

FINANCIAL SERVICES FOR THE POOR

Center of Micro Finance Services

Bina Swadaya

by

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Microfinance Services of Bina Swadaya

- Saving-led Micro-finance, through KSM (1970s)
- Linkage program, PHBK (1988)
- Micro banking, through BPR (1990)
- Credit-led micro-finance, through PKM branches ala ASA (2002)

Weakness of Conventional Microfinance Services

- Do not reach the poorest/women
- Slow growth of outreach
- Bureaucratic and complicated procedure
- Uncertain time, type of services and amount that do not met client needs
- Service sustainability is uncertain
- expensive cost delivery
- Too long for reaching break even point

Innovation of Cost-effective Financial Services

- Modest offices, situated in target group location
- Few staff: no administration staff, cashier and security
- Manual and simple recording model
- Standardize human resources, branches structure, costs, equipments, financial services
- Decentralization of branches
- Quick and cheap recruitment process
- working manual for operation, accounting, and audit
- Very strong monitoring and supervision
- Break-even point is met in 6-9 months
- Financial services is cheap.

PKM Branches of Bina Swadaya

- 1 Branch Manager
- 4-5 Credit Officers
- 1 Office Boy
- Office as service point and living place for staff
- 1 CO visit 3 groups per day, or 18 groups per weeks
- Number of group member is 15-30, 20 people in average
- Average borrower per CO is 397

Criteria For Choosing Working Area

- Many poor families living in the area
- High density
- Transportation infrastructure is usable
- Economically active: production activities and marketing facilities
- Majority of people having low education and sanitation is bad
- Banking facility is available

Target Group Criteria

- Factory workers
- Small farmers (0,25 ha of land or smaller)
- Micro entrepreneurs,
- Family income per month:
 - 1 million rupiah (rural)
 - 2 million rupiah (urban)
- Politically, economically, socially, physically is weak

Group members Criteria

- Women is 95% and men is 5%
- Age is 18-55 years
- All marital status is acceptable
- One man for one family
- No mentally and physically handicapped
- Permanent resident (3 years minimum)
- Acceptance of local community
- Students are not allowed

Group Characteristics

- Having clear common goals
- Having group rules
- Maximum member is 30 people per group, same sex
- Having boards: chairperson, secretary, and cashiers
- No additional services for the board
- Weekly meeting, no more than 1 hours
- Having meeting record and attendance
- CO is attending the meeting for collecting installment and saving

Saving Services

- Saving is done in clients doorstep
- Receiving small amount of saving (USD 0.25 per weeks)
- Competitive interest rate
- Transparent saving record in clients' recording book
- Saving withdrawal can done anytime by keeping 10% of the amount
- Integration of MIS is done daily

Borrowers Criteria

- 90% of attendance in group meeting
- Doing saving 4 times
- Do not borrow from other organizations
- For financing existing economic activities
- Amount of credit appropriate for the business
- Credit record is used for the next credit cycle
- Weekly installment, paid by the business

Borrowing Rules

- Collateral free
- One credit for one person in a year
- Filling simple document and attaching latest photograph
- Credit is given in cash directly to borrower in the branches with no additional fee
- Interest rate is 2,5% flat per months
- Allocating credit risk fee: 1% of the credit
- First credit is Rp 1 million (maximum) can increase in next cycle by Rp 200 – 300 thousands.

Performance of PKM Branches

- Opening year: 2002
- branches: 7
- CO: 24
- Groups are 431; members are 10.065
- borrowers: 9.532; drop out: 3,5%
- Disbursed loan: Rp.17,8 billion; Outstanding Rp.7 billion
- Rate of recovery : 85%
- OSS (June 2004): 422%
- FSS (June 2004): 255%
- Cost per money lent: 0,05

Problems Faced

- The system is not fully accepted and understood by the people
- Urban poor cases
- Growth of the member is too fast
- Chnages of working pattern is not fully adapted by staff
- High turn over staff
- Job values are not well developed