Indonesia Over-indebtedness Study

"Why Microfinance Clients Take Multiple Loans"

PAKINDO
Perkumpulan Akses Keuangan Indonesia
w w w . p a k i n d o . o r g

About PAKINDO

Perkumpulan Akses Keuangan Indonesia (PAKINDO) is an inclusive association of the Indonesian microfinance industry with members from cross-legal entities of financial institutions focusing on access to finance. Founded by Indonesian microfinance practitioners, PAKINDO aims to be the leading microfinance association in promoting the principles of responsible and sustainable finance in Indonesia, particularly in the implementation of consumer protection regulation, financial education, and self-regulation. For more information, visit www.pakindo.org

Foreword

PAKINDO is an inclusive association of the microfinance industry in Indonesia. Its aim is to advance access to responsible finance throughout the country. An important activity of PAKINDO is to build the capacity of the members of the association to implement responsible and sustainable financial practices. We have learned that, in many other countries, the rapid growth of microcredit has led to multiple lending thus increasing the likelihood of over-indebtedness of its clients. The high penetration of micro-loans has spurred the occurrence of defaults and financial crises.

This study was conducted to assess this condition in Indonesia. The findings could be used as a reference for financial institutions in managing risk and minimize the impact of over-indebtedness. In terms of organization, currently PAKINDO is collaborating with IFC, a member of the World Bank Group, and supported by SECO to develop responsible finance guidelines, which accordingly can be used as references by the microfinance industry in Indonesia.

This field research study was made possible through collaboration with MicroSave and KBIJ Credit Bureau, and support of Opportunity International Australia and FMO, the Entrepreneurial Development Bank of the Netherlands (Massif Fund). PAKINDO gratefully acknowledges their contributions in funding this study. We also take this opportunity to thank management and employees of Mitra Bisnis Keluarga, and to the many individuals and organizations that have contributed actively to this study through interviews and focus group discussions, particularly the low-income women clients of PAKINDO members who took part in the research.

Lastly, we hope that the findings of this study may be beneficial to the advancement of financial institutions in Indonesia.

Sincerely,

Slamet Riyadi
Chairman, PAKINDO

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List Of Abbreviations

BAV	: Bina Artha Ventura
BPR	: Bank Perkreditan Rakyat (Rural Bank)
BTPN Syariah	: Bank Tabungan Pensiunan Nasional Syariah
CGT	: Compulsory Group Training
DMS	: Dana Mandiri Sejahtera
FGD	: Focus Group Discussion
FI	: Financial Institution
IDI	: In-Depth Interview
IDR	: Indonesia Rupiah
IFC	: International Finance Corporation, a World Bank Group
PAKINDO	: Perkumpulan Akses Keuangan Indonesia Forum
JLG	: Joint Liability Group
KBIJ	: Kredit Biro Indonesia Jaya, an Indonesia Credit Bureau
Komida	: Koperasi Mitra Dhuafa
KTP	: Kartu Tanda Penduduk, an Indonesian national identity card
LPG	: Liquefied Petroleum Gas
LUC	: Loan Utilisation Check
MBK	: Mitra Bisnis Keluarga
MFI	: Microfinance Institutions in India
MNO	: Mobile Network Operator
NGO	: Non-Government Organisation
PNPM	: Program Nasional Pemberdayaan Masyarakat, a government efforts to accelerate poverty reduction and expansion of employment opportunities in rural areas
PPT	: Microsoft Power Point
ROSCA	: Rotating Savings and Credit Association
RT	: Rukun Tetangga, a community group
RW	: Rukun Warga, a community group, bigger than RT
SD	: Sekolah Dasar (Elementary School, 1st – 6th Grade)
SMA	: Sekolah Menengah Atas (Senior High School, 10th – 12th Grade)
SMP	: Sekolah Menengah Pertama (Junior High School, 7th – 9th Grade)
TV	: Television

Executive Summary

Background:

Access to credit through formal financial institutions is at a nascent stage in Indonesia. World Bank estimates that only 13.1% of the Indonesians have borrowed from a formal financial institution. Financial institutions (FIs) recognise this credit gap and have been growing at a rapid pace over the last few years in Indonesia. The top three FIs i.e. MBK Ventura, BAV and Komida grew at 57.3% (year-on-year) in terms of gross loan portfolio and 30% (year-on-year) in terms of number of clients for the past three years. However, this growth is largely limited to Java and specifically to West Java province.

This rapid growth could lead to credit over supply and over indebtedness among the clients. And as seen in other markets such as India, Mexico, Bosnia, Nicaragua, etc. with higher penetration of FI loans – this situation could lead to mass defaults.

To avoid such situation, association of Indonesian FIs under the aegis of Perkumpulan Akses Keuangan Indonesia Forum (PAKINDO) is taking a prudent step to assess the situation of over indebtedness in Indonesian market and come up with timely interventions to avoid a crisis situation.

Objectives:

PAKINDO hired MicroSave to conduct this study with following objectives:

- Gain an in-depth understanding of the reasons driving the clients to contract multiple loans and how multiple lending impact clients' loans repayment; and
- Make concrete recommendations to the participating FIs to minimize over-indebtedness and client default, which have led to mass default experienced by some group-lending FIs in Indonesia and in other countries

Research Methodology & Sample :

The team interacted with 244 respondents as per the following sessions

Table 1. Number Of Respondents

Jenis Sesi Interaksi	Jml Sesi	Total Responden
FGD – nasabah yang memiliki beberapa pinjaman	6	64
FGD – staf cabang (Account Officer)	2	16
IDI – pemimpin cabang	2	2
IDI – nasabah yang memiliki beberapa pinjaman	137	137
IDI – nasabah macet	20	20
IDI – tokoh masyarakat (ketua RT)	2	2
Studi Kasus	3	Dilakukan bersama FGD/IDI
Total	169	241

Clients were shortlisted on the basis of credit information data shared by KBIJ, a local credit bureau. We interviewed MBK clients as part of the arrangement for the research. The research was conducted in Subang, Sukabumi, Cianjur and Bogor regencies of West Java as these regions have the highest influx of FI clients as per the KBIJ data. Further, inputs from PAKINDO were also taken before finalisation of research locations.

1. World Bank Findex, 2014: http://datatopics.worldbank.org/financialinclusion/country/indonesia
2. For the purpose of this research we define Financial institution as – An institution which follows modified grameen lending methodology i.e., group based loans with joint liability concept. Venture capital companies, cooperatives, rural banks, commercial banks and Syriah banks fall under this category.
3. For the purpose of this research we define multiple loan client as a client who has three or more microfinance loans

Profile of the Respondents:
The team ensured healthy mix of urban (29%), semi-urban (25%) and rural (46%) areas for the research. Majority (43.9%) of the respondents were in the age group of 41-50. Notably, 14% of the respondents were above the age of 50. Almost 82% of the total respondents have their own business i.e., selling foods/meal/snacks, groceries, clothes etc. However, the study also found out that 14% of the respondents were housewives or are not involved in productive economic activity.

Main Findings

Credit Sources: FIs (100%), Moneylenders (86%), and banks (19%) remain key source of credit for members in the community. FIs score high as our main respondents were FI clients. However, what is worth noting is the prevalence of informal sources such as money lenders (86%), friends/relatives (31%) and Arisan/ROSCA (23%). These loans are fast, easy and require little or no documentation.

Evidence of Multiple Loans: Target respondents for the research were client with three or more microfinance loans. However, close to 54% of the respondents had three or more loans with 16% of them having four loans. This is because many respondents were afraid to disclose actual number of loans fearing that they may not get further loans (MBK has an internal policy to not lend to clients with more than two existing loans). Further, credit bureau data is as of November 2015 and respondents could have repaid/ closed the loans.

Reasons for Having Multiple Loans: Business needs (87%), inadequate existing loan (59%) and funds for basic house hold expenditure (31%) emerge as the key reasons for having multiple loans from demand side perspective. On supply side, easy loans from FIs (39%) and influence from friends, neighbours and group members (11%) came up prominently.

Usage of Loans: Even though the loan is intended for productive purpose to meet clients' business/working capital needs, research suggests that major part of the loan is also used to cover some household expenditures. Specifically, 39% of respondents said that they used it for food/consumptions, 31% for children's education, 18% for medical expenses, 10% to repay other loans and 19% for other purposes such as house renovation, ceremony, life cycle expenses, etc. We did find instances of loans being taken with intention of passing it on to others these are known as Joky loans.

Joky Loans: The extent of Joky loans (ghost loans taken with the intention of passing it on to other) is limited and most of the loans are being on-lent to relatives/friends and not to brokers/agents. However, if the situation is not controlled immediately, it may spin out of hand and ghost borrowing will happen rampantly as observed in other countries which experienced microfinance crisis.

Experience of Borrowing from FIs: Majority (58%) of the respondents found their experience with FIs to be "good" and 36% of the respondents felt that the experience was "Satisfactory". Convenience in terms of door step delivery, faster processing of loans and low interest rates came out as major factors contributing to positive experience.

Pain Points in Borrowing from FIs: Centre meetings (39%), joint responsibility (36%), loan processing time (18%) and staff behaviour (16%) came out as major pain points of availing loans from FIs. Staff behaviour in terms of arriving late to the centre meetings and behaving rudely while dealing with delinquent clients stands out! As they contract multiple loans, respondents find it even more challenging to attend centre meetings.

Pain Points in Managing Multiple Payments: Majority of the respondents (59%) face issues with managing cash flows for honouring loan repayment obligations. Further, respondents (46%) find it challenging to shuffle between various FIs leading to frequent business interruptions. Close to 30% of the respondents also disliked paying as well as availing joint responsibility funds. They undergo pressure and social shaming by other members of the group and sometimes by the FI staff. To avoid this situation, many borrowers prefer to avail loan from friends, relatives and sometimes money lenders rather than asking the group to do joint responsibility.

Managing Cash Flows for Loan Repayment: Majority of the respondents (79%) save money from their business on daily basis to pay loan instalment. Saving up is almost always not enough, so FI clients depend upon their family members and especially their husband for loan repayments. This came out in 57% of the sessions. Increasing number of respondents are falling into debt trap by borrowing new loans to repay existing loans. Out of 29% of the respondents who got a new loan 21% took from neighbours/relatives (21%), 6% from money lenders (6%) and 2% from microfinance institutions.

Reasons for Loan Default: The team interviewed 20 default clients and found that multiple loans (or over indebtedness) and business failure are the two major reasons for defaults. Many businesses were dependent on a nearby illegal mining activity and as the government shut down the mines, all the dependent businesses failed. It is interesting to note the 9 out the 20 default clients had only one or two loans but they still defaulted. This points at lapses with respect to client identification and due diligence.

Experience of Recovery Practises: Loan recovery practices by the FIs came under criticism in almost all countries that faced default. Research suggests in some instances (if not all) recovery practises are aggressive in Indonesia too. 42% of the respondents had “moderate” experience and 32% had “bad” experience related to loan recovery practices from FIs. Practices included coming to borrower’s house late at night to collect money, forcing them to borrow money from anyone they know, and taking their inventory as collateral.

Conclusion and Recommendations

Though over indebtedness situation is West Java is not as alarming as it was in other mature markets such India, it however calls for immediate corrective measures. There are many organisations offering FI loans. Most of the customers have FI loans because they are easy to avail. This is leading to increasing signs of repayment related stress among the customers. FIs should learn from the experience of other mature markets and try to put in places some systems and correction measures to avoid mass defaults due to over indebtedness. Major recommendations based on study findings and international best practises include:

Setting up a Credit Bureau for FIs: FIs should put in place a credit information sharing mechanism in the form of a credit bureau to improve the quality of credit information available on customers. This has helped countries such as India, Mexico Kenya and Cambodia to reduce over indebtedness related defaults and improve portfolio quality .

Improving Coordination among FIs: Indonesian FIs need to build a strong microfinance association and come out with guidelines for business conduct to check multiple lending and thereby prevent over indebtedness. Indonesia is the fourth largest country in the world, however it does not have a credible, functioning, legally registered association recognised by the financial authorities. The association is also needed to manage any potential political and regulatory risks and also to showcase the role played by FIs in financial inclusion in Indonesia.

Reducing Geographic Concentration: West Java is the region with most concentration of FIs in Indonesia. There are enough underserved regions within Java and outside Java which can be targeted by FIs to avoid over heating/multiple lending within West Java.

Product and Revenue diversification: Group lending FIs are pre-dominantly focused on one or two credit products which clients' needs include a variety of credit and other financial products like home improvement loans, emergency loans, individual lending loans, insurance, bill payments etc. FIs can explore options to offer new products and services either on their own or by collaborating with external agencies (like branchless banking agents for banks or MNOs) to meet the diverse needs of their clients. This will help reduce the dependence on credit and lead to more sustainable growth.

Improving Overall Risk Management function: Most FIs are focusing on financial and credit risks only but as the industry is maturing, the organization needs to focus on political, regulatory and competition risks as well. This means, FIs must set up dedicated risk management teams which will proactively monitor the different risks faced by the FIs.

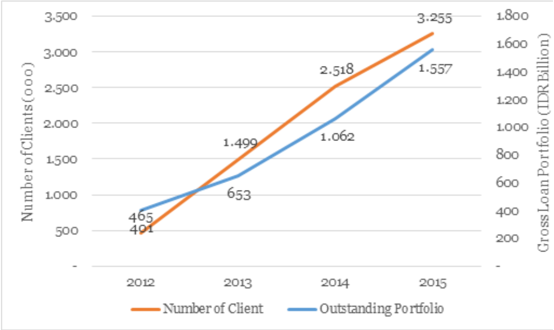
4. Promoting Credit Bureaus: The Role of Microfinance Associations

1. Background, Objective and Methodology of Study

1.0 Background, Objective and Methodology of Study

Ak Access to credit through formal financial institutions is still at a nascent stage in Indonesia. A recent World Bank survey suggests that only 13.1% of Indonesians have borrowed loan from a formal financial institutions. Further, an overwhelming 41.5% Indonesians have borrowed from family or friends to meet their credit needs. Microfinance providers, i.e. venture finance FIs, cooperatives and BPRs who offer loans based on modified-grameen loan model recognize the credit gap and have been growing rapidly over the past few years. Some of the organisations offering this product are BTPN Syariah,Mitra Bisnis Keluarga (MBK) Ventura, Bina Artha Ventura (BAV), Koperasi Mitra Dhuafa (Komida), PT. Dana Mandiri Sejahtera (DMS) and several other smaller/local FIs. In the last five years, these players have been showing significant growth in term of loan portfolio as well as number of clients.

Figure 1. Growth of 5 Major FIs in Indonesia (2012 - 2015)



The top 5 FIs i.e. BTPN syariah, MBK Ventura, BAV, Komida and DMS have shown a combined average growth of 59.1% (year-on-year) in terms of gross loan portfolio and48.6% (year-on-year) in terms of number of clients for the past 3 years. Interactions with leading providers indicate a similar or even faster growth in the coming years.

The group lending microfinance market in Indonesia is characterized by high geographic concentration in West Java. Preference for West Java is primarily due to high density of population and being an economically active region with a large number of micro-enterprises. The proximity to Jakarta where most of the FIs are based is also one of the reasons for the high presence of FIs in this province.

An analysis of branch presence of major FIs in West Java shows that there are 8.87 branches per 100,000 poor population . This is almost twice the number of branches in East and Central Java. Certainly this number will be much higher if compared with other provinces outside Java. West Java penetration levels are comparable to similar regions in geographies such as Philippines and India. For example , Calabarzon region in Philippines has 7.01 branches and the province of Karnataka in India has a 5.77 branches.

In certain regencies in West Java (Refer to Annexure I), the number of FI branches is more than 10 per 100,000 poor population. This shows that the concentration of microfinance in West Java is quite large and is one of the major reasons for multiple lending in West Java. Central Java, Yogyakarta and East Java are relatively underserved.

5. Data Source: http://www.mbk-ventura.com; http://www.bina-artha.net; and http://mitradhuafa.com
6. BTPN Syariah and DMS figures are available from 2013 on-wards so this has led to a big jump from 2012 to 20013. For the average growth calculation we are using data from 2013 on-wards only for all the 5 FIs
7. Data Source: http://www.mbk-ventura.com; http://mitradhuafa.com and information provided by FIs; Not exhaustive
8. The calculations include MBK, BAV, KOMIDA, DMS, KSB, BAIK, BTPNs branches. As province wise branch presence data for BTPN is not available, we calculated average branches per province ie., total branches (1832) divided by the number of provinces present (20). Data Source: http://www.btpn.com/assets/InvestorNews/BTPN-Analyst-Meeting-1Q-2016final.pdf
9. BPS 2015: data of poor population
10. http://finclusionlab.org/country/Philippines/analytics?title=Supply-and-Demand-Ratio

Table 2: Concentration of FI Branches in Java

Provinsi	Jumlah Cabang dari LK Terbesar	Populasi Masyarakat Miskin	Cabang LK/100.000
Jawa Barat	393	4.430.100	8,87
Jawa Timur	218	4.893.000	4,46
Jawa Tengah dan Yogyakarta	195	5.353.300	3,64
Banten	128	677.500	18,89
Total di Pulau Jawa	934	15.353.900	6,08

Philippines 7.01

India 5,77

Considering that other than KOMIDA and BTPN none of the other FIs have started operations outside Java, there are large underserved areas available for FIs to expand.

International experience shows that rapid growth and deeper penetration can lead to over indebtedness which in turn can lead to mass defaults among microfinance clients. Such crisis has taken place in countries such as Bosnia , India/Andhra Pradesh (also refer to Annexure II for a detailed Case Study on the Microfinance Crisis in India), Mexico , Nicaragua , and Cambodia etc.

To avoid a similar situation, a consortium of FIs under the aegis of Perkumpulan Akses Keuangan Indonesia Forum (PAKINDO) intend to assess the situation of over indebtedness in

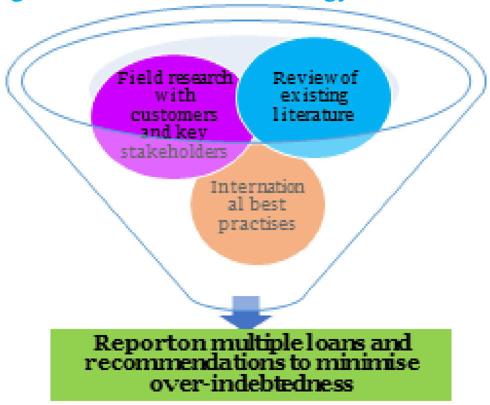
Indonesian market and come up with practical recommendations. The forum, along with IFC, commissioned MicroSave to conduct a study on microfinance over indebtedness especially in West Java and come up with recommendations to mitigate risk of over-indebtedness. Following are the objectives of the study.

1. To gain an understanding of the reasons driving the clients to contract multiple loans and how multiple lending impact clients' loans repayment; and
2. To make concrete recommendations to the participating FIs to minimize over-indebtedness and client default, which have led to mass default experienced by some group-lending FIs in Indonesia and in other countries

1.1 Research Methodology

The research was conducted by MicroSave's team of microfinance and market research experts, ably assisted by local consultants with research and language proficiency. The research plan and tools were finalized in close coordination with PAKINDO members. The research included mix of in-depth interviews, focus group discussions, and case studies. The team interacted with customers (active and delinquent), FI staff (head office and field staff) and community leaders, to gain a holistic perspective on key issues such as reasons for multiple loans, customer coping mechanisms, lender strategies to mitigate loan defaults etc. Field interviews/discussions were conducted over a period of three weeks. We closely analysed and interpreted the data to identify respondents' experience of borrowing from FIs, key reasons for availing multiple loans, pain points in managing cash flows, reasons for default etc. Further, based on the findings of the research, the team came up with twith appropriate recommendations to mitigate the risk of over-indebtedness among FI clients. Special care was taken to ensure that the recommendations are relevant, practical and implemenTable by the participating FIs.

Figure 2. Overall Methodology



We took constant feedback from PAKINDO and IFC through formal meetings as well as informal interactions during the duration of the project. As a final deliverable, we submitted a detailed report highlighting the findings of the research and relevant recommendations. The report will form basis for an internal workshop with PAKINDO members and IFC.

Research Plan

This details out the methodology and approach adopted by MicroSave in conducting the research.

11. http://www.aljazeera.com/focus/2010/01/20101393659573655.html
12. https://www.cgap.org/sites/default/files/CGAP-Focus-Note-Andhra-Pradesh-2010-Global-Implications-of-the-Crisis-in-Indian-Microfinance-Nov-2010.pdf and http://www.microsave.net/files/pdf/AP_FI_Crisis_Report_MicroSave_CMF_Ghiyazuddin_Gupta.pdf
13. http://www.finca.org/files/2014/05/Over-Indebtedness-in-Mexico-Its-Effect-on-Borrowers.pdf
14. http://www.cgap.org/publications/growth-and-vulnerabilities-microfinance

Sampling Strategy

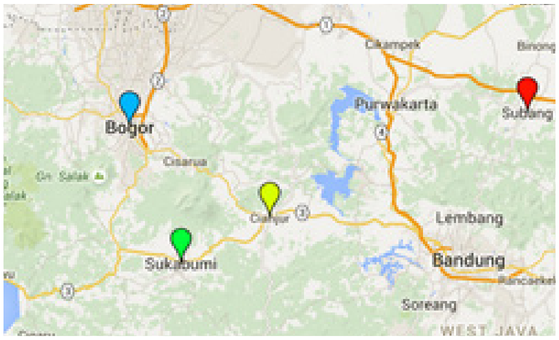
The research was conducted in West Java province of Indonesia because of high penetration of FIs in the area. The team analysed multiple loan client data from KBIJ credit bureau and selected regions/ districts within West Java province. The team shortlisted four regions in West Java as the final focus area of the research: Subang, Sukabumi, Cianjur and Bogor. Bogor was selected due to high number of default customers in the region. Inputs from IFC and PAKINDO were also taken before finalisation of research locations.

Methodology for Sampling

KBIJ had collected debtor information from 9 FIs for the purpose of the over indebtedness study. Data from only 6 institutions was finally included to understand the level of over indebtedness (Refer to Annexure III for Summary of KBIJ report). A total of 733,090 customer records were shared, in which 92.06% of records had loans from 1 FI, 5.94% had loans from 2 FIs and 0.14% had loans from 3 FIs.

For the purpose of the qualitative study, the research team identified all the customers of MBK who had 3 FI accounts. Together with MBK staff, we identified the districts which had the maximum concentration of the clients with 3 FI accounts and we zeroed in on 4 districts of Bogor, Sukabumi, Cianjur and Subang.

Figure 3. Research Areas/Locations



In all, clients from 12 sub-districts (kecamatan) of West Java were interviewed for this study (Refer to Annexure IV for the names of districts). Based on the data provided by MBK, we selected multiple loan customers with three or more loans and delinquent customers. The team took adequate care to spread the sample among rural, semi-urban and urban locations within these four regions.

1.2 Market Research Tools Used During the Research

Following tools were used for data collection:

Table 3: Research Tools Used for the Research

No.	Tool Used	Object	No. of Groups	No. of Respondents	Objective of Using the Tool
1.	Focus Group Discussion (FGD)	Multiple Clients	6	64	**Understanding about:** • Current sources of credit and it's usage, • Reasons for borrowing credit from multiple sources, • Ability to honour loan obligations, • Coping mechanisms with respect to multiple repayment schedules, • Incidence of "Joky" loans and details related to the loans, • Likes/dislikes about loans from multiple-institutions, • Perceptions about institutions offering credit in the area.
2.	In-Depth Interviews (IDI)	Active Customers who Have Multiple Loans	137	137	
3.	IDI	Delinquent Customers who Have Multiple Loans	20	20	Understanding about: • Reasons for loan default, • Linkage between multiple loans and default, • Coping mechanisms.
4.	IDI	Community Leader	2	2	Understanding about: • Perception about FIs/credit providers, • Perception about disbursement/ collection practises adopted by credit providers, • Recommendations to improve operations.
5.	Case Study	Active Customers and Delinquent Client	-	-	• Highlighting on interesting observations in the field related to delinquency and "Joky loans".
		Total	**165**	**223**	

Research Tools for Mitra Bisnis Keluarga (MBK) Staff and PAKINDO Members

Table 4: Research Tools used for Interactions with MBK staff and PAKINDO Members

No.	Tool Used	Object	No. of Groups	No. of Respondents	Objective of Using the Tool
1.	FGD	Branch Staff of MBK	2	16	**Understanding about:** • Field operations, • Market practice, • Presence of competition, • Multiple borrowing activity in their customers.
2.	IDI	Branch Manager of MBK	2	2	
3.	IDI	PAKINDO Members	3	3	**Understanding about:** • Loan portfolio quality and growth, • Strategies to manage growth, • Delinquency management strategy, • Induction and training of field staff, • Policy for rotation of field staff and staff churn.
		Total	**7**	**21**	

Note on the Research Findings

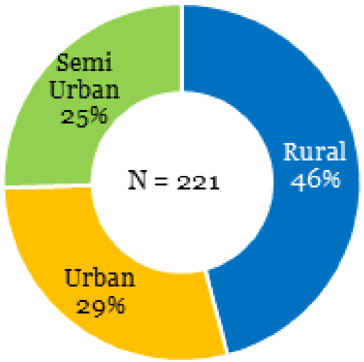
The qualitative research findings and the trends that have emerged during the research have been presented in the form of graphs and described as percentage of total responses received. These are done for better visual presentation and ease of understanding the major trends. Being a qualitative research, the thrust of the report is to understand the reasons behind the trends that are emerging and not to conclude what were the percentage of responses received for any question per se. The conclusions and inferences drawn are based on the qualitative trends and experience of the research team in other microfinance markets. Similarly, since the research was done only with MBK clients and staff, as a result, there may be some bias in the responses received. The focus of the research was West Java province and the findings may not reflect the status of microfinance in other provinces.

2. Main Findings

2.0 Main Findings

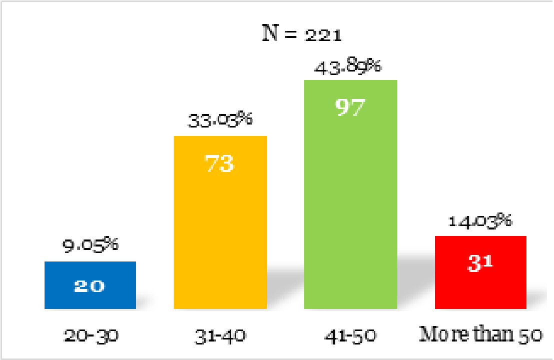
2.1 Client Profile

Figure 4. Respondent Location



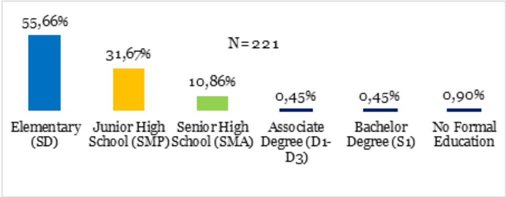
Location: The team ensured that there was good representation from rural (46%), urban (29%) and semi-urban (29%) areas. We classified urban as within the town, semi-urban as within the periphery of the town and rural as those areas outside the periphery of the town.

Figure 5. Respondents Age



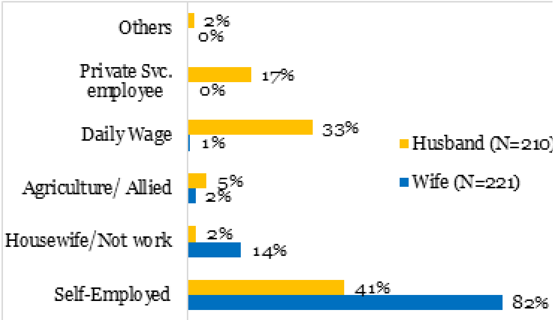
Age: All the respondents were female with majority of them (43.9%) falling in the range of 41-50 years old. Notably, 14% respondents were more than 50 years old.

Figure 6. Respondents Education



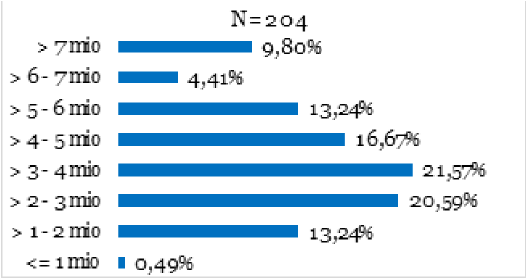
Education: Literacy rate among the respondents was high with more than 99% of the respondents having formal education. Majority (56%) of the respondents were graduated from elementary school (6th grade or Sekolah Dasar/SD) and 32% from Junior High School (9th grade or SMP).

Figure 7. Respondents and Spouses Occupation



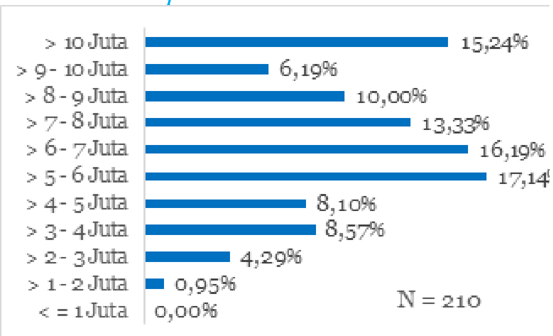
Occupation: Majority of the respondents were involved in productive activities. Almost 82% of the total respondents have their own business i.e., selling foods/meal/ snacks, groceries, clothes, household appliances on credit, etc. This is in line with the purpose of the loan which should be for productive activities. However, the study also found out that 14% of the respondents were housewife or does not have productive activities. Further, 12 out of 20 default loan clients were housewives or not gainfully employed.

Figure 8. Respondents Total Household Income



Income: Majority of the respondents (more than 86%) have income above IDR 2 million per month. This income indicates the net business income and is self-reported by the respondents. This is higher than the average household income of a poor household in West Java which is IDR 1.178 million per month.

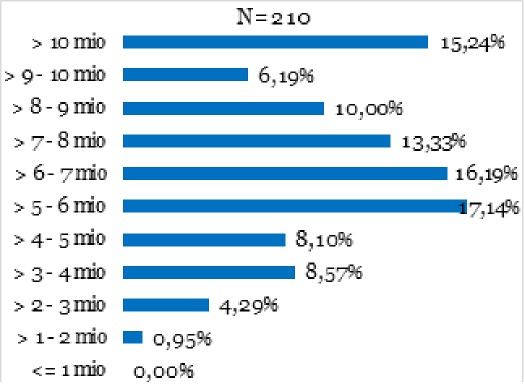
Figure 11. Respondents Total Household Expenditures



Expenditure: In regard to household expenditure, 46% of the respondents spent IDR 1 – 2 million per month, 31% spent IDR 2-3 million and 10% spent less than 1 million per month.

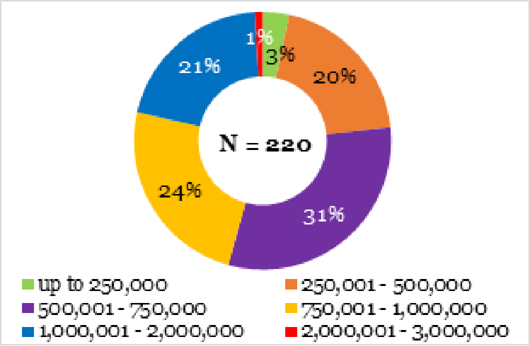
Total Loan Size: From Figure 11 below, we found out that 17.14% of the respondents have taken loan in the range of IDR 5 – 6 million, followed by 16.19% in IDR 6 – 7 million and more than IDR 10 million 15.24%. We refer the loan size to group loans and based on the amount disbursed (and not outstanding). The high loan size indicates higher loan cycle of majority of the respondents. Close to 80% of the respondents had been associated with an FI for more than 3 years. We found that FIs such as BTPN Syariah also offer relatively high loan size using group lending method despite that it is relatively new player, e.g. more than IDR 10,000,000 per cycle for selected client members.

Figure 9. Respondents Total Loan Size



Monthly Instalment Amount (in IDR): Majority of respondents (78%) paid instalment up to IDR 1,000,000 per month divided into 3% which paid up to IDR 250,000 per month, 20% in range of IDR 250,001 – 500,000, 31% IDR 500,001 – 750,000 and 24% in range IDR 750,001 – 1,000,000.

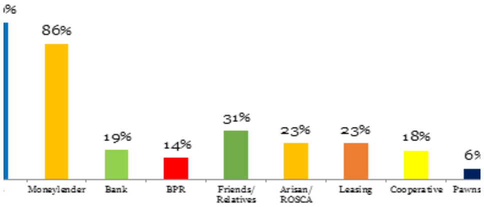
Figure 10. Respondents Total Monthly Instalment



15. Statistik Indonesia 2015, www.bps.go.id. We assumed an average of four members in a household.

2.2 Source and usage of Credit

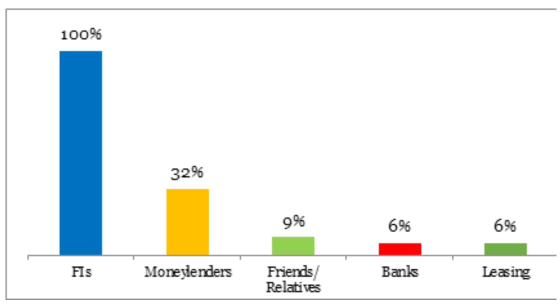
Figure 12: Sources of Credit in the Community



Members of the community have access to many sources of credit, both formal and informal. FIs, moneylenders, banks and informal sources like friends and relatives, arisans are the major sources from where the general community accesses loans. Figure 12 explains in how many sessions each type of credit source was mentioned. Figure 12 depicts the credit sources utilised by respondents to meet their credit needs. FIs and Moneylenders are prominent due to loan-size and product type that are more suiTable to the market (refer to the Table 6 on product features and client feedback on different sources of credit). However, respondents prefer to borrow from moneylender and friends/relatives in case of emergency because it is fast and easy with little or no documentation. On the other side, FI loans are easy to avail, cheap, convenient and have small instalment size.

Presence of FI in all research area is quite dense, dominated by FIs, followed by moneylenders and banks. Almost 75% respondents said that there are at least four FIs in the community. Predictably, presence of FIs is slightly higher in urban area, 43% of the urban respondents mentioned the presence of 4 or more FIs as compared to 30% in rural and 27% in semi-urban areas. With saturated markets and high competition in the region, the need to expanding to newer geographies is even more compelling.

Figure 13. Credit Sources Accessed by Respondents



16. We have considered BTPN Sharia as an FI and not as a Bank for our analysis.

Table 5: Product Analysis of Financial Providers

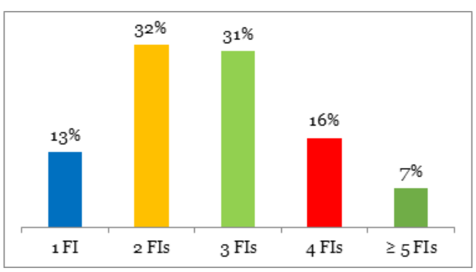
Service Providers	Terms and Conditions	Customer Feedback on Each Financial Service Provider
FI (Includes FIs and banks that offer joint collateral based group loans)	• Loan size: IDR 1 – 15 million • Loan size per cycle: o 1st cycle: IDR 1 – 2.5 million o 2nd cycle: IDR 2 – 3.5 million o 3rd cycle: IDR 3 – 4.5 million o 4th cycle: IDR 4 – 5.5 million o 5th cycle: IDR 5 – 6.5 million o etc. usually up to IDR 10 million • Loan tenure: 1 – 1.25 year (or 25 – 52 weeks. 25 weeks usually for bi-weekly repayment) • Instalment: weekly / bi-weekly • Interest rate: 1.75% - 2.5% per month, fixed • Collateral: not required • Administration/provision fee: no • Loan purpose: productive (mainly) • Responsibility fund: 5 – 10% of loan (can be withdrawn once customer closes the loan) • Penalty: some FIs have penalty for skipping the centre meeting	• Easy to avail and simple requirements such as ID (KTP) and/or family card, have a business, woman, married, and have a house in the community. • Cheap, no charge/fee, convenient loan repayment since it is paid weekly/bi-weekly hence the instalment amount is felt lower/smaller. • A new start-up business is allowed which is one appealing factor for client. • Simple loan analysis, fast loan processes, usually takes about 1-2 weeks. • Centre meetings offer good platform for clients to socialize with friends but can also irritate them if too many. • Joint liability group (JLG) is a pain point especially beyond 1-2 payments. • Most of the services are "doorstep" • Not all FI provides top up loan and/or advance loan repayment.
Moneylender	• Loan size: IDR 100,000 – 1.5 million • Loan tenure: 25 days – 1 month • Instalment: daily • Loan type: individual loan • Interest rate: usually around 10% per month • Collateral: not required • Administration/provision fee: not required • Loan purpose: anything	• Loan process very fast, just 1-2 days. Fast way out for any emergency need, even the loan size is usually small. • Little documentation and loan analysis. • Daily loan repayment, starts directly one day after disbursement, expensive, and not professional staff (and sometimes rude).
Bank (non-group based loans)	• Loan size: based on client's business size, collateral value, and client's loan repayment capacity • Loan tenure: 1 – 3 years for productive loan • Instalment: monthly • Loan type: individual loan • Interest rate: 1.5 – 2.0% per month • Collateral: required e.g. land/house, vehicle, or saving/cash. Customers should have legal ownership papers. • Administration/provision fee: yes, usually about 1% of loan size. • Loan purpose: productive and consumptive	• Longer loan processing time, usually two weeks to one month. • Requirements usually more rigid, including collateral that many small borrowers may not have. • For productive loan, banks set standard for minimum length of the business operation (e.g. minimum 2 years). • Loan size is bigger but the instalment also bigger since paid monthly. • Even though interest rate is usually lower than FIs, provision/admin fee and charges for collateral binding make the total costs look/feel higher. • Loan default recovery usually stricter by selling collateral/asset owned by client. • Loan repayment and disbursement at branch can cause inconvenient t0 borrowers.

Service Providers	Terms and Conditions	Customer Feedback on Each Financial Service Provider
Friends/ Relatives	• Loan size: based on need and/or available cash from sources but usually small size. • Loan tenure: not determined but usually in few days or 1-2 weeks. • Instalment: bullet payment when borrower has money or based on agreement. • Loan type: individual loan • Interest rate: mostly no interest • Collateral: not required • Administration/provision fee: no • Loan purpose: anything	• Fast and easy to get since it is based on relationship and willingness to help. Very common practice in the community. • First choice for any emergency and/or seasonal needs, besides moneylender, such as medical, education, ceremony, basic household expenditures, and sometimes for loan repayment (from FI) to cover time-gap between business income and repayment time/schedule. • Delayed payment is easier since providers are friends/relatives who usually understand borrower situation.
Leasing	• Loan size: based on client's income and collateral value • Loan tenure: 1 – 3 years • Instalment: monthly • Loan type: individual loan • Interest rate: 1.5 – 2.0 % per month • Collateral: required, usually things that purchased e.g. vehicle • Administration/provision fee: yes • Loan purpose: consumptive • Loan disbursement and repayment: at branch office or transferred.	• Loan processes are fast usually about 1 – 2 weeks. • Loan analysis usually less rigid than Bank but more than FI. • More attractive to client for purchasing such as vehicle since most of dealers tie up with leasing. Limited providers offer vehicle loan besides leasing. • The loan processes are easy and not too expensive, and usually offer many programs such as lower down payment and/or some gifts. In vehicle loan, the collateral is the vehicle itself. • Monthly loan repayment makes the loan instalment bigger that may not everyone can afford it.

2.3 Evidence of Multiple Loans

Our target respondents for the research were clients with three or more FI loans (as on November 2015) as per the data provided by KBIJ. However, many respondents mentioned that they had less than three loans. This could be because the data with KBIJ, is as of November 2015 and some of them might have repaid the loans. Secondly, many of the respondents were afraid to disclose actual number of loans fearing that they may not get further loans from MBK. However, about 54% respondents said that they have at least three loans from different FIs. In fact, as shown in Figure 14 above, even though respondents have been associated with FIs, there are still 32% who are also still associated with moneylenders to meet their emergency or additional capital needs. We also found out that close to 80% of respondents have been associated with FIs for more than three years. It is interesting to note that even newer clients with less than three years association with FIs had three or more loans. Also, we did not find any significant difference in the income or occupation profiles of clients with 3 or more FI loans to those with 1 or 2 FI loans.

Figure 14. Number of FIs Associated with Respondents

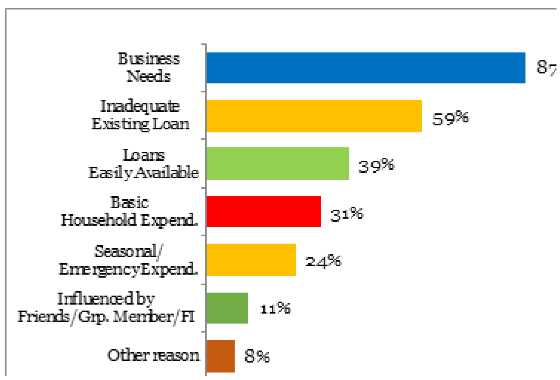


Lack of credit information sharing across FIs makes it difficult to identify number of FI loans availed by the potential client. FI staff gets this information through borrower interviews which may not be accurate and depend individual skills of the staff that may vary. In fact, some respondents confirmed that even if the staff knew about client's existing loans, they still offer them new loan to reach their target business.

{"The staff knew that I already had three loans, but she still offered a new one to me. She said that it did not matter to her. This is how it works". As copied from Mrs. Nenah, Sukabumi}

Later, we found out that "This is how it works" means that it is a mutual benefit, both for the client (get fresh loan) and the staff (reach their target). These deviations will continuously happen if there is no better method to accurately assess client over indebtedness.

Figure 15. Reasons of Having Multiple Loans



The most important reason as stated by respondents for availing multiple loan is to meet business/working capital needs (87%). Many clients require frequent working capital needs like traders/Warung owners buy stock in frequent intervals and they have additional business needs. Similarly, some households are involved in multiple businesses so they have additional working capital needs.

Inadequate existing loan amount (59%) also emerged prominently. For many respondents the loan sizes offered by FIs are inadequate.

There may be some element of truth in this given the fact that first cycle loans are smaller in size. However, this may not be true for higher cycle clients as the existing business of the respondents (selling snacks, vegeTables, groceries, etc.) is not very capital intensive. Using loan for both productive and non-productive purposes may be a bigger reason for the clients to feel that the loans are inadequate. Respondents also borrowed loan for household expenses (31%) and seasonal/ emergency related expenses (24%). (Refer to next section on usage of loans for details).

On the supply side, the fact that it is easy to avail the loan from FIs (39%) emerged as the top reason for having multiple loans. Interestingly, 30% of these respondents are home makers or not employed and 45% have income less than IDR 3 million. But still 64% of these respondents have taken loans from 3 or more FIs. It shows that many non-eligible clients are taking loans just because these are being pushed by FI staff through intensive selling. The easy availability is also leading to mis-utilisation as 51% of these respondents have utilized the loans for consumption purpose. It is also worthwhile to note that friends/neighbours/group members play a key role in influencing the clients to borrow loans from multiple sources.

Case Study 1. Community Leader: Story of Sandy Yulyana

Sandy Yulyana, 31, is Chairman of RT 06 / RW 02 in Manyeti Village, in Dawuan, Subang. Sandy works at the regional office of the animal husbandry department. He understood the condition of the people in his community and how they manage their cash flow or household expenditures.

He concurs that management of household finances is closely linked to the cultural habits of the community. For example: A family which attends their neighbour's wedding generally gives a gift or a contribution. The neighbour in return offers gift or contribution of the same value for this family's event. So, spending lavishly on buying gifts for neighbours is a matter of prestige in the community. This may still be manageable by salaried employees. But, this ego-feeding habit costs very dearly to poor households such as farmers, daily wage earners etc.

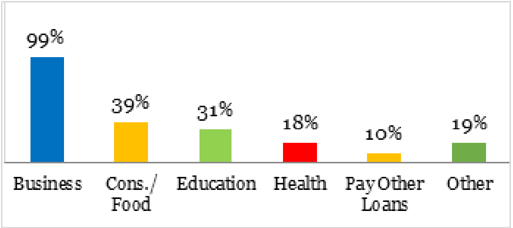
They usually borrow loans from FIs which have proliferated in his area to meet these costs. The fact that it has become easy to avail these loans is further deteriorating the credit situation in the community. With limited surplus, naturally they face issues with repayment. He sometimes also found people selling their asset when they need cash for any emergency/seasonal needs.

Of late, he also observed that tensions between community members has increased due delays/defaults and resulting group pressure. He also expressed his disappointed when he found that people have lost their willingness to repay their PNPM loan, but keep trying to pay their FI's loan. Since their PNPM loans were at default, the government has stopped PNPM related infrastructure programs in the village.

Sandy believes that those problems would not be happen if the FI loan were utilized for productive business. He suggested FI to be wiser and selective in disbursing loan. FIs should make sure that they do not over-lend to members of the community and ensure that the loans are put to prudent use.

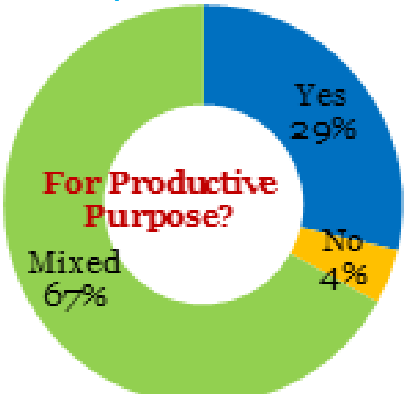
2.4 Usage of Loans

Figure 16. Loan Purpose



Even though the loan is intended for productive purpose to meet clients' business/ working capital needs, research suggests that major part of the loan is also used to cover some household expenditures. Majority of respondents (Figure 17) admitted that loans are used for both productive and consumptive purposes. The consumption purposes for the loans taken include food/daily consumption (39%), children's education expenses (31%), medical expenses (18%), to repay other loans (10%) and other purposes (19%) such as house renovation, ceremony, life cycle expenses, etc. Multiple loans is also leading to utilising loans for consumption purposes like food, social events etc. As shown in Text box.

Figure 17. Loan Utilisation as per Stated Purpose

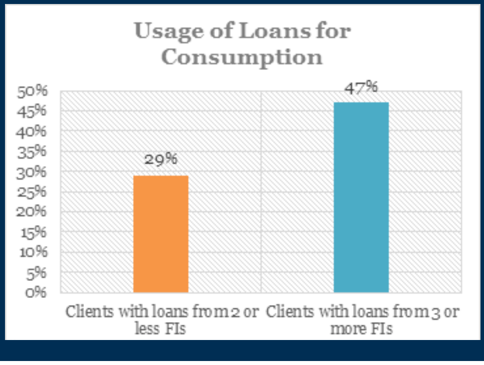


While some of the consumptive purposes like education, medical and other life cycle expenses are accepTable usage of loans since these needs indirectly affect the household income and clients would otherwise depend on costlier informal sources of loans for meeting these needs. Others like food/consumption and life cycle events may facilitate spendthrift behaviour among clients leading to a debt trap.

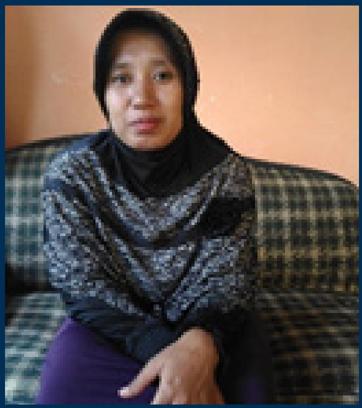
FIs should consider training/educating the clients about good financial management practices, especially about negative aspects of over indebtedness.

Multiple Loans are leading to Usage of loans for Consumption Purposes

As pointed out earlier 54% of the total respondents have taken loans 3 or more loans. 47% of the clients who have taken loans from 3 or more FIs use the FIs loans for consumption purposes as compared to only 29% of those clients who have loans from 2 or less FIs. This clearly indicates that multiple lending is leading to utilizing loans for consumption purposes like food, social expenses etc.



Loan Utilisation and Cash Flow Analysis



Entin Srirahayu, 42 years, mother with two young children, lives in Subang, West-Java. She sells food (cake) door to door, while her husband has a small scrap business. They also just started to rent chairs for ceremonies as their new business. Together their total household income is about IDR 2.0 – 2.5 million per month. Currently, she has four FI loans and one loan with a moneylender, totalling to IDR 19.5 million. Her loan instalment is about IDR 1.8 million per month. She admitted that she used the loans for their business and to cover household expenses, payment for her child for job application, etc.

Ibu Entin's household expenditure reaches IDR 2 – 2.50 million per month.

This covers daily expenses for food about IDR 50,000 and IDR 25,000 for child education, also monthly expenses such as electricity bill (IDR 50,000), and phone bill (IDR 20,000). By accumulating all her monthly household expenditures and loan repayment obligations, Entin actually has a net negative cash flow in some months. To meet this shortfall she sometimes depends on money lenders or cutbacks on some important expense for the family. She regrets having taken multiple loans and wants to close down some of the loans as soon as possible.

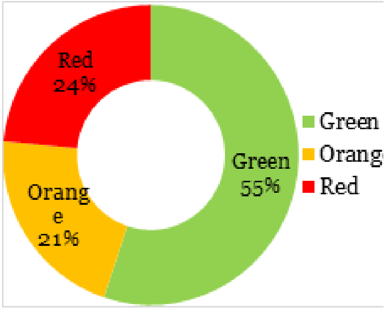
Entin monthly household cash flow:
Total household income
IDR 2.0 – 2.5 million
Household expenditures
IDR 2.0 2.25 million
Total monthly loan instalment
IDR 1.8 million
Net cash flow (negative)
IDR 1.8 – 1.55 million

2.5 Cash flow Analysis of Respondents

To understand the leverage among the clients, we conducted a cash flow analysis in order to closely ascertain respondents' repayment capability. We compared the respondents' monthly household surplus (difference of monthly household income and expenditure) with the monthly instalment amount and put them into three categories:

- Green: refers to customers who have enough surplus to meet all their debt obligations comfortably and are in effect underleveraged. For these clients the monthly instalment is less than 50% of the monthly household surplus
- Orange: Refers to customers who can meet their debt obligations just enough but any more loans can push them into overleveraged territory. For this clients, the monthly instalment is more than 50% to 80% of the household surplus
- Red: Refers to overleveraged clients and for these customers the monthly instalment is more than 80% of the surplus, these clients might face difficulty to meet monthly instalment

Figure 18. Cash Flow Analysis



The graphic in Figure 18 shows that majority of the respondents (55%) are in green zone, meaning that their monthly instalment can be paid easily from their current business/ economic activity. 21% of the respondents fell into orange category, meaning that they can just manage to make payments, and around 24% of the respondents fell in red category, meaning that their monthly surplus may not be adequate to meet their loan obligations. The above calculations have been done on self-reported Figures given by the respondents and we have not cross verified the information given so the actual over-leveraged households might be different. However, the analysis does indicate that a number of households might be reaching their limit of credit absorption and FIs must be careful in pushing further loans to these households.

How are the Stressed Clients Coping?

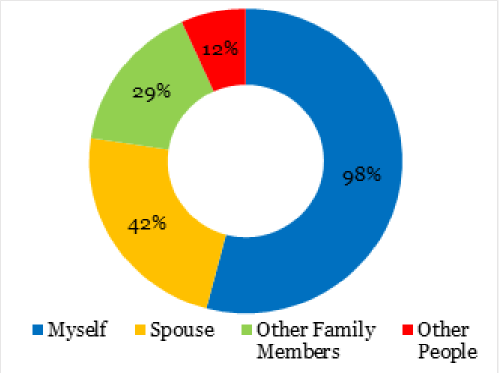
As stated, 24 % of the total households are stressed i.e. more than 80% of the monthly household surplus goes for servicing FI instalments.
Interestingly, 50% of respondents had loans from 4 or more FIs. 54% of respondents had taken loans of more than IDR 6 million though 72% had income of less than IDR 3 million. This indicates a dangerous mix of low income and multiple loans is leading to liquidity crunch. This situation led to 56% of these clients depending on external loans to repay the existing FIs loans. What is a growing cause of concern is that, one fifth of the clients who availed new loan have taken higher interest loans from money lenders or other FIs.

2.6 Joky Loans Are Getting Pervasive

As observed in other markets, Joky loans lead to ghost borrowers and this spurs mass defaults. In India for example, ring leaders – typically centre leaders – enable mass enrolment of clients for FI loans in return of a fee for every loan disbursed. They also borrow on behalf of other members, thus enabling ghost. As loans size up, liquidity crunch creeps in and in no time defaults blow up!

Research suggests that Joky loans are present in West Java and FIs need to take immediate action to stop them from spreading.

Figure 19. Loan Users



Close to 98% of the respondents said that they used the loan amount themselves. Further, 42% said that it was shared with their spouse, 33% with other family members on the same house (child, etc.), and 12% for others i.e., Joky loans. To "help" others – is the most often quoted reason for offering Joky loans. Joky loans are extended to male relatives who cannot avail FIs group loans, members who cannot attend centre meeting due to other commitments, to other group members and to Joky loan brokers. Loan beneficiaries pay 10-15% of the amount received. Further some

Joky loan is a loan passed on – in part or full – by the recipient to: a relative who stays in a separate household; a friend; a neighbour or/ a broker. Usually Joky loans are offered for free or for profit in the form of commissions.

may face in the future if the actual users delay their loan repayment. However, they still prefer to on-lend as they trust the recipients and want to retain their goodwill.

The extent of Joky loans is limited and most of the loans are being on-lent to relatives/ friends and not to brokers/agents. However, if the situation is not controlled immediately, it may spin out of hand and ghost borrowing will happen rampantly as observed in other countries which experienced microfinance crisis.

Case Study 2. Joky Loan: Case of Astri Ivo

Astri Ivo, 20, from Sukabumi has two FI loans with total loan amount of about IDR 4.5 million. Every month she pays about IDR 408,000 in loan instalments. Astri said that she does not use the loans she borrowed from FIs as she does not need them. In fact, she has on-lent one of the loans (IDR 2.5 million) to her aunt and another one (IDR 2 million) to a broker. The broker collects money from FI clients and lends it to other members in the community.

Astri claims that she passed on the loans just to help people who need money. However, she did admit that she got paid by both her aunt and the broker to the extent of 15-20% of the loan amount. (About IDR 300,000 – 500,000). She is happy that she gets good money being a joky and that she can spend on what she likes.

She usually gets the payments 1-2 days before the FI loan repayment schedule. She observed that the broker is very professional and prompt in repayment. However, her aunt repeatedly delays the payments because of which she has to borrow money from her neighbours to repay the FIs.

Though the broker usually repays the loan one day before the FI loan repayment schedule she faces repayment issues for the loan she gave to her relative. Oftentimes, Astri ends up borrowing money from neighbours to make up for delay in payments. She later found that her aunt has some outstanding loans as some debt collectors visited her house to collect payments. Astri fears that her aunt – because of her over-indebtedness - may default on the loan borrowed from her.

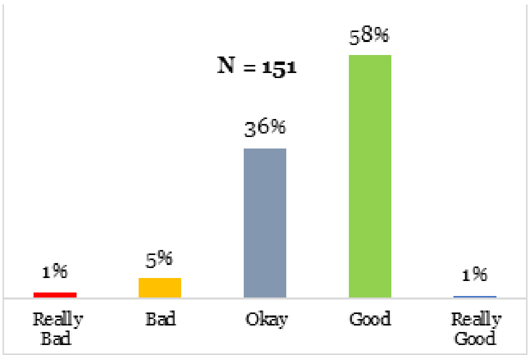
Astri also mentioned that the FI staff know about people who on-lend the loans to others but still keep lending to them!

2.7 Customer Experience of FIs

Customer experience in this case refers to the entire process from application, loan disbursal and repayment. Though there is variance from one FI to the other – overall, the experience of borrowing from the FIs is remains positive.

Majority (58%) of the respondents found their experience with FIs to be "good" and 36% of the respondents felt that the experience was "okay". Following are some of the positive experiences that clients had with FIs.

Figure 20. Pengalaman Nasabah Selama Meminjam dari LK



Convenience: Respondents found FIs to be very convenient as the loan application, disbursal (for most of the FIs) and instalment collection happens at their "doorstep" or within their community. Most of the borrowers are self-employed. They immensely value offering of financial services in ways and means convenient to them. This way they can devote most of their time and resources towards their business.

Faster Processing of Loans: One respondent asked a rhetorical question - "What is the point if I don't get a loan when I need?" Borrowers need the loans quick and fast as they need to invest working capital in their business or for any other emergency needs. FIs serve this need by processing loans within 5-7 days. Further, upper cycle loans are processed without any delay. The general practice is, field officers collect and process loan application four weeks before the end of repayment period and disburse new loan immediately once the existing loan is repaid.

Low Interest Rates: We observed that the respondents are very interest rate sensitive. As a result, they prefer FIs over other prominent credit providers in the community such as money lenders and daily finance providers. FIs offer a monthly rate of 1.75%-2.5% as compared to moneylenders who charge 20-30% on generally short terms loans of 1 -2 months. So the effective interest rates are around 10% per month.

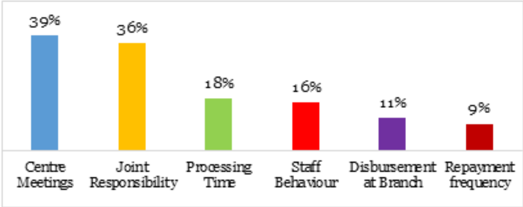
No Requirement of Physical Collateral: Respondents appreciate the fact that there is no need to provide physical collateral to avail FI loans as compared to loans from banks and leasing companies which require collateral. Some of them did voice concerns about sharing a part of their loan amount as "responsibility fund" and a majority of them opined that joint collateral is a pain point (detailed in the next section)

Only 5% of the respondents found the experience to be bad and a marginal of 1% opined to really bad or adverse experience.

2.8 Pain Points in Availing FI Loans

Despite positive experiences, there are pain points that FIs need to address. The following graph highlights pain points as indicated by the respondents.

Figure 21. Pain Points in Availing FI Loans



- **Centre Meetings:** Majority (39%) of the respondents found it challenging to take time out of their business and house hold chores to attend compulsory centre meetings. Juggling between many meetings gets further challenging with most of the respondents having multiple loans. To add to this, some FIs charge a nominal fee of IDR 3,000-5,000 for not attending the meeting and delaying the instalment payment making it even more painful for the borrowers.

If any of the members do not attend the centre meetings, the FI staff directly knocks at their door to enquire. This is scary" – Ibu Nuryati, Cianjur

- **Joint Responsibility:** "Joint responsibility" comes close second with 36% of the respondents being critical about group liability requirements. Respondents found it difficult to make good payments skipped by other members of the group. In many cases, FI clients would not be willing to pay beyond one or two instalments.

Many groups contribute to a scheme called "uang kiwir-kiwir or uang jaga-jaga". Members carry IDR 10,000 for every instalment in order to meet joint collateral requirements. This gives them a good cushion in the event of any delay in paying instalments.

- Processing Time: Eighteen percent of the respondents stated that processing time is a paint point. It is interesting to note that processing time is figuring both as a positive experience and a pain point. It remains a pain point because the processing time is much longer as compared to money lenders who provide instant loans with almost no documentation requirements. Further some respondents felt that 4-5 days for Compulsory Group Training (CGT) is too long. Some FIs also provide compulsory training for consequent cycle loans which clients feel is too taxing.

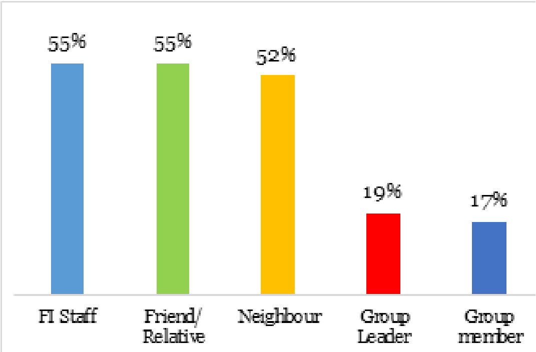
- Staff Behaviour: Respondents appreciated the fact that staff behave in a professional manner and refuse to even accept drinking water during centre meetings. However, in 16% of the sessions they mentioned that staff behaviour is an issue. Respondents complained of instances where staff arrive late to the centre meeting and extended the meeting beyond the schedule. They also criticised the staff of rude/indecent behaviour while dealing with delinquent/ default clients.

"If a member is unable to pay and other group members cannot pool in, the staff snatches rice cooker, electronic appliance etc. as collateral until the members can repay the instalment". – Rizika, Cianjur

- Branch Disbursement: Respondents found it inconvenient to visit the branch for loan disbursal and pre-closure of loans. Many complained that they have to sometimes wait at the branch for a long duration especially when other centres also have their disbursal scheduled for the same day/ time. Being self-employed, visiting branch entails losing business for that part of the day. They also end up incurring expenses to visit the branch. Further, carrying cash back home is also perceived to be unsafe and risky.

- Repayment Frequency: About 9% of the respondents felt repayment frequency did not match with their existing business/ house hold cash streams. They preferred flexibility in terms of choosing weekly, fortnightly or monthly loans.

Figure 22. How did Clients come into contact with FIs?



Apart from the ones mentioned above, other pain points that emerged are: requirement of spouse's permission for availing loan (8%), training (7%), high interest rate (7%), long tenure (6%), inadequate new and consequent cycle loan amounts (5%) etc. On a positive note, 9% of the respondents said that they did not have any pain point in availing FI loans.

Friends, relatives and neighbours remain key referees to FIs. Often times they invite prospective clients to join them to form a group and apply for a loan with FIs.

They also play key role in influencing prospective clients to avail FIs and as - we later realise – to default FI loans.

2.9 Customer Recall of FIs

Figure 23. Do You Know The Name of Your FI?

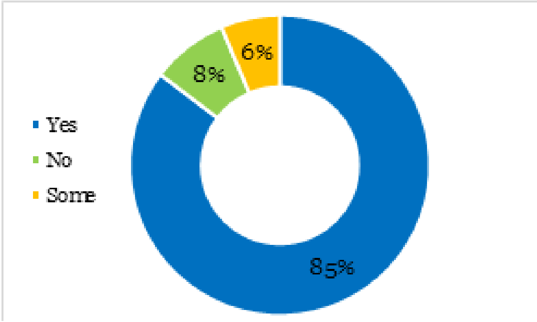
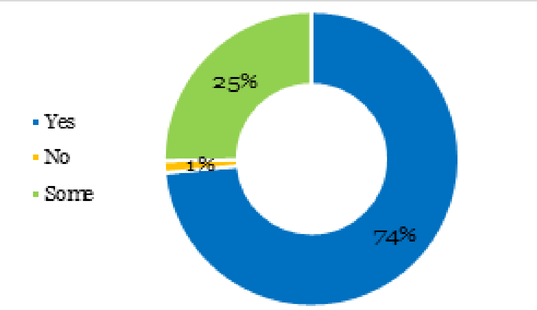


Figure 24. Know Other Members in your Group?

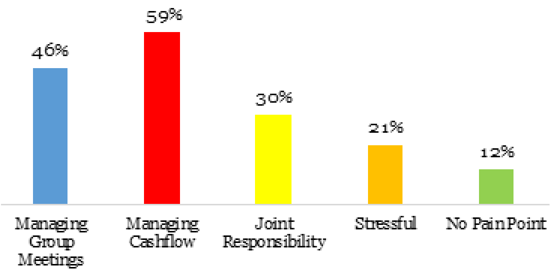


Most of the respondents know the name of FIs they have borrowed the loan from. They also remember the names of their group members. The fact that almost all the respondents had basic elementary education helped. This is much better than other countries such as India, where most of the clients remember the names of the FI by the day on which the repayment falls (Monday FI, Tuesday FI, etc.).

2.10 2.10 Management of Multiple Loans by Clients

In this section, we highlight how taking multiple loans is impacting clients and their perception/behaviour towards microfinance institutions.

Figure 25. Pain Points of Multiple Payment Commitments



Managing Group Meetings: Having taken multiple loans, 46% of the respondents found it challenging to attend group meetings. Further, they found it difficult to close their business/shop to attend to the group meetings. As next cycle loans are linked to attendance records, respondents felt pressurized to attend meetings. Many of clients with difficulty in managing group meetings, suggested that they prefer monthly repayments. We also observed that many Joky loans were given to people who could not manage to attend group meetings.

Managing Cash Flow: With limited cash flows and high leverage, 59% of the respondents opined that managing enough liquidity to honour repayment commitments is a big challenge. This phenomenon was particularly among clients with higher cycle loans and higher loan amounts. We will further break down the various ways clients manage their cash flows in the next section.

Joint Responsibility: Respondents (30%) were concerned both about others paying joint responsibility funds for them and vice versa. They undergo pressure and social shaming by other members of the group and sometimes by the FI staff. To avoid this situation, many borrowers prefer to avail loan from friends, relatives and sometimes money lenders rather than asking her group to do joint responsibility. Clients who repay promptly also suffer if other members of the group don't repay. One respondent concurred – "I pay my loan promptly and pay others loan as part of joint liability. Even then, my next cycle loan is refused"

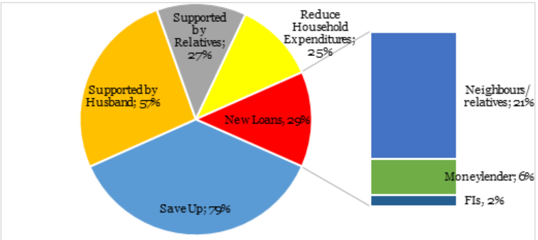
Stressful: Almost 21% of the respondents found it stressful to avail multiple loans. If they cannot pay or delay their payment, group leader and FI staff knock at the door of the borrower demanding for money. In some cases, FI staff come at ungodly hour and request to speak to husband for repaying the instalments. Even with sTable earnings and prompt payments, some respondents admitted that they are under stress thinking about multiple loan obligations. The fact that they may not be able to repay if the business fails or if they fall sick is always in the back of their mind.

12% of the respondents claimed that they did not have any problem with multiple loans.

Ibu Dasinah, 46, is a house wife and part-time farmer in Dawuan, Subang. She has taken loan from three FIs cumulating to IDR 9 million. Ibu Dasinah passed on two of the loans to her children who run clothes and airtime business respectively. When asked why their children could not apply for the loan themselves she said "They are busy with their work and cannot attend group meeting. So I took the loan on their behalf"

Managing Cash Flows for Loan Repayment

Figure 26. How Respondents Manage Cash Flows for Loan Repayment



Save Up: Majority of the respondents (79%) save money from their business on daily basis to pay loan instalment.

Supported by Husband: Saving up is almost always not enough, so FI clients depend upon their family members and especially their husband for loan repayments. This came out in 57% of the sessions. Research findings suggest that spouse of the borrower plays a very influential role in the decision to avail, use and repay the loan. Most of the FIs already require husband's permission through a signature on the application form. Further, almost 42% of the respondents suggested that spouse is the ultimate beneficiary of the loan. So, naturally borrowers depend on them to honour repayment commitments.

Ibu Yuhaerah, 46, from Pagaden sold her gold jewellery at the local jewellery shop. She intends to buy back some time in the future. Borrowing money from her relatives/neighbours and/or selling her gold (asset) as solution to gain money to cover her loan instalment is the way out for her if there is any difficult time happens.

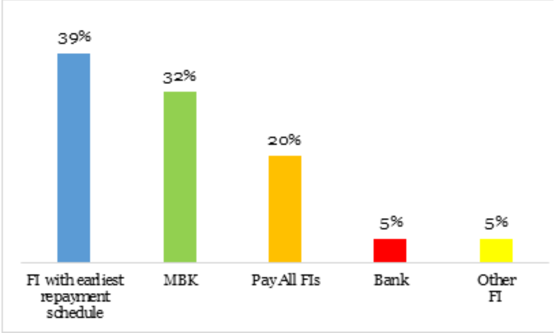
Supported by Relatives/Family Members (27%): Respondents who depend on their close relatives/family members such as son, daughter, sister, brother etc., for income or respondents who borrowed loans to pass it on to their relatives/family members' fall in this category. In some cases, respondents even seek help from their parents to repay the loan. The payments are done in the form of assistance t0 borrower and are not interest bearing loans.

Reduce Household Expenditure (25%): Respondents are planning their household expenditure judiciously and cutting down unnecessary expenses where ever possible. In some instances, clients have sold their personal assets/belongings such as gold jewellery, TV, LPG stoves etc. to meet loan obligations.

Get New Loans: 29% of the respondents are resorting to new loans in orders to clear existing loan obligations. Neighbours/ relatives (21%), money lenders (6%) and microfinance institutions (2%) are the source for new loans. Clients borrow loans for a very short term such as 3-4 days from neighbours/ relatives to repay instalments. Often these loans are interest free and sometimes carry a token amount as a gratitude. Clients also borrow from money lenders or daily finance institutions who offer instant loans with no documentation but charge exorbitant rates. Finally, with the increasing presence of FIs, new FI loans been used to repay existing loans.

Ibu Nenah, 42, from Cisaat, borrows money from her relatives and friends to repay FI loans. She currently borrows IDR 200,000 from money lender half of which was used to repay FI loans. She prefers to borrow loans from which ever source possible to repay FI loans as she does not want group members doing joint responsibility for her. She thinks it is shameful and embarrassing for her and her family to do joint responsibility.

Figure 27. Choice of Repayment in the Event of Having Limited Cash



When asked if there was limited cash and they had to repay only one FI, 39% of the respondents suggested that they would repay the FI with earliest repayment schedule and delay/default on others. This reflects the fact that clients are not particularly loyal to one FI. In other words, FIs seem to have not differentiated themselves in terms of product or service levels in order to retain customer loyalty.

Further, 33% of the respondents said that they will repay MBK first. There is some element of bias creeping in here, because we spoke to MBK clients. Nonetheless compelling reason for repaying MBK loans seems to be vintage. As Ibu Nunung, 46, from Cisaat said "I trust MBK because they have been here since the last 7 years. All other FIs are new here."

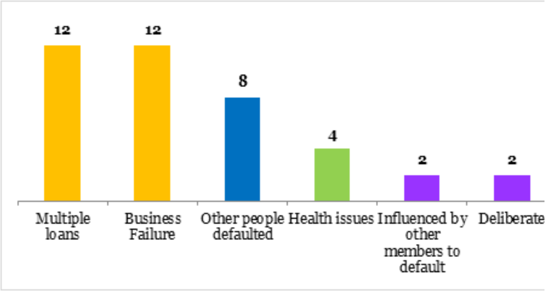
On the other side, 20% of the respondents mentioned they will endeavour to repay all FI loans. Interestingly, some respondents said they would repay money lenders and FIs with aggressive collection practises as they cannot withstand shaming in front of other community members.

2.11 Analysis of Default Clients

The team interviewed 20 default clients in Bogor (19) and Cianjur (1). Bogor has the highest number of default clients as compared to other regions with high penetration of FIs. .

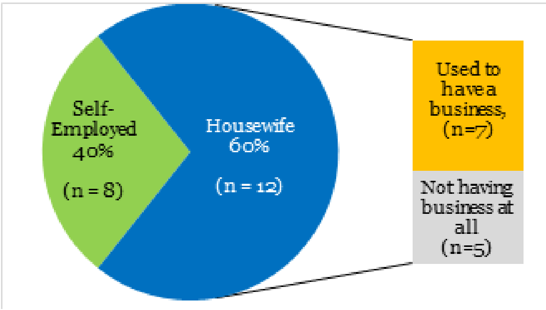
Reasons for Default

Figure 28. Reasons for Default



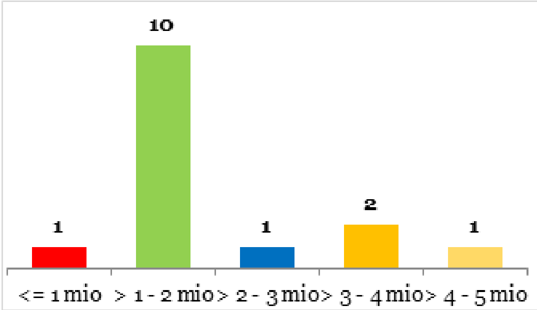
Multiple Loans: Multiple loans is one of the major reasons for loan default. However, it is interesting to note the 9 out the 20 default clients had only one or two loans but they still defaulted. This points at some lapses with respect to client identification and acquisition. As our analysis below shows, some of the clients identified were not "credit worthy" as they did not have any business or their household income was very low.

Figure 29. Default Clients Occupations



Twelve out of the 20 default clients were housewives. Further, 7 respondents had a business of their own at the time of availing loans. However, as the business failed they became housewives. While 5 respondents were housewives and they availed loans to help their husband's business.

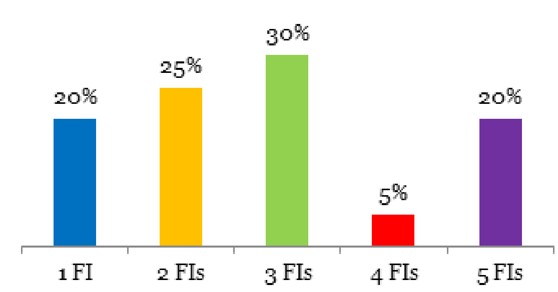
Figure 30. Default Clients Household Income



Clearly, the average income of the default loan client is much lesser than a multiple loan client. More than half of the default loan clients were earning less than IDR 2 million as compared to 11% of multiple loan clients.

Business Failure: It is interesting to note the impact on the local economy to the loan repayment rates. The team visited Pasirangin village in Cibungbulang district, Bogor where nine out of 19 default clients were present. This village was heavily dependent on illegal gold mining business. Most of the villagers had businesses such as fish stall, fruit/ vegeTable stalls, mechanic shops, etc. catering mostly to the miners. They had even taken loans from FIs to invest in their business. However, the illegal mining activity was shut down by local authorities and the businesses came to stand still. And as a result, defaults also started rising. This is reflected in Figure 31, suggesting the household income of the default clients interviewed.

Figure 31: Loan taken by Default Clients



While 11 out of 20 default clients had taken loans from 3 or more FIs which may indicate multiple lending to be the reason for default, a significant number of the default clients had taken loans from only 1 or 2 FIs.

4 of the default clients had taken loans from 1 FI only. 2 clients out of these 4 had household surplus less than the total monthly instalment due which indicates improper client selection. One of these 2 clients had a loan of IDR 6.5 million and was a 9th cycle client while the remaining 3 were first cycle clients. Poor client selection and improper credit analysis (especially in the case of higher loan sizes) seem to be the likely reason for these defaults.

Figure 32: Loan Outstanding of Default Clients

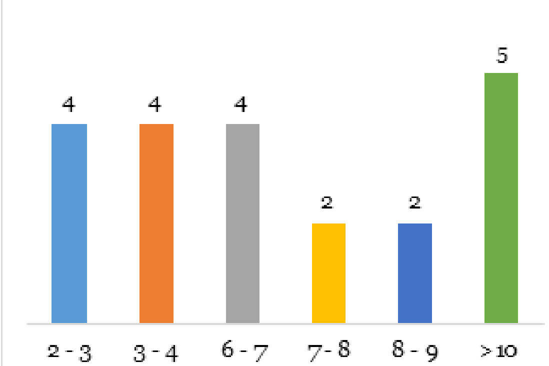
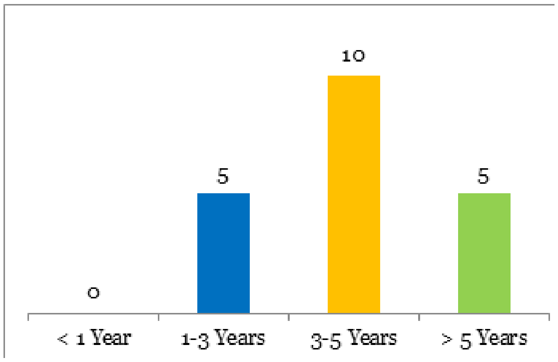


Figure 33: Vintage of Default Clients with the FI



The above point is validated when we also look at the years of association of the default client with the FI and their loan outstanding. Majority of the defaulting clients had been with the FI for more than 3 years and had loan outstanding of more than IDR 6 million. This shows that as loan sizes increase the existing credit analysis techniques used and credit risk techniques such as joint liability are no longer adequate.

Case Study 3. Default Clients: Story of Ida Fitria

Ida Fitria, 29, mother of three young children lives in Pongkor, Bogor near the illegal gold mines. Fitria sells fish cake (otak-otak) while her husband is a fish seller in the market nearby gold mine.

Fitria is associated with five FIs with total loan size was 15 million rupiahs with total instalment 1.56 million rupiahs per month. All the loans were used to support her husband business and also to cover some basic household expenditures such as groceries, children's education etc. She was able to make her ends meet and promptly repay the loans as the business was brisk. However, after the clamp down on illegal mining business, the business slowed down. If initially her husband earned about 3.0–3.5 million rupiahs per month (or about US $228–266) now his income dropped to only about 1.25–1.5 million rupiahs per month (or about US $95–115). Living with three children, his income is far lower than his family household expenditure which is about 1.5–1.8 million rupiahs per month (or about US $115–137).

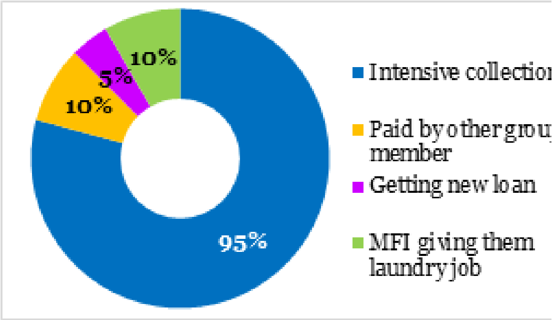
As a result, Fitria took more loans from FIs and moneylenders repay her existing loan obligations and got caught in a vicious debt trap. Once she exhausted all her resources, she started delaying FI loans and consequently defaulted on all of them.

Other Reasons:

1. Other Members Defaulted: Respondents defaulted if the group leader, group member of the Joky loan recipient defaulted.
2. Health Issues: The key bread winner falling ill also led to defaults. Members of the community undergo liquidity shocks whenever there is a health issue. As majority of them do not have insurance, they scamper to get funds to address health emergencies.
3. Influenced by Other Members to Default: Some respondents defaulted because other members of the group encouraged them to do so. Local influencers, NGOs play a key rally against FIs and encourage community members to default FI loans. This is because some of them feel that it is against Islamic principles to offer or avail interest bearing loans.

Recovery Activity deployed by FIs

Figure 34. Recovery Activity from FIs



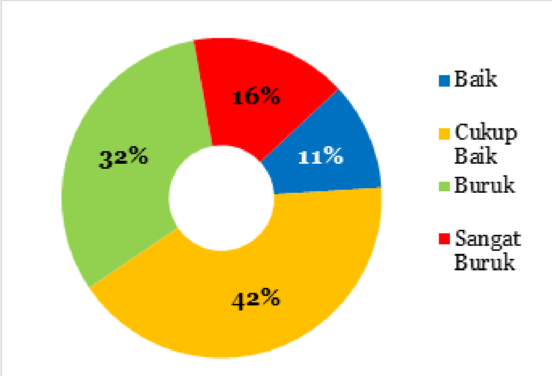
FIs are resorting to intensive collection practices in order to recover loans. These practices are both disciplined and bordering aggressive.

One FI offered a job to at least two defaulters of doing laundry and branch upkeep to one of the default loan clients. Part of the income from this job goes towards clearing the debts.

> *"She sold the house to repay her loans. After deducted some as loan repayment to her relatives, she used the money to settle the loan to moneylender, repaid 6 instalments to FI A, 5 instalments to FI B, 4 instalments to FI C, and other FIs. She only could pay half of the delinquent loan she has for each FI. Now loan to 1 FI, moneylender and daily finance are just paid out after she sold the house. Now the remaining loans are in FIs that have been delayed for 2 months of instalment". ~Enda, Bogor*

2.12 Experience of Recovery Practices

Figure 35: Respondents Experience of Recovery Practices



Loan recovery practices by the FIs came under severe criticism in almost all countries that faced default. In India specifically, there have been wide spread cases of FI clients allegedly committing suicides because of aggressive collection practices by FIs . So it is of utmost importance for FIs to behave responsibly while dealing with default clients. Majority of (53%) of the default respondents said that they have "good" to "moderate" experience regarding recovery practices. Out of the 20 sessions with default clients, we met 3 respondents who had bad experience with FIs, during their recovery practices. Though overall there is no major evidence of coercive collection practices, some clients did complain about some of the collections practices which included coming to customer house late at night to collect money, forcing customers to borrow money from anyone they know, and taking customer inventory as collateral. The news of taking customer inventory spread all over the village, and it even triggered protest from villagers.

17. Refer MicroSave Research on: What are Clients doing Post the Andhra Pradesh FI Crisis?

Further, we also observed that some FI staff do not issue receipts upon collecting funds leading to potential frauds.

The staff come at 10 PM, asking for full repayment and insisting to meet my husband. My husband got very angry complained to Kelurahan to shut down FI activities in their village. He also complained because the staff never gave receipt to her wife after they collect the repayment.

Tita - Bogor

The staff was rude, forced me to repay full amount by borrowing from my parents and neighbor. Once they took my husband inventory as collateral for her unpaid instalment. Her husband was so angry that he shouted at me and even punched me on my face.

Ida Fitria - Bogor

The staff kept forcing me to get the money whatever way possible. I screamed and asked for help. The neighbors asked the staff to leave, and even threw stones at the staff when they refused to leave.

Siti Aisyah - Bogor

3. Recommendations

3.0 Recommendations

The findings of the research show that there are increasing signs of stress both in the operations of some FIs (giving multiple loans in spite of prior knowledge, aggressive growth and indulging in uncompetitive practices) and in the behaviour of customers (increasing dislike of the joint liability system, taking multiple loans and utilising loans for consumption due to easy availability). In this section, we provide recommendations for FIs in Indonesia to ensure a healthy microfinance sector.

Credit Information Sharing through Credit Bureau

Credit information sharing is an effective way of managing over indebtedness and credit risk management. Credit information sharing brings in following benefits:

- Understanding the debt position of the client and client household
- Understanding the previous credit history of the client (identification of good and bad clients)
- Promotes positive behaviour among clients since they know that any default will lead to no credit access across different financial institutions
- Credit bureaus can also generate sector reports for example on the penetration of FIs in a particular geography, industry growth, market size etc. which can help FIs and investors to make better strategic decisions.

Credit Information Sharing: Experience of Indian MFIs

- As of December 2014, 299 MFIs share information with 2 credit bureaus
- More than 100 million clients are covered by the 2 biggest credit bureaus which is an outreach to 98% of the total industry
- Industry estimates 50% lower delinquency due to credit information sharing
- Other benefits observed include: reduced multiple lending, improved client disclosure and repayments of old over dues due to rejection of client loan applications
- Credit bureaus have improved the availability and quality of data on the microfinance sector which has improved transparency

Source: IFC Presentation, OJK Workshop 2015. (http://bit.ly/297mtcJ)

The noTable example of the credit sharing is India where FIs in the aftermath of the microfinance crisis of 2010 started sharing their credit information through accredited credit bureaus. (Refer to Text Box).

Similar initiatives have been taken by microfinance institutions in the region. Cambodia Credit Bureau, partly owned by the Cambodia Microfinance Association, provides credit information check to more than thirty microfinance institutions - thus enabling responsible lending practises. In Philippines, seven biggest microfinance institutions came together to form “Microfinance Data Sharing System (MiDAS)” - a common database with equal access to credit information for all participating FIs.

- Indonesian FIs have initiated the process of sharing credit information with a private credit bureau PT. Kredit Biro Indonesia Jaya (KBIJ) and 9 FIs has already submitted their client data with other FIs expected to join (Refer to Annexure III for more details on KBIJ analysis). While the benefits of having a credit bureau is quite substantial to have a well-functioning and effective credit bureau, there are a number of issues which need to be considered in the Indonesian context:

  Common format for information sharing with the credit bureau (FIs may have to introduce minimum KYC requirements for clients and this can lead to a change in the SOPs)

- It is critical to have timely and effective data sharing mechanisms (like regular and frequent data submission to the credit bureau) but not all FIs have the required MIS and internal systems (especially smaller FIs like co-operatives or smaller BPRs) to send data at required frequency

- Bringing in systemic changes by FIs in the operations policies and SOPs pertaining to client acquisition and credit analysis to incorporate and institutionalise the utilisation of the of credit bureau information before taking credit decisions.

- Identification and getting on board smaller FIs like BPRs, credit unions, co-operatives and BMTs which are active at a local level can be a challenge. The above mentioned challenge of getting information in the required format can be more challenging with these institutions which have very basic technology capabilities and infrastructure.

18. https://www.cma-network.org/en/news/signing-ceremony-of-FIs-with-credit-bureau-of-cambodia

Strategic Issues and Recommendations Given by KBIJ

The major issues in getting a credit information sharing system in place are barriers in terms of data availability, information system management and many disadvantages caused by the absence of a reliable core banking systems. KBIJ makes the following recommendations to overcome these barriers:

- Based on the experience of all the participants, a structured and standardized data credit reporting system should be implemented.
- Develop standardized inputs/outputs with commonly available IT applications to facilitate interoperability between the representative members
- The innovative use of technology and management of information system must be developed in each individual participating FIs in order to maximize IT capabilities.
- FIs which already have core banking systems in place they will need only minor tweaking in their systems to be able to share required quality of credit information. However, many of the FIs do not have robust core banking system and these FIs need to invest in getting the required technology to enable efficient credit information sharing. FIs have to get the required financial and human resources to have the right technology in place.
- The participating FIs should note the developments needed in the business environment, especially in the technical side, so that management can exercise meaningful control
- To enable efficient credit information sharing FIs need to hire specialised staff who need to be trained on credit information reporting systems to communicate data properly. FIs must comply with quality data reporting standards. Data for credit information sharing should be made available in a timely manner. To achieve this FIs must update their databases frequently and Fis must have internal systems to ensure this.

Keterangan: anggota dalam hal ini mengacu kepada para LK Mikro yang berpartisipasi dalam biro kredit KBIJ untuk studi ini.

Sumber: Report of KBIJ on Indonesia Over-Indebtedness Case Study

Improved Co-ordination among Financial institutions

Experience of other countries shows that mere sharing of credit information may not be enough to prevent over indebtedness unless there are clear policies laid out and enforced through mutual agreement among the microfinance institutions. In this context, the PAKINDO can play a significant role in drafting regulations and ensuring these regulations are followed by all the member institutions. FI associations are also playing the role of self-regulating organisations (SRO) in other mature microfinance markets like India, Cambodia and Philippines to actively manage credit risk, ensure fair competition and customer protection practices and manage political risks through greater engagement with the government and other stakeholders.

PAKINDO can perform the below mentioned activities to enable a conducive environment for the growth of microfinance sector in a more sustainable manner. These include:

Short Term Activities:

- Arriving at common guidelines for credit information sharing and coordination between FIs to implement credit bureau
- Sharing of information on blacklist clients (defaulters, fraud, joky loans)/ staff/ villages (at HO level or regional level)
- Analysing microfinance penetration across Indonesia

Medium to Long Term Activities:

- Publish sector reports to showcase the outreach, case studies of impact and social performance of member institutions for regulators, government agencies and general public. To generate goodwill among the wider stakeholders.
- Developing customer protection guidelines and code of conduct guidelines towards customers to be followed by all the member institutions. Setting up of customer grievance mechanism to highlight customer complaints, implementation of customer protection principles, as described by SMART Campaign
- Develop guidelines on un-fair competitive practices including setting rules on client and staff poaching.
- Training and capacity building initiatives for FI staff as is successfully carried out by Cambodia Microfinance Association.
- In line with the Customer Protection Principles advocated with SAMRT campaign, the association can come out with policies to prevent over indebtedness for example putting upper limits on the number and amount of loans that can be given to clients etc. Ensuring compliance on this from members can be challenging especially if there is no regulatory pressure to back it up and the association is not strong enough to enforce any strong disincentive on a non-compliant FI.

Case of Self Regulating Organisation in India: MFIN (Microfinance Institutions Network)

MFIN is an association of NBFC(Non-bank Finance Companies) MFIs in India which acts as a self-regulating organisation (SRO) for the Indian microfinance sector. It is an association of 48 leading NBFC FIs which covers over 90 % of the total commercial microfinance clients in India. MFIN was formed in the immediate aftermath of the microfinance crisis in India and overtime has evolved into a strong association which has promoted responsible finance among its members. The main tasks performed by MFIN are classified as follows:

1. Surveillance: MFIN has developed a code of business conduct for the member FIs. The code of conduct draws on the regulatory guidelines issued by the Central Bank (regulator of FIs) and also best practices on customer protection and anti-competitive practices as recognised by global microfinance agencies. It evaluates the implementation of code of conduct by designing a Responsible Business Index

2. Dispute Redressal: MFIN through its enforcement committee tries to redress any disputes between FI members especially in case of anti-competitive practices or non-compliance with code of conduct practices

3. Customer Grievance Redressal: MFIN has also developed a two tiered customer grievance redressal method to be followed by all the member FIs.

MFIN has been able to achieve considerable success in enforcing the code of conduct guidelines among its members and to promote responsible finance in India. In 2014, MFIN was recognised as a Self- Regulating Organisation by the Central Bank of India (Reserve Bank of India). MFIN enjoys substantial credibility among the policy makers and regulators and it has played a key role as an interlocutor between the sector and the regulators.

Sumber: Situs web MFIN: http://MFIndia.org/sro/

Engaging with Regulator

Kami menilai meningkatnya visibilitas dan kredibilitas LK di antara manajemen tertinggi OJK harus menjadi tujuan utama dalam berhubungan dengan regulator. Beberapa langkah untuk meningkatkan visibilitas dan keterlibatan dengan regulator yang telah teruji di negara-negara lain antara lain:

- We feel improving visibility and credibility of the FIs among the senior management of OJK should be the key objective of engaging with the regulator. Some steps to improve visibility and engaging the regulator as tried out in other countries include:
- Produce reports on the outreach of the member FIs among the unbanked and their social performance. Disseminate these reports widely through print media and also to OJK and other stakeholders involved in financial inclusion. In India, MFIN produces a number of reports Micrometer, Microscape etc. which are widely disseminated. Similarly, these reports help MFIN to showcase the value added by FIs in improving financial inclusion. The CEO of MFIN has a meeting with the Governor of the Central Bank at least two times a year to update him/her on the progress of the sector and the latest issues facing the sector.
- Showing convergence with the financial inclusion agenda of OJK by presenting case studies and achievements to the very senior level of OJK. This can be done through a periodically organised national seminar/workshop event (similar to Inclusive Finance India Summit or MFIN event) where senior management of (including the Chairman) of OJK must be invited. This event must also highlight the success/latest trends of commercial microfinance in advancing financial inclusion in other countries.
- To carry out the above activities dedicated resources are needed. The association should become a formal organisation should raise own funds and run by a professional team dedicated to engage with the regulator. The brand name of the association must be improved and it must become the go to organisation for all microfinance related issues in Indonesia.

Potential Challenges for Creating a Common FI forum in Indonesia

The major group lending FIs in Indonesia fall under three (3) different legal entities: co-operatives, venture capital companies and commercial banks and come under different regulatory standards. So, enforcing guidelines can be a bit difficult as the more loosely regulated entities may not be willing/ do not have the capacity to bring in required changes to their internal processes and systems.

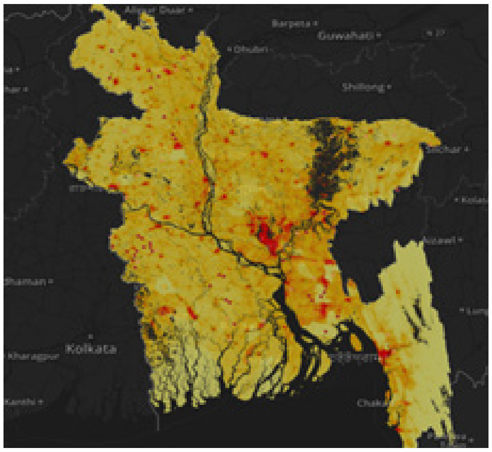
Reducing Geographic Concentration

As stated in Table 2, there is clear scope for expansion beyond West Java. As a first step, FIs should consider moving to other provinces on Java such as East and Central Java. Consequently, they should consider expanding outside Java. MicroSave's experience of working in Indonesia shows that there are quite a few provinces outside Java which have good potential for group lending. Provinces like North Sumatra, South Sulawesi, Lampung, West Sumatra etc. have sizable population which are potentially good markets for group lending. For example, North Sumatra has a population of 14 million as compared to Cambodia's 15.3 million . Till date, only 2 major group lending FIs, namely BTPN Sharia and KOMIDA have expanded beyond Java. One of the reasons often cited by FIs is the lack of population density in these provinces to run a sustainable group lending programme but these regions also provide the opportunity to charge slightly higher interest rates as the prevailing market rates are high.

Geo-spatial Mapping

Geo spatial mapping provides a clear picture of the presence of formal financial service access points within a specified geography. As a step towards transparency and market insights, FIs should share their branch details with the industry body or FI data hubs such as MIX market.

Figure 36: Presence of FI Branches in Bangladesh



Source: http://fspmaps.org/

Once the branch coordinates are consolidated and shown in one map, it gives clear indication of areas with higher presence of FIs. This information can help FIs plan their expansion strategy without overcrowding a specific area/geography which can lead to over-indebtedness among clients. Further, if the presence of access points are juxtaposed against other key indicators such as population, population density, presence of other financial touch points (bank branch, cooperative, ATM etc.), mobile coverage, etc. it gives clear direction to both market players as well as policy makers to reach out to the poor and unbanked.

This is a resource intensive exercise and will require investment from donors and industry stakeholders. NoTable examples include: FSP Maps, Finclusion Lab ,MIX Maps, FinAccess Geospatial Mapping Survey (Kenya) etc.

Improving Stickiness of Client through Product Diversification Credit Product Diversification

The research finds that the rigidity of the group lending credit product is pushing some clients towards multiple borrowing. Existing customers of FIs cannot get another loan in the middle of the loan cycle and capital requirements arising out of emergencies, bigger investments (like home improvement), life cycle events (like marriage, education etc.) or additional working capital are being met with loans from other FIs or private money lenders. Some of the noTable products which can be offered based on our research are:

- Emergency /Top-up loan
- Housing/Home improvement loans
- Education loans for school fees/higher education
- Individual loans for larger working capital or investment capital

While some of the mentioned loan products like top-up loans or small home improvement loans (like loans to build toilets or make small improvements in the houses) can be made under the existing group lending methodology, for some others like larger working capital or investment loans FIs will have to move to individual lending using cash-flow/flexible collateral/psychometric credit scoring based credit analysis techniques.

As observed from the field, the stress in the group increases when loan sizes are higher and any default happens. For loans above IDR 10 million it is recommended that FIs undertake more detailed credit analysis. Modern credit analysis techniques like psychometric credit scoring based lending can be explored by FIs in Indonesia.

20. https://www.bps.go.id/linkTableStatis/view/id/1274
21. http://data.worldbank.org/indicator/SP.POP.TOTL

Revenue Source Diversification

In addition to credit product diversification, FIs can also look to diversify revenue sources so that they reduce the dependence on credit only to earn revenues. FIs with large scale in excess of 100,000 clients present avenues to cross-sell different financial products. Low income households require more than just credit to manage their financial needs that includes a mix of savings, insurance, bill payments and remittances etc. Though regulations prevent Venture capital firms to offer deposit/savings services, potential to partner with MNOs/commercial banks (as branchless banking agents), cross-sell insurance products and offer additional services like bill payments and remittances needs can be explored. Cashpor a large MFI in India, became a business correspondent (branchless banking agent) for a large private commercial bank and it offered fee based savings and bill payments services to its clients. This presented a win-win to all the parties. For Cashpor, it was risk free fee based income, for the commercial bank it opened up new markets for mobilising savings and for the clients they were able to receive multiple financial services through a single institution.

Some FIs in India earn anywhere between 5-10% of their income from cross-selling products like insurance, solar lanterns etc. The type of products sold will depend on the local needs and requirements and FIs need to carry out further research on the potential products which can provide fee based incomes. Our experience of working in digital finance in Indonesia shows that bill payments and remittances are important financial services in high demand. Similarly, low penetration of insurance makes insurance products as a potential cross-sell product which can be explored by FIs. Revenue diversification can have a positive impact on over indebtedness as FIs need not focus on credit growth as the only source for growth in revenues.

Inculcate Responsible Finance principles into operational processes

Incorporating responsible finance principles like client protection principles advocated by SMART campaign into the core operational processes is a proven practical manner of preventing over indebtedness. Progress has already been made in this aspect among some of the Indonesian FIs. MBK has already received certification from SMART campaign and two more FIs (BAV and KOMIDA) are in the process of receiving the certification soon. Other FIs need to be educated and made aware on these issues and incentives need to be developed for adoption by a wide range of institutions.

Dedicated Risk Management Team at Head Office

FIs suffer from a broad range of risks similar to the financial sector. The major FIs have established relatively strong systems to manage financial and operational risks (like liquidity risks, frauds, interest rate risks etc.). All the major FIs have introduced internal audit systems and monitoring systems to check on the compliance with systems and processes. But a more comprehensive risk management system needs to be put in place to avoid credit risk and political risk. In more mature microfinance markets, FIs have dedicated risk management teams which continuously monitor the risks emerging from both within and from external environment and take pro-active steps in managing these risks. As an example: the dedicated risk management team can look at the FIs operational geographies for signs of over-heating and take steps to slow down the business in these geographies and focus the growth on other regions. While the example mentioned pertains to managing multiple lending, the risk manager's role can be much broader and can also look into various aspects like regulatory, political and financial risks etc.

Beberapa LK di India memperoleh 5-10%
Customer Training and Financial Literacy

We have observed that some of the FIs do not emphasize on customer training after the first cycle. Even clients do not feel the need for repetition of customer training before every loan cycle. But for higher cycle loans since the loan size is higher, the risk of misuse by clients of the loan amount or making wrong choices for business is more. The typical customer training offered by FIs focuses mostly on product education like loan terms (loan size, interest rate etc.), conditions of repayments (instalment amount, loan term, pre-closure norms etc.), explanation of joint liability concept etc.. For higher cycles, the emphasis of customer training can be more on effective usage of the loans and can include topics such as:

1. Analysing household and business cash flow
2. Negative effects of over leverage (over indebtedness) to the business and household cash flow
3. Anticipating business risks and planning for such risks without impacting debt servicing

FIs should consider using short videos with targeted messaging to train the clients. Videos are very effective and engaging financial education/literacy tools as compared to lectures which can be boring and verbose. Front line staff can use smart phones/Tablets which are getting increasingly pervasive (40-45% smartphone user penetration rates) for running these videos during centre meetings.

Opportunity for Investors/donors to play a more active role

As mentioned earlier, the FIs in Indonesia are regulated by different regulators which have different standards based on the legal structure. Most of these regulations are not specific for microfinance or group lending models. In the absence of a strong regulatory environment, investors and donors of these microfinance institutions can play a more pro-active role in ensuring FIs adopt some of the above mentioned recommendations like credit information sharing, adopting responsible finance principles, ensuring geographic and product diversification, etc. Incentives in the form of grant funding or technical assistance many also be needed by some FIs to implement the above recommendations which can be provided by the investors and donors.

Improving Monitoring to track Joky loans

The prevalence of Joky loans is not alarming but instances of staff tacitly supporting such loans in the field to ensure target achievement were observed. These need to be nipped in the bud through better internal control systems (like field visits by Supervisors and Internal Auditors) with a special focus to identify and put in place disincentives for staff to indulge in such behaviour.

19. https://www.bps.go.id/linkTabelStatis/view/id/1274
20. http://data.worldbank.org/indicator/SP.POP.TOTL

Focussing on Customer Convenience

The increased competition among FIs is leading to customers differentiating among FIs on the convenience offered to them like doorstep services for both disbursement and collection, flexibility in attending centre meetings, faster and reduced process for higher cycle loans. FIs may have valid reasons to continue with some of these processes and it is not necessary to change processes to meet all the customer demands. However, it is recommended that FIs must constantly evaluate their product offerings against those offered by the competitors and ensure that they offer a clear value which differentiates them over the competitors. For example, our experience shows that even if the processes are inconvenient but if the FI gives the highest loan size or gives a range of customer friendly products customers will still prefer that FI.

Utilising Technology for Operations Monitoring

Technological advances provide opportunity for FIs to make their operations efficient and fraud proof. Some examples include

- **Digitising front end operations to improve efficiencies** (reduced paper work, more time spent on monitoring clients). Example: Musoni-Kenya, Ujjivan - India
- **Using GPS applications to track staff movements** (identifying time of visits). Example: Janalakshmi India
- **SMS and voice based call centre** based customer complaints management.
- **Field staff monitoring** through social media messaging apps.

Group Meetings/Repayment Frequency

Attending group meetings came out as a clear pain point in the research. Weekly meetings/ repayments entail smaller instalment amount so having lower credit risk but prove to be a pain point for the clients. Further, from a FI perspective – weekly meetings mean closer supervision on loan repayments but higher cost of operations. So FIs can consider bi-weekly meetings/repayments as a good balance between frequency and instalment amount. However, as observed among Indonesian FIs, shifting to bi-weekly might entail some credit risk. PAR levels among Indonesian FIs with bi-weekly repayments are higher as compared to those FIs with weekly repayments.

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21. http://sptf.info/images/sp_fund_muktinath_eng.pdf , http://www.arpapress.com/volumes/vol11issue1/ijrras_11_1_16.pdf
We see that organisations in Nepal, Uganda and Mexico use videos for training their internal staff as well as the training.
22. http://www.statista.com/statistics/257046/smartphone-user-penetration-in-indonesia/

Annexures

Annexure I: Regency wise presence of branches of leading FIs across Java

No	Regencies	No. of TOTAL	POPULATION (2014)	Branch/ 100,000 population	POOR	Branch/ 100,000 poor population
West Java						
1	Kab./Kota Bandung	35	5,941,195	0.59	390,900	8.95
2	Kab. Bandung Barat	7	1,609,512	0.43	209,900	3.33
3	Kab./Kota Bekasi	22	5,765,206	0.38	292,900	7.51
4	Kab./Kota Bogor	48	6,361,869	0.75	535,800	8.96
5	Kab. Ciamis	9	1,162,102	0.77	147,800	6.09
6	Kab. Cianjur	17	2,235,418	0.76	292,200	5.82
7	Kab./Kota Cirebon	8	2,414,172	0.33	344,500	2.32
8	Kab. Garut	26	2,526,186	1.03	315,800	8.23
9	Kab. Indramayu	5	1,682,022	0.30	257,300	1.94
10	Kab. Karawang	29	2,250,120	1.29	245,100	11.83
11	Kab. Kuningan	6	1,049,084	0.57	142,300	4.22
12	Kab. Majalengka	10	1,176,313	0.85	168,600	5.93
13	Kab. Pangandaran	-	388,320	-	-	-
14	Kab. Purwakarta	9	910,007	0.99	85,000	10.59
15	Kab. Subang	15	1,513,093	0.99	185,400	8.09
16	Kab./Kota Sukabumi	26	2,737,114	0.95	260,600	9.98
17	Kab. Sumedang	13	1,131,516	1.15	132,900	9.78
18	Kab./Kota Tasikmalaya	16	2,383,381	0.67	324,500	4.93
19	Kota Banjar	1	180,515	0.55	13,900	7.19
20	Kota Cimahi	-	579,015	-	37,700	-
21	Kota Depok	-	2,033,508	-	47,000	-
	BTPN Syariah	91				
	Total	**393**	**46,029,668**	**0.85**	**4,430,100**	**8.87**
East Java						
1	Kab. Bangkalan	-	945,821	-	218,300	-
2	Kab. Banyuwangi	6	1,588,082	0.38	152,200	3.94
3	Kab./Kota Blitar	2	1,277,696	0.16	130,400	1.53
4	Kab. Bojonegoro	8	1,232,386	0.65	196,800	4.07

23. Data collected from MBK, BAV, DMS, Koperasi BAIK, KOMIDA, KSB. For BTPN we do not have Kabupaten wise distribution of branch offices, so we have just divided the total branches of BTPN (1832) with the total provinces where it operates (20 provinces). This can be taken as a conservative estimate of the presence of BTPN branches in West java.

No	Regencies	No. of TOTAL	POPULATION (2014)	Branch/ 100,000	POOR POPULATION (2013)	Branch/ 100,000 poor population
5	Kab. Bondowoso	2	756,989	0.26	115,300	1.73
6	Kab. Gresik	5	1,241,613	0.40	171,600	2.91
7	Kab. Jember	9	2,394,608	0.38	278,500	3.23
8	Kab. Jombang	8	1,234,501	0.65	137,500	5.82
9	Kab,/Kota Kediri	9	1,817,001	0.50	225,500	3.99
10	Kab. Lamongan	7	1,187,084	0.59	192,000	3.65
11	Kab. Lumajang	4	1,026,378	0.39	124,400	3.22
12	Kab./Kota Madiun	7	848,361	0.83	92,400	7.58
13	Kab. Magetan	1	626,614	0.16	76,300	1.31
14	Kab./Kota Malang	3	3,373,060	0.09	329,600	0.91
15	Kab./Kota Mojokerto	9	1,195,205	0.75	124,900	7.21
16	Kab. Nganjuk	7	1,037,723	0.67	140,800	4.97
17	Kab. Ngawi	2	827,829	0.24	127,500	1.57
18	Kab. Pacitan	-	549,481	-	91,700	-
19	Kab. Pamekasan	-	836,224	-	153,700	-
20	Kab./Kota Pasuruan	6	1,762,836	0.34	190,300	3.15
21	Kab. Ponorogo	4	865,809	0.46	103,000	3.88
22	Kab./Kota Probolinggo	5	1,359,467	0.37	257,900	1.94
23	**Kab. Sampang**	**-**	**925,911**	**-**	**248,200**	**-**
24	Kab. Sidoarjo	5	2,083,924	0.24	138,200	3.62
25	Kab. Situbondo	4	666,013	0.60	90,300	4.43
26	Kab. Sumenep	-	1,067,202	-	225,500	-
27	Kab. Trenggalek	1	686,781	0.15	92,800	1.08
28	Kab. Tuban	7	1,147,097	0.61	196,900	3.56
29	Kab. Tulungagung	6	1,015,974	0.59	91,700	6.54
30	Kota Batu	-	198,608	-	9,400	-
31	Kota Surabaya	-	2,833,924	-	169,400	-
	BTPN Syariah	91				
	Total	**218**	**38,610,202.0**	**0.56**	**4,893,000**	**4.46**

No	Regencies	No. of TOTAL	POPULATION (2014)	Branch/ 100,000	POOR POPULATION (2013)	Branch/ 100,000 poor population
Central Java and Yogyakarta						
1	Kab. Banjarnegara	1	895,986	0.11	166,800	0.60
2	Kab. Banyumas	7	1,620,918	0.43	296,800	2.36
3	Kab. Batang	4	736,397	0.54	87,500	4.57
4	Kab. Blora	1	848,369	0.12	123,800	0.81
5	Kab. Boyolali	1	957,857	0.10	126,500	0.79
6	Kab. Brebes	6	1,773,379	0.34	367,900	1.63
7	Kab. Cilacap	3	1,685,573	0.18	255,700	1.17
8	Kab. Demak	-	1,106,328	-	172,500	-
9	Kab. Grobogan	6	1,343,960	0.45	199,000	3.02
10	Kab. Jepara	2	1,170,797	0.17	106,900	1.87
11	Kab. Karanganyar	2	848,255	0.24	114,400	1.75
12	Kab. Kebumen	10	1,181,006	0.85	251,100	3.98
13	Kab. Kendal	4	934,643	0.43	117,700	3.40
14	Kab. Klaten	5	1,154,040	0.43	179,500	2.79
15	Kab. Kudus	2	821,136	0.24	70,100	2.85
16	Kab./Kota Magelang	7	1,354,068	0.52	182,800	3.83
17	Kab. Pati	1	1,225,594	0.08	157,900	0.63
18	Kab./Kota Pekalongan	4	1,161,277	0.34	140,600	2.84
19	Kab. Pemalang	4	1,284,236	0.31	246,800	1.62
20	Kab. Purbalingga	2	889,214	0.22	181,100	1.10
21	Kab. Purworejo	2	708,038	0.28	109,000	1.83
22	Kab. Rembang	3	614,087	0.49	128,000	2.34
23	**Kab./Kota Semarang**	**2**	**2,660,556**	**0.08**	**169,900**	**1.18**
24	Kab. Sragen	4	875,600	0.46	139,000	2.88
25	Kab. Sukoharjo	4	856,937	0.47	84,100	4.76
26	Kab./Kota Tegal	5	1,665,130	0.30	171,400	2.92
27	Kab. Temanggung	2	738,915	0.27	91,100	2.20
28	Kab. Wonogiri	-	945,817	-	132,200	-
29	Kab. Wonosobo	-	773,280	-	170,100	-
30	Kota Salatiga	1	181,193	0.55	11,500	8.70
31	Kota Surakarta	-	510,077	-	59,700	-

No	Regencies	No. of TOTAL	POPULATION (2014)	Branch/ 100,000	POOR POPULATION (2013)	Branch/ 100,000 poor population
32	Kab. Bantul	4	982,384	0.41	156,600	2.55
33	Kab. Gunungkidul	1	707,158	0.14	152,400	0.66
34	Kab. Kulonprogo	2	407,330	0.49	86,500	2.31
35	Kab. Sleman	2	1,162,412	0.17	110,800	1.81
36	Kota Yogyakarta	-	407,249	-	35,600	-
	BTPN Syariah	91				
	Total	195	37,189,196	0.52	5,353,300	3.64
Banten						
1	Kab. Lebak	-	1,259,305	-	118,600	-
2	Kab. Pandeglang	3	1,188,405	0.25	121,100	2.48
3	Kab./Kota Serang	4	2,094,195	0.19	109,500	3.65
4	Kab./Kota Tangerang	29	5,264,670	0.55	287,000	10.10
5	Kota Cilegon	-	405,303	-	15,900	-
6	Kota Tangerang Selatan	1	1,492,999	0.07	25,400	3.94
	BTPN Syariah	91				
	Total	**128**	**11,704,877**	**1.09**	**677,500**	**18.89**
	TOTAL CABANG	**934**	**133,533,943**	**0.70**	**15,353,900**	**6.09**

Annexure II: Andhra Pradesh Microfinance Crisis - A Case Study

The state of Andhra Pradesh (AP) was the epicenter of microfinance in India in from 2000 to 2010 and India's five largest NBFC – FIs were based there. By November 2010, FIs had 9.7 million borrowers with Rs. 72 billion (Approximately USD 1.5 billion) outstanding. The un-parallel growth of FIs, coupled with the efforts of the Self-Help Group (SHG) movement which was a government programme of giving loans to the poor through the state led banking system, CGAP estimated in 2010 that the average household debt in AP was Rs. 65,000 (USD 1445) compared to a national average of Rs. 7,700 (USD 155). The high level of indebtedness in the state was, largely, a result of multiple lending happening in the sector. SHG clients were often FIs clients and vice versa, and many customers would often be members of more than one FI.

FIs had weekly collection schedule, more disciplined and better organized field monitoring systems. As a result, clients choose to pay instalments on FI loans, rather than SHG loans (which normally have monthly repayment frequency and minimal ground level monitoring). This started to have an adverse effect on the credit discipline of SHGs, which set the stage for a conflict between FIs (private sector) and the state government. This conflict was enacted at a smaller stage in one district of the state in 2005-06. The Krishna district administration closed 50 branches of four leading FIs within the district due to allegations of unethical practices, such as charging usurious interest rate, using coercive collection practices and profiteering from the poor in their endeavor to grow rapidly. This earlier crisis in a smaller geography was controlled more easily and the lessons from this incident were quickly ignored.

The situation started to worsen after 2007 with the entry of private equity into the microfinance sector. The ambitions of the FIs and the availability of large equity investments led to even faster growths in excess of 100% per year in some instances. The private equity investors also had very high growth expectations (25-30% rate of return) and this put additional pressure on FIs to grow and maintain the growth rates.

The focus on growth by FIs led to cutting corners on critical issues. There were instances of staff being given just 2 days of formal training and placed in branch to manage 1,000 borrowers and millions in portfolio. FIs offered simple loan products with ever increasing loan sizes in subsequent cycles with no relation to the household cash flow of the client. The pressure to show low default rates to impress the investors meant that encouraging coercive loan collection practices. This condition combined with the intense competition within FIs and the resultant multiple lending, led to a complete break-down of the relationship between FIs and their clients. Amidst all this the largest FI in the country SKS launched an IPO in 2010 which led to huge financial rewards for the promoters and senior management. This led to loosing of credibility of FIs among the government and most considered FIs as making huge profits from the poor.

The final nail was provided by alleged suicide of some members due to harassment by FI field staff to repay the loan amount and the state government acted by clamping down on all the FIs in the state. The Government of AP promulgated The Microfinance Institution Ordinance to clamp down this alleged practices in October 2010. The Ordinance

24. http://www.microsave.net/files/pdf/IFN_55_The_Andhra_Pradesh_Crisis_3_dress_rehearsals_and_then_the_Full_Drama.pdf
25. http://www.microsave.net/files/pdf/IFN_42_Microfinance_in_India_Built_on_Sales_Targets_or_Loyal_Clients.pdf
26. http://www.cgap.org/blog/sks-ipo-success-and-excess
27. See: MIX Microfinance World: India: Post-Crisis Results
28. See:Banks Turn Away from AP FIS

imposed crippling restrictions on the FIs like compulsory registration of the FIs with designated authorities; requirement to make loan collections near local government premises, and forcing FIs to shift to monthly repayments. FIs, which had boasted of recovery rates in excess of 95%, now found themselves staring at repayment rates of 10%-15%. Around Rs.450 billion (approximately USD 1 billion) of portfolio was never recovered and FIs had to gradually write them off.

Annexure III: Summary of KBIJ Report

IFC had asked Kredit Biro Indonesia Jaya a private credit bureau to set up credit information sharing services for Indonesian FIs. A total of 12FIs were invited to share data out of which 9 FIs shared their data of which only 6 FIs data was considered for analysis. The list of 9 FIs who shared their information is given in Figure 37.

Figure 37: List of FIs sharing data with KBIJ

Name of MFIs	MFI ID	Format Supplied	Status	Credit	Debtor	Facility X Debtor
PT. Bina Artha Ventura	9586	excel file (.xlsx)	Compl.	8,433	8,431	8,433
			Compl	170,642	170,642	170,642
PT. Dana Mandiri Sejahtera	9597	Text file (.txt)	Compl	33,276	44,074	33,204
BPR Dana Mandiri Bogor	9589	excel file (.xlsx)	Compl	32,478	32,478	32,478
Koperasi Sejahtera Bangsaku	9591	excel file (.xlsx)	Compl	0	2,701	0
Koperasi Kasih Indonesia	9596	excel file (.xlsx) Own fmt (9flds)	Compl	7,773	0	0
Mitra Bisnis Keluarga Ventura	9587	excel file (.xlsx)	Compl	512,340	512,340	512,340
Koperasi Mitra Dhuafa	9588	CSV file (.csv)	Compl	261,825	251,567	254,261
Koperasi Baytul Ikhtiar	9590	excel file (.xlsx)	Compl	12,745	12,745	0
Koperasi Tudbirul Ummah	9594	excel file (.xlsx)	Compl	519	5,760	0 (519)

Sumber: Laporan KBIJ

KBIJ conducted quantitative analysis of the empirical data on over-indebtedness. Information was shared for 710,825 clients with accounts across 6 institutions and a total outstanding portfolio of IDR 1.05 trillion. The below Tables summarises the major findings.

Table 6: Number of Accounts per Client

No. of Accounts	No. of Entity	%
1	666,403	93.75
2	43,434	6.11
3	988	0.14
Total	710,825	100

Table 7: Number of FIs per Client

No. of FIs	No. of Entity	%
1	666,626	93.78
2	43,272	6.09
3	927	0.13
Total	710,825	100

Table 7 shows the number of loans per client while Table 8 shows the number of FIs that one client is associated with. Close to 6% of the clients have an account with two FIs, while o.13% or 927 have an account with three FIs. However, there are noTable exclusions in this analysis such as Koperasi Mitra Dhuafa (KOMIDA) and BTPN Syariah which are big financial institutions. KOMIDA's data could not be included because of inconsistent data and format. On the other hand, BTPN Syariah did not share the data to be included in the analysis.

The KBIJ analysis concludes that there is high percentage of multiple borrowing among the client data shared ranging from 1%-26.6% . The data set of clients must be increased and more players must share their information to make the analysis more effective.

29. PT. Mitra Bisnis Keluarga, PT. Bina Artha Ventura, PT. Dana Mandiri Sejahtera, PT. BPR Dana Mandiri Bogor, Koperasi Kasih Indonesia, Koperasi Tudbirul Ummah

Annexure IV: Sub-Districts Covered in the Research

No.	Regions (Kabupaten)	Sub-District (Kecamatan)
1	Subang	Subang
		Ciater
		Pagaden
		Dawuan
2	Sukabumi	Cisaat
		Kadudampit
		Sukabumi
		Sukaraja
3	Cianjur	Cianjur
		Karangtengah
4	Bogor	Cibungbulang
		Leuwiliang

Annexure V-X: Interview Guides Used during the Research

Annexure V: IDI Guides for Multiple Loan Clients

Date:	Location:	Rural/Urban/Semi-Urban
Moderator:	Assistant Moderator:	Contact Number:

Respondent Profile	
Name	
Age	
Education	
Primary occupation	
Occupation of spouse	
Average monthly income	
Average monthly household expenditure	
Number of dependents in household	
How many FIs are you associated with?	
Total loan amount from all the FIs (note down loan amount from each of the FIs)?	
What is your instalment payout (on monthly basis)?	
What loan cycle are you in (note down loan amount from each of the FIs)?	

Core Questions	Probes
I. What are the different sources of credit for people in the community here?	1. Record both formal (including FIs) and informal sources of credit available in the community, e.g. Banks, FIs, Moneylenders, ROSCA/ Arisan, Pawnshops, SHG, Daily/Weekly Finance
II. For what purpose did you borrow loans from multiple sources (both from formal and informal institutions)?	2. Probe the reasons for multiple loans both from: a. Demand side (investment in business, existing loans inadequate, family obligation/basic household expenditures, seasonal expenditures, etc) b. Supply side (easy availability of loans [scale 1 -5, 1 being the easiest and 5 for most difficult], influence of field staff, influence of group members/friends, to get additional benefit/promo offered, etc.). c. Also observe if the loans are used for productive or non-productive (consumption) purpose [ask purpose of each loan such as working capital for business, purchase motorbike, education, etc.] 3. Probe if loan is used as per the stated purpose (loan purpose will be mentioned in application form or loan card) 4. Probe if Loan Utilisation Checks (LUCs) were conducted by concerned institutions (Only if the LUC process is in place) 5. Probe if the loan has been used by the client herself/himself or any other members of the family or other people? {The objective of this question is to see who exactly is the ultimate beneficiary or user of the loan}
III. How was your experience of borrowing money from providers? (List down all the sources the respondent has taken loan from. On a scale of 1-5 ask the respondent to score each of the provider with 1 being worst experience and 10 being best experience)	6. List down all the sources the respondent has taken loan from. On a scale of 1-5 ask the respondent to score each of the provider with 1 being worst experience and 5 being best experience 7. What are the pain points in availing loans from FIs? (Interest rate, staff behaviour, loan amount, loan processing time, convenient instalments, repayment flexibility, collateral requirements, etc.) 8. Probe on how did they come to know about the FI? a. Do you know the name of the FI you borrowed the loan from? b. Who helped you get the loan? c. Who contacted you or whom did you contact to become a member of the group? d. Do you know other members in your group? (Y/N) {This question is to get insight on group/centre coherence}

Core Questions	Probes
	9. How much loan did you get from the FI? Probe if the respondent got the entire amount of the loan or did she have to pay any commission or extra charges to avail the loan. (The purpose is to know if there are any Joky loans ie., branch staff may be sourcing the clients through one group leader or a group leader – generally a prominent person in the community – may be charging the client for facilitating loans)
IV. How do you manage multiple loan repayment commitments?	10. Understand the pain points around managing multiple repayment obligations such as need to attend group/centre meetings, cash flow management, documentation, peer group pressure, to many charges, staff behaviour, consequences for not meeting commitments, etc. 11. How do you repay the loans? Probe if the respondents pays the loan directly to the staff or through any other means.
V. How do you manage cash flows to honour loan repayment commitments/ instalment?	12. Probe how they manage cash flow for loan repayment and related pain points, e.g. get new loan to cover other loans, selling asset, paid by other group member, reduce household expenditures, manage payment schedule for each source of loan, or no issue since the income is still enough, etc. Further probe on managing cash flows in the event of emergency 13. Probe on instances of additional borrowing for loan repayment purposes. 14. Was there any delay in instalment payments? Y/N 15. What are the reasons for delay in repayment(s)? 16. If you have limited money in hand and you have to pay the loan instalment to all the lenders, but you only able to pay to one credit provider, which one you will give first priority? Why? (Compare among all formal and informal credit providers). 17. Probe if other members of the group paid for instalments skipped by the respondent (as part of joint collateral)
VI. How confident are you to repay all your loan commitments?	18. Probe if they aware or not on the risks of having multiple loans? Are they mentally stressful due to have multiple loans considering all the loan commitments? 19. Probe thoroughly if the respondent is confident of clearing all the outstanding loans or thinks he/she may not be able to meet all loan obligations. {Probe if the response is logical. Check the income of the client and the loan obligations compare with the response of the client}

Annexure VI: FGD Guides for Multiple Loan Clients

Date:	Location:	Rural/Urban/Semi-Urban
Moderator:	Assistant Moderator:	Contact Number:

Respondents Profile									
No.	Name	Age, y/o	Education		Number of Loans	Avg. Monthly Income	Avg. Monthly Expenses	No. of Dependants	Total Instalment
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									

Core Questions	Probes
I. What are the different sources of credit for people in the community here?	1. Record both formal (including FIs) and informal sources of credit available in the community, e.g. Banks, FIs, Moneylenders, ROSCA/Arisan, Pawnshops, SHG, Daily/ Weekly Finance
II. For what purpose did you borrow loans from multiple sources (both from formal and informal institutions)?	2. Probe the reasons for multiple loans both from: a. Demand side (investment in business, existing loans inadequate, family obligation/basic household expenditures, seasonal expenditures, etc) b. Supply side (easy availability of loans [scale 1 -5, 1 being the easiest and 5 for most difficult], influence of field staff, influence of group members/friends, to get additional benefit/promo offered, etc.). c. Also observe if the loans are used for productive or non-productive (consumption) purpose [ask purpose of each loan such as working capital for business, purchase motorbike, education, etc.] 3. Probe if loan is used as per the stated purpose (loan purpose will be mentioned in application form or loan card) 4. Probe if Loan Utilisation Checks (LUCs) were conducted by concerned institutions (Only if the LUC process is in place) 5. Probe if the loan has been used by the client herself/himself or any other members of the family or other people? {The objective of this question is to see who exactly is the ultimate beneficiary or user of the loan}
III. How was your experience of borrowing money from providers? (List down all the sources the respondent has taken loan from. On a scale of 1-5 ask the respondent to score each of the provider with 1 being worst experience and 10 being best experience)	6. List down all the sources the respondent has taken loan from. On a scale of 1-5 ask the respondent to score each of the provider with 1 being worst experience and 5 being best experience 7. What are the pain points in availing loans from FIs? (Interest rate, staff behaviour, loan amount, loan processing time, convenient instalments, repayment flexibility, collateral requirements, etc.) 8. Probe on how did they come to know about the FI? a. Do you know the name of the FI you borrowed the loan from? b. Who helped you get the loan? c. Who contacted you or whom did you contact to become a member of the group?

Core Questions	Probes
	d. Do you know other members in your group? (Y/N) {This question is to get insight on group/centre coherence} 9. How much loan did you get from the FI? Probe if the respondent got the entire amount of the loan or did she have to pay any commission or extra charges to avail the loan. (The purpose is to know if there are any Joky loans ie., branch staff may be sourcing the clients through one group leader or a group leader – generally a prominent person in the community – may be charging the client for facilitating loans)
IV. How do you manage multiple loan repayment commitments?	10. Understand the pain points around managing multiple repayment obligations such as need to attend group/centre meetings, cash flow management, documentation, peer group pressure, to many charges, staff behaviour, consequences for not meeting commitments, etc. 11. How do you repay the loans? Probe if the respondents pays the loan directly to the staff or through any other means.
V. How do you manage cash flows to honour loan repayment commitments/ instalment?	12. Probe how they manage cash flow for loan repayment and related pain points, e.g. get new loan to cover other loans, selling asset, paid by other group member, reduce household expenditures, manage payment schedule for each source of loan, or no issue since the income is still enough, etc. Further probe on managing cash flows in the event of emergency 13. Probe on instances of additional borrowing for loan repayment purposes. 14. Was there any delay in instalment payments? Y/N 15. What are the reasons for delay in repayment(s)? 16. If you have limited money in hand and you have to pay the loan instalment to all the lenders, but you only able to pay to one credit provider, which one you will give first priority? Why? (Compare among all formal and informal credit providers). 17. Probe if other members of the group paid for instalments skipped by the respondent (as part of joint collateral)

Core Questions	Probes
VI. How confident are you to repay all your loan commitments?	18. Probe if they aware or not on the risks of having multiple loans? Are they mentally stressful due to have multiple loans considering all the loan commitments? 19. Probe thoroughly if the respondent is confident of clearing all the outstanding loans or thinks he/she may not be able to meet all loan obligations. {Probe if the response is logical. Check the income of the client and the loan obligations compare with the response of the client}

Annexure VII: IDI Guides for Community Leader

Date:	Location:	Rural/Urban/Semi Urban
Moderator:	Assistant Moderator:	Contact Number:

Respondent Information	
Name of Respondent	:
Gender	:
Age	:
Education	:
Occupation	:
Role on the Community	:
Familiarity with FI (has/had loan)	: Yes/No
If Yes, number of FI associated with and since when	:
Phone Number	:

Interview Guide	
Perception about FI Questions	Probe
1. What are the major avenues of expenditure for the people in the community?	• Probe on recurring and regular expenditure and one time (major) expenditure of the family. For example: Recurring – grocery, utility bill, school fees, airtime etc.; one time – marriage, birth, death, health, family functions, festivals etc.
2. How do you think the people manage their cash flow? – How are these expenditures met?	• To understand how the people on the community solve out their regular or irregular expenditure problem (if any), to identify if loan is a quick answer as source of fund to cover household expenses.
3. What are the sources of credit for people in the community here?	• Number and name of formal and informal different sources of credit.
4. What do you think the impact of presence of the FIs here?	• Pro cons on the role of the FI in providing financial services (esp. loan) to the community. • Assess impact on the lifestyle especially due to easy access of FI loans.
5. What do you think about the way FI get their clients and manage credit processes?	• To understand how FI get their clients and level of easiness to get loan for clients (you can scale it from 1, as the most difficult, to 10 as the easiest). • Opinion/like/dislike on credit processes such as disbursement, collection adopted by FI staffs. • Opinion on customer protection practices if applied by FI or not, such as clarity on explanation of loan product features, terms and conditions, etc. • Any bad/good practice examples?
6. Do you think people in this community have multiple loans? Why?	• Yes/No, how many and why do you say so? • To understand practices in the society of having multiple loans. • To understand the reasons of that, both from supply side and demand side.

Interview Guide	
Perception about FI Questions	Probe
7. What do you think is the impact of having multiple loans?	• To understand awareness of the people esp. on repayment capacity by having multiple loans.
8. Are there many cases of over-indebtedness due to difficulties to manage multiple loans by the people here?	• To understand how many over-indebtedness cases happen on the community and to get some example of it.
9. How do you think people here solve their problem in the event of bad loan?	• To understand if any cases where the people get another loan to repay bad old/loan, selling their asset, etc. • Also probe his insight on recovery practises deployed by the FIs [e.g. intensive collection, restructure, selling asset, paid by other group members, offer new loan, nothing, etc.] {The objective of asking this question is to understand if the FI is resorting to any unethical practises for recovering the loans. Also to understand if the recovery practises have any negative impact on the clients}
10. What are your suggestions to make a better operation for the FI?	• To understand of customer need/perspective of a good FI/ operation.

Annexure VIII: IDI Guides for Default Clients

Date:	Location:	Rural/Urban/Semi Urban
Moderator:	Assistant Moderator:	Contact Number:

Respondent Profile	
Name	:
Age	:
Education	:
Primary occupation	:
Occupation of spouse	:
Average monthly income	:
Average monthly household expenditure	:
Number of dependents in household	:
How many FIs are you associated with?	:
Total loan amount from all the FIs (note down loan amount from each of the FIs)?	:
What is your instalment payout (on monthly basis)?	:
What loan cycle are you in (note down loan amount from each of the FIs)?	:

Core Questions	Probes
I. What are the different sources of credit for people in the community here?	1. Record both formal (including FIs) and informal sources of credit available in the community, e.g. Banks, FIs, Moneylenders, ROSCA/Arisan, Pawnshops, SHG, Daily/ Weekly Finance
II. For what purpose did you borrow loans from multiple sources (both from formal and informal institutions)?	2. Probe the reasons for multiple loans both from: a. Demand side (investment in business, existing loans inadequate, family obligation/basic household expenditures, seasonal expenditures, etc). b. Supply side (easy availability of loans [scale 1 -5, 1 being the easiest and 5 for most difficult], influence of field staff, influence of group members/friends, to get additional benefit/promo offered, etc.). c. Also observe if the loans are used for productive or non-productive (consumption) purpose [ask purpose of each loan such as working capital for business, purchase motorbike, education, etc.] 3. Probe if loan is used as per the stated purpose (loan purpose will be mentioned in application form or loan card). 4. Probe if Loan Utilisation Checks (LUCs) were conducted by concerned institutions (Only if the LUC process is in place). 5. Probe if the loan has been used by the client herself/himself or any other members of the family or other people? {The objective of this question is to see who exactly is the ultimate beneficiary or user of the loan}.
III. How was your experience of borrowing money from providers? (List down all the sources the respondent has taken loan from. On a scale of 1-5 ask the respondent to score each of the provider with 1 being worst experience and 10 being best experience)	6. List down all the sources the respondent has taken loan from. On a scale of 1-5 ask the respondent to score each of the provider with 1 being worst experience and 5 being best experience 7. What are the pain points in availing loans from FIs? (Interest rate, staff behaviour, loan amount, loan processing time, convenient instalments, repayment flexibility, collateral requirements, etc.) 8. Probe on how did they come to know about the FI? a. Do you know the name of the FI you borrowed the loan from? b. Who helped you get the loan? c. Who contacted you or whom did you contact to become a member of the group?

Core Questions	Probes
	d. Do you know other members in your group? (Y/N) {This question is to get insight on group/centre coherence} 9. How much loan did you get from the FI? Probe if the respondent got the entire amount of the loan or did she have to pay any commission or extra charges to avail the loan. (The purpose is to know if there are any Joky loans ie., branch staff may be sourcing the clients through one group leader or a group leader – generally a prominent person in the community – may be charging the client for facilitating loans)
IV. How do you manage multiple loan repayment commitments?	10. Understand the pain points around managing multiple repayment obligations such as need to attend group/centre meetings, cash flow management, documentation, peer group pressure, to many charges, staff behaviour, consequences for not meeting commitments, etc. 11. How do you repay the loans? Probe if the respondents pays the loan directly to the staff or through any other means.
V. How do you manage cash flows to honour loan repayment commitments/ instalment?	12. Probe how they manage cash flow for loan repayment and related pain points, e.g. get new loan to cover other loans, selling asset, paid by other group member, reduce household expenditures, manage payment schedule for each source of loan, or no issue since the income is still enough, etc. Further probe on managing cash flows in the event of emergency 13. Probe on instances of additional borrowing for loan repayment purposes. 14. Was there any delay in instalment payments? Y/N 15. What are the reasons for delay in repayment(s)? 16. If you have limited money in hand and you have to pay the loan instalment to all the lenders, but you only able to pay to one credit provider, which one you will give first priority? Why? (Compare among all formal and informal credit providers). 17. Probe if other members of the group paid for instalments skipped by the respondent (as part of joint collateral)

Core Questions	Probes
VI. What is the status of the loans that you have borrowed from various FIs?	18. What is the status of all your loans? Has there been any default? If yes, probe on reasons for defaults/arrears. 19. Probe on reasons for defaulting on some FI loans and not defaulting on other FIs. 20. Now that you have defaulted on your loan with X FI, what are the other credit sources for you now? 21. Also probe on their experience on recovery practises deployed by the FIs [e.g. intensive collection, restructure, selling asset, paid by other group members, offer new loan, nothing, etc.] {The objective of asking this question is to understand if the FI is resorting to any unethical practises for recovering the loans. Also to understand if the recovery practises have any negative impact on the clients}

Annexure IX: IDI Guides for Branch Manager of MBK

Date:	Location:	Rural/Urban/Semi-Urban
Moderator:	Assistant Moderator:	Contact Number:

Respondent Profile	
Name of FI	:
Name of Respondent	:
Gender	:
Age	:
Education	:
Designation	:
Since	:
Previous Designation	:
Working Experiences in the FI	: ………..years ………months
Number of Sub-Ordinate	:
Phone Number	:

Branch Business Information	
Name of Branch	:
Coverage Area	:
Total Loan Portfolio • Group Loan • Individual Loan	: Rp. : Rp. : Rp.
Target Loan growth (monthly/annual)	:
Product Information • Loan Size • Tenure • Collateral • Repayment capacity policy • Approval level	: Group / Individual Loan : : : : :
Total NPL (data of NPL as per some category is needed if any, e.g. type of loan, loan product, loan size, decision maker, etc.)	: Rp.

Interview Guide	
Questions	Probe
1. What is your business target?	• What are the target components and weight? Probe on target related to client acquisition and management. • Who sets the target? • How do they decide that number?
2. What do you think about loan growth target for your branch?	• BM perception about the target (achievable/too high/too low)? Why do you say so?
3. How is the competition in the market?	• Number of players in the market? • What competitors offer to client (practices on the field)? • How do you compare yourself with other competitors in terms of client acquisition and management? • Why do you say so?
4. What is your strategy to achieve the target?	• Focus on a new market/segment, acquisition existing other FIs client (over credit), lowering loan requirement, etc.
5. How do you select client?	• What is the existing client selection criteria? • How do they see/calculate repayment capacity for a new loan and repeat loan?
6. How do you identify multiple loans by client?	• Are there any multiple borrowing practices in the market by client? • Do you ask client information to your colleague at other FIs (if any) before client acquisition?
17. Do you have any policy/ strategy for client/ applicant whom has multiple loans?	• Policy such as: rejection, maximum loan size, additional provision/rate, etc
18. What do you think about multiple borrowing by clients?	• BM opinion on risk of having multiple loans? • Reasons why client has multiple loans? • Why do you say so?

Interview Guide	
Questions	**Probe**
19. What are main reasons of bad loans?	• 3-5 common reasons of NPL and/or late payment by client?
20. What do you think about over-indebtedness?	• Any bad loan cases due to over-indebtedness? • Risk on over-indebtedness? • Why do you say so?
21. What do you do in the event of delinquency?	• To understand what is the FI's way out policy regarding loan default and how the branch implement it and manage bad loan (to find out if any indication of getting new loan from other lenders)
22. What is the policy about group meeting?	• Frequency of meeting • Consequences for member who do not attend the meeting?
23. What do you think about the group meeting implementation?	• To understand how the actual implementation in the field? How strict is the policy being implemented? Why do you say so?
24. How do you monitor your staff?	• To understand how BM monitoring all of his/her sub-ordinate. • Daily activity monitoring? • Reviewing staff quality/performance? • Frequency of performance review?
25. What is the staff's churn rate?	• Number of staffs that drop out per year?
26. How often staff rotation is conducted?	• Common reason of staff rotation?
27. How is the induction & training of field staff happen?	• Who give the training? • How long the training is? • What are the topics covered?
27. How is the induction & training of field staff happen?	• Who give the training? • How long the training is? • What are the topics covered?

Interview Guide	
Questions	Probe
28. What is your incentive scheme?	• To understand what drives staff (BM and field staff) to achieve target. • To understand if there is any risk control on the scheme or not, and also if it is considered by staff or not.
29. How is audit (for credit) process happen?	• To understand controlling/monitoring of loan decision processes/mechanisms taken/implemented on the branch level. • Audit frequency? • What audit usually check and impact of audit result/finding?
30. What do you think about quality of the MIS and/or reporting mechanism?	• To understand quality of MIS on providing client information for loan analysis, loan monitoring and review, etc. • Why do you say so?

Annexure X: FGD Guides for Branch Staff of MBK

Sessions Details	
Date:	Location:
Moderator:	Assistant Moderator:

Respondents Profile						
Name FI/Branch:						
No	Nama	Usia	P/L	Pendidikan	Jabatan	Pengalaman Kerja
1						
2						
3						
4						
5						
6						

Interview Guide	
Questions	Probe
1. What is your business target?	• Probe on target related to client acquisition and management. • What are the target components and weight? • Who sets the target? • How do they decide that number?
2. What do you think about your target	• Staff perception about their target (achievable/too high/too low)? Why do you say so?
3. How is the competition in the market?	• Number of players in the market? • What competitors offer to client (practices on the field)? • How do you compare yourself with other competitors in terms of client acquisition and management? • Why do you say so?

Interview Guide	
Questions	**Probe**
4. What is your strategy to achieve the target?	• Focus on a new market/segment, acquisition existing other FIs client (over credit), lowering loan requirement, etc.
5. How do you select client?	• What is the existing client selection criteria? • How do they see/calculate repayment capacity for a new loan and repeat loan?
6. How do you identify multiple loans by client?	• Are there any multiple borrowing practices in the market by client? • Do you ask client information to your colleague at other FIs (if any) before client acquisition?
7. What do you think about multiple borrowing by clients?	• Staff opinion on risk of having multiple loans? • FI policy regarding multiple borrowing if any? • Reasons why client has multiple loans? • Why do you say so?
8. What are main reasons of bad loans?	• 3-5 common reasons of NPL and/or late payment by client?
9. What do you think about over-indebtedness?	• Any bad loan cases due to over-indebtedness? • Risk on over-indebtedness? • Why do you say so?
10. What do you do in the event of delinquency?	• To understand what is the FI's way out policy regarding loan default and how the branch implement it and manage bad loan (to find out if any indication of getting new loan from other lenders) • To identify is staff experience resistant/hostile behaviour from borrowers?
11. What is the policy about group meeting?	• Frequency of meeting • Consequences for member who do not attend the meeting?
12. What do you think about the group meeting implementation?	• To understand how the actual implementation in the field? How strict is the policy being implemented? Why do you say so?

Interview Guide	
Questions	Probe
13. How does the Branch Manager usually monitor your work?	• To understand how BM monitoring all of his/her sub-ordinate. • Daily activity monitoring? • Reviewing staff quality/performance? • Frequency of performance review?
14. What do you think of your incentive scheme?	• To understand what drives staff (BM and field staff) to achieve target. • To understand if there is any risk control on the scheme or not, and also if it is considered by staff or not.
15. Do you receive any training at the time of joining?	• Identify trainings given to them (frequency, during induction, topics covered, quality of the training, etc.)

An assessment of multiple-lending & borrowings in Indonesian microfinance institutions using credit bureau data.

KBIJ
PT. Kredit Biro Indonesia Jaya

PAKINDO
Perkumpulan Akses Keuangan Indonesia

Indonesia Over-Indebtedness Case Study (Extract)

Reported to Indonesian Access to Finance Association (PAKINDO)

PT. Kredit Biro Indonesia Jaya

Contents

INTRODUCTION

The microfinance industry has experienced steady growth in the recent years. In only 4 years, gross loan portfolio of major microfinance institutions (MFIs) grew at an average of 57.84%, and the number of clients by an average of 39.75%. All across the globe we have seen the rapid growth of Microfinance, especially in emerging markets and developing countries.

In Indonesia, microfinance is offered by a variety of institutions, namely credit & savings cooperatives, BPR (Rural Banks), venture capital firms, informal village banking institutions, rural branches of commercial banks such as BRI, BTPN, Danamon and Mandiri. As a growing industry in the global marketplace and in Indonesia, we must take the necessary steps to consider the risk of over-indebtedness in order to protect micro borrowers and lenders.

Around the world, well-managed credit bureaus have been proven to contribute directly to economic development by partnering with microfinance institutions. Financial transparency and credit knowledge increase access to credit while keeping both lenders and borrowers accountable.

PT. Kredit Biro Indonesia Jaya (KBIJ) believes in the power of information. We strive to use multidimensional information to identify problems and create opportunities for organizations. This paper explores cross-borrowing patterns among MFI participants of the study using quantitative analysis that is performed through PT. Kredit Biro Indonesia Jaya's credit bureau reporting system.

METHODOLOGY

Initially the project started out with 12 microfinance participants. Nine MFIs went ahead to upload their data for a quantitative analysis. Unfortunately, we had to exclude three MFIs due to data issues, leaving only six MFIs whose data would be included in the study.

The participating MFIs are listed here by ascending order of number of customer loans: PT. Mitra Bisnis Keluarga Ventura, PT. Bina Artha Ventura, PT. Dana Mandiri Sejahtera, PT. BPR Dana Mandiri Bogor, Koperasi Kasih Indonesia, and Tadbiirul Ummah.

Data were submitted in three files, using the standard interface format normally used in SID reporting.

Data from three MFIs, namely Koperasi Sejahtera Bangsaku, Koperasi Mitra Dhuafa, and Koperasi Baytul Ikhtiar could not be included in the study. Some of the most critical data problems from these institutions were:

- Missing information
    - No facility debtor X reference provided – so unable to link facilities to the corresponding debtor
        - No credit/x-ref information provided
        - ID not provided at all for debtor
        - Non-unique ID for facility number
    - File/data structure issues
        - Files don't have column headings
        - Limiter/delimiter issues

- Formatting: Inconsistent month/year combination
- Significant lack of standardized data make quantitative analysis quite difficult.

OVERALL CHARACTERISTICS OF PARTICIPATING MFI's

(a) Outreach

Name of MFIs	MFI ID	Format Supplied	Status	Credit	Debtor	Facility X Debtor
PT. Bina Artha Ventura	9586	excel file (.xlsx)	Compl.	8,433	8,431	8,433
			Compl	170,642	170,642	170,642
PT. Dana Mandiri Sejahtera	9597	Text file (.txt)	Compl	33,276	44,074	33,204
BPR Dana Mandiri Bogor	9589	excel file (.xlsx)	Compl	32,478	32,478	32,478
Koperasi Sejahtera Bangsaku	9591	excel file (.xlsx)	Compl	0	2,701	0
Koperasi Kasih Indonesia	9596	excel file (.xlsx) Own fmt (9flds)	Compl	7,773	0	0
Mitra Bisnis Keluarga Ventura	9587	excel file (.xlsx)	Compl	512,340	512,340	512,340
Koperasi Mitra Dhuafa	9588	CSV file (.csv)	Compl	261,825	251,567	254,261
Koperasi Baytul Ikhtiar	9590	excel file (.xlsx)	Compl	12,745	12,745	0
Koperasi Tudbirul Ummah	9594	excel file (.xlsx)	Compl	519	5,760	0 (519)

(B) Participation in Credit Bureau and Use of Core Banking System

Name of MFIs	SID (Bank Indonesia) Member?	Core Banking System?
PT. Mitra Bisnis Keluarga	N	Y
Koperasi Mitra Dhuafa	N	Y
PT. Bina Artha Ventura	Y	Y
PT. Dana Mandiri Sejahtera	N	Y
PT. BPR Dana Mandiri Bogor	Y	Y
Koperasi Baytul Ikhtiar	N	N
Koperasi Sejahtera Bangsaku	N	N
Koperasi Kasih Indonesia	N	N
Koperasi Tudbirul Ummah	N	N

SUMMARY OF FINDINGS

(a) Caveats

1. The sample of participants is relatively small, so care needs to be taken in extending the results to the entire MFI industry.
2. Also, as we were unable to compare the data with the Credit Bureau data of Bank Indonesia, the Central Bank of the country (*Sistem Informasi Debitur* or SID) (not yet provided to any Bureau within Indonesia, it is difficult to understand the true nature of potential cross-borrowing and potential risk of over-extension in credit).
3. As Indebtedness data was not available one may only infer the risk of over-indebtedness from the cross-borrowing data in the sample investigated.

(b) Overall Extent of Multiple Lending between Participating MFIs Only

The following matching criteria used were used. Match was found when:
1. ID/DOB/Name exact match or
2. ID/DOB exact match, Name near match or
3. ID/Name exact match, DOB near match

No. of Accounts	No. of Entities	%
0	13,949	1.90
1	674,616	92.02
2	43,523	5.94
3	1,002	0.14
TOTAL	733,090	100.00

Note: Data excludes customers of three participating MFIs (due to data deficiencies) and customers of banks reporting to the Credit Bureau of Bank Indonesia (including the largest provider of group loans in Indonesia Bank BTPN Syariah with around 2 million micro-clients). See text for caveats and methodology.

The above table shows the following overlap by account:
- 13,949 entities do not have any account (2%)
- 674,616 entities have only one account (92%)
- 43,523 entities have two accounts (6%)
- 1002 entities have three accounts (0.1%)

No. of MFIs	No. of Entity	%
0	13,949	1.90
1	674,877	92.06
2	43,337	5.91
3	927	0.13
TOTAL	733,090	100.00

Note: Data excludes customers of three participating MFIs (due to data deficiencies) and customers of banks reporting to the Credit Bureau of Bank Indonesia (including the largest provider of group loans in Indonesia Bank BTPN Syariah, with around 2 million micro-clients). See text for caveats and methodology.

The above table shows the following overlap by MFI:
- 13,949 entities do not have any account (2%)
- 674,877 entities have one account with one MFI (92%)
- 43,337 entities have accounts with two MFIs (6%)
- 927 entities have accounts with three MFIs (0.1%)

(c) Extent of Multiple Lending among Participating MFIs (%)

	Total customers	0 other MFI (loyal customer)	1 other MFI	2 other MFIs
Bina Artha Ventura	170,448	82.7	16.7	0.6
Dana Mandiri Sejahtera	33,197	70.6	26.6	2.8
BPR Dana Mandiri Bogor	32,420	77.0	22.9	0.1
Koperasi Kasih Indonesia	7,096	99.9	0.1	-
Mitra Bisnis Keluarga	512,322	91.7	8.1	0.2
Koperasi Tadbiirul Ummah	468	98.3	1.1	0.6

Note: Data excludes customers of three participating MFIs (due to data deficiencies) and customers of banks reporting to the Credit Bureau of Bank Indonesia (including the largest provider of group loans in Indonesia Bank BTPN Syariah, with around 2 million micro-clients). See text for caveats and methodology.

It may be seen from the foregoing results that there is evidence of some quite high percentages of multiple borrowing amongst the participants to the study, ranging from less than 1% to 26.6% for the current participants.

If this percentage is replicated within the wider industry this could infer a risk of cross-borrowing amongst MFI Customers – refer below for comments on the impact of cross-borrowing and suggestions for addressing this issue).

Given the limited size of this sample is recommended that further investigation be carried out to confirm the findings of this report within the wider MFI industry.

In addition, the following recommendations are particularly important:

- Based on the experience of all the participants, a structured and standardized data credit reporting system should be implemented as soon as possible.
- The innovative use of technology and management of information system must be developed in each individual participating MFIs in order to maximize IT capabilities.
- Availability of proven core banking system for each individual participating MFIs must be developed.
- The participating MFIs should note the developments needed in the business environment, especially in the technical side, so that management can exercise meaningful control.

BENEFITS OF CREDIT INFORMATION SHARING

Credit Information Sharing/Credit Reporting is a process where credit providers, such as MFIs, exchange information on their outstanding loans and advances, including loans limit and both up to date and late (overdue) repayment details of their borrowers.

Theoretically, Credit Information Sharing/Credit Reporting improves MFI's knowledge of applicants' borrowing characteristics and permits a more accurate prediction of their repayment probabilities. Credit Information Sharing/Credit Reporting also eliminates borrowers' incentive (ability?) to become over-indebted by drawing loans simultaneously from many MFIs without any of them realizing.

MFIs in Indonesia are normally part of the community, and generally have a good knowledge of their clients. They do not use formal Credit Information Sharing/Credit Reporting, but rather they gather intelligence on their clients' credit history through their social networks and personal relationships with borrowers. They also use a certain code of conduct not to lend to a borrower with more than one loan from MFI.

However, as markets become more competitive, the high-touch lending methodologies based on close knowledge of customers commonly used by MFIs in Indonesia are not sufficient to prevent the risk of over indebtedness.

The benefits of participating in Credit Information Sharing/Credit Reporting often don't appear clearly until cross-borrowing among MFIs' customers become evident. This has been the case in several countries around the world.

If MFIs in Indonesia do not learn from history around the world, they are doomed to repeat it. Microfinance industries of several countries, such as in India, Bosnia, and Guatemala have experienced multiple debt and over-indebtedness problems.

Bosnia's Crisis:

Prior to the crisis in Bosnia, no MFIs were required to report to credit bureau. However, during the 2008 crisis, the Central Bank required all regulated financial institutions including MFIs, to use the Central Bank credit bureau system. In December 2008, there were 392,703 active loans and 554.6 million EUR in portfolio. As of today, there are 12 MFIs in Bosnia with some 249,000 clients and approximately 265 million EUR in portfolio. The portfolio at risk 30 days is 5.8%. The crisis is over.

Guatemala's Crisis:

In Guatemala's Crisis, the study found that after the MFIs began using the credit reporting database, the average percentage of individual loans with at least one late payment decreased from 67.2% for pre-credit reporting loans to 52.8% for post-credit reporting loans.

RECOMMENDATIONS

Clients of MFIs in Indonesia are particularly vulnerable to cross-borrowing and resulting over-indebtedness because of their socio-economic backgrounds, and hence MFIs have a responsibility to protect these clients and to avoid pushing them into a worse position, specifically with respect to the multiple borrowing and avoiding over-indebtedness.

MFIs in Indonesia need to consider reducing the incidence of multiple borrowing, especially in saturated markets. MFIs in Indonesia should ensure the implementation of risk management tools needed to assess the individual's credit risk.

There is today a growing consensus around practices that reduce the risk of multiple borrowings and/or over-indebtedness by the practice of Credit Information Sharing/Credit Reporting with well-functioning credit bureaus. Private Credit Bureaus or some other forms of Credit Information Sharing/Credit Reporting are essential for preventing multiple borrowing turning into over indebtedness by alerting the MFIs to the potential multiple borrowing and/or over indebtedness of prospective clients.

MFIs in Indonesia need to change their operations. They will need new or updated systems to enable them to exchange information with the credit Bureaus. Specialized staff needs to be hired and/or trained using Credit Reporting Systems and communicating data properly. MFIs need to comply with quality standards, because submitting poor quality data can have important consequences. Depending on how the MFIs plan to use credit bureau's products and services, they may need to change their lending methodologies and other operations.

Data for the Credit Information Sharing/Credit Reporting should be made available in a timely manner (Data Timeliness). This timeliness requirement requires the MFIs to update their databases frequently (i.e within a specified number of days after the occurrence of a specified relevant event, or at the end of each billing cycle). Updated data must be provided systematically, usually on a predefined schedule as agreed.

Building the capacity of the above requirement requires human and financial resources.

Those MFIs that are large and sophisticated enough to run core banking platforms have both the requisite management information system (MIS) and appropriately skilled personnel to participate in Credit Information Sharing/Credit Reporting. Those MFIs with highly developed MIS and staff to operate it, participating in Credit Information Sharing/Credit Reporting may require little more than some modest retrofitting. But, a more substantial overhaul of their existing systems and upgrade to back-end processing mechanisms, hardware and software will likely be needed to enable the capacity and processing speeds required to participate in a credit bureau.

For those MFIs that are only semi-automated, or are still using manual systems, there is additional investment needed in an MIS and the personnel to operate it. This, however, in turn, would result in improvement in MFIs operations overall in terms of efficiency, productivity, cost effectiveness, risk analysis, and client outreach.

MFIs in Indonesia have been observed to continually lag behind countries like India, Kenya and the Philippines in leveraging technology to optimize operations. The back office core banking solution or the information system used by MFIs to manage and track client-level transactions and financial accounting are often working fine, but the front-end typically remains paper-based. Very few of MFIs used front-end technology. Front-end technology includes the use of a hand-held device/mobile to digitise the information flow and update records directly to the core banking solution.

These back-end and front-end technology has become increasingly affordable in recent times. Some vendors are even offering their products on shared-basis for the back-end technology. MFIs do not have to invest heavily in the equipment. They are also offering their clients for front-end technology on the basis of "Pay As You Grow".

Disclaimer:

The Indonesian Access to Finance Association (PAKINDO) requested this study in order to investigate the scale of over-indebtedness in Indonesia's micro clients. This interim report has been compiled to provide with important information regarding the number of entities that has multiple borrowing across the MFIs. Every effort has been made to ensure that the information is accurate using what has been made available by the participating MFIs. The recommendations contained in the report are merely informational and not intended as legal/technical advice. No reliance should be placed upon it for making legal, business or other important decisions.

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