

# **POLICY, REGULATIONS AND SYSTEM SUPPORTING SUSTAINABLE FINANCIAL SERVICE TO POOR COMMUNITY**

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## **A. Introduction**

Poor communities living either in rural or urban areas need loan assistance to create enterprise/trade. The assistance that they need is particularly in the form of skills and marketing. Additional capital will be needed later on to extend their enterprise. To provide capital assistance, the communities need sustainable financial institutions that can be formal or non-formal one. The formal institutions includes commercial banks, BPR\*, and cooperatives. On the other hand, the non-formal or a half-formal ones, that flourishes a lot in the rural and urban areas to serve poor communities inaccessible to formally financial institution, includes NSP, TPSP, KSM, BKD etc.

The commercial Bank that can cooperate directly and naturally with the poor communities is a banking enterprise with extensive networks, skilled and experienced human resources to provide services. One such example is the BPR that operates in regions close to poor communities. The BRI owns the largest networks in Indonesia, namely as many as 4826 branch-offices with 4.049 branches constitute offices of unit BRI that operate at the micro sector only. Since 1984, it has been providing micro credit commercially as much as Rp 101 trillion to 34 million people with outstanding debt as of July 2994 as much as Rp 17,3 trillion to 3,4 million people. On average, every person receives credit as much as Rp 5 millions. In addition, it also distributes credit to special groups living under the poverty line,

with a cumulative amount of as much as Rp 1 trillion to 135.000 groups and the outstanding debt as of July 2004 stood at Rp 219 trillion to 40.000 groups.

Nevertheless, the commercial banks having no programs and policies such as those mentioned above, can also serve poor communities indirectly by financing BPR or any other micro finance institution that lack capital liquidity (supply) to extend their enterprise/trade in distributing capital to poor community. The government can also still encourage the commercial banks to serve the community by creating programs that compel them to distribute credit to poor communities through popular programs such as KUM-LTA, SUP etc.

The formal and semi-formal financial institution serving poor communities are generally micro finance institutions (MFIs) such as BKD, TPSP, KSM etc. Nonetheless, the government has not clearly regulated the existence of these micro finance institutions (MFIs) either by law or state rules up to now.

## **B. The Functions of Micro Finance Institutions (MFIs)**

MFIs function as a mediator between capital owners and the parties that require it at the rural level. Hence, MFIs will be hugely beneficial to the villagers, among other things:

1. Helping the villagers save their financial surplus in MFI for the time being or train them to save money.
2. Providing loans or working capital to farmers, traders, craftsmen or other villagers who want to create an enterprise.

3. Assisting the government to encourage poverty reduction by incurring equal opportunity to create enterprise, providing additional field of work, and endorsing economic growth in the rural areas.

### **C. Initiative to Extend MFI**

Being aware of the benefits of MFIs, particularly non-formal and small-size MFIs that focuses its service on financing poor communities in the surroundings it would be better for the government to issue regulations or state rules that will be able to protect both the existence of MFI and the poor community having direct relation to it. To maintain the existence of the small-sized MFIs, it requires assistance by designating an experienced financial institution to build and supervise the former regularly in order to keep it growing and beneficial to the community.

To maintain and develop non-formal and small MFIs, the financial institution designated by the government has to take steps to construct and supervise MFIs in order that it can promote its ability to serve the poor communities.

The constructive and supervisory steps in supporting sustainable financial services are as follow:

1. To carry out training on saving and credit management regularly to the managing boards of MFI.
2. To direct the managing boards in order to operate MFI in accordance with healthy principles and all activities have to comply with laws or state rules that regulate MFI.
3. To direct the managing boards to arrange an activity program or budget plan consistently in order that MFI can survive, grow and sustain.

4. In distributing credit or loans, it must be based really on the capability of the applicants in repaying the basic loans together with its interests and it should avoid from element of personal or collective interest or others which may damage MFI.

#### **D. The Growth of MFI**

MFIs like BKD can survive and sustain in the rural areas these days. This is due to the role and commitment of BRI as constructor/builder and supervisor that applies business or commercial-oriented approach and trains the managing boards of BKD to be a self-supporting and self-sufficient institution.

These are main principles applied to build BKD:

- Simplicity: the system applied to BKD like product, procedure, accountancy system, as well as supervision is arranged in such a way that it can work simply, efficiently and effectively.
- Access ability: its office is easily accessible to poor people because it is always located amid the rural community as BKD's costumers.
- Demand's driven: the credit and saving's products are designed in such a way in accordance with market's demand.
- Transparency: BKD's management is conducted transparently and openly, all expenses unrelated to loans have to gat approval from BKD's supervisor and builder.
- Cost recovery: all expenses related to BKD's activity must be compensated with the acquired income.
- The board incentive: the salary paid to the commissioners is based on a certain percentage from the basic loan, JTU's incentive and BKD's

commission are paid on the basis of the board's performance so they will compete to enhance it in the hope of receiving more salary and incentive month by month.

- Continual training: the managing boards of BKD consisting of JTU BKD and KOMIS BKD require regular training to promote their skill and ability to serve BKD's customers and raise BKD's performance.
- Supervision: supervisory system is undertaken by the supervisor (MANTRI) at least once a month regularly and continually to see and check BKD's performance whether all members of managing boards have been conducting their parts actively in accord with their respective task and responsibility as well as undertaking healthy banking principles.

#### **E. Obstacles in growing MFI**

Based on BRI's experiences to nurture MFIs, it has found some obstacles which may impede the progress of MFIs. These factors include:

1. Lacking quality of human resources and marketing innovation.
2. The presence of the government programs in the form of assistance.
3. Lacking governmental support both from local and central government as well as local/rural administration towards MFI.
4. The government has not issued yet the laws that regulate specifically the existence of MFI, apart from BPR.
5. Lacking capital.

## **F. Laws/State Rules**

Realizing the benefit and significance of MFIs and the obstacles in surviving as described above, the government needs to issue laws or rules that regulate it and designate the experienced financial institution to be employed in a supervisory capacity and mental building. This is to ensure that the small MFI with non-formal, a semi-formal and formal status can remain to survive and be self sustainable. In turn, this can be really beneficial to the poor communities inaccessible to banking institutions. Eventually, the small MFIs can grow to be the formal one in the form of cooperatives or BPRs.