



Indonesia-Community Development Trust Fund: from Community Driven Development (CDD) Programme to Micro Finance Institution (MFI)

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IORA Sustainable Development Programme Workshop “Promoting Microfinance for Economic Development in IORA Region”
Dhaka, Bangladesh, April, 8-9, 2015

The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. These shapes are primarily located on the right side of the slide, creating a modern, dynamic feel.

Background: PNPM Saving and Lending

▶ PNPM

▶ Community Driven Development Approach



PNPM is one of the government's efforts to accelerate poverty alleviation and unemployment nationally

PNPM is an integration and expansion of poverty reduction programs that is based on community empowerment

Key Characteristics of PNPM



Based on community driven development approach

Provision block grants and technical assistance to the community



Planning, implementation, monitoring and maintenance by the communities themselves

Enhance the capacity of community institutions and local government

Basic Principles of PNPM

- ✓ Focus on Human Development
- ✓ Autonomy and Decentralized
- ✓ Pro-poor
- ✓ Participatory
- ✓ Gender equity and justice
- ✓ Democratic
- ✓ Transparent and Accountable
- ✓ Priority
- ✓ Sustainable



Partisipasi masyarakat sangat tinggi di Desa Ngestirejo Kecamatan Tanjungan

**Basic social and economic infrastructure
development and improvement
(through labor intensive methods)**



**Provision of capital for women's groups
through revolving funds and micro credit**

Type of Activities

Increasing capacity of local economic groups

**Health care and education,
including community skill training
(non formal education)**

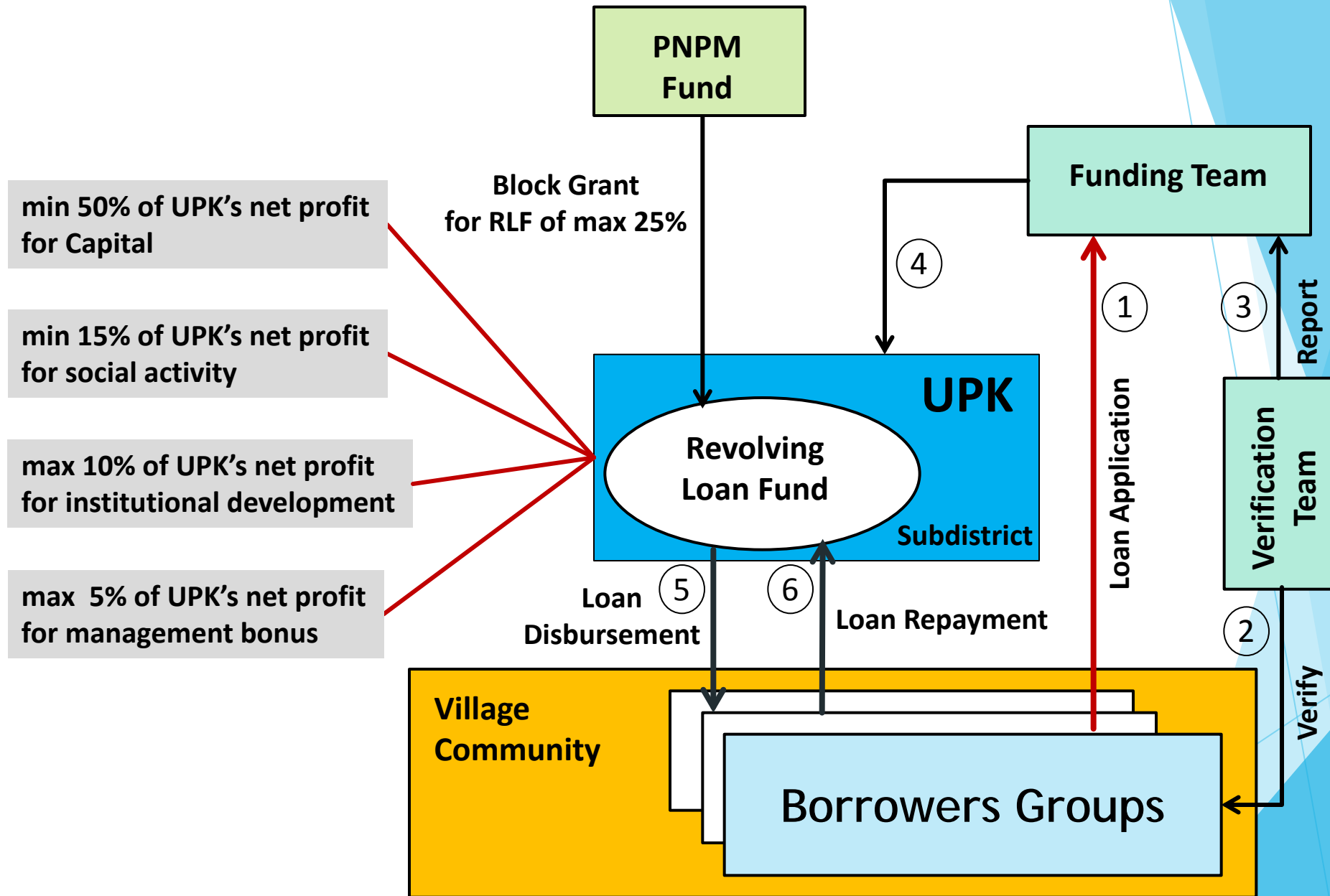


Saving and Lending in PNPM

- ▶ *Ease* ➡ the poor to easily and quickly obtain services without collateral funding needs.
- ▶ *Institutionalization* ➡ funds are channeled through the Women's activities that already have procedures and standard procedures in the simple management of savings and loan.
- ▶ *Empowerment* ➡ the decision making based on the professional judgment by women considering the sustainability and development of the revolving fund to improve welfare.
- ▶ *Development* ➡ every funding decision should be oriented to the income growth of rural communities in economic activity.
- ▶ *Accountability* ➡ managing the revolving fund shall be accountable to the public.

Basic Principles of PNPM Saving and Lending

- All group members are female and know each others among members
- Has certain activities and regular meetings that have been running for at least one year
- Savings and lending activities with rules management funds and loan funds that have been agreed upon
- Has organized group and simple basic administration
- Type : Group lending with solidarity guarantee
- Loan Size : Min IDR 500.000,- average IDR 2.000.000 for each individual
- Tenure : 1 year
- Interest Rate: 1,2-1,5% per month
15-20% of interest in a year given back to the groups with on time repayment



Status, Issues and Challenges

Context

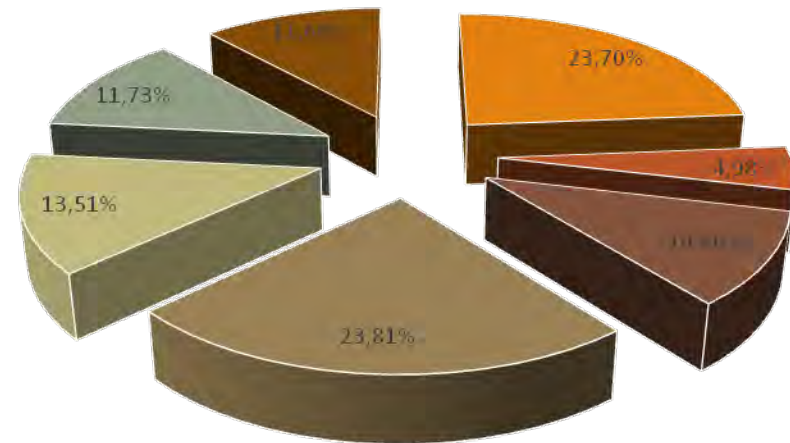
Why is PNPM Saving and Lending so popular?

- ▶ Gap in small credit market: Women group members want Rp. 1-3 million loans but main alternative is Micro KUR (minimum of IDR 5 million)

CDTF was designed as a short-term crisis response mechanism

CDTF fills the credit gap and is very popular

Source of microloan for household (susenas 2012)



- PNPM Mandiri
- Kredit Usaha Rakyat (KUR)
- Cooperative/foundation
- Others
- Other government program
- Bank
- Individual

Current Status

Groups

- > 570,000 (rural)
- > 324,000 (urban)
- Approx. 60% women

Borrowers

- > 6 million (rural)
- > 3 million (urban)
- > 60% women

Profile

- Asset size: \$ 1 billion (rural) and \$300 million (urban)
- Almost half of the assets in Java region (> 40%)
- Assets average > IDR 2 billion per Kecamatan (rural)
- Some of poor beneficiaries
- Small loans, no collateral
- Easier to access than other loan schemes

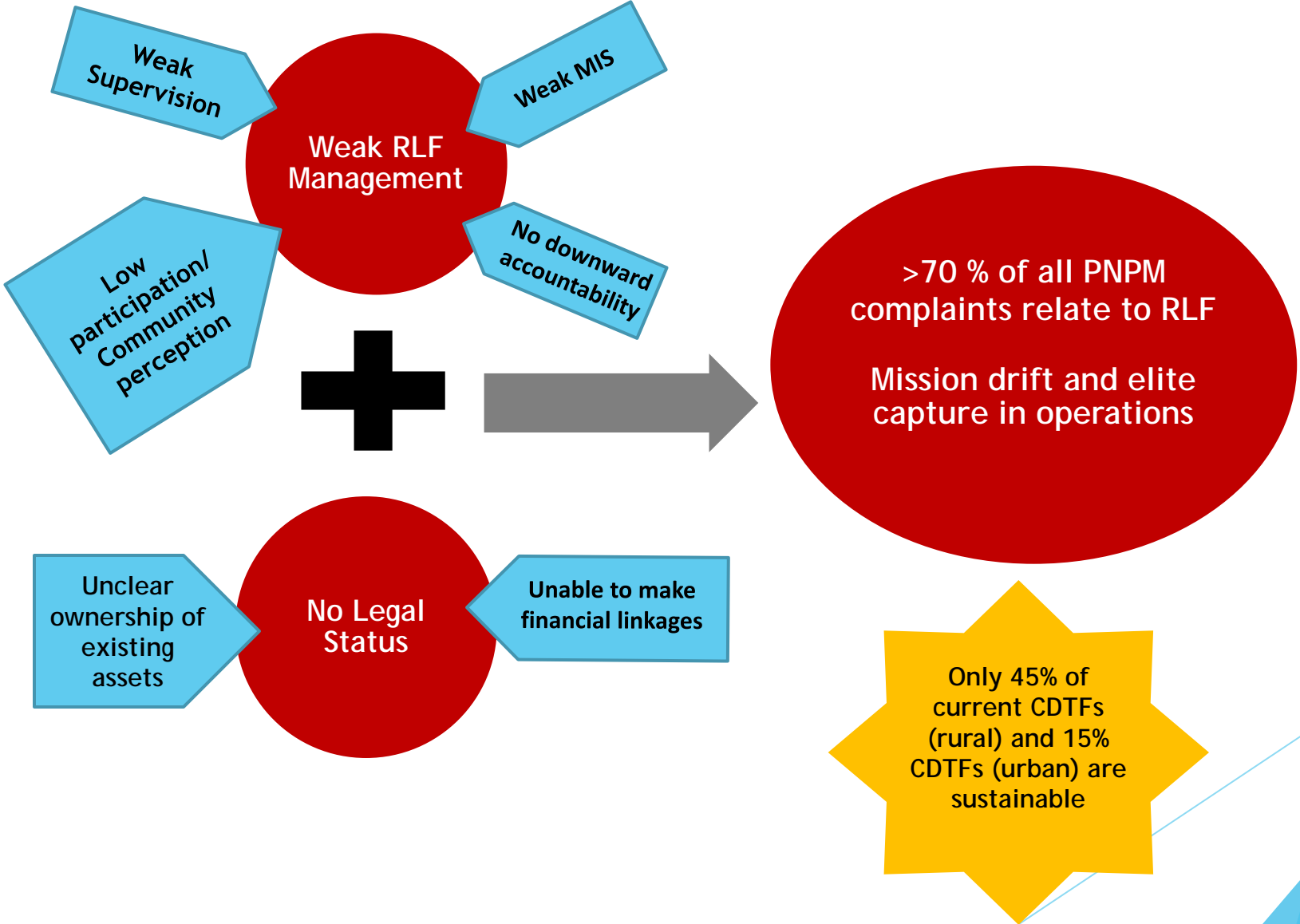
Challenges

- Data - incomplete and often contradictory
- Rural: National NPL = 35%; Idle Funds = 24%
- Urban: National NPL = 50%; Idle Funds = 23%
- CDTF total is BIG but there is significant variance in asset spread

NPL is significantly higher in comparison due to weak verification and poor management

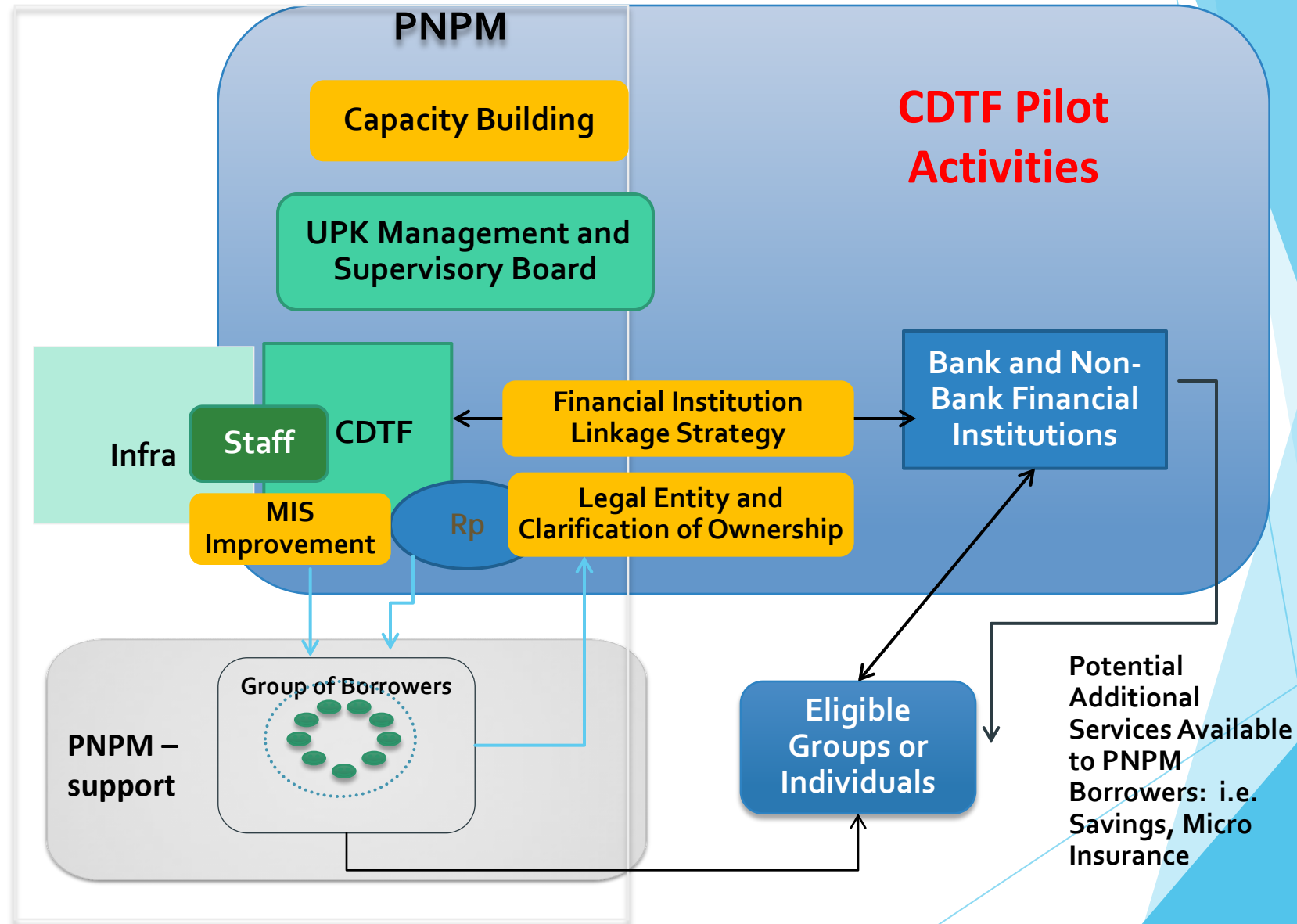
PNPM fills a key market segment for those who don't have access to Bank finance

Issues and Challenges



Going Forward

Government Program - Strengthening of CDTF PNPM Operations (Focus on Institutional Development)



CDTF Potentials

- CDTF reform is in line with Bappenas (Planning Agency) master plan for improving sustainable livelihood program through strengthening access to finance pillar.
- Community Development Trust Fund contributes to financial inclusion and fills an important gap in the microcredit market particularly for women and very popular with communities.
- Legal status of CDTF will adopt existing law (MFI and Cooperative laws)
- The future direction of the CDTF is as a community enterprise with dual socio-economic mandate generating profits to support development of micro-businesses and social orientation for improvement of community welfare.
- The establishment of an appropriate and enabling regulatory and supervisory environment is critical for managing the fiduciary risks and long-term sustainability
- There is a good potential for linkages with financial and non-financial institution under different models (branchless banking, micro insurance, remittance services, CSR, and others).
- Close partnership with Financial Services Authority and Ministry of Cooperative and SMEs for strengthening knowledge center at provincial level for capacity building enhancement program.

CDTF Improvement

- Restructure and improve performance of current CDTF operations through provision of technical assistance and core and additional training.
- Determine the legal structure of the CDTF based on a menu of institutional options that takes into account the institutional capacity of the CDTF and local context and support CDTFs in their transformation to a new legal entity, where appropriate.
- Introduce integrated MIS and prevailing accounting system.
- Link best performers into the commercial microfinance sector to help expand client outreach and sustainability of the microfinance operations.
- Conduct several relevant diagnostic, studies and assessments for CDTF institutional transformation.
- Ensure appropriate socialization, monitoring and supervision system are in place.
- Master plan of CDTF development

Development Framework of CDTF

VISION

Transformation to hybrid micro finance institution to provide service and empower poor community economically and socially by operating legally and sustainably in promoting financial inclusion and to support livelihood activities in rural and urban areas

STRATEGIC PROGRAM

LEGAL ASPECT

- Legal entity (Cooperative or MFI) under direct supervision of OJK, Ministry of Cooperative and local government
- Roles of local government

ACCOUNTABILITY

- Management Information System and data base development
- Full-cost accounting
- Performance rating DAPM (financial and social indicator)
- Audit

PROFESSIONALISM

- Capacity strengthening
- Competency standard and certification of CDTF management
- Incentive scheme
- Governance and code of conduct

SUSTAINABILITY

- Partnerships, linkage (CSR)
- Community sense of ownership and public campaign
- Development knowledge center hubs
- Supervision

*Triple bottom line of CDTF future business model:
Core Commercial, Social, and Fee-based Service*

Thank You

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