

WATER FOR EVERYONE

Response to an article by Elizabeth Littlefield, CEO of CGAP, titled "Water, water, everywhere"

Naturally, most developed civilizations were built near riverbanks. The reason is simple; people need water for their daily activities, transportation, and most important thing: food. Water was not for everyone; water was for the one who were able to control the river. In modern times, there are systems such as irrigation and dam to ensure that more people will have also an access to the water. Though the problem of water distribution is always there, the effort of humankind to distribute the water to everyone is never ended.

It is a fact that micro finance as an effective tool has been developed, globally widespread and attracts many parties to jump in the bandwagon. A lot of success stories have been articulated and distributed, but at the same time a lot of criticisms have been raised on some aspects of micro finance development such as effectiveness, ability in reaching the poorest, impact on poverty at national level, etc. One of the problems that addressed by many micro finance practitioners is the fact that there is a significant gap between the need of capital of grass root based and national based micro finance institution (MFI) and the lack of channeling and distribution of the fund owned by of many socially responsible investors (SRI) for micro finance activities though there are great willingness and eagerness from them. I want to elaborate and proposing some thoughts on the issue using three perspectives: demand side, supply side, and relation between these two sides.

DEMAND SIDE

On demand side, it is already known that in many developing countries, vast majority of the people is excluded from formal economic and financial system. In Indonesia for instance, 34 million out of 36 million economic actors considered as informal or micro entrepreneurs that do not have any legal attributes. They have to live outside the system and deal with all limitations, discriminations, poor conditions and facilities relate to it. Responding the situation, they developed their own economic system including financial system that in modern times known as micro finance. It is the context in which many grass root and national MFIs develop and run its operation and services.

Micro finance development at grass root level can be seen as effective to empower the poor using two indicators: number of clients and progress of accessed services. Micro finance can be judged make a progress only if it can expand the client (outreach) and reaching lower layer of the poor or hardcore poor. It can also be

acknowledged as effective only if the poor continuously came to access vary financial services and the amount they asked is increasing by time.

There are some characteristics of the demand side:

- A huge number of potential clients. The fact that vast majority of economic actors unable or at least facing difficulties in accessing formal financial services create them as potential clients for local MFIs.
- Having special systems and procedures. Local MFIs serve clients that have specific conditions that have to be adapted to make micro finance activities work. Application more advanced and modern financial technologies must be put in local contexts, otherwise it will not work.
- Rational actions. The poor is rational, therefore they only want to ask loan if they know they have the ability to repay the loan and the ability usually relate to the progress of their business. If the condition is possible, they prefer to save than to borrow a loan.
- Relation with structural problems and policies. Micro finance in many developing countries can be seen both independent and dependent. It is independent in the sense it does not need any government assistance to run, it is also dependent in respect can be heavily affected by government intervention. In the case of Indonesia, the intervention of government using heavily subsidized credit ruined existing micro finance mechanism at grass root level.

SUPPLY SIDE

There are at least three categories of parties that want to involve in micro finance investments, they are multilateral institution, bilateral institution, and foundation as first category, commercial investors as second category, and socially responsible investors (SRI) as third category. Foundation, multilateral and bilateral institution involvement in micro finance investment usually relates to their development aid and poverty eradication activities, World Bank, ADB, IDB, and such are the main proponents. Commercial investors want to invest in micro finance activities on the basis of the fact that micro finance having potential to generate significant profit. The third category, SRI, basically combine the intention of the former second categories, doing commercial investment that also containing social dimension.

There are two characteristics of the three entities:

- Caused by legal and regulatory framework applied to them, they have to operate in legal acknowledged bases.

- They manage relatively a huge amount of money and caused of that they tend to invest in also a very significant amount with less partners.

RELATIONSHIP BETWEEN DEMAND AND SUPPLY SIDE

In an ideal market mechanism, demand will meet with supply and the balance of power involve in it will create the agreed rate. There are requirements to make the mechanism works: level of playing field that should same, access of information to and from both sides equal, and existence of legal and regulatory framework or rule of the game that allowed transactions happen.

The problem of facilitating demand side and supply side of micro finance is the difference of level of playing field in which one side works in grass root level with all attributes attached with it and on the other side, other parties work in national and mostly global level with all related condition.

Indonesia faced a challenge in which informal micro finance facing problem of liquidity caused demand of credit is much more than demand of saving. People tend to save their money in bank but borrowing loan from informal micro finance. Answering the challenge three leading institutions i.e. Bank of Indonesia, Indonesian People Bank (BRI), and Bina Swadaya developed an approach called Linking Bank and Self Help Groups Program (PHBK). The program had an intention to channel fund owned by the bank to informal micro finance institution (self help groups) using non-government organization (NGO) as intermediary actor. The program consistently showed high performance, during the economic crises the repayment rate never below 95%, but since the government followed by Bank of Indonesia and BRI lost their interest in the program, scaling up of the program never been done.

Access of information became a strategic issue since many of micro finance investors especially SRI willing to adapt to conditions and practices of MFI. On the other side, many MFIs have the capacity to adjust with requirements and conditionality asked by micro finance investors.

Indonesia Movement of Micro finance Development (Gema PKM) is a network of micro finance stakeholders in Indonesia, recently the movement facilitated cooperation between one of government bodies (BKKBN) that have a significant number of SHG and fund that intended for micro finance with some MFIs that one of them is BMM MFI. In past years, BKKBN tried to conduct micro finance activities by themselves though the activity is far beyond their original mandates that are family

planning and reproductive health. Repeated failure such as low repayment rate leads them to find partner in conducting the activities.

On the other hand, BMM MFI was formed by a group of people come from middle class that believes they can help the poor in sustainable manner and they believed micro finance is a right approach. They developed very efficient methodology that required only 3 people to cover nationwide area and the program is recorded more than 98% repayment rate. Problem they faced is that their ability to mobilize fund is far below demanded fund.

Using Gema PKM facilitation, the two institutions can work together, in which BMM MFI manage BKKBN fund to provide micro finance services especially for BKKBN target groups.

The existence of legal and regulatory framework that facilitate the cooperation between the demand side and supply side became very important since in the case of Indonesia, many of micro finance activities in many developing countries considered as outside formal economic system and judged to practices illegal banking activities. The lack of legal acknowledgement make existing MFI unable to access fund offered by micro finance investors and vice versa. To overcome the problem, some countries applied the concept of whole seller that done through establishment of whole seller institution sponsored by government or NGO that will deal with micro finance investors and channel it to MFI. The next problem is the willingness of micro finance actors to establish the whole seller institutions and how effective is the institution.

It is clear that unlike water that tends flowing to the lower land, money tend to flow in opposite direction. Just like water only can be available for everyone if it manages in certain order, finance also only can be available to the people especially the poor if the proper management and arrangement has to be taken and it is our mission.

Jakarta, end of February 2002
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