activities but may have restricted the abilities of enterprises to graduate to higher levels of entrepreneurship and enter the formal sector.

(2) Professionalized operations characterize the four projects. Procedures have been systematized, financial systems installed, simple budgeting and planning techniques adopted, and mechanisms for monetary and nonmonetary (in the case of PVOs) staff incentives designed.

(3) Reasonable prospects for institutional sustainability exist for the projects, due in large part to organizational willingness to cover most costs through adequate margins.

(4) Clear organizational lines of support and authority with decentralized capacity to adapt objectives to local conditions appear to work the best.

(5) Project offices were in close geographic proximity to the intended beneficiaries, allowing them to be familiar with the local conditions and respond to changes in the local environment.

Financial Considerations

(1) The projects display moderate to high levels of financial viability. Good operating profits have been reported despite fairly high lending costs of up to 20 percent of the loan portfolio.

(2) The projects have been able to establish and maintain healthy loan portfolios.

(3) All the credit projects have recorded high rates of growth, limited in the case of the PVO’s by the availability of funds and, in the larger Financial Institutions Development Project program, by the ability to train staff and provide an adequate supervisory input to an extensive and growing network of village or sub-district level branches.

(4) The availability of loanable funds has been greatly augmented by the mobilization of local savings either through compulsory or voluntary schemes.

(5) The projects have established sound businesslike credit procedures. Some of these are: a positive interest rate structure; simple borrowing systems and procedures; use of informal community-based credit review and loan guarantee mechanisms; effectively mixing loans to individuals and enterprises at a variety of income levels, sizes, loan purpose and activities to diversify the loan portfolio and reduce risk; developing a relationship with a borrower with a small short-term loan and gradually increasing the amount and term as creditworthiness was established.

Beneficiary Considerations

(1) The delivery of credit at the village level through simple lending and repayment procedures has greatly improved the access of the poor to the institutional system.

(2) The projects have not targeted productive enterprises for credit all enterprises, including trade and severe enterprises are eligible.

(3) In all projects, more than half of the borrowers were women (all, in the case of the women's cooperative).

(4) The projects appear to have increased labor productivity rather than created more jobs.

(5) There is a lack of conclusive impact data on beneficiary income. The largely positive impressions of the project impact are based on anecdotal evidence.

LESSONS LEARNED IMPLICATIONS FOR FUTURE PROGRAM AND POLICY DIRECTIONS

Contextual

(1) Opportunities for successful projects can exist in less than optimal economic and regulatory environments.

(2) Credit to microenterprises is usually not enough to graduate the enterprise to the formal sector.

Programmatic/Organizational

(1) An important aspect of long-term institutional sustainability is the capacity or orientation to charge realistic fees for services delivered.

(2) Long-term project self-sustainability is dependent on an organizational capacity to be analytical and strategic with respect to the external environment, policy implications and the demand for services offered.

(3) Organizations that have an uncluttered sense of their own institutional identity and reasonably finite program boundaries (as in the case of the Puskowanjati women's cooperatives) are better positioned to protect the financial viability of the organization and will be more likely to survive.

Financial

(1) Portfolio diversification is an important component of success.

(2) Simple, quick, easily understood credit and savings formulas and procedures are an important ingredient to the successful operation of a credit facility.

(3) Microcredit schemes can be profitable, at least in an accounting sense, when realistic interest margins are used and when certain administrative costs are externalized through, for example, the creation of informal community level organizations.

(4) Accepting character guarantees from village-level leaders or group guarantees enforced by peer pressure can be as effective

as financial guarantees in ensuring payment of a loan.

(5) Linking of credit and savings mechanisms is an effective way of mobilizing savings for productive purposes while ensuring the financial soundness of the lending arm.

Beneficiary

(1) The establishment of projects for microenterprises at the local levels have greatly increased access of the poor to institutional resources.

(2) Low-income recipients have demonstrated a capacity to use borrowed funds productively, pay market or near-market interest rates, and repay loans with very low default and acceptable delinquency levels.

(3) There is preliminary indication that it may be easier to affiliate the beneficiary with a community-based credit facility than to "graduate" that person or firm to the formal banking system.

In conclusion, the experience of these projects shows that it is possible to assist the poor as microentrepreneurs through a decentralized, facilitating business development approach rather than through specifically poverty-focused programs. The low transaction costs and easy access are a benefit to the poor while high interest rates and a diversified portfolio ensure institutional sustainability. The net effect is increased employment and income generation thereby stimulating economic growth through broad-based linkages and multiplier effects.

GLOSSARY

A.I.D.	Agency for International Development
BKK	Badan Kredit Kecamatan
BPD	Regional Development Banks
BRI	Bank Rakyat Indonesia
CJEDP	Central Java Enterprise Development Project
DAI	Development Alternatives, Inc.
FID	Financial Institution Development
GDP	Gross Domestic Product
KUPEDES	General Village Credit Program of the Bank Rakyat Indonesia
MBM	Maha Bhoga Marga
NGO	Non-Governmental Organization
PSD	Office of Private Sector Development
PVO	Private Voluntary Organization
PWC	Puskowanjati Women's Cooperative
Rps	Rupees (1,640 = $1.00)
VFI	Village Financial Institutions
VHP	Office of Voluntary and Humanitarian Programs

1. COUNTRY SETTING

The Republic of Indonesia is a highly diverse country comprising an archipelago of more than 13,000 islands with a total land area of about two million square kilometers. Its estimated population in mid-1986 was 167 million, making it the world's fifth most populous country, and the world's largest Muslim country. Population is growing at about 2.1 percent a year.

Since Indonesia secured full independence in 1950, the key event in its political history has been the abortive left wing coup of 1965. The suppression of the coup unleashed pent-up social tensions, leading to the death of many thousand Communists and suspected sympathizers, as well as widespread reprisals against the Chinese community. Since the late 1960s, the political scene has been stable under the leadership of President Soeharto with the exception of occasional outbreaks of violence against the Chinese community, the last being in 1974.

GDP per capita in 1986 was estimated to be $450, placing Indonesia in the lower middle income range of the World Bank's classification scheme. Recent Indonesian economic history has been dominated by the huge expansion and subsequent decline of foreign exchange earnings from oil. To date, Indonesia has been relatively successful in harnessing its oil revenues to foster economic growth and social progress by supporting the expansion of agriculture, industry, and infrastructure, and has achieved marked improvements in education, health, family planning and social services. In addition, the Indonesian government has sponsored a substantial program of transmigration to the relatively thinly populated Outer Islands to help relieve extreme population pressure in the principle island, Java. Nevertheless, any projection of Indonesia's future growth is highly dependent on assumptions made regarding the price of oil.

In contrast to the decade of the 1970s, during which GDP growth averaged eight percent per year with a modest current account surplus, Indonesia's economy faced a series of severe shocks during the 1980s stemming from declining oil and key commodity prices. Nevertheless, vigorous adjustment measures (including tight budgets, a major devaluation in 1986, and structural reforms in trade and financial markets policy) have helped achieve a substantial recovery in real GDP growth (to 4.2 percent in 1987-1988 from -0.3 percent in 1982-1983) together with a shrinking current account deficit (2.7 percent of GDP in 1987-1988 versus 7.6 percent in 19821983). The pace of policy reform has remained rapid including trade policy reforms in 1987 that eliminated tariffs on many imported inputs for export promotion. This and other reforms helped stimulate a major expansion in non-oil exports, whose value surpassed that of oil for the first time in 1987. Despite these improvements, Indonesia will continue to be constrained by a tight balance of payments requiring the continuation of economic reforms if the country is to realize its growth potential.

Marked ethnic differences exist among the population of different islands in Indonesia. Migration among islands brings different ethnic groups into contact, especially in the larger cities. However, ethnic and cultural divisions did not seem to be a major factor in the projects studied in this stock-taking.

Although rapid growth and supportive Indonesian government policies have helped achieve a marked reduction in poverty in the 1970s, an estimated one-third of the population remained below the absolute poverty line in 1984 and the situation has probably worsened somewhat since. The incidence of absolute poverty was significantly higher in densely-populated Java than in the other islands (32.2 percent versus 30.6 percent in 1984) and was particularly high in rural as compared to urban areas (41 percent versus 13 percent).

Industry's share of GDP (including oil and gas) rose sharply between 1965 and 1980 from 12.6 percent to 41.7 percent but by 1985 had declined to 35.9 percent. In the same years, industry's share of the labor force rose from 8 percent to 13.0 percent and then declined to 12.5 percent. Agriculture accounted for 54.7 percent of the labor force in 1985, down from 70.7 percent in 1965; meanwhile, as agriculture's contribution to GDP fell from 56 percent to 23.6 percent, services, including government, accounted for 40.5 percent of GDP and 32.8 percent of the labor force in 1985.

Financial markets were severely constrained by the Indonesian government policy until 1983 when the first of a series of major reforms took place freeing most deposit and lending rates from controls. Despite these and subsequent reforms, a large share of total formal credit is administratively directed toward priority sectors. Financial markets remain relatively underdeveloped and the costs of bank intermediation are generally regarded by outside experts as being excessively high. This partly reflects a poor record of loan recovery by banks as well as limited operating efficiency and high profit margins.

The government of Indonesia has undertaken a number of lending programs intended to provide small enterprises with access to credit. These have differed widely in design and performance and are described in this report. Otherwise, the rural and small enterprise sectors access credit from a number of informal sources, including family and friends, money-lenders, and various types of village based savings and loan associations.

In Indonesia, the line between public and private enterprises is blurred, particularly in the industrial sector. In 1986-1987, public enterprises, which include the state oil monopoly, Pertamina, plus a substantial share of manufacturing and services, accounted for 36 percent of gross domestic investment. In addition, official figures fail to reveal the participation of public officials in many leading private firms.

Government policy toward the private sector is generally supportive in intent, but less so in effect. The Indonesian government attempts to support small industry through a wide variety of measures and programs but it achieves mixed results. Current forms of support include sponsorship of several credit programs, such as Badan Kredit Kecamatan (BKK) and the General Village Credit Programme (KUPEDES), designed to provide very small-scale lending at unsubsidized and therefore very high interest rates to small enterprises predominantly in rural areas.

2. DESCRIPTION OF A.I.D. PROJECTS IN SUPPORT OF MICROENTERPRISE

Microenterprise development is not a central objective of A.I.D.'s strategy in Indonesia. However, the 1989-1993 Country Development Strategy Statement does place significant emphasis on the improvement of long-term sustainable employment and income generation. These goals are to be pursued through efforts to increase the demand for labor and raise the quality of the labor force. The strategy is to be implemented through four sub-goals, the most pertinent of which is that of supporting a more open, less regulated market and trade-oriented economy.

In addition to income and employment goals, the Country Development Strategy Statement identifies as strategic concerns the development of greater institutional pluralism and support for women's role in society and the economy. To enhance institutional pluralism as well as to advance employment and income objectives, A.I.D. supports the development of non-governmental organizations (NGOs) and a greater voice for existing NGOs in development activities.

A.I.D.'s microenterprise activities in Indonesia fall into two organizational categories corresponding roughly to the two areas of concern described above:

(l) Programs in support of institutional pluralism are managed by the office of Voluntary and Humanitarian Programs (VHP). Activities within this Office relating to microenterprise development include support to the programs of the National Cooperative Business Association and grant financing to local PVOs through the PVO Co-Financing project. Some of the grants made under this project are devoted exclusively to microenterprise development while others are more broadly based and support a range of institutional purposes. For this reason, it is not possible to provide a reliable quantitative measure of the level of funding solely for microenterprise development under the Co-Financing activity.

(2) Programs in support of enterprise development and promotion of a less regulated economy are implemented through the Office of Private Sector Development (PSD). Activities relating to microenterprise development include Financial Institutions

Development (FID) which is ongoing and Central Java Enterprise Development (CJDP), which was completed in 1988. Consistent with PSD's concern for structural change, the FID project does not specifically target microenterprises but it attempts to strengthen the financial intermediaries that provide unsubsidized credit to firms lacking access to bank lending. While many of the firms that will benefit from improved access to credit will be microenterprises, it is not possible to develop reliable impact data in the absence of a full-scale evaluation of the project.

In addition to the activities mentioned above, the A.I.D./Indonesia program includes a number of projects with peripheral implications for microenterprise. These programs include the PSD Office's Development Studies Project which has supported a number of studies touching on analytical and policy-related issues involving small and microenterprises. Also, the proposed Financial Markets

Development Project will be directed toward improving the efficiency of capital markets. This project will benefit primarily larger firms but it will have some secondary effects on small firms through subcontracting opportunities. Finally, the Population Planning Office's Private Sector in Family Planning project has supported the marketing of contraceptives through private retailers, many of whom are microenterprises.

Given the abbreviated nature of this review, the stock-taking team was not able to develop informed judgments with respect to other private sector and/or donor initiatives in the microenterprise area.

3. FINDINGS AND ANALYSIS

3.1 Financial Institutions Development Project

The Financial Institutions Development Project (FID) was established by A.I.D. in collaboration with the Government of Indonesia in 1984 with the objectives of encouraging enterprise development, increasing productivity and generating employment opportunities in rural areas. Its purpose is to support the development of existing rural credit institutions that provide rural financial services at a reasonable cost, produce loan portfolios of employment-generating activities (primarily off-farm), and promote savings mobilization. The aim is to develop locally oriented, self-sustaining financial systems that mobilize savings and extend credit. This experience should enable the development of policies, systems, and standards required to promote the growth of rural financial institutions. In 1986, the project was amended to include the sub-branches (Unit Desas) of the Bank Rakyat Indonesia (BRI), that provided rural credit. Thus, the project consists of two components, the Village Financial Institutions (VFI), and the General Village Credit Program of the Bank Rakyat Indonesia (KUPEDES).

Village Financial Institutions (VFI) were established in Indonesia in the early 1970s in order to use a portion of the country's oil revenues to channel resources to rural entrepreneurs. The aim was to utilize the banking system to reduce the economy's dependence on agriculture, to provide access to resources to all ethnic groups and to promote the economic activities of the poor. Initially, the abundance of funds limited the pressure to create self-sustaining credit systems. However, the collapse of oil prices in the 1980s created imperatives for greater economic efficiency and local resource mobilization to sustain the activity. The project was based on Central Java's Badan Kredit Kecamatan (BKK)--a relatively unsubsidized and growing institution -- as a model for development and replication.

The General Village Credit Program of the Bank Rakvat Indonesia (KUPEDES), a general purpose credit program, was established as the main credit function of Unit Desas in early 1984. This was done to develop a profitable nation-wide system of sub-branches, integrated in the overall BRI structure. Staff incentives are based on individual financial results of unit operations. KUPEDES replaced a Bank Rakyat Indonesia program, which channelled credit in kind and cash to farmers, and was repayable in cash at an annual interest rate of 12 percent. Initially the agricultural sector was strong and the program worked well. When farmers encountered difficulties in 1975, participation declined, and default rates grew. The program was terminated in 1983.

At this point, rather than abolish the Unit Desa (village subbranch) network established to administer the program, BRI chose, with government support, to change its function. This was done to utilize the experience of Unit Desa staff and prevent lay-offs, and to meet a substantial demand for small loans for off-farm activities. This demand had become apparent from the performance of BRI's Kredit Mini and Kredit Midi programs.

3.1.1 VFI/KUPEDES Program and Organization

A.I.D. assistance to the VFI program consists of (I) funds for capitalization; (2) commodities (vehicles and equipment) for participating Regional Development Banks (BPDs); (3) training inputs for BPD and VFI staff; and (4) technical assistance in institutional development by long-term resident advisers and short-term experts. The project is being implemented in Central Java, West Java, West Sumatra and East Java. An e%tension to Bali is expected in the near future. The program incorporates financial institutions established at the kecamatan (sub-district), or village level with local private or government ownership.

A.I.D. assistance to KUPEDES focuses on: (I) assistance to branch operations in the development of an operational plan to ensure sound financial practices, and the availability of financial services in a self-sustaining system; (2) support for a high quality training system and the capacity to maintain it; and (3) improvement of the accounting, communications, and data processing to lower the cost of financial intermediation. Inputs are in the form of policy and training advisors, establishment of regional training centers, preparation of training materials, technical assistance in reviewing accounting and operational systems, radio communications equipment for contact with BRI branches, and automation equipment for data storage and processing.

KUPEDES is characterized by clear lines of administrative and supervisory control with the Bank Rakyat Indonesia. Supervision and monitoring is undertaken through regional and branch offices. Each regional office is responsible for 10-15 kabupatan (district) level branches which bear primary responsibility for supervision of Unit Desa activities.

Unit Desas, the branches, typically operate at the kecamatan level, each staffed by a manager, loan officer, bookkeeper, and cashier. Currently, there are approximately 2,500 Unit Desas with 13,000 employees. They operate in 14 out of the 27 Indonesian provinces though 64 percent are located in Java where 62 percent of the country's population lives.

Table 1. Comparison of VFI and KUPEDES Program and Organization

a. In West Sumatera and Bali, ownership is in the hands of the members who may comprise the whole or a part of only one or several contiguous villages.

b. If the VFI operates a village post system, each open once a week, the staff are usually full time; otherwise part-time one to two days per week.

3.1.2 Findings

Supervision. Regional Development Banks, (BPD) oversight and supervision of the Village Financial Institutions has been highly variable. In Central Java, supervisors visit Badan Kredit Kecumatan (BKK) at least once each month. In addition, a four man trouble-shooting team checks on BPD supervisors as well as handling the more difficult problems of the BKKs. In West Sumatera supervisory visits are less regular, partly because regional offices are open only twice a month, often on the same day. Time has also been spent reviving old units and creating new ones. Meanwhile, the classification of many functioning units declined. In 1987, only 130 of 586 regional offices were actually operating. In West Java, units are visited on a quarterly and semi-annual basis but this frequency is being increased under the project.

KUPEDES supervision is carried out by BRI branch staff led by the branch head. Day to day supervision is by a Unit Desa officer and field supervisors. The rapid expansion of KUPEDES has caused concern that the supervisory capacity of branches has not kept up and supervision may be insufficient for the level of financial activities. The BRI central office has now increased the strength of supervisory staff and intensified training and standardization of supervisory techniques.

Personnel Issues. In Central Java, considerable progress has been made in professionalizing BKK management. Civil servants have been rapidly replaced by full-time professional staff. The number of civil servants is down from 500 in 1985 to 150 in 1987, and now account for just eight percent of total staff. In West Sumatera, staff are appointed by regional office members, making it difficult to maintain a satisfactory management level. The BPD has had mixed success in requiring regional offices to report to it. Regional offices have also faced the problem of staff leaving for new jobs soon after completing training. In West Java, the problem has been alleviated by the Governor’s decree that staff must remain for at least two years after completing training. Here civil servants staff many regional offices but they are supervised by active local government inspectors. Provincial support is crucial to ensuring the quality of VFI management. Since all Unit Desa staff are professional and ownership is not local, problems of this type do not arise in KUPEDES.

Table 2. Comparison of VFI and KUPEDES Financial Terms of Credit

a. Rp.50,000 ($111) is a common small loan amount.

b. Some of the member-owned VFIs will lend up to Rp.2 million ($4,444).

Loan Size. The permitted range for VFI ranges from $3 to $300 while for KUPEDES the range is $15 to $1,800. In practice, VFI loans range from $36 to $120 while KUPEDES loans average $320 with few loans below $60.

Collateral. The VFIs have no collateral requirement. The attestation of the village chief to the character and intentions of the borrower are considered adequate. In KUPEDES, land, buildings or other property equivalent to the value of the loan have to be provided as collateral. Most borrowers use land. Since the legal system for realizing collateral is complicated, collateral documentation establishes the borrower's serious intent to pay rather than forming the basis for legal action in case of default.

Repayment Schedules. Both projects have a range of repayment schedules with a maximum period of 12 months for VFI and 36 months for KUPEDES. For working capital loans the typical VFI loan is for 12 weeks, and KUPEDES for 12 months. In the latter case, grace periods up to nine months may be allowed. Single payments are also possible in some cases but are not encouraged. The BKKs have a compulsory savings provision equivalent to 10 percent of the loan. (Adding the 10 percent interest charged results in a 12 part repayment schedule of equal installments).

Interest Rates. The VFI program charges 10 percent interest on a 12 week loan. This results in an effective interest rate over 90 percent per annum if the compulsory saving is treated as a charge and around 45 percent if it is not. KUPEDES interest rates are 1.5 percent per month for investment loans and two percent per month for working capital loans on the original balance. This simplifies the repayment system for lenders and borrowers alike but the system results in an effective interest rate of 2.76 percent per month (33 percent per annum) for working capital loans. A rebate of 0.5 percent per month is provided if repayments are made on time. The VFI contains no penalties for late repayment. Interest rates in both systems are set on the basis of cost plus principal. Despite the high levels in the case of VFI, interest rates still compare favorably with those in the informal market. The necessity to ensure an adequate spread over the rate payable on savings deposits is an important consideration for KUPEDES.

Resource Mobilization. VFI resources for lending come from initial capital (provincial or district government or individual members), loans from the BPD or savings deposits. The amount of BPD funds received by each VFI is determined by its classification on the basis of absorptive capacity, efficiency and financial viability.

Interest on BPD loan funds varies among provinces--one percent per month in Central Java, 7 percent annually in West Sumatera and 12 percent per annum (expected) in West Java. BPDs are allowed to retain a proportion (35-60 percent) of these interest charges to cover administrative and supervision costs. The rest is set aside as cover for VFI failure and to provide resources for further VFI development.

In the most successful BKK program, savings deposits consist almost entirely of the compulsory savings realized from borrowers to be paid back after full repayment of the loan. However, in practice, savings have not been repaid easily and the resources have been added to the retained earnings of the VFIs. In an effort to mobilize larger savings deposits the BKKs now plan to repay savings more easily and encourage voluntary deposits. Around 60 percent of total BKK loanable funds come from these retained earnings. Savings as a proportion of loans outstanding amounted to 35.6 percent for all VFIs under FID in June 1988.

KUPEDES funds come from government grants, Bank of Indonesia (BI) credits and savings deposits. Roughly 19 percent of KUPEDES resources consisted of government grants as equity in June 1986. Bank of Indonesia liquidity credits are available at an average interest rate of 12 percent. These amount to Rp.243 billion and an additional $100 million has become available from the World Bank. BRI savings mobilization has been in the form of accounts with a positive interest rate (12 percent for deposits greater than Rp.200,000 ($120)) and unlimited withdrawals. By February 1987, total deposits mobilized amounted to Rp.99 billion ($60.4 million). The interest paid has now risen to 13.5 percent and savings mobilization to Rp.214.6 billion ($131 million). Unit Desa staff also have an incentive system geared to profitability and success in attracting savings. This is intended to increase efficiency as well as to maximize savings mobilization.

Volume and Growth of Lending. The VFIs have increased their lending activities significantly over the past two and a half years, December 1985 to June 1988, for which information is available. The BKPDs and LPKs of West Java have grown most rapidly, increasing lending at 40 percent per year while the BKKs and LPNs have grown at around 20 percent. The number of borrowers has grown at 7.2 percent overall during this period.

Average loan size is increasing in VFI ranging from Rp.60,000 ($36) for BKK up to Rp.200,000 ($122) for BKPD. Presently, average loans outstanding per borrower range from Rp.37,000 ($23) to Rp. 159,000 ($97) except for the village based KURKs of East Java where the average is as low as Rp.9,000 ($5). The increase in average loan size suggests that VFIs are not focusing their lending on the weakest sections of society.

KUPEDES credit has grown rapidly from Rp.l 10 billion ($67 million) at the end of 1984 to Rp.436 billion ($265 million) in January 1988. The number of loans increased from 640,000 in 1984 to 1.3 million in January 1988. Thus the number of loans grew at 88 percent per year and loans outstanding at 27 percent per year. The average size of loans increased from Rp.268,000 ($163) in 1984 to Rp.410,000 ($250) by end 1985 and Rp.535,000 ($326) by January 1988. Roughly 96 percent of all KUPEDES loans are for working capital. At the end of 1986, 68 percent of loans outstanding were listed for trading and only 28 percent for agriculture. (Recent data of this type is not available from the VFI program).

Lending Quality. The quality of the VFI loan portfolio shows a steady decline over time for West Sumatera and Central Java and a recent improvement in West Java. Delinquent loans ranged from 19 percent in Central Java in December 1987 to 30 percent in West Sumatera. However, the latter is yet to create a system for writing off bad debts (more than six months overdue) and this may partly explain its poor portfolio quality. Bad debts in West Sumatera account for 20 percent of the portfolio; for LPKs this ratio is 22 percent and BKPDs (West Java) it is 8 percent.

The viability and sustainability of the VFI systems is evident from their profits. In 1987, BKKs earned a cumulative profit of Rp.2.36 billion ($l.4 million), LPKs earned Rp.174 million ($106,000), BKPDs Rp.740 million ($451,000) and LPNs Rp.293 million ($179,000). These amounted to 15.2 percent, 10.5 percent, 11.6 percent and 13.7 percent of average loans outstanding. Though a number of expenses such as the true cost of borrowing, salaries of civil service staff and provision for writing off bad debts are hidden, rough calculations still show reasonable net profits. At the same time, earnings are restricted by the lack of penalties on late repayments. As a result, interest earnings as a proportion of outstanding loans range from 20 to 30 percent despite the high effective rates charged. In the KUPEDES program, the default ratio (overdues as percent of loans outstanding) was 4.3 percent at the end of 1986. In April 1987, the long-term loss ratio (cumulative payments missed as a percentage of payments due) was 2.3 percent and the short-term loss ratio was 3.1 percent. These ratios have remained relatively low since the beginning of the KUPEDES program though it showed a tendency to rise in 1987. As expected in the initial projections, the Unit Desa system broke even when the volume of outstanding loans reached Rp.200 billion ($122 million) in 1985. In 1986 a profit of Rp.10 billion ($6 million) was realized.

The Costs of Financial Intermediation. With the large use of compulsory savings and internal funds for asset growth, the cost of funds to VFIs has been less than 2 percent of total assets. This will increase as voluntary savings deposits grow and interest charges increase. The total cost of financial intermediation is understated due to the lack of adequate provision for writing off bad debts. Operational expenses per loan are Rp.3,700 ($2.25), Rp.15,000 ($9.10) and Rp.21,000 ($13) for BKK, LPK and BKPD at 6.5 percent, 14 percent and 10.4 percent of average loans granted. As a proportion of loans outstanding, these costs are 12 percent, 19.5 percent and 16 percent. KUPEDES figures until June 1986 show that the cost of funds was 9 percent of total assets (including interest paid on liquidity credits and on savings deposits), the provision for bad debts was 3.7 percent of the loans outstanding and total operational expenses were as much as 28 percent of the loan portfolio. However, the substantial increase in the size of the portfolio is likely to have reduced this significantly to around 18 percent.

3.1.3 Beneficiary Considerations

Both VFI and KUPEDES loans are made to individuals and not to groups. Neither program targets its loans in any way in terms of activity or income groups of the borrower. Borrower solvency is the major consideration. All applications have a co-signer who is normally the applicant’s spouse.

As indicated earlier, KUPEDES operates in 14 of Indonesia’s 27 provinces with a concentration of Units (64 percent) in Java where 62 percent of the country’s population lives. In June 1986, 75 percent of the loan portfolio was concentrated in Java. In both programs, there is evidence to suggest that the market for loans is far from saturated as physical coverage, rather than availability of funds, (except in West Sumatera) has been the main limiting factor. KUPEDES actually reports a significant e~cess of loanable funds (Rp.856 billion, $522 million) over loans made (Rp.500 billion, $3 million).

Client Profile. Judging from the available information, both programs have a tendency to evade research. Impact information for VFIs is available only from a study of BKK conducted in 1982 and of KUPEDES implementation from a monitoring survey in three rounds conducted between December 1983 and December 1985. However, an analysis of economic and social impact was not the focus of the latter.

Emerging from the BKK study, the VFI client profile in Central Java is as follows:

(1) Women receive 60 percent of loans since they dominate the petty trading sector which receives the largest share of funds.

(2) Trading is the primary economic activity for over half the sample and agricultural production for 15 percent. Most of those with secondary activities are engaged in agricultural production. Only 12 percent are in services/repair as primary activities.

(3) The average age is 40 years though over 25 percent are over 49 years old. Each income earner supports an additional 2.6 people.

(4) Sixty percent of rural clients own land while 6 percent cultivate rented land. Average land ownership exceeds the average for Java--0.8 hectares compared to 0.5 hectares.

(5) The education pattern reflects that for Central Java. Nearly 60 percent have had no schooling, or failed to complete primary school.

(6) More than one-third of clients admit to receiving credit from alternative sources. (The actual figure may be significantly higher).

In the case of KUPEDES, roughly one-fourth of borrowers and three-fourths of all co-signers are women. A high proportion of those who borrow for trade are also active in agriculture. Nevertheless, the evidence does not suggest significant utilization of the credit for agricultural purposes. In both programs, enterprises are essentially family units and no information on numbers of employees, or even workers, is available.

Income Impact. Direct assessments of income impact are not available. The BKK study shows that loans promoted expansion of borrowers' businesses and resulted in the addition of new activities by 23 percent of borrowers. Average borrowers quadrupled their loan size (in real terms) within four years of association with BKK. Administrators in both programs point to their good repayment rates as evidence of the use of loans for productive purposes to generate cash flows sufficient to cover the high interest rate.

In the BKK program, most clients thought their loans generated increased raw material purchases, sales volume, number of customers and net profit. Over 40 percent had been able to order larger quantities, obtain discounts, and increase profits. In the high population density area of Central Java, market demand is strong and increased production has been absorbed. Almost 40 percent thought that competition was increasing, yet 70 percent felt they could increase sales even further. Fifty-six per cent believed others could still enter the market successfully. Most borrowers retained earnings in their enterprises, reinvesting profits.

There is no evidence on the graduation of enterprises/borrowers from BKK to KUPEDES and upwards. Given the rate of growth of loan size, such graduation might be expected. However, the quantum jump from the relatively informal KUPEDES to the more formal KIK/KMKP system is a significant one and may have proved a binding constraint to graduation in many cases.

Employment Impact. By and large, small working capital loans for family-run enterprises can be expected to absorb disguised unemployment rather than lead to the creation of new jobs. Yet, the BKK study found a positive effect on employment. Not only did the underemployment of workers decrease, but new full or part-time workers were hired by 17 percent of borrowers and 54 percent believed the number of people (including family) working in the business had been affected. Over 60 percent of clients increased their time spent on the business since receiving the loan. About 16 percent said they hired full-time workers since receiving the first BKK loan, hiring an average of 1.85 persons. Generally, the number of working hours was increased in preference to adding the expense of additional workers. The average sampled client had created 0.3 full-time and 0.4 part-time jobs.

Similar evidence on KUPEDES is not available.

Macroeconomic Impact. Given that both income and employment effects are positive, VFIs can be expected to have a wider impact on the community through linkage and multiplier effects--particularly in areas of high coverage (such as Java). The BKK study found significant backward linkages through suppliers (90 percent of cases) but forward linkages were limited as cost savings were not passed on. However, considerable multiplier effects were found as clients increased consumption and made housing improvements.

3.2 PUSKOWANJATI WOMEN'S COOPERATIVE

The Puskowanjati Women's Cooperative (PWC) is an umbrella organization of women's cooperatives located in East Java. It includes 29 member groups totaling 16,000 women and is the largest independent women's cooperative in Indonesia. Its stated purposes include: (1) Encouraging women to join member cooperatives; (2) the provision of a savings and loan facility to members; (3) increasing the income and employment of members; and (4) increasing participation of low income women in the activities and benefits of a cooperative.

A.I.D. has provided grant funding since 1984, initially through a registered Private Voluntary Organization. Total assistance to date is $505.000, used to establish or expand revolving loan funds for member cooperatives (the majority of loan capital has come from A.I.D. funding) and to provide training to the staff and member cooperatives in the areas of management and financial administration.

A.I.D. maintains a close relationship with PWC, which is the only PVO co-financing grant aimed exclusively at women. A.I.D. staff visit on frequent occasions and PWC has been written up in several reports. A full-scale evaluation is planned for the summer of 1989. A.I.D. staff believe that PWC's managerial and technical capacities have improved, that the activities of member groups have had a positive impact on income generation, and that PWC is a model for supporting participation of women in the private sector.

3.2.1 Puskowaniati Women's Cooperative Program and Organization

Puskowanjati Women's Cooperative is women-owned and managed and is governed by a board of directors composed of representatives from member cooperatives. The board meets annually to elect a chair and to review and approve the budget for the following year. In addition, the board meets every three years to review the organization's program and its policies. The current chair is also the chief operating officer.

Qualification for membership in PWC includes:

-- Registration as a cooperative with an elected board of directors. (PWC also includes affiliate members from cooperatives that are not yet registered with the Ministry of Cooperatives and women units from the government sponsored cooperative, KUD.)

-- Identification of an officer of the cooperative as controller (or auditor), a set of audited books and the existence of auditing procedures.

-- Membership of at least 30 women.

-- Adherence to a set of procedures and practices governing the lending and repayment of credit designed to ensure the institutional viability of member groups (described below).

Puskowanjati Women's Cooperative receives income from membership fees, interest on the repayment of loans, and administrative fees charged for loans that are processed to member cooperatives. Lending capital is comprised of a portion of the funds from the monthly contributions of member cooperatives (from the savings received from their members) and from capital provided by donors such as A.I.D.

Puskowanjati Women's Cooperative has a staff of twelve and is divided into two departments. The Business Department provides loans to member cooperatives for relending. The Organization Department provides audit services to those members who lack this capacity as well as training in finance, accounting, planning and the management of cooperatives. Training is provided on request and without charge.

Member cooperatives range in size from 90 to 3,600 with the largest employing a full-time staff of 42. Member cooperatives offer credit and a savings facility to individual members as well as training. The nature and extent of training appears to differ among the member cooperatives. In some instances, it is informal and voluntary and limited to training members in how to obtain credit, repay loans and handle their pass-books. Several member cooperatives offer more extensive training in basic business and accounting practices and charge a fee for these services.

Although a subjective impression, the review team felt that the cooperatives visited demonstrated a professional, business-like approach to their work. Audited records were available, accounts appeared to be kept in a meticulous and conscientious fashion, and offices were neat and orderly.

A central organizational and operational feature of PWC and the member cooperatives is the Group system. Although the precise details of this unifying approach differ from cooperative to cooperative, the essential characteristics are as follows:

-- The member cooperative is divided into groups ranging in size from 10 to 30.

-- Membership in the group is determined by the group members. (The review team was told that the groups represented a wide social and economic cross-section and that income level was not a barrier to entry.)

-- Each group meets monthly to discuss, review and approve the individual loan applications of members (as well as other matters including training needs, lending and saving procedures, the admission of new members and the physical collection of loan payments). As such, the group performs an informal and personalized credit review and background check function which would otherwise have to be performed by the parent institution.

-- Group approval for the individual loan may take the form of certification by the leader of the group or (at least in one instance) signature of each member of the group on the reverse of the loan application.

-- Within the group there is shared responsibility for the operation of the group and for the repayment of loans. This shared responsibility appears to be a function both of group dynamics and of a system of default and delinquency sanctions imposed by the member cooperative. Thus:

-- Groups tend to be composed of friends and neighbors with a consequent degree of built-in peer pressure.
-- The groups themselves often handle certain administrative responsibilities such as the collection of monthly payments and the completion of a summary report to the parent cooperative, thereby assuming some of the administrative costs that would otherwise have to be absorbed by the cooperative.

-- The loan limit (five times the amount saved) is calculated for the group as well as for the individual. Therefore, the individual borrowing activities of the women in the group affect the amount of potential credit that can be made available to other members.

- Failure of a group member to pay (the formula differs case to case) can result in suspension of credit to all other members of the group.

In practice, anecdotal evidence indicates that group members began to borrow in fairly small amounts toward the lower end of the permissible range, and gradually increased their loan levels. This appeared to reflect not only increasing need for credit to support their growing enterprises but also the growing confidence of the group in the reliability of the borrower.

3.2.2 Financial Considerations

Attachment A provides basic data on the financial operations of three of the four member cooperatives visited during the field review. The following summarizes the principal aspects of the financial relationship between PWC and member cooperatives and between the cooperatives and individual members.

- Loan requests are initiated by member cooperatives on an as needed basis. The review and approval process appears to be informal and non-standardized although an audit report is given considerable emphasis.

- There is an initial membership fee of Rp.60,000 ($36.00).

- Member cooperatives make a monthly contribution equivalent to 10 percent of the new savings from individual members.

- A borrowing interest rate of 1.5 percent is imposed on loans from "regular" capital and one percent on loans to members from A.I.D. funds with a six month grace period, payable in 10 installments.

- An administrative fee of one percent is charged on each loan advance to members.

- Annual profits (if any are generated) are distributed to member cooperatives in accordance with a formula established by the Ministry of Cooperatives. (PWC has made a profit for the last three years after sustaining a significant loss in 1985 due to theft of funds.)

In addition to its regular lending program, PWC has encouraged its member cooperatives to establish a special program designed to reach low income traders who cannot afford the initial membership fee in the cooperative and who cannot accumulate the required up-front savings which are a pre-condition to borrowing. Under this concessional program, the payments made by "special" members on the small initial loan include an additional amount which goes into a savings account thereby eventually qualifying the member for regular membership status.

While procedures and lending and borrowing rates differ slightly, member cooperatives appear to operate essentially along similar lines:

-- An initial membership fee ranging from Rp.10,000 to 35,000 (S6.00 to $21.00). (For "special" members this fee is waived and an increment is added to the repayment schedule in order to establish a savings account of sufficient size to warrant membership.)

-- A system of compulsory savings that is required of all members that ranges from Rp.500 to 1500 ($0.30 to $l.50) a month and which constitutes a large portion of the lendable capital of the cooperative.

-- A system of voluntary savings accounts which pay one percent to 1.25 percent a month and which appear to be established by most (90 percent) of members.

-- Time deposits established for one year maturities that (in the case of the cooperatives that were visited) pay from 18 percent to 21 percent per year.

-- Loans to members at a rate of 2.5 percent to 3.0 percent per month payable over 10 months with a limit on the loan equal to five times the amount saved. (In addition to this limiting ratio, there is a ceiling on loan size of roughly Rp.750,000 or $460).

In all cases the lending procedure is straightforward and uncomplicated. For example, a loan (to a "special" member) of 75,000 Rp was to be repaid 750 Rp a day. (The borrower did not know the interest rate but knew exactly the number of days to repay the loan.) Also, all loans to all regular members of the cooperative carry a 10 month payment period.

The institutional viability of a cooperative depends on its capacity to handle its financial affairs in a manner that will avoid erosion of its capital base. On balance a favorable impression of the financial operations emerges.

Financial management, financial accountability and careful auditing mechanisms are taken seriously and applied rigorously.

All of those cooperatives that were asked indicated they conducted some form of long range financial planning. Although this may have involved forecasts for only the budget year, the cooperatives appeared to understand the importance of financial planning and the necessity of protecting the asset base of the organization. Member cooperatives appear to appreciate the importance of the "bottom line." In all cases there was a sufficient spread between lending and savings rates to generate a significant margin and three of the four cooperatives that were visited were profitable in an accounting sense.

Member cooperatives were quite successful in mobilizing an asset base through accumulation of member savings. While the cooperatives that were visited all took advantage of the PWC lending facility, the bulk (70 to 90 percent) of their lending capital came from savings. From anecdotal evidence, it became clear that an important attraction to members was the opportunity to access additional and larger amounts of credit subsequent to the repayment of each loan.

Two of the cooperatives indicated an unusually low delinquency rate close to zero and a complete absence of defaults. (The other two cooperatives did indicate that delinquency was a problem--in one case a very serious problem which appeared to be due to seasonal factors.) The comparatively low rate of defaults and delinquencies in this rather small sample appears to be due to the effectiveness of the group system. (The actual impact of delinquency is extremely hard to measure absent a full scale audit of the books of each organization.)

Member cooperatives (and PWC itself) seemed able to maintain a healthy balance between the emphasis on helping members, generating income and reaching the poor on the one hand and the financial viability and long-term sustainability of the institution on the other. As a consequence, the loan portfolios of the cooperatives that were visited appeared to show a healthy balance between low and medium income borrowers.

Finally, the simplicity and symmetry of the lending instrument itself appears to be an integral part of the successful operations of these organizations.

3.2.3 Beneficiary Considerations

On the basis of reviewing the operations of only four cooperatives and visits with 12 beneficiaries, it would be hazardous to attempt to profile the beneficiary population or to comprehensively describe PWC’s relative concern for reaching the poorest segment or the priority it accords to productive enterprise. The following is therefore somewhat impressionistic and based on other, supplemental sources:

The availability of credit to poor women has led to some very convincing examples of business development. The stock-taking team was genuinely and repeatedly impressed with the productive impact that small loans appeared to have on women who might not otherwise have been able to establish their own enterprises. At the same time, a significant amount of lending is for personal purposes, such as for the purchase of a house, education or medical expenses rather than for business working capital. As such, the cooperatives are performing a credit union, rather than small enterprise development function.

All cooperatives visited by the stock-taking team had instituted the "Special" program aimed at reaching poor traders. This group ranged in size from 10 to 40 percent of membership, although the actual ratio may be somewhat higher since some of these individuals had "graduated" to the status of regular members through establishment of savings accounts. Members and officials of the cooperatives spoke positively of this program.

Member cooperatives demonstrated a very high rate of usage, both with respect to borrowing and lending. Not only do virtually all members both save and borrow, but repeat borrowing, at incrementally larger amounts, appeared to be very common. Those beneficiaries that were asked repeatedly emphasized that their principal motive for joining the cooperative was to obtain credit. Several referred to the exorbitant rates charged by money lenders in the market.

Based on a small sample, the "Special" program appeared to be effective in attracting members to the cooperative and in incorporating these individuals to regular membership status. At the same time, the stock-taking team was not able to identify instances where regular members through successful enterprise development were able to graduate into the formal commercial sector.

3.3 MAHA BHOGA MARGA (MBM)

The purpose of the A.I.D. Co-Finance Project Grant to the Maha Bhoga Marga (MBM) microenterprise development program in Bali, is to provide partial support for credit and training activities. It targets microentrepreneurs to assist them in increasing their incomes from non-farm activities. The specific objectives stated in the grant agreement are:

(1) The capitalization of a revolving credit fund for small-scale entrepreneurs releasing them from dependence on high-cost credit from local money lenders;

(2) The provision of credit with low transaction costs;

(3) To assist small entrepreneurs build a strong credit history;

(4) The development and strengthening of MBM’s organizational structure and management capabilities;

(5) The provision of technical assistance to small-scale entrepreneurs to improve the management and development of

enterprises; and

(6) The provision of training and seminars to entrepreneurs in small-business management to improve business management skills.

3.3.1 Background and Setting

A.I.D. provided a grant of $179,641 to MBM in July 1987 for MBM's microenterprise assistance program. Of this sum, $88,439 was set aside as a contribution to MBM's revolving loan fund. The remainder of the grant was earmarked for support and institution-building costs.

Maha Bhoga Marga (MBM) operates its microenterprise assistance program exclusively on the island of Bali. Bali is situated near the eastern tip of Java, the main population center of Indonesia. Bali is a small island, with a population exceeding 2.6 million people and a population density of 450 people per square kilometer, one of the highest population densities on earth. Despite the intense cultivation of Bali's rich soils, with average household size in excess of five persons and low per-capita incomes from small-holding agriculture, a growing proportion of Balinese are being forced to look beyond the land for economic survival. Many migrate or circulate to the cities; but despite a buoyant tourism sector, labor demand is inadequate to absorb the potential human resources available. This low labor demand is exacerbated in many cases by low education and productive skill levels, particularly for first generation migrants.

Inevitably, usually less by choice than of necessity, the Balinese are being forced to seek income-earning opportunities as microentrepreneurs. Many demonstrate adroitness at making such a passage, while others, are relegated to a form of economic marginality. Organizations such as MBM contend that through community development, training, and provision of capital (and occasionally technology) resources, it is within their power to assist low-income and underemployed persons to achieve higher social and economic levels of well-being through business development.

3.3.2 MBM Program and Organization

MBM (which means "Way of Prosperity") was founded in 1980 as the development and service division of the Bali Protestant Church. Although it functions independently of church management, much of the success of its development program arises through strong cooperation from a wide and far-reaching network of church officials, elders, pastors, and congregation members spread over Bali. According to earlier studies of the organization, MBM enjoys high credibility throughout Bali, partly as a result of its church network and partly because of its business community linkages through its board of directors.

MBM cites three principal areas of program activity: Agriculture and livestock; community social development; and community economic development.

The community economic development program includes microenterprise development defined by the goals of income and employment generation. It consists principally of a revolving loan fund, which in 1981, its initial year of operation, disbursed over Rp.2 1 million ($ 12,800). Growth in total disbursements has been phenomenal (fueled by substantial grants from A.I.D. and others), reaching nearly Rp.353 million ($215,000 in 1987. The value of the revolving loan fund at the end of 1987 was Rp.244,510,480 ($149,000).

The fund is administered out of three sites in Bali: Kapal, the home office, near Denpasar; Melaya, in western Bali; and Sangsit, just east of Singaraja on the north coast.

All program funds are channeled and distributed from Kapal, the home office. It has direct responsibility for central, eastern and south Bali, and must approve <u>all</u> loans in excess of Rp.500,000 ($305). wherever they originate. The microenterprise assistance activities operating out of the Kapal office has six full-time salaried staff, including the executive director.

The Melaya office, established in 1984, serves mainly the small Christian population in west Bali. Melaya pays the Kapal office for the use of credit funds at an interest rate of 1.5 percent per month. About half of the Melaya clients are in agriculture (and have repayment terms tied to the agricultural growing cycle), while the rest are in trade/commerce, service, and industry. The Melaya office has only one full-time salaried staff, with supplementary part-time labor provided by local church officials.

The Sangsit office began operations in early 1983, following the drastic 1982 fruit crop failure in that region. Following the crop failure the church in the region adopted a strategy to channel people into productive non-farm employment, principally through the extension of credit. Most Sangsit borrowers are Hindu, not Christian, and are primarily engaged in small-scale trading activities. Sangsit used to receive advances from the Kapal home office at a monthly interest rate of 1.75 percent, but now it functions more like a true branch office with allotments of central funds from Kapal. Sangsit is the only location operating a formal savings program, with a savings requirement of Rp.2,500 ($1.50) as a prerequisite for borrowing. Some non-borrowers save as well. The Sangsit office has six salaried full-time workers, with part of the staff costs shared by Kapal. As this office requires repayments daily, three of these workers do nothing but collect payments from borrowers.

Although the MBM program objectives include beneficiary training of various types, the operational reality is that with few exceptions (especially outside of Kapal) training does not constitute a large portion of the assistance provided. Some systematic training is provided at high subsidies at the home office, but it reaches only a small proportion of borrowers. Many others receive rudimentary "barefoot training" and "motivational/counseling" visits--the latter being less training than inspection and cheerleading. For the overwhelming majority of MBM's beneficiaries, the program means credit and little else.

3.3.3 Financial Considerations

When desegregated by location, religious community, or sector of activity, there is much of interest to report on the MBM program.

Table 4 shows the growth in the overall lending portfolio of MBM. It is noteworthy that in most years the overwhelming majority of formal requests for funds have been approved. The small number of loans refused have usually been larger loans. A trend is apparent that where the total fund has increased rapidly, the absolute number of loans disbursed has stabilized since 1983 (with the exception of 1985). This reflects a sharp increase in average loan size over the years, which is consistent with observations of the stock-taking team that repeat, larger, loans for an increasingly unchanging borrower population is the norm for the MBM program.

Table 4. Growth of MBM Revolving Loan Fund

Currently MBM loans may range from a low of Rp.5,000 (S3) to over Rp.5 million ($3,050). Tables 5 - 7 present data on size distribution of loans made in the period 1983-86, based on a sample of 921 loans examined by Mary Judd (op. cit.).

Table 5 shows that for the sample firms during the sample period about 59 percent of the number of loans are disbursed to women. However, women tend to borrow smaller sums than men, most borrowing less than Rp.100,000 ($60). The modal value for women is between Rp.50,000 and 100,000 ($30-60), while most men borrow in the Rp.100,000 to 200,000 ($60-120) range. Of the largest loans (those exceeding Rp.500,000 ($300)), over 85 percent are disbursed to men. Although women outnumber men borrowers, men receive nearly 70 percent of disbursements.

Similar communal concentration of disbursements is shown in Table 6. While more than three-quarters (76.9 percent) of the loans in the sample are for Hindus, the majority of them (61 percent) are for under Rp. 100,000 ($60) (mostly in the lower-income Sangsit area) and account for only 42 percent of loans disbursed.

Table 7 presents size distribution data desegregated by the type of economic activity: trade, production (consisting of manufacturing and agricultural production), services, and other (meaning mostly construction). While trade is the predominant activity in the portfolio in terms of numbers of loans, manufacturing and "other" account for 46.5 percent of the value of the portfolio. The value of trade lending is 47.8 percent.

Loan Process. Most eventual MBM borrowers become affiliated with the program as a result of references from other borrowers whom they know, or, in the case of Christians, they learn of the program through the church network. The criteria for selection are not complex. Most importantly, though MBM styles itself as an organization designed to help the poor, there is no means test required in order to qualify, and in fact, borrowers represent a broad spectrum of the income distribution. Although many members were obviously "poor," being among the "poorest" is not seen as a virtue in qualifying for the program. Instead, the criteria tend to favor people with evidence of some kind of current business activity, evidence of ability to repay (including spouse’s income), previous credit history (however informal), collateral, and perhaps most importantly, the ability to get either a church officer or a local secular official to vouch for the person’s character. The team discovered in its interviews that while collateral is almost always listed, it is never formally subscribed and in no cases has it ever been liquidated to pay off a non-performing loan.

Table 5. Number Loans by Loan Size and Gender 1983-1986

Source: M. Judd and D. Busseau, "A Study of the MBM Small Enterprise Support Program," October 1987, p. 20.

Completing the loan application form is not considered difficult by clients, and assistance is available from MBM staff. A small administration fee is payable upon submission, and a processing fee (2.5 percent) is payable upon approval. Review and approval (under Rp.500,000) are done locally, and disbursement may be made in as little as two weeks. In the case of Sangsit, savings of Rp.2,500 must first be accumulated before an application may be accepted.

Interest rates and loan terms. The Kapal branch charges beneficiaries 2 percent per month on the declining balance, usually for four months, with monthly payments required. This works out to an effective rate of 24.15 percent. In Melaya the interest rate is assessed at 2 percent per month flat rate, with repayment of principal usually made at the very end of the loan, yielding an effective rate of 24.6 percent.

Table 6. Number of Loans by Loan Size and Religion, 1983-1986

Table 7. Number of Loans by Loan Size and Economic Activity 1983-1986

In Sangsit, however, interest charges to nonagricultural borrowers are substantially different. Most Sangsit loans are for four months at 2 percent per month, flat rate, with daily repayments. The convention of daily repayments is not uncommon in north Bali. The effect of this practice, however, is to bump the effective rate up to nearly 129 percent.

Repayment Experience. In her detailed study relating to the period 1983 to 1986, Mary Judd estimated that 83 percent of borrowers paid their loans on time or early. Serious delinquency (defined as six months of no repayment) existed for only 21 of 921 cases. Interviews with MBM branch managers suggested more serious current problems with late repayment, but they expressed complete confidence in eventual repayment. According to MBM records defaults, complete write-offs of loans, seldom occur. Most delinquent borrowers, under threat of moral opprobrium from their communities and co-signers, eventually do pay. This is not to say they do so out of revenues from successful business ventures supported by the loan. Many dip into resources elsewhere in their household accounts. It is important to point out that despite the opportunity costs caused by late payments, no penalties are collected from delinquent borrowers. This has implications for the overall fiscal soundness of the revolving loan fund.

Table 8 below shows the official record from MBM on delinquent and defaulting loans. These data should be juxtaposed against information on rescheduling which Judd/Busseau obtained from their 1983-1986 sample of 921 loans, presented immediately following in Table 9.

Table 8. MBM Data on Delinquencies and Defaults.

Table 9. Number of Additional Months for Rescheduled Loans 1983-1986

Portfolio Performance. With the exception of the small amount of capital mobilized through savings, MBM's revolving loan fund is entirely grant-financed. Operations of the loan program are financed out of the interest earned on lending (described above), plus the assessment of origination fees. Table 10 shows the yield obtained by MBM on its lending portfolio (exclusive of fees).

Table 10. Interest Earned on Lending Operations

To provide some perspective on these earnings vis-a-vis transactions costs, MBM claims that in their accounting system they earn a substantial surplus on lending operations. The stock-taking team was unable to determine precisely the make-up of the operational costs that MBM admits to covering, or the reasons for the substantial variability over the years in the ratio between principal repayments and interest earned. As to the former, the team understands that absolute rigor in charging expenditures against the program is not practiced--leading to some cross-subsidization. The variability in interest earned ratios likely stems from the staccato growth of the program in the three principal branches, and differences in terms and performance which have characterized the three respective lending portfolios.

The Judd/Busseau paper attempts to estimate the total impact on cost structure of understatements of true costs, plus the phenomenon of artificially low salary levels for which professional staff seem willing to work. For instance, for 1986, they estimated that if the full market cost for the principal employees were to have been paid, it would have required 274 percent of the amount officially attributed to salaries. Add to this the indirect subsidies through external donors (of which there are many) and the voluntary services provided by church officials, and it becomes clear that MBM substantially understates its operational costs.

In the Judd/Busseau paper an analysis of administrative costs in relation to loan disbursements is used as a measure of operational efficiency. As Table 11 indicates, since the beginning of the program, then it was less complex and ambitious, reported administrative costs have mounted from 5.0 percent of the loans disbursed, reaching a high of nearly 20 percent in 1986, and returning to 16,7 percent in 1987. Leaving aside the invisible subsidies, unless the rate of growth of expenses continues to accelerate in relation to portfolio growth, were the program to top out even in the 20-25 percent range, it would be far from the worst program likely, to be examined in the stock-taking exercise.

Table 11. Relationship Between Portfolio Size and Administrative Costs

3.3.4 Beneficiary Considerations

Employment generation. Tracking of jobs created by MBM is a rough and ready process. MBM cites official data on job creation in their reports, but both observations by team members and the opinion of the Judd/Busseau study suggest that this reporting is not entirely accurate. Nevertheless, some inferences based on anecdotes and case studies of assisted entrepreneurs can be drawn.

- First, it must be noted that not all lending under the MBM program is necessarily for business purposes. A certain amount (varying by office and over time) is openly provided to borrowers with good records for purchase of consumer durables, education, emergency expenditures, etc. Thus, job creation will obviously be a subordinate objective in some circumstances.
- Although MBM lends to many embryonic or new businesses, since virtually nobody moves from open unemployment into employment through borrowing from the program, virtually none of the primary borrowers are counted as newly created employed persons.
- Much family labor is in fact generated by the lending program. Most of it is not paid a wage per se, but it does contribute to overall production and income generation. Family demand for labor was increased across the board in all sectors of operation.
- Wage labor or other secondary job creation was through piece-rate and subcontracting) were most prevalent in the manufacturing sector, and among larger repeat borrowers. However, many of the secondary Jobs created in manufacturing were in linked commercial operations, such as sales and distribution (e.g., market-driven expansion of production leading to increased requirements for sales and delivery services by third parties). Several instances of channeling of excess demand to other producers, then acting as wholesaler/marketer were also observed.

Income generation. While the stock-taking team was unable to survey systematically the incremental income generated by MBM loans, there was ample anecdotal evidence that particularly on the manufacturing side, substantial increases were generated. In a few instances it was observed that increments derived out of the start-up of a new venture, although the loan was ostensibly approved for a borrower for his/her existing business. In a few of these cases the new enterprises were additional activities for the borrower him/herself; in others the funds were passed on to a spouse. Also, in the case of traders, the simple replacement of expensive money lender credit (where used) created an income transfer effect, internalized by the borrower.

Multiple borrowers/larger loan size. One of the sources of the limitation on lendable funds available and on the shrinkage of the borrower base is the program's tendency to embrace its borrowers and not graduate them into the formal lending sector. All three sites have substantial multiple borrowers (some borrowing up to eight times, each time a greater amount). There is an up-side and a down-side to this practice. Among the benefits is the learning process and reduced risk that repeat borrowers bring to the portfolio. Also, from the borrowers' point of view, it enables them to progress from small, relatively more manageable loans, on up to much larger loans, many of which have been used for genuine business expansion and to generate additional sustainable demand for labor. On the down-side, owing to the constraint on total lendable funds available to MBM (absent any new grants to their revolving loan fund), unless large borrowers are encouraged or helped to obtain large loans in the outside credit arena--which they almost never are--a kind of stagnation can set in, reducing unhealthily both portfolio diversification and access to the program by new borrowers. This latter point has obvious equity implications. These equity consequences may be further exacerbated since most of the repeat/large borrowers are men and Christian.

Poverty versus business development. Despite styling itself as a program with a concern for the poor, MBM has adopted operation precepts that places business development over poverty alleviation. Leaving aside its non-productive social lending, MBM makes a conscious choice to go for sound business propositions of all sizes and for all social and income groups. Through this commitment they have developed a well-diversified portfolio in terms of the income level of borrower, the original size of enterprise, the sector of activity, the size of loan, and most importantly a program with tolerable transactions costs due to low follow-up requirements. At the same time they are able to identify indirect benefits that have accrued to poor people in their districts of operation, through consumers' surplus and primary and secondary demand for labor generated by the prosperity of their growing business clientele.

Women. Through normal operating procedures MBM has managed to assist mostly women (over 80 percent). Although most assisted women are vendors and traders, several women have achieved noteworthy business successes as manufacturers, generating external benefits for other producers and linked marketers.

3.4 YAYASAN DIAN DESA

Yayasan Dian Desa does not currently receive funding directly from A.I.D. for activities related to microenterprise development. In July 1986 it received a grant of $566,000 under PVO Co-Financing II to support rainwater catchment systems and related agricultural development activities. From 1985 through June 1988, however, Dian Desa served as part of the implementation team for the Central Java Enterprise Development Project (CJEDP), which was substantially concerned with small and microenterprise development.

Unfortunately, the team assigned to cover Dian Desa was not able to obtain any but the most impressionistic financial information on the organization, nor could it get a comprehensive overview of the organizations overall activities. As a result, the following rests mainly on interviews with Dian Desa's director and on brief interviews with a number of beneficiaries of microenterprise activities in the vicinity of Yogyakarta. Supplementary information is drawn from documentation related to CJEDP.

3.4.1 Background and Setting

Several aspects of the economic and social context within which Dian Desa has carried out its activities have already been discussed in previous project descriptions. Alleviating low incomes and underemployment among a large share of the Indonesian population are dominant themes in Dian Desa's efforts. In addition, Dian Desa perceives a substantial gap between the relevant technology available to the Indonesian economic and the level of technology actually utilized outside the formal industrial sector. Dian Desa sees its principal role as one of helping to bridge this gap, by applying (or developing) "appropriate technologies" to help low-income populations increase their incomes and improve their living conditions. A final contextual element relevant to Dian Desa's recent activities is the deterioration of key aspects of Indonesia's natural resources, specifically the progressive destruction of mangrove which plays an important role in the economic and ecology of coastal areas.

3.4.2 Activities and Organizational Issues

Dian Desa ("the light of the village") was founded in 1972 by Anton Soedjarwo, an engineer. The organization is largely staffed by young Indonesian university graduates who feel an obligation to help "repay their debt to society" embodied in their publicly funded education. One key feature that distinguishes Dian Desa from the other organizations reviewed in this stock-taking is its exclusive focus on technical assistance, particularly in various aspects of engineering, skill training, and small business management.

Dian Desa’s leadership emphasized its strong commitment to poverty alleviation, but it rejects the notion that its program should (or could) grow out of a unifying development strategy. Rather, Dian Desa’s operations result from the particular configuration of skills found among its staff. Dian Desa is not financially able to compete in the local market for technical talent purely on the basis of salary; rather, it depends on the social conscience of its staff to accept lower-than-market salaries. While the resulting staff commitment and motivation offer clear advantages this situation seems to impose significant limitations on Dian Desa’s flexibility, and to account for the evolutionary development of its activities.

This evolutionary character can best be illustrated through a brief account of Dian Desa’s training activities in metalworking and metal engineering. Reflecting a long-standing interest in village water supply, Dian Desa began to develop a small metal workshop in 1978, to develop a low-cost pump that would substitute for imported models. When local manufacturers showed an interest in producing Dian Desa’s prototype, the organization began producing these pumps in its own purpose built workshop. In the course of this process, Dian Desa gradually built up its capabilities in metalworking; in addition, donor groups began to contribute pieces of equipment, allowing the organization gradually to build up its physical plant. This experience laid the basis for Dian Desa’s ongoing development of various wood and metal prototypes, as well as its capabilities in metalworking training.

This training capability was applied on a small scale in 1984, when Dian Desa used a PV0 Co-Financing grant from A.I.D. to provide intensive training (3 months) to a group of 19 metal workers in the Yogyakarta area. Dian Desa first helped found a cooperative of small metalworking enterprises, and then identified potential trainees through the cooperative. Training was carried out after hours, and included simple business skills as well as hands-on training within the workshop. However, this training proved to be quite expensive, due to the cost of materials used in the course of training. As a result, it was not continued beyond the first batch of 19 graduates.

Dian Desa’s next major venture into metalworking arose in the conte~ct of CJEDP, for which the organization served as a member of the project’s implementation team. Under the project’s "hands-on" approach to enterprise development, Dian Desa helped to upgrade the skills of local small and medium-scale metal working units to produce agroprocessing equipment, components, and spare parts. Dian Desa’s functions within this project component were two-fold: (1) to develop and test replicable prototypes which could be adapted for commercial production by local metal casting and metalworking firms, and (2) to provide assistance to these firms in translating the product designs and prototypes into commercial products. In all, Dian Desa developed 44 new types of agroprocessing equipment and components. A reasonable number of the prototypes developed within the project (15 or so) have achieved local commercial success, and Dian Desa’s assistance appears to have achieved significant impact on the capabilities of a modest number of metalworking firms.

During this project, assistance was provided to 24-38 metal working firms, with between 10 and 150 employees (thus falling outside the definition of a micro enterprise used in this stock-taking). Since Dian Desa’s activities have reverted to prototype development and informal training, a modest number of workers received on-the-job training and obtained jobs in local commercial metalworking firms or started their own small workshops.

At least two of Dian Desa’s other efforts appear to qualify fully as microenterprise activities. First, Dian Desa assisted the formation of a tile making cooperative in 1980, which has continued in operation and currently consists of 48 household producers employing three to nine workers each. Second, and on a much larger scale, Dian Desa has developed a model shrimp hatchery on the north coast of Java which is helping local farmers grow shrimp in ponds, by providing intensive technical assistance, advancing inputs, and supplying post-larval shrimp for maturation in the farmers’ ponds.

Dian Desa provided the tile making cooperative near Yogyakarta a mechanical press, a clay mixer and an upgraded kiln. The 16 households forming the cooperative were also provided training in basis business skills. Since, then, Dian Desa has remained available for consultation. The cooperative has expanded, tripling in size since 1980, and accumulated equipment, to the point where most members own the equipment and kilns they use.

The model shrimp hatchery was developed by Dian Desa under the preimplementation phase of CJEDP, beginning in 1988. Part of the rationale for the shrimp component of the project was to increase the incomes of farmers living in the mangrove swamp areas of the northern Java coast. This fitted in well with Dian Desa’s emphasis on assisting the poor, because coastal areas are among the poorest areas of Indonesia, particularly those areas which lack direct access to open water. At the same time, Dian Desa views the preservation of these mangrove swamps as crucial to the maintenance of a healthy coastal ecology. A.I.D. bore the costs of providing a shrimp production expert, who eventually moved to Dian Desa to carry out project activities.

The shrimp hatchery component of CJEDP suffered many technical problems, due to the intensive management required to ensure the health of the shrimp larvae. More relevant in this context, however, is Dian Desa’s technical training and extension activities directed towards local farmers. These activities, initially planned as part of CJEDP, were dropped due to logistical difficulties, but were taken up in 1988 under a $300,000 loan from the World Bank as a part of the latter's Coastal Areas Development Program. News of the success of the single commercial Pond in early 1988 Promptly stimulated local farmers to approach Dian Desa for similar assistance. Prior to the receipt of CAD funds, Dian Desa could only accommodate seven farmers, with a total of eight hectares of ponds. With CAD funds, Dian Desa thinks it can provide sufficient technical assistance to expand total pond area by 50 hectares per year. Expansion is now under way in three other Central Java locations.

Under its outgrower system, Dian Desa provides shrimp fry, feed, other purchased inputs and the services of a resident technical advisor to each "Partner group," consisting of two to five farmers and operating 0.6-2.5 hectares per group. The resident advisor assists in day-to-day operations and presides over informal problem-solving discussions in the evening. At the end of a three-month production "run" the mature shrimp are sold and any profits divided equally between the partner group and Dian Desa. This arrangement has apparently allowed the shrimp program to become self-financing. Dian Desa's plans call for the resident technical advisors to remain with a partner group for about 18 months and then to move on to a new group. Since none of the partner groups have been cut loose in this way, it is too early to judge the impact of this transition on their viability. In the meantime local demand for the shrimp hatchery's fry has outgrown its capacity.

3.4.3 Financial Considerations

As noted above, the stock-taking team was not able to secure financial information on any of Dian Desa's operations. As a results this analysis must be largely impressionistic.

Aside from the shrimp hatchery and small-scale production of a few metal products, Dian Desa appears to have no sources of internally generated funds, and is almost totally dependent on grants from a variety of donors. Figures on the amounts and sources of such grants are not available, but it appears that the organization is not lacking in funds for its current scale of operations. Its reputation as one of the most technically solid organizations of its kind in Indonesia appears to have allowed it to secure a continuing inflow of funds.

3.4.4 Beneficiary Considerations

Due to time constraints, the team's ability to contact Dian Desa beneficiaries was very limited: interviews were held with two owners of metalworking firms and one tile maker; additional observations were made during a brief tour through part of the tile-making village. In the case of the shrimp operation, only documentary sources and interviews with Dian Desa staff were available. In no case was systematically collected data available.

Tile Makers: Prior to Dian Desa's intervention, the 16 tile makers who originally joined the cooperative were working with extremely primitive equipment and turning out small quantities of output. Based on Dian Desa's assistance the cooperative has achieved considerable growth. It has grown to include 48 members, each of whom now owns between one and three tile presses, with one being the common number operated. In addition, the cooperative now has 38 kilns based on the Dian Desa design. Finally, the cooperative has three stationary clay mixers and six mobile mixers to homogenize the members' clay. All of this has been accumulated out of internally generated funds. The cooperative operates a small credit union, allowing members to buy their own presses or other equipment; no outside credit is involved.

In terms of employment, each of the presses takes about three employees to operate; typically, these workers are landless agricultural laborers. They are paid Rp. 1,000 ($0.60)/day plus meal; roughly Rp.200/day more than they would earn as agricultural laborers. In addition, another half-dozen laborers are employed in digging clay and loading it onto the two small pick-up trucks hired by the coop members.

The tile makers to whom the team spoke have given full credit to Dian Desa as the source of their success. In view of the apparently strong impact of Dian Desa's input into their operations, the stock-taking team assumes that it achieved a relatively high cost-benefit ratio.

Metal Workers: The study team interviewed two members of Dian Desa's class of 19 graduates from its metalworking course in 1984. Dian Desa Provided these workers with free training and a number of detailed plans for constructing simple metal working and wood working equipment; since then, it has continued to provide free consultations on request. Dian Desa organized the graduates into a cooperative, which comprises 45 firms. The training lasted two months.

The first metalworker interviewed had clearly benefitted very strongly from Dian Desa's training. He had expanded his labor force from two employees to 11, and his range of outputs from minor repairs and spare parts to a wide range of simple machines, many of them using Dian Desa's design. Members of the cooperative shared bulk orders obtained by the organization. In addition, the cooperative helped members gain access to bank credit the beneficiary in question had three bank loans. He attributed a large share of his apparent success to Dian Desa's training, both on the technical side and in business skills, including how to approach banks. He noted that the largest member of the cooperative had 40 employees, and he saw little reason to doubt that he would soon reach this scale as long as demand held up. Finally, this metalworker gave some evidence of significant spread effects from Dian Desa’s training: some of his employees had already opened their own businesses, using the skills that he had passed on to them.

The second metalworking beneficiary interviewed was at the other end of the spectrum in terms of response; he still had only two employees. Substantial flows of income to this beneficiary from other sources had been the major factor limiting his response to the training program: he had enough income already, and was not interested in working harder to make more. Although a detailed breakdown of beneficiary impacts was lacking, the team got the impression that the experience from the first beneficiary was more typical.

Shrimp Farmers. The shrimp farming project has only been in full operation for about 10 months, and was not directly observed by the stock-taking team. Based on secondary sources, it appears that this activity is likely to have significant impact within the surrounding communities, and may extend much further due to replication. In addition, the shrimp hatchery was reported to be achieving significant external results on commercial hatcheries nearby, by allowing them to observe and copy its production methods.

Cross-cutting issues: Gender and Poverty. None of the beneficiaries met by the study team were women, and the team got the impression that there were, in fact, few female direct beneficiaries from Dian Desa’s microenterprise activities, probably due to the relatively small numbers of women in the industries assisted. In the case of the shrimp hatchery, some of the required pond management operations were reported to require physical strength beyond the range of most women, though owners were often women. This could not be confirmed by the team. On the other hand, Dian Desa’s activities in the area of water supply are very much based on concerns about the problems faced by women in poor rural and urban communities.

As for the income levels of beneficiaries, it appeared that Dian Desa’s philosophy of assisting the poor had been followed in the case of the activities reviewed: the tile makers and at least some of the metal workers appeared to have been reasonably poor (although by no means the "poorest of the poor"), and Dian Desa’s assistance appeared to have played a key role in lifting them to modest prosperity.

4. FACTORS INFLUENCING PROJECT PERFORMANCE AND IMPACT

The following observations attempt to identify the principal factors--contextual; organizational and programmatic; and financial--that affect project performance and influence the extent and nature of beneficiary impact. The comments are distilled from a sample of four Indonesian microenterprise projects reviewed by the stocktaking team.

4.1 Contextual Factors

(1) A modest and predictably steady rate of inflation ranging from 8 to 10 percent per annum has permitted or at least not undermined the development of sustainable, locally based credit institutions. While posing a potential threat to fund decapitalization, the absence of hyperinflation or wild rate fluctuations created a manageable situation.

(2) The existence of a deregulated credit market at the local level has allowed grass-roots credit organizations to establish margin levels adequate to cover costs and, in some instances, generate a profit. Interest rates were not fixed or held to unrealistically low levels, but set at market rates. At these rates the project still served the target population.

(3) The apparent absence of extensive and complex regulations and bureaucratic requirements at the small and microenterprise level encourages flexibility and adaptability on the part of microentrepreneurs. This also reduced pressure to target a sector or activity, allowing the financing of enterprises on the basis of economic viability.

(4) The business environment is perceived as having sufficiently profitable business opportunities that can cover the costs of credit and the risks of entry, and encourages the growth of small and microenterprises. How much of the success achieved by microentrepreneurs is due to the credit or the business environment is difficult to ascertain.

(5) The ability of informal microenterprises to graduate to formal sector banking is inhibited by the absence of clear, easily accessed linkages between credit mechanisms at the local microenterprise level, and the formal sector banking system. Little graduation has occurred because the mechanisms to graduate are missing. The formal sector banking system is not reaching the small entrepreneur.

4.2 Programmatic and Organizational Factors

(1) Credit, rather than technical assistance, is the focus of

microenterprise assistance (except in the case of Dian Desa). This has helped to focus program commitments but may have restricted the abilities of microenterprises to graduate to higher levels of entrepreneurship and enter the formal sector. Credit alone cannot develop the enterprises' ability to undertake more complex paperwork (for obtaining bank loans or official licenses and approvals), understand accounting procedures, and develop advanced technical skills required to join the formal sector.

(2) Professionalized operations characterize the four projects. Procedures have been systematized, financial systems installed, simple budgeting and planning techniques adopted, and mechanisms for monetary and non-monetary (in the case of PVOs) staff incentives designed. In the FID project, lack of clarity in the supervisory procedures of some village financial institutions (VFIs) remains a problem but this is recognized and is being resolved.

(3) Reasonable prospects for institutional sustainability exist for the projects, due in large part to organizational willingness to cover most costs through adequate margins. Dian Desa's activities in microenterprise assistance cannot be classified as sustainable. Nevertheless, in its latest project, assistance to shrimp farms, the organization has instituted a system of cost recovery and turnover of producers with more positive long-term implications.

(4) Clear organizational lines of support and authority with decentralized capacity to adapt objectives to local conditions appear to work the best. The VFI, while operating under clear objectives and organizational guidelines, has enough local autonomy to promote local involvement and adaptability to local conditions.

(5) Project offices were in close geographic proximity to the intended beneficiaries, allowing them to be familiar with the local conditions and respond to changes in the local environment.

4.3 Financial Considerations

(1) The projects display moderate to high levels of financial viability. Good operating profits have been reported despite fairly high lending costs of up to 20 percent of the loan portfolio. However, the accounting parameters hide a varying degree of subsidy in all but the KUPEDES program. In particular, PVO projects have high levels of grant financing and low staff remuneration levels, and the VFIs under FID have subsidized supervisory mechanisms and poor provision for writing off bad debts. The cost of loanable funds has also

been understated up to now because of the compulsory savings provision on which no interest has been paid. This system has now been altered to attract voluntary savings.

(2) The projects have been able to establish and maintain healthy loan portfolios. The quality of lending in terms of ability to minimize loan delinquency and default appears to be very high. In spite of the extensive coverage of the FID program, overall delinquency is no more than 20 percent. Similar low levels apply to MBM and PWC. Peer group pressure as well as the systematic, professional approach of the lending institution appears to play an important role in this good performance. There are no penalties for late payment though KUPEDES has an incentive system for timely payments. Access to increased levels of credit on the basis of a good repayment record is another factor here.

(3) All the credit projects have recorded high rates of growth, limited in the case of the PVO's by the availability of funds and, in the larger FID program, by the ability to train staff and provide an adequate supervisory input to an extensive and growing network of village or sub-district level branches. The projects are reaching greater numbers of clients and continually expanding operations.

(4) The availability of loanable funds has been greatly augmented by the mobilization of local savings either through compulsory or voluntary schemes. Savings account for 35 percent of loans outstanding in the BKK system of Central Java, up to as much as 90 percent for some of the cooperatives affiliated with PWC in East Java. The payment of positive real interest rates has been a major factor in mobilizing these savings.

(5) The projects have established sound businesslike credit procedures:

Positive interest rate structure. The spread between lending and savings rates and between costs of borrowing and the rate charged for lending was large enough to cover most loan costs and in some cases show a profit. Effective interest rates were high (ranging from 33 percent for KUPEDES working capital loans to 129 percent per annum for MBM loans in North Bali) relative to the l 2-20 percent rate for the conventional banking sector. But this does not seem to affect the demand for credit.

Simple borrowing systems and Procedures. Uncomplicated, straightforward credit and savings schemes characterized the operations of the sample group involved in local financial markets.

Use of informal community based credit review and loan guarantee mechanisms significantly reduced default levels. Credit organizations in the sample group either did not require collateral or treated it as a pro forma requirement. Community based peer-group organizational units were effectively employed in two of the three PVO case studies. The large institutional credit mechanisms under the FID project also employ elements of the peer group strategy to influence repayment.

<u>Lending projects effectively mixed loans to individuals and enterprises</u> at a variety of income levels, sizes, loan purpose, (working capital versus fixed asset) and activities to diversify the loan portfolio and reduce risks.

<u>The credit projects often began</u> a relationship with a borrower with a small short-term loan and gradually increased the amount and term as creditworthiness was established.

4.4 <u>Beneficiary Considerations</u>

(1) The delivery of credit at the village level through simple lending and repayment procedures has greatly improved the access of the poor to the financial system. Though borrowers represent a broad spectrum of the income distribution, the projects have a balanced orientation to the needs of the less well off through special programs and other unique lending mechanisms. The lack of emphasis on collateral requirements also improves access for the poorest sections of the population.

(2) The projects have not targeted (manufacturing) enterprises for credit. A large proportion of loans (50 to 75 percent in the case of MBM and FID) are made for trading activities with only 15 to 25 percent for the production of goods. Inevitably, in the informal sector, money is utilized as needs arise and considerable personal use cannot be ruled out. PWC officials acknowledge this and are willing to make consumption loans. However, in the PWC case, the proportion of personal to business loans has been steadily declining. The extent to which repeat loans and increasing loan sizes for a given unit eventually leads to productive activity or to graduation from the informal sector is unknown.

In all projects, more than half of the borrowers were women (all, in the case of the women's cooperative). However, women tend to borrow smaller sums than men and evidence from MBM suggests that their share of funds is of the order of 30 percent. There is some evidence that men are more likely to borrow for productive (manufacturing) enterprises.

(4) The projects appear to have increased productivity rather than created more wage jobs. An immediate impact of small working capital loans for microenterprises may be the absorption of disguised unemployment within the family. A 1983 study of the

Central Java VFI found that while significant hiring had taken place, the preferred option was to increase the number of family working hours.

(5) There is a lack of conclusive impact data on income. The largely positive impressions of the project impact are based on anecdotal evidence.

5. LESSONS LEARNED: IMPLICATIONS FOR FUTURE PROGRAM AND POLICY DIRECTIONS

5.1 Contextual

(1) Opportunities for successful projects can exist in less than optimal economic and regulatory environments. The Indonesian projects have been successful over an extended period of double-digit inflation, but they have not been exposed to severe economic or other ~shocks~ which could have destroyed the project. Deregulation of credit markets at the local level coupled with moderately healthy economic conditions creates opportunities for the formation of financially viable credit and savings institutions to serve small and microenterprises.

(2) Credit to microenterprises is usually not enough to graduate the enterprise to the formal sector. Linkages between small-scale enterprises and the formal sector are not available at the local levels. Enterprises cannot qualify for bank credit on size alone, but must have a more sophisticated level of management to deal with the accounting, paperwork, and technical skills that come with size. This internal capacity may require training and technical assistance to develop.

5.2 Programmatic/Organizational

(1) An important aspect of long-term institutional sustainability is the capacity or orientation to charge realistic fees for services delivered. Both provider and beneficiary appear to benefit when this fundamental principle is observed. Projects based solely on provision of training with no mechanism for cost recovery are vulnerable to donor withdrawal. In addition, they are neglecting the assistance that a market mechanism can provide to direct their efforts in an optimal direction. Both for reasons of sustainability and impact they should be encouraged to charge for services provided.

(2) Long-term project self-sustainability is dependent on an organizational capacity to be analytical and strategic with respect to the external environment, policy implications and the demand for services offered. An appreciation of the importance of managerial basics of bookkeeping, accounting, financial planning, audit review, etc. is equally important to organizational health. Projects focusing on credit and

business development should be managed in a businesslike manner.

(3) Organizations that have an uncluttered sense of their own institutional identity and reasonably finite program boundaries (as in the case of the Puskowanjati women’s cooperatives) are better positioned to protect the financial viability of the organization and will be more likely to survive.

5.3 Financial

(1) Portfolio diversification is an important component of success. None of the effective credit programs that were studied wished to limit their focus according to size of firm, size of loan or sector, except as might be dictated by prudent business considerations. In fact, effective credit organizations encouraged a steady growth in loan size for repeat borrowers and none saw any reason to discriminate in favor of any arbitrary designation or target group that went beyond an economic rationale.

(2) Simple, quick, easily understood credit and savings formulas and procedures are an important ingredient to the successful operation of a credit facility. Administrative costs are reduced, loan funds revolve quickly, the client base is attracted to the program, repeat loans can be made, and the project is comprehensible to the client base.

(3) Micro-credit schemes can be profitable, at least in an accounting sense, when realistic interest margins are used and when certain administrative costs are externalized through, for example, the creation of informal community level organizations. Interest charges that cover or nearly cover transaction costs can be assessed without subverting the poverty-oriented intent of the program or reducing the demand for credit by the poor. Similarly, penalty fees and similar financial sanctions for delinquency can be effectively employed to strengthen the integrity of the program.

(4) Accepting character guarantees from village-level leaders or group guarantees enforced by peer pressure can be as effective as financial guarantees in ensuring payment of a loan. The character or group guarantee must represent an established community in which the borrower has a real personal stake.

(5) Linking of credit and savings mechanisms is an effective way of mobilizing savings for productive purposes while ensuring the financial soundness of the lending arm.

5.4 Beneficiary

(1) The establishment of projects for microenterprise at the local levels have greatly increased access of the poor to institutional resources. Despite some diversion to personal or "non-productive" uses, when properly administered, provision of credit to the poor is an effective form of business development

(2) In the Indonesian case, low income recipients have demonstrated a capacity to use borrowed funds productively,

pay market or near-market interest rates, and repay loans with very low default and acceptable delinquency levels.

(3) There is preliminary indication that it may be easier to affiliate the beneficiary with a community-based credit facility than to "graduate" that person or firm to the formal banking system. This suggests the importance of establishing institutional linkages between the formal and informal credit sectors and may also imply the importance of more and better business training to microentrepreneurs who are at that point of graduation.

In conclusion, the experience of these projects shows that it is possible to assist the poor as microentrepreneurs through a decentralized, facilitating business development approach rather than through specifically poverty focused programs. The low transaction costs and easy access are a benefit to the poor while high interest rates and a diversified portfolio ensure institutional sustainability. The net effect is increased employment and income generation thereby stimulating economic growth through broad-based linkages and multiplier effects.

APPENDIX A

Inventory of Grants Made Under PVO Co-FI II to Projects with Microenterprise Content

Out of 42 projects funded under the PVO Co-Financing II umbrella project as of October 1, 1988, 31 were ongoing as of that date and 11 had been completed. Among the ongoing projects, at least 8 contain at least one component relating to micro-enterprise development and/or local financial institution development. Two of these--PUSKOWANJATI (East Java) and Maha Bhoga Marga (Bali)--are covered in more detail in this report. For the sake of completeness, the following provides summary information on the remaining six projects, including a number whose microenterprise component appears, on the basis of limited information, to be rather peripheral to the main project thrust, as well as several which had only begun within a few months of this writing. Finally, similar summary information is provided on five completed projects that appeared to have had some micro-enterprise content.

ONGOING PROJECTS

1. 497-0336: 83-8-Lembaga Penelitian. Pendidikan dan Penerangan Economi dan Sosial (LP3ES): Small-Scale Industries--Klaten.

To raise the incomes of small-scale entrepreneurs in the Klaten, Central Java area, LP3ES assists individual producers through producer groups and a cooperative. The producers groups are formed from small enterprises employing less than 10 laborers who use a traditional manufacturing technology. At present, there are about 50 such groups under the project which manage savings and loan programs. When a producers group decides to form, it receives services from an established private cooperative which offers motivation training, technical assistance in production technology, documentation and information on technologies, products and markets, a savings credit unit, and services to promote marketing and to procure raw materials such as wood, zinc, rice and sugar. The cooperative now has over 700 members. At present, the project is also concentrating on developing a strategy and activities that will lead to the economic and administrative self-sufficiency of the cooperative.

LOCATION: Klaten (Central Java)

DATE STARTED: 1 January 1983

GRANT COMPLETION DATE: 31 December 1988

2. <u>497-0336: 86-2--Save the Children (SCF): A Community-Based Integrated Rural and Urban Development Program</u>.

This grant provides partial support for SCF’s project to implement a community based integrated responsive development program in Duri, an urban area of Jakarta and Rangkasbitung, a rural community in West Java. Under the project, SCF is adapting multi-sectoral programming to an urban setting and further developing techniques for stimulating participatory development. In the area of water and sanitation eduction, SCF is providing health and environmental sanitation education; organizing local water cooperatives to eliminate the delivery of unsafe water by local peddlers; promoting the construction of public bathing, washing and latrine facilities and garbage collection posts; exploring possibilities for improving drainage systems, filtration systems, and water collection facilities; and organizing regular garbage pickups. In the area of education and recreation for children and youths, SCF is helping to upgrade elementary school materials and equipment, organizing women’s groups to provide day care, exploring options for sports and recreation facilities and for assisting scout groups, and is working closely with Dinas Sosial in its youth activities. In the area of family economic improvement, SCF is providing skills training, developing loan programs, strengthening cooperatives, providing management assistance and training to small local enterprises, and exploring possibilities for small livestock programs. In the area of housing improvement, SCF is exploring ways to increase access to sunlight, improve ventilation and floors, and a clean-up beautification program.

LOCATION: Jakarta

DATE STARTED 1 July 1986

GRANT COMPLETION DATE: 30 June 1991

3. <u>497-0336-G-SS-7 1 53-00--Yavasan Kristen untuk Kesehatan Umum (YAKKUM--Christian Foundation for Public Health): Improvement of Integrated Nutrition. Environmental and Health Development</u>.

YAKKUM provides community health maintenance services in four provinces in Indonesia. Its health care delivery system employs hundreds of staff for the management of hospitals, health and family planning clinics, and small-scale pharmaceutical industries. Under this grant, YAKKUM will increase the capacity of the community to raise the health status of its members by improving integrated nutrition and environmental interventions. To strengthen the local institution, Pengembangan Kesehatan Masyarakat Desa (PKMD), YAKKUM will train village volunteer health workers in leadership, community organization and administration, communications, primary health care, farming and cooperatives activities, community development, community self-surveys, and monitoring and evaluation. A ratio of one volunteer to 25 families will form the core of support for PKMD activities in nine villages. To improve the health, nutrition, environment and well being of 30 percent of the population in nine communities, volunteers will survey the villages to obtain baseline information, organize workshops to present the survey results to community representatives, educate and motivate families using a demonstration plot to start mixed farming activities and work with the families to improve their environment and housing, conduct a workshop on the demonstration plots, form cooperative groups for income generating activities in each village, provide soft loans to the members of these groups, and expand the demonstration plots to reach 75 families in each village.

LOCATIONS:	Grobogan, Wonogiri, Sukoharjo and Klaten Kabupatens (Central Java)
DATE STARTED	31 August 1987
GRANT COMPLETION DATE:	31 December 1988

4. <u>497-0336-G-SS-7152-00--Yavasan Indonesia Seiahtera (YIS): The Impounding Net System as Method of Fish Rearing in Lake Toba. North Sumatra</u>.

The project is intended to introduce appropriate technology in order to improve fish production in Lake Toba. During the first year of the project, an appropriate technology for the production of common carp and red tilapia in experimental impounding net systems will be introduced on a pilot basis. Twenty-seven impounding net cages will be built and installed at the Ambarita Fish Hatchery Center. Fingerlings will also be obtained from the center and feed will be obtained from locally available materials because commercial feeds are too expensive for local farmers. Fish production will then be determined under a variety of stocking and feeding rates, including transporting the Bogor broodstock of carp to compare them with local broodstock for fingerling quality and conducting benthic analyses to determine the availability of worms, insects, larvae, etc. that could be incorporated into feeds. It is anticipated that this project will improve the economy and standard of living of people who live around Lake Toba and who depend upon fishing for their livelihood, by increasing the availability of fish in the lake and the ability of fishermen to increase their catches. This project will give priority to the district’s low income population, i.e., those whose per capita income is less than S70 per annum.

LOCATION:	Lake Toba (North Sumatra)
DATE STARTED:	21 September 1987

GRANT COMPLETION DATE: 31 December 1988

5. 497-0336-G-SS-8 11 5-00--Bina Desa PEKERTI--Community Handicraft Marketing Development Program.

This is a follow-on project to one supported by A.I.D. from 1985 to 1987, "Small Enterprise Development", which in part aimed at assisting with 180 handicrafts producers in and around Tasikmalaya, West Java. It was implemented in cooperation with PEKERTI (Yayasan Pengembangan Kerajinan Rakyat Indonesia), another Indonesian NGO, who also is Bina Desa's partner in this endeavor. The goal of this project is to increase and diversify income opportunities for Indonesian handicraft producers through a marketing program that will ensure the sale of products for which producers have expertise and adequate raw materials. One hundred sixty-two producer groups have been targeted. Of these, PEKERTI will assist 62 directly, while an additional 80 groups will receive help through other NGOs working in PEKERTI-sponsored handicraft marketing networks. Another 20 groups will be assisted by other NGOs through other networks. Other project objectives or activities are: (I) to open three marketing centers, one each in Jakarta, Yogyakarta and Bali, for marketing training and distribution and retail sale; (2) to aim at 60 percent (2,033) use of marketing centers as primary outlets by 3,389 producer group members; (3) to increase individual productive capacity of each member of 100 percent; (4) to train at least 60 percent of groups' participants in regional marketing processes; (5) to increase the number of participating handicrafts groups from 10 to 18; (6) to increase income of participants by 75 percent; and (7) to increase handicraft sales by cooperating groups by 50 percent each year and export sales by 33 percent over three years.

LOCATION: Jakarta, Yogyakarta, Bali

DATE STARTED: 1 September 1988

GRANT COMPLETION DATE: 31 August 1991

6. 497-0336-G-SS-8135-00: The Asia Foundation (TAF)--Nahdlatul Ulama: Institutional Strengthening for Human Resources Development.

The overall project goal is to assist NU, through the strengthening of its Institute for Human Resources Studies and Development (Lajnah), in becoming a more effective, nation-wide organization in the promotion of human resources development among the organization's vast Muslim and predominantly rural constituency. The grantee will assist NU in completing the following specific objectives: (I) to develop the capacity of the Lajnah to provide development guidance, information-sharing and project coordination among NU's nation-wide network of branch offices and Dondok Desantren (Islamic boarding schools); (2) to reestablish Warta NU as a monthly newsletter, providing relevant information about community development activities and other relevant topics; (3) to establish two regional training centers in Surabaya and Ujung Pandang; and (4) to upgrade the capacity of provincial and branch offices to carry out effective community development programs through staff training in management, leadership and library skills; the implementation of pilot projects; conducting exchange visits with other offices; and the sharing of development information and experiences among branches throughout the country. The following activities will be implemented: (1) a survey of past projects and existing community development expertise will be conducted; (2) a one-week training program will be organized and training will be provided to 120 participants from seven regions; (3) a one-week training course will be developed and conducted in Jambi for 25 key personnel who will be involved in promoting and assisting with the implementation of development projects throughout the country; (4) publication of the now defunct newsletter, Warta NU, will be reestablished and 10,000 copies will be published and distributed to NU branches throughout the country; (5) books, in both English and Indonesian, on relevant community development topics, will be provided to both the Lajnah library and to select branch offices; (6) two pilot projects (shrimp raising and women's income-generating activities) to be used for adaptation and replication will be undertaken; and (7) to further information-sharing and cooperation among the NU branches, exchange visits will be made by 15 members and staff.

LOCATION: Nation-wide

DATE STARTED August 22, 1988

GRANT COMPLETION DATE: August 21, 1989

COMPLETED GRANTS UNDER PVO CO-FINANCING II WITH MICRO-ENTERPRISE CONTENT

1. 497-0336: 85-2 -- Pusat Pengembangan Agribisnis (PPA): Raising Income and Health Status of Fishermen.

This project is intended to raise the incomes of over 1,000 fishermen and their families in four fishing villages in West Sumatra. To accomplish this, PPA is: (I) introducing improved fishing techniques and equipment to the communities, (2) training women and young people to take a more active role in such income generating activities as shrimp and fish chip processing, embroidery and other handicrafts, and small fish preservation, (3) establishing cooperatives in the villages, and (4) conducting a baseline survey on villagers' incomes.

LOCATIONS: Painan Selatan, Sungai Nipa, Teluk Betung and Tarusan Villages, Kabupaten Pesisir Selatan (West Sumatra)

DATE STARTED: 1 April 1985

GRANT COMPLETION DATE: 31 July 1988

2. 497-0336: 84-5 -- Bina Swadava (Community Self Reliance Development Agency): Subang Kabupaten Integrated Rural Development.

This project is intended to establish eight village-level community-based integrated rural development subprojects to serve as development models for lowincome people in Subang Kabupaten, West Java. Together with local governments, Bina Swadaya staff will: (I) provide farmers (particularly those who live in dry areas) with an irrigation network based on water pumps and conduct maintenance courses for local people and local government representatives; (2) improve and expand existing fish and shrimp ponds and attempt to double their current production levels; (3) provide farmers with working capital and assistance in livestock breeding; (4) develop and support 100 cooperative groups with 20 members each; (5) train the cooperative groups in livestock breeding; and (6) conduct 16 training courses with approximately 30 participants each on organization, management, simple accounting and cooperative methodology. The project is anticipated to benefit approximately 26,000 people.

LOCATIONS: Sidajaya, Cikaum, Padaasih, Sidamulya, Patimban, Cihambulu, Tanjung Tinga and Legonwanten villages, Subang Kabupaten (West Java)

DATE STARTED: 25 May 1984

GRANT COMPLETION DATE: 26 May 1988

3. 497-0336: 84-12 -- Lembaga Studi Pembangunan (LSP): Women in the Work Force.

This program is intended to assist disadvantaged Indonesian women to improve their economic status and enable them to secure their legal rights under Indonesian law. The women assisted by the project are factory workers with little job security and earning very low wages (about 60 cents per day). Under the project, cooperative business groups were established and capitalized through a revolving fund. The cooperatives, which were established among the factory workers, helped to create income generating opportunities outside of the laborers' regular employment as textile workers. Cooperative activities included running food kiosks, and shoe, bag, brick and dressmaking. A revolving fund was set up to capitalize the cooperatives. Once the cooperatives have repaid the funds, the money is lent again to new cooperatives. The women workers have also received training from LSP on how to run small-scale industries and training was given to 40 cooperative members in legal rights. The project is anticipated to benefit over 4,300 women textile workers and school dropouts.

LOCATIONS:	Bandung and Majalaya (West Java)
DATE STARTED	1 July 1984
GRANT COMPLETION DATE:	30 June 1988

4. <u>497-0336: 86-6 -- Bina Desa Rasau Java and Sanggau Ledo Integrated Social and Economic Development Project</u>.

This grant provides funds to Bina Sutera (an Indonesian PVO for the Improvement of People's Health and Productivity), through Bina Desa, to assist former transmigrants and the indigenous inhabitants of Rasau Java and Sanggau Ledo, West Kalimantan. To help increase these people's economic and social status, the project is training project personnel and farmers, introducing appropriate agricultural practices and home industry activities, conducting a water purification pilot project, and exploring peat resources and agricultural applications for peat soils. The project is expected to benefit 2,500 families in West Kalimantan. The economic development component of the project aims at increasing self-reliance through enlarging market opportunities and developing other "non-subsistence economic sectors. The activities under this component, which are aimed mainly at subsistence farmers in rice deficit areas, include training farmers in appropriate secondary crops; expanding animal husbandry projects; promoting such small-scale enterprises as cassava chipping and processing, soybean processing, rice milling and timber milling; and the installation of potable water systems. The social development component seeks primarily to address self-help initiatives through conducting motivation seminars and establishing income-generating and cooperative credit programs.

LOCATIONS:	Rasau Jaya and Sanggau Ledo subdistricts (West Kalimantan)
DATE STARTED	1 September 1986
GRANT COMPLETION DATE:	31 August 1988

5. 497-0336-G-SS-7 118-00 -- The Asia Foundation (TAF): Organized Workers' Cooperatives Development Project.

Under this project, TAF will provide a grant to INKOPKAR (the Indonesian of over 1,700 cooperatives the capacity of workers' Workers' Cooperative Alliance, a coordinating network with a membership of over 2 million) to increase ____ cooperatives to meet their members' needs for accessible credit and to implement activities that would enhance their incomes. Specifically, the project will provide revolving loan funds to 10 primary cooperatives in the Jakarta area. These funds will be used for small enterprise and consumer activities. As the capacity and resources of INKOPKAR permit, the program will gradually be expanded to other cooperatives. The project will also conduct a series of training programs for cooperative members and leaders. These will include: a 10-day workshop in entrepreneurship and basic business skills for 30 participants who plan to borrow funds for investment in small businesses, an eight-day workshop in advanced technical business skills training for 33 leaders of workers' cooperatives, and a seven-day workshop in leadership training for 30 leaders of workers' cooperatives.

LOCATION: Jakarta

DATE STARTED 26 July 1987

GRANT COMPLETION DATE: 23 July 1988

The following reports on related topics are available from CDIE:

A.I.D. MICROENTERPRISE STOCKTAKING

Special Studies

A.l.D. Microenterprise Stocktaking: Synthesis Report. Taking Stock of A.l.D.'s Microenterprise Portfolio: Background and Conceptual Overview. A Statistical Look at A.l.D.'s Microenterprise Portfolio. A.l.D.'s Experience With Small and Microenterprise Projects.

A.I.D. Evaluation Occasional Papers

A.l.D.'s Microenterprise Stock-taking: Malawi Field Assessment, July 1989, No. 20,(PN-ABC-701). *A.l.D.'s Microenterprise Stock-taking: Senegal Field Assessment,* July 1989, No. 21, (PN-ABC-702). *A.l.D.'s Microenterprise Stock-taking: Guatemala Field Assessment,* July 1989, No. 22, (PN-ABC-703). *A.l.D.'s Microenterprise Stock-taking: Cameroon Field Assessment*, July 1989, No. 23, (PN-ABC-704). *A.l.D.'s Microenterprise Stock-taking: Dominican Republic Field Assessment,* July 1989, No. 24, (PN-ABC-705). *A.l.D.'s Microenterprise Stock-taking: Paraguay Field Assessment,* July 1989, No. 25, (PN-ABC-706). *A.l.D.'s Microenterprise Stock-taking: Ecuador Field Assessment,* July 1989, No. 26 (PN-ABC-707). *A.l.D.'s Microenterprise Stock-taking: Bangladesh Field Assessment,* July 1989, No. 27, (PN-ABC-708). *A.I.D.'s Microenterprise Stock-taking: lndonesia Field Assessment,* July 1989, No. 28, (PN-ABC-709). *A.l.D.'s Microenterprise Stock-taking: Egypt Field Assessment*, July 1989, No. 29, (PN-ABC-710).