



## Promotion of Small Financial Institutions (ProFI) Newsletter

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### New Publications

- **M-Banking Options for the BPR Industry**, ProFI Working Paper, written by Aize Mitha, March 2009
- **Impact Assessment of Training and Certification of BPR Directors in Indonesia**, ProFI Working Paper, written by Prof. Dr. Hermann Waibel and Ashok Malkarnekar, December 2008

Available for download on the ProFI website [www.profi.or.id](http://www.profi.or.id)

### News

#### ■ **Microfinance Reconstruction in Yogyakarta & Central Java**

**YOGYAKARTA** – ProFI established the microfinance reconstruction project as a two-year response to the Yogyakarta earthquake in 2006. The project assisted earthquake-affected microenterprises and low-income households, as well as affected BPRs until September 2008. The ProFI approach comprised a loan fund (EUR 500,000) for on-lending to microenterprises and low-income households, training and technical assistance, and the development of the web-based “Quick Impact Capacity Development and Knowledge Transfer Centre for Microfinance in Post-disaster Environments”.



15 BPRs have disbursed loans to more than 2,000 microenterprises for housing and workshop repair, working capital and investment purposes - with 47% of the borrowers being women. 52 BPRs were trained in loan restructuring, group lending and risk management. A recent impact assessment indicates that BPRs improved their overall performance and increased the number of borrowers. The survey also shows that borrowing microenterprises have been better able to recover than non-borrowing microenterprises.

After completion of the initial ProFI measures in 2008, the multi-donor Java Reconstruction Fund (JRF), which is administered by the World Bank, commissioned GTZ to replicate the approach and broaden its impact. By setting up a loan fund (up to USD 4.8 million) ProFI continues improving access to finance for micro, small and medium enterprises (MSMEs). Technical assistance includes further training on loan restructuring and risk management for BPRs and cooperatives as well as assistance to improve competitiveness and market access for MSMEs.

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#### ■ **Assistance to Bank Indonesia for the Implementation of the Basel II Framework: new studies and experts fund project commissioned**

**JAKARTA** - Bank Indonesia (BI) is planning to gradually implement the revised “Framework for International Convergence of Capital Measurement and Capital Standards (2004)”, commonly known as Basel II. It is hence undertaking a further big step towards the stabilization of the Indonesian financial system. The implementation of the Basel II standards is to be carried out until 2011 and will be supported by ProFI. ►►

▶▶ Basel II guidelines are an important milestone on the path to risk-orientation of both bank management and banking regulation and supervision. Their implementation can significantly contribute to the stabilization of the financial system and to the strengthening of the private sector. Bank Indonesia has developed a roadmap for the implementation of Basel II guidelines, which, in line with the three-pillar model of Basel II, targets the following areas: 1) Determination of new capital adequacy standards for banks, 2) Improvement of supervisory processes to assess the quality of banks' internal risk-management processes and 3) to increase market transparency through enhanced disclosure requirements.

The overall target of the current project is to strengthen the capacities of Bank Indonesia with regards to the adaptation of the regulatory and supervisory framework to the Basel II guidelines. The project allows for close cooperation with the German Central Bank and the German financial services supervisory body (Bundesanstalt für Finanzdienstleistungsaufsicht).

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### ■ Loan pricing and portfolio planning for BPR



**JAKARTA** – In June of 2008, ProFI conducted research on BPR loan pricing, efficiency and outreach. The study of 60 BPRs in West Sumatra, Yogyakarta, and West Nusa Tenggara provided the starting point for the development of a management instrument for loan pricing and portfolio planning. Through target-specific and integrated planning the instrument is expected to contribute to the improvement of BPR efficiency and outreach.

The management instrument has been developed as a simulation tool. It is based on the parameterization of key variables, the differentiation of the loan portfolio by credit product type as well as an underlying efficiency model. The instrument includes an easy-to-use loan interest rate calculator, a management tool for interest rate risks and early warning features. In March 2009, it was introduced

for pilot testing at a workshop with representatives from Bank Indonesia and seven BPRs.

The differentiation of the loan portfolio according to loan product type and loan size allows for the detailed simulation of different loan portfolio compositions and their resulting profit estimations. Here the interest rate calculator enables the creation of product specific interest rate scenarios. This permits a more accurate portfolio planning compared with the frequent practice based on individual market judgement.

The early warning feature of the management tool uses a stress scenario template to predict key parameters in extreme conditions. In addition to the usual ratios, parameters which can be predicted for this purpose also include competitiveness. This is incorporated among others through the consideration of the number of competitors in the region and the number of villages. The options for expanding outreach are thereby visualized.

The management instrument can contribute to the improvement of BPR operations by enabling the detection of inefficiencies, for example in the productivity of account officers. It can also serve to simulate the effects of changes in key variable on target indicators.

ProFI will shortly expand pilot testing to additional BPRs in West Sumatra.

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### Branchless Banking

Enabling new banking channels which make basic financial services more accessible for the un-banked poor is a frontier issue for policy makers and practitioners alike. Key barriers to the broadening of financial access for low income clients are high transaction costs and lack of information regarding poor clients. Technological innovation promises new business models and delivery channels that will overcome these barriers. In this context the term “Branchless Banking” has been coined, referring to the provision of banking services outside traditional ‘brick and mortar’ branches. It is considered a viable instrument for a variety of innovative as well as improved services for both new and existing MFI clients. Usually branchless banking implies the use of information and communication technology (ICT) as well as non-bank agents. The term Branchless Banking encompasses approaches of Agent Banking as well as Mobile Phone Banking (M-Banking).

These approaches make use of information and communication technologies (ICT) as a basis for transmitting transaction data between customers, financial service providers, retail agents and third parties. Devices used are mainly mobile phones and card-based electronic data capture systems (EDC) connected to the financial service provider using a phone line, wireless or satellite technology. Agents can be post-offices, supermarkets, gas-stations or any other local merchant equipped with a point-of-sale (POS) terminal.

From a regulatory point of view, branchless banking is a challenging issue as several regulatory domains come into play. These are sometimes overlapping or even contradictory, and in some cases grey areas exist. Important aspects to be considered include customer identification processes and anti-money laundering, the use of agents for cashing in and cashing out as well as data security, interoperability of technologies and competition. In order to analyse the current policy environment in Indonesia, CGAP, IFC and GTZ recently conducted a diagnostic study (forthcoming, CGAP).



Around the globe, different branchless banking models can be identified. In Brazil, banks have established more than 95,000 banking outlets that consist of local merchants, post offices, and lottery dealers equipped with POS terminals. These provide access to financial services for 1,600 Brazilian communities which have lacked financial access in the past. In the Philippines, GCash, initiated in 2004 by Globe Telecom, operates through a mobile wallet that offers services such as mobile bill payments, peer-to-peer transfers, sending and receiving remittances, topping up airtime and retail purchase payment. At the beginning of 2008, GCash had over 1 million subscribers, out of which 500,000 were active users. GCash has also actively engaged in partnerships with rural banks. At the end of 2008, more than 40 rural banks with more than 400 branches were accredited outlets. Another successful example, M-PESA, was initiated in 2007 by one of Kenya’s leading mobile network operators, Safaricom. M-PESA’s electronic wallet offers electronic services such as bill-payments, peer-to-peer transfers, and topping up airtime. M-PESA today has more than 5 million registered users and is handling approximately 160,000 peer-to-peer transfers per day.

ProFI has recently conducted a study on M-Banking options for the BPR industry. Based on the findings, pilot testing of promising approaches is currently being prepared together with industry stakeholders.

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