

# People, MFIs, Countries in Focus

## Indonesia



Indonesia, officially the Republic of Indonesia, is a country in Southeast Asia and Oceania. Indonesia comprises 13,466 islands and 33 provinces. Indonesia has a total area of 1,919,440 km<sup>2</sup> and a population of 237,6 million (2010) people.

Across its many islands, Indonesia consists of distinct ethnic, linguistic, and religious groups. The Javanese are the largest—and the politically dominant—ethnic group. The official national language, Indonesian, a form of Malay, is universally taught in schools, and consequently is spoken by nearly every Indonesian. Although it is not an Islamic state, Indonesia is the world's most populous Muslim-majority nation, with 86.1% of Indonesians being Muslim according to the 2000 census.

Indonesia has developed a shared identity defined by a national language, ethnic diversity, and religious pluralism within a majority Muslim population. Indonesia's national motto, "Bhinneka Tunggal Ika" ("Unity in Diversity" literally, "many, yet one"), articulates the diversity that shapes the country. Despite its large population and densely populated regions, Indonesia has vast areas of wilderness that support the world's second highest level of biodiversity.

Indonesia is a founding member of ASEAN and a member of the G-20 major economies. The Indonesian economy is the world's eighteenth largest economy by nominal GDP and fifteenth largest by purchasing power parity. Indonesia has extensive natural resources, including crude oil, natural gas, tin, copper, and gold. The country has a mixed economy in which both the private sector and government play significant roles. The industry sector is the economy's largest and accounts for 46.4% of GDP (2010), this is followed by services (37.1%) and agriculture (16.5%).

Despite some significant challenges country have in implementing labor, infrastructure and general regulatory reforms Indonesia continues to post significant economic growth. The national economy is expected to grow by 6.4 percent in 2011 and increase to 6.7 percent in 2012. The country's gross national income per capita has steadily to rise from \$2,200 in the year 2000 to \$3,720 in 2009.

In terms of macroeconomic stability, Indonesia has managed to fulfill many of its fiscal targets, including a significant drop in Debt-to-GDP ratio from 61 percent in 2003 to 27.5 percent in 2009. Meanwhile, the budget deficit is projected to be as little as 0.4 percent of GDP in 2011.

Indonesia has formulated a long-term development plan which spans from 2005 to 2025. It is segmented into 5-year medium-term plans, each with different development priorities. The current medium-term development plan covering 2009-2014 is the second phase and focuses on promoting quality of human resources, development of science and technology, strengthening economic competitiveness.

More than 32 million Indonesians currently live below the poverty line and approximately half of all households remain clustered around the national poverty line set at around \$22 per month. Indonesia was one of the first countries to develop commercial microfinance in Asia, with regulated financial institutions providing the bulk of microfinance services throughout the archipelago. In addition to the success of commercial microfinance providers, Indonesia has also been a favorable ground for the development of numerous subsidized government programs, local and community-based financial institutions, cooperatives and NGOs.

### **Mitra Bisnis Keluarga Ventura (MBK),**

#### **Tangerang, Indonesia**

"Mitra Bisnis Keluarga" (MBK) – which stands for "Family Business Partners" aims to provide access to working capital to significant numbers of low-income households in Indonesia, particularly in rural areas and small towns, in an honest, timely and efficient manner. MBK's mission is to raise the income and living standards of significant numbers of the bottom 25% of households by income in Indonesia. MBK's medium-term goal is to reach one million clients by 2012-2013. MBK endorses the Smart Campaign and reports regularly to the MIXMarket using the Social Performance Standards Reporting format.

MBK was founded in 2003 and originally operated as the Ganesha Microfinance Foundation. In 2006 MBK obtained operating license of a non-bank financial company regulated by the Ministry of Finance. MBK operates on the island of Java, where 70% of Indonesia's population resides, via 170 branches. Using the Grameen group lending methodology MBK has a simple product offering comprising solidarity group loans and compulsory savings.

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MBK focuses exclusively on the bottom 25 percent of the households. MBK provides financing for the clients working capital needs. The first working capital size ranges from Rupiah 200,000 to Rupiah 500,000 (\$22-55), to be repaid in 50 weekly installments in weekly center meetings. There is no collateral for the loans. However, center members are encouraged to provide support and assistance to others when in need.

MBK's current total lending activity is about 75%, it has 211,155 clients - active borrowers (100% are women borrowers) and its average credit per borrower is \$79 (as of 31.12.2010).

MBK plans to launch an individual loan product for new and graduating clients requiring sums greater than those offered by group loans but smaller than those offered by other financial services providers.

Vision Microfinance Fund has started to work with MBK in 2011 and has provided the MFI with a direct loan for the amount of equivalent to around \$1m.

### ***Mrs. Nurhayati, Micro-businesswoman,***

#### ***Indonesia***

Nurhayati lives in a one-room wooden house with her three children aged from 6 to 15 and her husband. The walls are made of woven bamboo, the floor is partly cemented, there is no running water, and cooking takes place in a small wood stove outside the house.

Nurhayati's village is located about two hours from Jakarta, and one hour from the district capital Tangerang. Yet she has never visited either city, nor has she ever ventured to the sub-district capital and nearest market town Kampung Melayu where the only bank is located. Nurhayati had to leave primary school after grade three. Now aged 34 and illiterate, Nurhayati supports herself and her family by preparing food at home and selling it in the village. She wakes up at 5 in the morning, prepares breakfast and readies the children for school. She then cooks the fried rice for sale and sets out with it on a large tray on her head. She sells this door-to-door. She returns home at around 11 am, sweeps the house and washes the family's clothes. In late afternoon, she prepares the evening meal for her family. For all her efforts, Nurhayati earns Rupiah 10,000 or around \$1 a day.

Her husband is a landless laborer, a seasonal occupation. When there is no work in the rice fields, he drives a pedicab which he does not own, earning around Rupiah 15,000 per day, after paying rent to the pedicab owner. The total family income comes to Rupiah 650,000 per month (\$65) or Rupiah 130,000 per capita per month for this family of five, well below the official poverty line of Rupiah 200,000 per capita per month, adjusted for inflation (US 66 cents per capita per day, unadjusted for purchasing power parity).

Nurhayati and her husband could earn more income, but the family's working capital amounts to just Rupiah 200,000 or \$20 in all. After joining MBK and borrowing Rupiah 500,000 or \$50, Nurhayati was able to invest Rp 250,000 in day-to-day goods which she sells on a table in front of her house in the afternoon. Her husband used the remaining half of the working capital to put a down-payment on a used pedicab. The family income soon rose to Rp 1 million per month, enabling the family to cross the poverty line. This is after paying the weekly working capital and interest installments as well as the installments on the pedicab. With continued access to working capital at its doorstep, Nurhayati's family will remain above the poverty line.

Source: The World Bank; MBK Ventura; BWTP; Symbiotics.



Photo: MBK Ventura

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