

Feature Story

Grameen's pioneering work touches lives in Aceh

In October, Muhammad Yunus from Bangladesh was awarded the Noble Peace Prize for his pioneering microfinance work with the Grameen Bank.

Currently there are several initiatives in Aceh to introduce the microfinance method Mr. Yunus employed at the Grameen Bank, and one of the most prominent is initiated through the Asian Development Bank's Earthquake and Tsunami Emergency Support Project (ETESP) grant.

In May 2006, ADB and the BRR established the \$8.5 million Microfinance Innovation Fund



(MIF). A major portion of this fund would be used to capitalize licensed financial institutions to enable them to extend microfinance to the poor in Aceh and Nias.

Said Faisal, BRR's Deputy for Economic Development, has high hopes for MIF.

"Through MIF, BRR hopes to expand the micro and small enterprises in Aceh and provide the poor with better access to formal financing."

Financial institutions that receive financing from

the MIF are required to strengthen their capacity by undergoing extensive trainings and management upgrading, separately financed by ADB. They must also meet financial and operational benchmarks and achieve outreach targets.

The grameen approach has seen many successes in Java but Elfi, SE, CEO of Bank Baiturrahman, a rural bank that operates in Ajun, Banda Aceh, was at first skeptical that it would succeed in Aceh.

"Javanese and Acehese cultures are different," he said. "I really thought it wouldn't be a success here."

His mind changed after a study visit to BPRs in Semarang, Central Java and Yogyakarta.

"By strengthening the group, risks are mitigated. And the fact that the groups consist of women, I thought risks are mitigated even more. I became an enthusiast."

Banks have been advised to take a phased approach. Thus, each group consisting of 8 women borrows Rp. 4 million in the first stage. The group pays this loan back in 17 weekly installments with average interest rate of 2% per month. The loan allows recipients to enhance their inventory or supply of raw materials.

"My capital was limited, so I could not stock supplies," said Siti Affah, 47, a mother of seven. "So, when there's a special order, I often had to say no. Not enough fuel and not enough rice flour. This loan allows me to stock. Also, since you have to stay in line for quite a bit of time to buy subsidized fuel needed to cook, I used to lose precious time. By stocking, I save on such wasted time and can produce more."

Siti produces *karah*, a traditional Aceh cake that she sells in the market in Lambaro, Aceh Besar. Before borrowing from Bank Baiturrahman, Siti sold 200 cakes on average, whereas now she sells at least 250. She reckons her income could increase by 20% as a result.

"After paying off this first loan, I hope to borrow

more to increase capacity to produce," she said.

Pieter Smidt, Head of ADB's office in Medan, sees a future for microfinance in Aceh. He points out that there are 342 outlets in East Java alone, whereas Aceh only has 20, including 12 units owned by the provincial government that are in weak financial condition.

ADB has reached agreement with the

provincial government of Aceh and BRR to strengthen these 12 banks.

Mr. Elfi, however, also sees big challenges in the near term. "There are too many grants floating around. Some grants give more than Rp. 50 million to a single recipient. This is not sustainable. We believe we are the sustainable alternative but we can only take off after the grants are phased out."