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Q1: Respondent details

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Q2: Country or Customs territory

- MULTILATERAL OR REGIONAL DEVELOPMENT BANK

Q3: Organization

Public sector

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Q4: Title of case story

Microfinance in Indonesia: Bringing Banks into the Community

Q5: Case story focus

Infrastructure upgrading and the development of related services markets, including through support for investment climate reforms.

Q6: Case story abstract

The project was aimed at supporting the Government of Aceh and the Government of North Sumatra in developing integrated support to improve access to finance in Aceh and Nias. On the supply side, the project (i) provided support to enhance the capacity of the governments in Aceh and North Sumatra in managing the Micro-finance Rollover Fund (MRF); (ii) assist local banks to develop new microfinance products, including Gremeen-type products and suitable follow-on products, and (iii) support the Government of Aceh to develop sustainable Local Guarantee Cooperation to facilitate credit access of feasible borrowers. From the demand side, the project provided assistance, on a pilot basis, to the cluster of potential borrowers/producers to make them more bankable for more financial products. To encourage and sustain knowledge development in this area in the two provinces, the project involved local universities in the survey and training activities.

Q7: Who provided funding?

Multilateral organization

Q8: Project/Programme type

Single country

Q9: Your text case story

On Batang Kuis Road in Indonesia's North Sumatra, as cars and motorcycles whiz by, restaurant owner Siti is busy making one of her popular fried dishes that attract weary motorists and nearby residents alike.

"The restaurant was not like this before," she says. "I began this place only as a small shack in which I sold cold ice tea to students.

Realizing the opportunity, Siti sought ways to offer more food products and add space so that customers could sit and eat. One neighbor introduced the mother-of-two to the microfinance program run by government-owned Bank Sumut. She took out a small loan to buy cooking equipment that allowed her to expand her operation to include selling food.

Siti, who like many people in Indonesia uses only one name, is part of the microfinance program administered by Bank Sumut. The program started off as a livelihood restoration component of ADB's Earthquake and Tsunami Emergency Support Project, initiated in response to the 2004 disaster.

Microfinance for women

Modeled after Grameen Bank's pioneering microfinance program, Bank Sumut provides small loans to groups of fifteen to twenty women, most of them homemakers who operate small businesses. The loan is repaid through small weekly payments and larger loans after offered after each previous loan is repaid. The bank charges minimal interest from the loan but the large base of borrowers makes it profitable.

"Back in 2005, microfinance was a new endeavor to all of us," recalls Abdul Hamid, a Bank Sumut executive who manages the microfinance business. "For the banks, we were used to waiting at the banks' counters and waiting for potential borrowers to come. At the same time from the demand side, housewives were still not confident about borrowing money from banks."

Wiwik is one of them. Back in 1994, the young lady from Batang Kuis village learned how to sew and two years later she bought her first sewing machine and started a home-based tailoring business. For the next 15 years, she worked by herself with one machine, sewing for neighbors who needed new dresses for special occasions.

"I just never had saved enough money to buy new machines and equipment," she says. "I knew there were banks that provided loans, but I was scared. I had never been to a bank in my life. What if I could not repay the loan?"

It turned out that Wiwik, who uses one name, did not have to go to the bank to get her first loan. Together with the other housewives from her neighborhood she was invited to gather in a community area where a loan officer from Bank Sumut gave a presentation on the microfinance program.

"After hearing the clear explanation from that officer I became convinced that the program would not be a burden for me," she says. "The weekly payment was very small. I was confident I could make it."

Today, Wiwik has five sewing machines and other equipment. She employs some of her neighbors. "Thanks to the program, my tailor business is now growing, and it benefits not only me and my family, but also my neighbors."

Wiwik also offers fabric for sale at her shop. "People can come, choose whatever fabric and styles they want, get measured, and go home. In two to three weeks, they return and the dress is ready."

Currently in the process of applying her fifth microfinance loan, Wiwik says that what makes her comfortable with the program is the fact that borrowing is done in groups. That way, each borrower has a sense of communal responsibility towards the group. "There are moments where business is slow, of course," she said. "But the good thing about being in the group is that we can share and support each other."

Finance that changes lives

After ADB's Earthquake and Tsunami Emergency Support Project ended, the microfinance component took on a life of its own, with Bank Sumut taking the lead in expanding it. ADB continues to provide technical assistance to help local banks in the region develop microfinance products and assist people in financial literacy.

Mr. Hamid says that the microfinance program benefits not only people like Wiwik and Siti. It is also a morale booster for the bank. "The ground staff like me feel that we are not selling products. We are helping our people improve their lives."

For Siti, she has gotten busier since she took her first loan years ago. She has expanded the premises to make customers more comfortable. She also offers more varieties of meals, including her popular crispy chicken and fried catfish.

"I heard from my customers that some of them drive from another city just to taste my fried catfish," she says with a laugh.

Q10: Lessons learnt

Respondent skipped this question
