
FOREWORD

The microfinance industry has evolved significantly over the past two decades. However, the outreach of the industry remains well below its potential in the Asia and Pacific region. If the full potential of microfinance for poverty reduction is to be realized, it is essential to expand its outreach substantially. It is in this context that commercialization of the industry has become a subject of in-depth study. Although many industry stakeholders appear to believe firmly that commercialization is necessary, there is inadequate understanding of the complex process of moving toward a sustainable microfinance industry with a massive outreach.

The Microfinance Development Strategy of the Asian Development Bank (ADB), approved in June 2000, provides a framework for supporting the development of sustainable microfinance systems that provide diverse, high-quality services to traditionally underserved low-income or poor households and their microenterprises. One element of this strategy is support for development of viable microfinance institutions that can set in motion a process of commercialization of microfinance services. As a first step, ADB approved in November 2000 a regional technical assistance project on Commercialization of Microfinance, to improve understanding of the process of microfinance commercialization as well as its challenges, implications, and prospects. The project, which was financed from the Japan Special Fund, has three components: country studies on microfinance commercialization, in-country workshops to discuss the country studies and specific institutional experiences, and a regional workshop to discuss each country study and institutional experiences in a comparative context.

The countries chosen for study—Bangladesh, Indonesia, Philippines, and Sri Lanka—represent different stages of development and commercialization of the microfinance industry.

The Indonesia country study was carried out by Stephanie Charitonenko of Chemonics International, Inc. and Ismah Afwan, an independent consultant. Their report, presented here, was first presented at the Country Workshop on Commercialization of Microfinance, 12–13 March 2003, Mulia Hotel Senayan, Jakarta. Workshop participants provided valuable input to refine the report and improve its relevance.

This publication is one of a series of papers resulting from the project. The series comprises four country reports (on Bangladesh, Indonesia, Philippines, and Sri Lanka, respectively) and a regional report covering these countries.

It is hoped that this publication series will contribute to a better understanding of the issues involved in commercialization of microfinance and lead to better approaches toward a sustainable microfinance industry that will provide a wide range of services to low-income and poor households not only in the Asia and Pacific region but also in other regions.

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ABBREVIATIONS

ADB	Asian Development Bank
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> , or National Development Planning Agency
BI	Bank Indonesia
BDB	<i>Bank Dagang Bali</i>
BKD	<i>Badan Kredit Desa</i> , or village credit organization
BK3I	<i>Badan Kredit Koperasi Kredit Indonesia</i> , or Credit Union Coordination Board of Indonesia
BPD	<i>Bank Pembangunan Daerah</i> , or regional development bank
BPR	<i>Bank Perkreditan Rakyat</i> , or people's credit bank
BRI	<i>Bank Rakyat Indonesia</i> , or People's Bank of Indonesia
CAMEL	Capital, Asset, Management, Equity, and Liquidity
GDP	gross domestic product
GEMA PKM	<i>Gerakan Bersama Pengembangan Keuangan Mikro Indonesia</i> , or Indonesian Movement for Microfinance Development
GTZ	German Agency for Technical Cooperation
HIID	Harvard Institute for International Development
IBRA	Indonesian Bank Restructuring Agency
KSP	<i>Koperasi Simpan Pinjam</i> , or savings and credit cooperative
LDKP	<i>Lembaga Dana Kredit Pedesaan</i> , or rural fund and credit institution
LPD	<i>Lembaga Perkreditan Desa</i> , or Village Credit Institution
MFI	microfinance institution
NBFI	nonbank financial institution
NGO	nongovernment organization
P4K	<i>Proyek Peningkatan Pendapatan Petani-Nelayan Kecil</i> , or Small Farmers' Income Generation Project
PP	<i>Perum Pegadaian</i>
ProFI	Promotion of Small Financial Institutions project (GTZ)
RIGP/P4K	Rural Income Generation Project, 3 rd phase of P4K
UNDP	United Nations Development Programme

USP	<i>Unit Simpan Pinjam</i> , or savings and credit unit
USAID	United States Agency for International Development

CURRENCY EQUIVALENTS
(AS OF MAY 2003)

Currency Unit	–	Rupiah (Rp)
\$1.00	=	Rp9,000
Rp1	=	\$0.0001

PREVIOUS YEARS

	Year-End	Year Average
1992	2,067	2,033
1993	2,102	2,089
1994	2,199	2,163
1995	2,287	2,247
1996	2,344	2,329
1997	3,646	2,776
1998	8,000	10,248
1999	7,100	7,787
2000	9,675	8,527
2001	10,400	10,271
2002	8,940	9,318

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December. In this report, “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2000 ends on 31 December 2000.
- (ii) In this report, “\$” refers to US dollars.