THE FOUNDATION FOR DEVELOPMENT COOPERATION

Remittances, Microfinance and Information Technology (REMIT): Investigating the Potential for Poor Communities in East Java

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EXECUTIVE SUMMARY

Following a 2004 workshop organised by the Foundation for Development Cooperation (FDC) a project framework for the *Remittances, Microfinance and Technology (REMIT)* project was jointly developed by FDC and IFAD.

The goal of the REMIT project is to better understand the flow of remittances to East Java from international and domestic sources which will assist families and communities participating in IFAD's PIDRA project. Specifically, this included an analysis of community patterns of consumption spending, increased access to microfinance services (including savings, loans, insurance etc) and improved, more sustainable livelihoods (through micro enterprise development). The outcome of REMIT will be a new and effective business model/s linking remittances, microfinance and technology, which can be trialed, implemented and replicated.

The project is to be implemented in three stages. Stage one focused on the development of the model through field research and a survey of best practice. The model aims to reduce transaction costs, strengthen the links between remittances and microfinance services and improve rural livelihoods. The objectives of Stage two are to test the proposed model(s) among PIDRA communities and convince policy and decision makers among government, the private sector, civil society and potential funders to support the adoption of the model(s). The exit strategy (Stage three) is the adoption of the linkage facilitation by PIDRA with funding through the loan, and, its adoption by participating communities and supporting private and civil society entities.

Activities in Stage one involved the following activities:

- research into how remittances have led to improved livelihoods in other contexts with a view to potential replication in the study area
- field research in the study area to identify links between remittances and livelihoods and the need for financial services
- garnering the interest of potential stakeholders to participate in innovation in remittances services

REMIT also has a link to the PIDRA project and will investigate how it might leverage remittances and access additional sources of finance.

The background study found that innovations relevant to remittance services related to two factors. The first factor related to improvements in money transfer processes for remittance recipients. The second factor related to linking migrant workers and their families to a broad range of microfinance services. Innovation in remittance services has generally been initiated by profit-driven enterprises seeking to increase their market share and expand their businesses to reach new clients.

Technological innovation in regard to money transfer and other remittance services is ongoing and occurs in relation to both the transfer mechanism and the customer interface. The introduction of new technology often leads to the development of new business partnerships (e.g mobile phone based transfers leading to partnerships between communications and financial services companies). It does not necessarily lead to savings for customers unless it opens the market to more competitors.

The field study was implemented during the months of June – August 2006. One district in East Java, Blitar, was selected for study and within Blitar the subdistricts Kademangan and Sanan Kulon were chosen. Within Kademangan the villages of Bendosari and Maron were selected. Within Sanan Kulon the villages of Kalipucung and Sumberingin were chosen for analysis. Bendosari and Maron are participating in the PIDRA project.

The study analysed the links between remittances and livelihoods at village level and usage of and unmet needs for financial services by migrating households. The study also analysed the impact of the PIDRA project and its link with sustainable sources of finance. In addition, a survey was undertaken of remittance and other microfinance services provided by financial institutions at the district level and the potential for improvement in these services through technological or other innovations. There were three teams involved in the survey: the Policy Analysis Team provided a background paper on the economy, poverty and financial services in East Java. The Institutional Analysis Team undertook the survey of financial institutions and the Community Analysis Team carried out the analysis at village level, including interviewing 200 households (150 remittance linked and 50 non-remittance linked) as well as qualitative analysis (focus group discussions and in-depth interviews).

The analysis of the field study has been completed and the report is attached in Appendix Five. The main outcomes and findings identified in the field survey were:

- highly restricted regulatory and institutional framework for remittance transfers in Indonesia, which is currently confined to commercial banks. Thus, leveraging remittances by MFIs was identified to be a significant constraint, except in the case of BRI where both remittance and microfinance services were provided to households.
- there is significant lack of technological innovation in the financial services offered to the poor such as ATM services and mobile-phone services. Further, the high capital cost of infrastructure for technology and lack of relevant trained personnel was identified to be a key constraint in introducing new technologies.
- the PIDRA project stood out as the biggest source of loans for households in area studies, though the size of loans was considered small.

In conclusion, in order to ensure the efficient functioning the REMIT elements in the East Java context in Indonesia, innovation is required in a number of areas. For instance, institutional innovations are required to ensure that MFIs are able to access remittances funds, and technological innovations are required to ensure that funds are able to be disbursed efficiently and quickly to the households.

1.0 Introduction

This is the project completion report for the Remittance, Microfinance and Information Technology (REMIT): Investigating the Potential for Poor Communities in East Java project (# 754 - FDC), commissioned by the International Fund for Agriculture Development (IFAD) under its Small Grants Scheme.

The report is composed of six main sections and nine appendices. Section one provides the background to the REMIT project including an outline of its goal and objectives. An overview of the REMIT concept is outlined in section two with details included in Appendix Two. Section three outlines the work plan (details included in Appendix One). Section four highlights the key outcomes and findings from the case study (details included in Appendix Five). Finally, section five concludes with a statement regarding the completion of the detailed work plan.

2.0 Background to the REMIT Project

In June 2004, the Foundation for Development Cooperation (FDC) and the University of Queensland's School of Economics hosted a workshop entitled *"Remittances, Microfinance and Technology (REMIT): Leveraging Development Impact for Pacific States"*. FDC's objectives for organising this event were to:

- increase awareness of the importance of remittances as a source of financing for development in Pacific Island Countries
- explore the potential for technology and microfinance to enhance development impact
- examine implications for policy and regulation in the financial sector
- identify areas for further research

Representatives from the International Fund for Agricultural Development (IFAD) and the IFAD loan funded Post Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA) attended the workshop. PIDRA focuses on the empowerment of poor communities in upland areas of three provinces in Indonesia including East Nusa Tenggara (NTT), West Nusa Tenggara (NTB) and East Java. PIDRA aims to increase the incomes and food production of about 100,000 poor families living in the 500 poorest villages in East Java, NTT and NTB which are based on rain-fed and upland agriculture. PIDRA's approach is to:

- establish or strengthen farmer and women Village Self Help Groups (VSHGs)
- promote the conservation and improvement of natural resources
- improve village infrastructure

During the second phase of PIDRA in East Java (2004-2008) access to financial services is receiving priority attention through the development of the VSHGs, which are designed to build local capital by harnessing the savings of group members and the provision of matching grants to the groups.

At the 2004 FDC workshop, the potential for remittances linked to microfinance and technology to help build access to sources of finance in PIDRA target communities was discussed between FDC and IFAD and PIDRA representatives. The idea for this study was developed, whereby FDC would investigate the potential for the development impact of remittances in poor communities targeted by the PIDRA project to be increased through financial services and technology.

IFAD and FDC jointly developed a project framework for the REMIT project. In November 2005 an initial concept paper was agreed on by IFAD and FDC. This concept paper states that the goal of REMIT is to better understand the flow of remittances to East Java from international and domestic sources which will assist families and communities participating in PIDRA through consumption spending, increased access to microfinance services (including savings, loans, insurance etc) and improved, more sustainable livelihoods (through micro enterprise development). The outcome of the REMIT project will be a new and effective business model/s linking remittances, microfinance and information technology, which can be trialed, implemented and replicated. The project is to be implemented in three stages.

3.0 Goal and Objectives of the REMIT Project

The goal of this REMIT project is to investigate and test the potential of Information Technology (IT) – enhanced linkages between remittance flows and microfinance, to reduce poverty and promote sustainable development in East Java (which is one of the Provinces covered under IFAD's PIDRA project).

The REMIT project consists of three stages. Stage One focused on the development of a model through field research and a survey of international best practice. The objectives of Stage Two are to trial the proposed model(s) among PIDRA communities and convince policy and decision makers among government, the private sector, civil society and potential funders to support the adoption of the model(s). The exit strategy (Stage Three) is the adoption of the linkage facilitation by PIDRA with consequent funding through the loan, and, secondly, its adoption by participating communities and supporting private and civil society entities.

The focus of this project completion report and its outputs are related to Stage One. The objectives of Stage One are to:

- reduce transaction costs
- strengthen direct links between remittances and the full range of microfinance services
- improve rural livelihoods, as a result of the successful management of financial and other resources

Further, in order to test the REMIT model, the following activities were identified to be undertaken:

- undertake research into how remittances have contributed to improved livelihoods in other contexts, through reduced transaction costs, links with microfinance services and technical innovation for potential replication
- in a sample of the areas selected for implementation of the model in Stage Two (PIDRA project areas in East Java) undertake field research into credit sources and needs of remittance linked households and access to microfinance services as well as the flow and use of remittances
- garner the interest and support of potential government, private sector and civil society organisations in implementing a model as described above

4.0 Overview of 'REMIT' Concept

In essence, the REMIT concept is about the effective integration of the elements of remittances, microfinance and information technology (IT) to better harness their collective potential to produce effective outcomes for the poor. An overview of the REMIT concept is described below, with additional details included in the Background Paper (Appendix Two).

Remittances are becoming an increasingly central focus of development discourse because it represents one of the largest forms of financial flows into developing countries. Remittances are perceived to have particular potential for poverty reduction in developing countries. They are not affected by the economic fortunes of the home country and are transferred directly to individuals and not waylaid among the ranks of donor or government bureaucracy. With large numbers of poor migrant workers from developing countries taking up positions abroad in industries such as construction, manufacturing, and domestic service, remittances have become an important part of their employment, and a source of livelihood for the families back home.

Despite the significance of remittances to family income in developing countries, effective channelling of such funds through mainstream financial services has become problematic. Issues of accessibility, time delays and costs of remittances have become obstacles for both the remitters and their families. Thus, the use of microfinance institutions (MFIs) and information technology for leveraging remittances has been put forward as a possible solution.

The existence of a strong MFI may help to develop the ability of a local community to generate long term economic growth. The proliferation of microfinance services which has occurred over the last 30 years has been based on the concept that the development of appropriate financial systems can help to generate sustainable economic development in poor communities. Credit services enable the poor to build up productive assets that increase their earning potential over time. Savings facilities help households to build up savings assets and these and payments facilities can assist households to manage their finances more efficiently. Insurance services and poor households' awareness of the existence of credit services enable the poor to be more economically pro-active and less risk adverse.

Prior to the emergence of microfinance in the 1980s, the provision of financial services to the poor was not considered a commercially viable activity due to high transaction costs and lack of physical collateral such as land. This understanding changed with the emergence of new business models based on:

- realisation that despite their low earnings, the poor were willing and able to repay loans even at high interest rates
- low cost operational models, involving mobile loan officers and other mechanisms
- mechanisms to replace traditional forms of loan guarantees such as group lending, a close relationship between clients and loan officers and focusing on women as clients. The success of institutions such as Grameen Bank and ASA in reaching millions of clients with repayment rates of over 95% attest to the viability of these concepts.

The advantage of microfinance is that while it has development benefits it can also be an industry that sustains commercially viable enterprises. As with more top end financial services providers, MFIs rely on clients' deposits and commercially-provided wholesale funds for liquidity. For operational costs and profits they rely on interest on credit and other fees for services. The greater liquidity in the community has an overall multiplier effect, thus building the local economy.

The microfinance industry has continued to grow and evolve in the last two decades. Banks, government, donors, MFIs and other Civil Society Organisations (CSOs) are constantly researching into how to improve and expand services and increase the viability of microfinance providers. Innovations that have emerged include new product ranges (e.g. savings, payment services and insurance), capacity development to enable microfinance operations to scale and access new sources of finances and technologies to facilitate greater reach into poor communities. MFIs have also branched into business development services providing and sourcing training, support and advice for enterprise development in addition to credit and savings facilities.

As for remittances, from an industry perspective, they are an example of an innovation that enables providers to increase their liquidity and break into a new client base (many low income migrants have not had previous experience using financial services). As remittance services require the transfer of funds over long distances, it is often being introduced in combination with technological innovations to facilitate these transfers.

From a community perspective, MFIs can help to strengthen the impact of remittances on long term local economic development. The deposit of remitted funds in accounts with locally-based financial institutions, such as small regulated banks and MFIs, could augment resources available for the support of local economic initiatives. Business development services for micro-entrepreneurs may give people new ideas and the confidence to start a business. Migrants might welcome schemes for channeling remittances into community development that give them more sustainable options for supporting their communities. Potential migrants could access loans for the costs of migration as part of migration/remittance 'packages' developed by local financial institutions. Such loans could reduce the burden of debt and hence the payments made to agents and other intermediaries, with corresponding increase in the flow of net remittances to local communities.

The linkage of remittance services to microfinance services and technological innovation has generally been in the context of profit driven ventures. This is partly due to the substantial requirements of establishing a money transfer service including sophisticated MIS, a costly up-front investment in infrastructure, the ability to manage high liquidity and risk and a capacity to undertake frequent exchange of data with distant partners. Only well-established commercial providers generally have the scale of business to be able to take on these challenges and benefit from them. Otherwise providers may need to develop new business models to launch a successful money transfer business. Often these new approaches involve increased cooperation with other providers through the integration of systems, sharing of infrastructure costs as well as business partnerships.

5.0 Overview of Project Work Plan

In February 2006, a detailed Work Plan was submitted to IFAD outlining the steps involved in implementing Stage One of the REMIT project in accordance with the Grant Agreement. A brief overview of the Work Plan is outlined below. A copy of the detailed Work Plan can be found at Appendix One. The key outputs of this work plan are:

- *Output 1: Study of international best practice to identify potential elements of a model*

This involved the study of the application of Information Technology (IT), for development in other contexts for possible application in East Java.

- *Output 2: Study of country specific factors relevant to application of the model*

This output related to the policy and regulatory framework for microfinance service provision, remittance transfers and IT and the existing array of remittance services offered by financial institutions.

- *Output 3: Meet with stakeholders to introduce model, garner support and organise project management arrangements*

A workshop was held in East Java to present the model(s) to stakeholders, discuss the proposed approaches with stakeholders and discuss a potential role for them in implementation. A Steering Committee was established and working groups organised according to the various components of the pilot projects.

- *Output 4: Field Study Research*.

Baseline material was collected to investigate the viability of the proposed model (and test the efficacy of the pilot projects). This baseline material included the selected study areas, information relating to the levels, transfer methods and usage of remittance flows. Livelihood information relating to the level and type of household income and presence of micro enterprises was also collected as was information on the availability of microfinance services for current or returned migrant workers and IT infrastructure.

- *Output 5: Specialist inputs from FDC*

Drawing on the background paper and the findings of the field study, FDC staff refined the model and prepared an implementation plan for a further round of consultation with stakeholders.

- *Output 6: Second in-country workshop with stakeholders*

The second workshop was held in East Java to discuss the findings of the field study with stakeholders and to begin to design the pilot programs for Stage Two and the Implementation Plan.

- *Output 7: Preparation by FDC of draft design, implementation plan, marketing and communications plan and M+E framework*

6.0 Key Finding and Outcomes of the Study

The key findings and outcomes of the REMIT project field study are outlined below and the detailed analysis and results of the fieldwork are included in Appendix Five.

6.1 Migration from Indonesia

Indonesian workers first began working in the Middle East during the oil boom in the 1970s. In the 1990s, openings became available for female domestic servants in Asian countries. The travel by Indonesian male workers to Malaysia is more long standing. Travel has traditionally occurred between the islands of Java, Sulawesi, Borneo and peninsula Malaysia.

In 2006, the estimated number of Indonesian migrant workers overseas is approximately 2.7 million (Suparno, 2006). However, most commentators agree that this is a gross underestimation of the number and its importance. One cause for this underestimation is a likely failure by the authorities in the regions to report overseas worker registrations. Since regional autonomy was implemented in 2000 there have been problems with some functions and coordination as regional governments have taken on new responsibilities (Hugo, 2002).

As part of the Asian Development Bank's Southeast Asia Workers' Remittances Study, information was collected from host country governments on numbers of Indonesian migrant workers (Table 1). In particular the number of (documented) workers in Malaysia was shown to be much higher than the official figures. In fact, the number of migrant workers in Malaysia alone is more than three times the total number of migrant workers officially documented by Indonesia.

Table 1: Indonesian Immigrant Populations in selected host countries (2004)

Japan	Hong Kong	Singapore	Malaysia
22,800	107,960	60,000	1,000,000

(Source: ADB, Southeast Asia Workers' Remittances Study)

For certain regions and provinces such as Kalimantan, West Sumatra, West Java, East Java and Lombok the social, financial and economic impact is more significant than in other areas and within those provinces there are also district "pockets". The more concentrated financial impact of remittances within specific areas can be seen in the province in which the study was focused – East Java.

6.2 Remittances to Indonesia

Table 2 shows levels of remittances and other categories of foreign exchange for 2004. Statistics on remittance inflows are collected as part of the preparation of Balance of Payments (BoP) figures by the Indonesian Central Bank - Bank Indonesia.

Bank Indonesia receives information on the numbers of migrant workers and these numbers are then multiplied by the standard wage for each country. These figures are matched with the value of 'all residual balance of payment' transfers once the figures from other BoP categories are extracted to estimate the value of remittances (ADB, 2005). This method is used because there is no direct information on remittance transfers. For transfers under US$10,000 there is no requirement that the purpose of the transfer be recorded. There is also the matter of transfers through unregistered operators and the transport of cash and non cash goods which is not captured through official data.[1]

Table 2 Workers Remittances and other sources of foreign exchange '000,000 USD

	2001	2002	2003	2004	2005
Worker's Remittances	1,013.30	1,259.00	1,489	1866.3	1,865
GDP	142,787.4	171,951.3	208,246.3	257,699	287,036
Non-gas exports	44,805	46,307	48,875	54,482	63,745
non-gas imports	28,961	28,990	31,723	39,456	47,297
FDI inflows	2,295	5,163	3,164	3,850	6,922
Current Account	6,901	7,824	8,106	3,108	2,334
Official Aid	2,482	2,299	1,837	2,385	4,933
% WR/GDP	0.7%	0.7%	0.7%	0.7%	0.6%
% WR/Exports n.m.	2.3%	2.7%	3.0%	3.4%	2.9%
% WR/Imports n.m.	3.5%	4.3%	4.7%	4.7%	3.9%
% WR/FDI	44.2%	24.4%	47.1%	48.5%	26.9%
% WR/CA	14.7%	16.1%	18.4%	60.0%	79.9%
% WR/Official Aid	40.8%	54.8%	81.1%	78.3%	37.8%

(Source: Ibrahim, M, 2006)

At the national level the amount of foreign exchange earned by Indonesia through remittance transfers may not seem that significant. However, migration take up in Indonesia tends to occur in pockets and thus has more significance at the regional level. For instance, for East Java province as a whole, remittances represent only a small source of finance (Rp 3,517 Billion and 1.22 percent of Gross Regional Domestic Product).

Remittances are much higher in some administrative regions. In 2004, remittance contribution to GDRP of these regions was as follows: Ponorogo (104.08 percent); Madiun (42.2 percent); Tulungagung (22.78 percent); and Blitar (13.12 percent).

[1] In some countries commercial firms are also permitted to arrange international funds transfers which are not financial institutions and therefore do not provide financial institutions and therefore are not required to provide financial information to central banks. This can be an additional complication in estimating workers remittances but it is not an issue in Indonesia as only domestic banks, or agents attached to domestic banks are permitted to facilitate international money transfers.

6.3 The Indonesian microfinance industry

The lack of innovation in remittance services in Indonesia and the lack of capture of remittances by financial intermediaries accords with an overall pattern of uneven and patchy performance in financial service provision to the poor. Nevertheless, significant progress have taken place in the microfinance industry, the stand-out achievement being the transformation of the microfinance division of Bank Rakyat Indonesia (BRI) from a channel for agricultural extension inputs into a network of self-sufficient units providing commercially-based services. With over 4000 microfinance units, BRI has a particularly strong performance in mobilising savings. At the end of 2001, BRI had served around 27 million savers and 2.8 million borrowers (Charitonenko, 2003).

In addition, microfinance service providers have proliferated. There are currently about 2,100 Community banks (Bank Percreditan Rakyat, BPR), more than 4500 Village Credit Organisations (Badan Kredit Desa BKDs), and around 1,600 rural fund and credit institutions established by provincial governments (Lembaga Dana Kredit Desa, LDKD). There are more than 40,000 cooperatives, over 1000 credit unions and about 400 NGOs providing micro-credit (Charitonenko, 2003).

Many Indonesians – particularly those located outside the densely populated areas of Java and Bali – still lack access to financial services. Surveys of Indonesian households (ADB, BRI, Harvard University) report a 50-60% prevalence of households without access to saving facilities and 60-70% without access to credit services (ADB, 2002).

There are a number of reasons why the industry has only been partially successful in reaching poor and rural residents. In spite of its achievements, BRI has not been able to fulfil the microfinance needs of the entire country. Moreover, although the BRI units are profit based, as a state owned company profits from one area are transferred to shore up losses in another which reduces the motivation of the units to innovate.

As for the other providers, while they have proliferated, apart from a few exceptions they have on the whole failed to thrive. BRIs success in mobilising community savings has made it hard for others to access savings and develop a liquidity base for their operations. The Non-Bank Financial Institutions (NBFIs) have a mixed performance in financial self sufficiency, generally due to a lack of commerciality or crowding out by subsidised enterprises. Financial operations that provide subsidised loans often have inefficient operations, low rates of recovery and do not effectively use profits. However, because they offer services at subsidised rates, they can crowd out competitors offering financial services on commercial terms. The performance of the BKDs has largely depended on the extent to which the village governments who own them are able to manage financial intermediation.

As for the LDKPs, the Lembaga Perkreditan Desas (LPD) in Bali has developed into successful commercial enterprise. In other areas, however, the performance of LDKPs has often been lack-lustre as they have not been effectively managed by provincial governments.

Cooperatives were used to shore up support for the government, and even now continue to maintain an involvement. There are over 70 government based poverty reduction programs, many of which offer microfinance services which are subsidised and often with recovery rates lower than 20 percent. These tend to crowd out other microfinance operations. Unlike in many other developing countries, NGOs have not been leaders in MFIs. Instead this has been dominated by government and semi-government entities (Charitonenko, 2003, BWTP).

The regulatory and supervisory arrangement for financial institutions in Indonesia is complex, involving a range of agencies and government bodies and is not well implemented. NBFIs are not permitted to mobilise savings unless they are deposited in a registered bank or registered as a cooperative. The 1992 Banking Act required LDKDs to transform into registered banks in order to continue to mobilise savings but many of them have not done this. NBFIs do mobilise savings and this has been tolerated to a limited extent due to the lack of a clear framework for regulation for these organisations. This situation is risky for community members' deposits (Charitonenko, 2003).

As for the BPRs (community banks) they also have remained fairly small and fragmented. Their regulatory regime is based on a commercial bank model and is not really suitable for MFIs. Some of the supervisory arrangements are too lax but some are too stringent as well. Most significantly, the minimum capital requirements as stipulated in a 1999 Central Bank regulation are extremely high, which has dramatically slowed down the expansion of BPRs. From 1992 to 1997, over 1000 BPRs were established but only 13 new BPRs were set up from 1999 – 2002 (Charitonenko, 2003).

6.4 New technologies among Indonesian remittance services

Indonesia has not witnessed a great deal of development in the application of new technologies for remittance and microfinance services such as ATM services, mobile phone services, PoS kiosks and other services that have been seen in other developing countries in the region.

In Indonesia, only commercial banks are licensed to receive international money transfers and deal with foreign exchange. Of the commercial banks, a number of them are involved in providing transfer services to low income migrants including BRI, Bank Mandiri, BCA, BNI and Bank Danamon.

BRI has been the only bank that has been traditionally dedicated to providing services to poorer sections of the community living in rural areas. BRI has a presence in most sub-district capitals around the country and is a popular choice for remittance transfers. When the transfer arrives at the sub-district unit office the remittance recipient is informed that the transfer has arrived and can be collected at the bank. The BRI office sometimes has difficulty locating the recipient as often village residents do not possess a clear address and this can delay delivery of the funds.

The presence of other commercial banks beyond district capitals is not extensive and so remittance recipients from rural and remote areas have to travel a considerable distance to pick up their funds or employ a scout to pick up their funds for a commission. Other than BRI, Indonesian microfinance providers such as community banks and NBFIs have not ventured into the money transfer market or established in-country distribution networks.

According to the ADB Southeast Asian remittances study there is a fairly low level of financial intermediation among low income Indonesian migrants. The percentage of remitters possessing and using bank accounts for remittance transfers was lower for the Indonesians than the Filipinos.

6.5 Remittances and Livelihoods

The extent to which investment spending of remittances can improve long term livelihood prospects of migrant households is limited by the impediments to the development of the enterprises of these households. Micro-enterprises, such as those which the respondents are engaged in, employ a majority of local households. These enterprises generally have a number of characteristics including:

- scale of enterprise which is too small to cope with the cost of inputs
- lack of patrons and connections resulting in high costs and fees
- limited access to credit
- low level of investment
- lack of formal training and low level of technology leading to poor product quality
- Traders create a monopolistic market through forcing the price and supply of goods
- a small number of workers employed
- no differentiation between personal and business resources

In spite of their many problems, micro-enterprises were able to withstand the 1990s financial crisis while other sectors collapsed. Supraktikno has pointed out some key advantages of MSMEs:

- a core element of the economy which other sectors depend on
- accustomed to elastic profit margins
- gather in clusters so that it enables them to generate some shared benefits in purchase of materials and use of skills and marketing.

The structural limitations and characteristic of micro-enterprises are such that, while they have durability as a means of survival they are difficult to strengthen and develop including from supporting remittances funds. This can be seen in regard to the enterprises of the households interviewed.

Chicken farming, for example, requires a high level of investment: about Rp 40 million. Because community members lack access to capital they have an arrangement with a monopoly trading company, PT Poltry whereby it sells inputs and buys produce from the chicken farmers. Chicken farming has very elastic profit markets due to the volatility of sale prices and of inputs, which are either imported (medicines) or difficult to access at particular times of the year (feed). When market conditions are favourable such as they were at the time of interview (the price of eggs was Rp 7000 per kilogram) profits could be approximately Rp 3 million per month. If the price is low, however, the farmer can only just cover costs. In addition to the volatility, chicken farming is high risk due to the high level of morbidity and mortality. All of this risk is borne by the farmers and the anecdotal evidence of our survey suggested that is not at all uncommon for farmers to go bankrupt and lose their entire investment.

Furniture making is popular in the village of Maron. The furniture makers buy teak from village members growing teak on their land to make chairs, doors and tables. They have not had any formal training but have generally picked up the skills from their neighbours. They use simple traditional tools and sell their product in local markets. The villagers lack access to capital which might prevent them to upgrade their tools. Furthermore, banks are reluctant to take land as collateral which is not close to main roads. The villages would like to receive skills training and access to markets elsewhere including export markets.

Over time the availability of teak is reducing as more community members are taking up furniture making. Therefore it has become necessary to buy wood from outside the village including wood that has not yet been felled. Due to laws intended to curb illegal logging, licenses are required for cutting trees and government fees are incurred every time any logging is carried out. Fees must be paid at village, sub-district and to the forest department, *Perhutani.* In the focus group discussion the villages stated that even when they had paid the fees they would often have to bribe police when transporting materials.

Other micro-enterprises are also subject to limitations. Circular traders buy ready made goods and only have access to limited local markets. Therefore there is a limit as to how much these enterprises can be bolstered by additional investment. Farmers may buy more land which will increase their earnings but they are still subject to the availability of water, the quality of seed and other inputs and access to markets. Because of the multifaceted limitations on their enterprises, community members tend to have a survival rather than an expansionary orientation. Migrant remittance helps them to fund key expenses such as housing, healthcare and education. While they may also direct their earnings towards micro-enterprises, this may not result in a dramatic improvement in their income earning capacity. Productive assets – such as vehicles – may be sold later on if funds are short.

6.6 Financial Services

Of the migrant households surveyed, 55.2 percent said that someone in their house possessed a savings account at a bank, MFI or savings and loans groups and 44.7 percent said that no-one in their house kept savings in any kind of financial institution. Of the non-migration households, 38.5 percent had savings in an institution and 59.6 percent did not. The higher level of savings accounts among migrants compared to non-migrants may be due to migrants coming into contact with financial institutions through the process of arranging money transfers. Information on where the savings are kept supports this suggestion. The banks which were preferred for transfers were also preferred for savings accounts (ie BNI and BR).

For most migrants, the ‘household savings account’ was the account into which savings were transferred. The use of loans groups/cooperatives for saving was limited, except for PIDRA groups which were quite well utilised by community members in Bendosari and Maron. ATM use exists but it is not particularly high. The most common reason for not using ATMs was the fees charged but some respondents also said that they were too poor or too old to understand them. Respondents were not asked how much savings they possessed as the local researchers felt that such a question would be impolite and inappropriate.

6.7 Loans

The field data suggests that migrants are less likely to borrow money from a financial institution and that migration is perhaps seen as an alternative to borrowing rather than a basis for accessing more capital.

Kalipucung is the only village where a smaller percentage of non-migrant households did have loans than migrant households. In the focus group discussions in Kalipucung group, members specifically mentioned the reluctance of villagers to borrow money from financial institutions. A number of reasons for this reluctance were given by the villagers, including embarrassment at having their house surveyed, a preference for borrowing from family members rather than from institutions, a lack of knowledge about bank products, repayment regimes that are unsuitable for farmers whose income is seasonal, complicated procedures and a feeling that borrowing from banks introduced a burden in their lives that they would rather be without.

The findings show that, among the banks, BRI is the largest provider of loans and provides loans of a range of sizes. While the BNI is the preferred institution for savings by the community members, it is absent as a source of loans. Other than BRI, the commercial banks in Blitar including BNI, BCA, Bank Danamon and Bank Lippo do not have micro-credit products which include loans under Rp 50 million.

The villages closer to Blitar have a greater variety of MFIs with banking licenses including BPRs, Bank Jatim and Village Credit Banks. In the rural villages these institutions have less of a presence. The BPR sector has received much attention from the government in recent times as a potential 'motor' for the micro-enterprise sector. There are nine BPRs in Blitar which are located in six sub-districts and have branches in other sub-districts. The study was able to get data on five BPRs and found that there were approximately 21,000 savings accounts with BPRs and 9000 loans. The average loan size for a BPR is about Rp 2-3 million. The BPRs seem to have reasonable coverage of the Blitar district and more appropriate loan products than the commercial banks, but still there was little reach from the BPRs among the respondents surveyed.

Government programs including micro-credit components were present in all the villages but there was a high take-up rate of these programs in Maron. The PIDRA program is present in Bendosari and Maron.

The IFAD loan project, PIDRA focuses on the empowerment of poor communities living in the upland areas of three Provinces, East Nusa Tenggara, West Nusa Tenggara and East Java. PIDRA aims to increase the incomes and food production of about 100,000 poor families living in the 500 poorest villages in the three provinces. PIDRA does this by inviting the target beneficiaries to participate in voluntary self help groups (VSHGs) which are a vehicle to provide a range of support services including saving and loan facilities, business development services and training in financial management. PIDRA has selected the poorest members of the community to participate in the groups and adopted an approach of encouraging independence and empowerment among group members. The project has also assisted with the improvement/maintenance of village infrastructure and natural resources.

The study findings show that the PIDRA Project is one of the biggest sources of loans for households in the areas studied. However, in general the loan sizes are very small. Loans are provided through savings and loans groups (the VSHGs) where members are required to attend monthly meetings and provide a contribution. Project funds were not provided for six months while the members received training in financial management. After this, tranche funds were provided to a maximum of Rp 10 million over three years depending on the performance of the group.

In the PIDRA project, skills training were also provided in organic fertilizer making, home industries (*tempe* and *tahu*), chicken farming and other activities. The groups were able to pursue their own strategies and some of the groups had taken up livestock breeding where the group would purchase livestock (goats and cows) and lend them to group members for rearing and breeding. While respondents appreciated the approach of the PIDRA project (particularly in Bendosari) the loan sizes which were generally under Rp 500,000 were too small to really help their businesses. No further funding was available after the three years, and it was up to villagers to mobilise the funds through their SLGs or access outside funding. Village level "federations" have been created to support the process of accessing outside funds, among other things.

The P4K project was also active in Maron where 13 farmer groups with 16 members per group had been established by the project. The P4K project was much more generous, providing Rp 7 million grants to each member over a five year period. Not surprisingly, villagers in Maron preferred the P4K project to the PIDRA project. Another interesting savings and loans group was the Kelompok Rukun Mulya which was started by a group of villagers in 1983 who collected about Rp 15 million selling rocks to a government project asphalting the road. With some of the money they formed a savings and loans group. The group now has 70 members and Rp 100 million in circulation. Loans are provided for up to a year with three percent interest rate. There are even members joining from other villages.

Particularly in the villages further away from the city where financial institutions are scarce and social cohesion is strong, community members seem to be efficient at running savings and loans groups. There may be potential to form a remittance-based group which would enable migrant households to “grow” their remittances while providing capital for other village members. Another service which would be useful is transport of remittances from the banks in Blitar to the local village. A cooperative or SLG could combine this function with providing loans.

7.0 Completion of the Work Plan

All outputs of this REMIT project have been completed as described below.

Outputs One and Two were covered in the Background Paper which is attached at Appendix Two. This included the study of international best practice to identify element of the model; and study of Indonesia relevant factors relevant to the application of the model.

The field study was implemented during the months of June – August 2006 in the districts of Blitar, the sub-districts of Kademangan and Sanan Kulon. Within Kademangan, the villages of Bendosari and Maron were selected. Within Sanan Kulon, the villages of Kalipucung and Sumberingin were chosen for analysis. Bendosari and Maron are villages participating in the PIDRA project, Kalipucung and Sumberingin are non PIDRA villages. Relevant stakeholders were met at this meeting to introduce the REMIT model, garner support and organise project management arrangements (Output Three).

The Terms of Reference for the field study are attached at Appendix Two. The field study team was comprised of three sub-teams. Biodata for the team is attached at Appendix Four. The detailed analysis and results of the field study report are attached at Appendix Five (Output Four).

Drawing on the background paper and findings of the field study, the document and implementation plan was refined for a further round of consultation (Output Five).

A second in-country workshop with relevant stakeholders to discuss findings of the field study and develop ideas for the REMIT model was held on 20-21 November, 2006 in Surabaya. The Agenda and list of participants is attached at Appendix Six (Output Six).

On the basis of this workshop, a proposal was submitted to the IFAD small grants scheme in December 2006. At the time of application the proposal was not considered eligible due to the fact that disbursement of the first grant was not complete and it was recommended that the proposal be resubmitted. The proposal is attached at Appendix Seven (Output Seven, Appendix Seven).

In accordance with IFAD’s guidelines, a statement of expenditure that outlines the use of the totality of the Grant is attached in Appendix Eight. Also attached is the project’s detailed statement of accounts.

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Detailed Work Plan

1.0 Work Plan and Research Methodology

The goal of the project “Remittances, Microfinance and Information Technology” is to investigate and test the potential of IT-enhanced linkages between remittances flows and microfinance, to reduce poverty and promote sustainable development in East Java. Remittances flows have a potentially very important role to play in poverty reduction and sustainable development. Remittance flows are a significant source of external funding to the developing world, higher than international development assistance and second only to foreign direct investment. Internal migration also provides substantial remittance flows, however these are more difficult to document.

Remittance funds of migrant workers can provide an important resource for improving local economic conditions in developing countries. Remittances can represent a dramatic increase in the resources available to households and so can have a positive effect on savings and investment, provide funds for investment in both physical and human capital and function as insurance against risks associated with new income generating activities.

While remittances flows to developing countries are high, it appears that at the current time, the potential for remittance flows to contribute to poverty reduction and sustainable development is not being maximised. The two main reasons for this are high transaction costs in sending money back home (which reduce the net level of flows and may also act as a disincentive to remitting, thus reducing the gross level of flows) and less than optimum usage of remittance flows for local economic development.

In the process of migrants sending money back home, transaction costs are incurred at different stages of the transfer process either through the fees of the banks and international transfer agencies or commissions claimed by various agents, scouts and local officials operating in the informal sector. In the formal sector and even more so in the informal sector, these costs tend to be very high relative to the overall funds being transferred. Two options for reducing transaction costs appear to be available (i) increasing the accessibility of information available to migrants about their transfer options (as many migrants are not aware that there were a range of options available to them and that their chosen method may be one of the more expensive) and (ii) utilising new IT developments to make available transfer methods that are easier and cheaper than those currently being employed.

In regard to the link between remittance flows and economic development, while internationally remittances have been shown to account for a substantial and growing proportion of investment in micro and small enterprises more could be done to increase the flow on benefits from remittances to sustainable economic development. This could be done by improving the linkages between remittances and microfinance services. Improving the access of migrants to microfinance services such as savings accounts, loans, investment options and insurance schemes might encourage the use of remittances for local economic development on either an individual household or community basis. The deposit of remitted funds in accounts with locally-based financial institutions, such as small regulated banks and MFIs, could augment resources available for the support of local economic initiatives. Business development services for micro-entrepreneurs could give people new ideas and the confidence to start a business. Migrants might welcome schemes for channeling remittances into community development that give them more sustainable options for supporting their communities. Potential migrants could access loans for the costs of migration as part of migration/remittance ‘packages’ developed by local financial institutions. Such loans could reduce the burden of debt and hence the payments made to agents and other intermediaries, with corresponding increase in the flow of net remittances to local communities.

The REMIT project aims to increase the levels of net remittance flows and the contribution of these flows to sustainable community economic development by developing a new and effective business model (or models) linking microfinance, remittances and IT, which will provide both sustainability and replicability. REMIT will initially be located in East Java with a focus on communities involved in the IFAD loan funded Post Crisis Program for Participatory Integrated Development in Rain fed Areas (PIDRA) but with a view to replicating in other areas.

2.0 Implementation

The project will be carried out over three stages. Stage One is a research phase with two key elements. First, international innovations and best practice in the areas of microfinance, remittances and IT as well as relevant conditions among the target communities (migration practices, remittances flows, household use of remittances, IT availability, financial services and livelihood practices) will be investigated. Second, on the basis of this research, a model(s) will be developed for enhancing local economic development through enhanced linkages between remittances and IT and microfinance services. Research carried out among target communities in Stage One will also provide baseline research for measuring the effectiveness of the model as it is applied in Stage Two.

In Stage Two, the model will be piloted among 30 communities in East Java involved in the PIDRA project. The application of the model will be done on the basis of a manual (developed in Stage One) which will articulate the key elements of the model and how to apply them. In addition to implementing the model, Stage Two will involve measuring the effectiveness of the model, documenting lessons learned, refining the manual and generating support for the model among policy and decision makers in government (at various levels), the private sector, civil society/NGOs and potential funders to support adoption of the model.

Stage Three will look at replication of the model within the broader IFAD program in Indonesia and application in other provinces such as Central Sulawesi and take up of the model by other development partners such as donors, Civil Society and Private sector organisations and support from Government.

The success of the project will be built on two key elements. The first of these is careful and effective research to enable (i) the application of an innovative and appropriate model(s) and (ii) proper evaluation of the model to facilitate continuous improvement and refinement of the model. FDC staff with extensive international experience and knowledge in the areas of microfinance, remittances, ICT for development and multi-stakeholder partnerships and are well placed to carry out this research. They will be supported by effective local research partners with extensive knowledge of relevant issues (microfinance, livelihoods and IT) in the regional, national and local context. The Grant Agreement (No 754 – FDC) to which this work plan refers covers only Stage One.

The second key element of the project will be the fostering of strong ownership among multi-sector stakeholders from the onset of the research process (Stage One) leading to the take over of program management in Stage Two by stakeholder organisations. Key stakeholders in the target communities (for Stage Two) will be identified early in the research phase. These will involve representation from communities (community organisations, migrant worker organisations) civil society (NGOs supporting migrant workers and community micro-enterprise development), the microfinance sector (including banks and Microfinance Institutions (MFIs)), government (appropriate levels and departments will need to be decided) and the private sector (IT service providers). A Steering Committee and Working Groups will be established to facilitate stakeholder participation in the research process at key points in Stage 1 and implementation of the pilot projects in Stage Two. Also, in this stage, FDCs role will be reduced to monitoring and evaluation, documentation of lessons learned, marketing and communications and technical assistance.

The research process for Stage One will be as follows:

Study of international best practice to identify potential elements of a model(s)
Secondary research: study of policy and regulatory framework and existing modes of remittance transfers to and within Indonesia.
Meet with stakeholders to introduce model, garner support and organise project management arrangements (Steering Committee and Working Groups)
Primary Research: household surveys, focus groups, PRA etc, meet with local institutions (MFIs) and obtain locally available statistical information to feed into model and collect baseline research for M+E
Specialist inputs from FDC relating to microfinance, ICT, and rural livelihoods and development of the model
Meet with stakeholders to further develop the preliminary model and negotiate implementation arrangements
Draft design, manual, implementation plan, marketing and communications plan and M+E framework
Meet with stakeholders to finalise design, manual and implementation arrangements

The following themes will be covered in the Stage One study:

- Remittance flow levels, transaction costs and use and impact of remittances on socio-economic development
- Availability and development of relevant financial services, state of MFIs, including regulated financial institutions, cooperatives and MFIs
- Policy regulatory environment relating to both remittance flows and microfinance services
- State of and potential for IT development supporting remittances
- Livelihood issues and potential for micro-enterprise development.
- Cross cutting issues: gender, cultural, political, social and religious factors and the environment.

To begin with (Output 1) FDC will draw on the considerable resources and expertise at its disposal to identify model(s) that use IT to improve the flow and usage of remittances. This will largely involve studying the application of ICTs for development in other contexts for possible application in East Java. Concurrently, (Output 2) study will be undertaken into country specific factors relevant to application of the model. For instance, relating to the policy and regulation framework for microfinance service provision, remittance transfers and IT roll out as well as the prevalence of IT infrastructure and the existing array of remittance services offered by financial institutions and other entities. In this initial study of secondary sources, background material for the baseline study will also be collected relating to remittances flows and usage (available to national and provincial level) and livelihoods in Indonesia. Initial discussions will be held with potential stakeholders to consider the feasibility of the proposed models, discuss their potential involvement and plan for the initial workshop in East Java. On the basis of this research into potential models and country specific factors in Indonesia a concept paper will be drafted for presentation to stakeholders.

The first workshop (Output 3) will be held in East Java to present the model(s) to stakeholders. The Study team will also discuss the proposed approaches with stakeholders and a potential role for them in implementation. A Steering Committee (including representatives of PIDRA, Government, the East Java Regional Development Bank, the Financial Sector, NGO sectors and migrant worker representative) and Working Groups for the project will be established. The Working Groups will be organised according to the various components of the pilot projects in stage two (improved IT, improved microfinance services, improved livelihoods, education and communications, policy and regulatory framework).

The FDC team will then remain in-country to prepare and carry out the Field Study (Output 4). As with the background study, the field study will both collect baseline information that will be used to test the efficacy of the pilot programs in Stage 2 and investigate the viability of the proposed model(s). For the baseline study information will be collected on the levels, transfer methods, usage of remittance flows. Livelihood information relating to level and type of household income and presence of micro enterprises will also be collected. This information will be gathered through statistical information available at the district level and household surveys, in-depth interviews and focus groups. Information will also be collected on the availability of microfinance services for current or returned migrant workers and IT infrastructure, service availability and literacy. In addition to collecting baseline information, the study team will also hold in-depth discussions with relevant stakeholders about the potential for implementing the proposed models and risks and challenges associated with implementation.

The field study report will then go back to FDC to feed into a refinement of the concept paper (Output 5) and to form the backbone for the Monitoring and Evaluation Framework. There will then be a second workshop held in-country (Output 6) to discuss the findings of the field study and, with the working groups, to begin to design the pilot programs for Stage Two and the Implementation Plan. This draft material will then be refined into the final design and Implementation Plan (Output 7). The FDC team will also prepare the first draft of the Manual, which will form the basis for the replication of the program in Stage Three as well as the Monitoring and Evaluation Framework for assessing the success of the pilot projects in Stage Two, according to the baseline information collected in the field study.

3.0 Staffing

The Project will be implemented by the Foundation for Development Cooperation (FDC), an independent international development organisation based in Brisbane, Australia. FDC will provide staff for the project with expertise in the areas of microfinance, remittances and IT for development. These will include both FDC staff and external Australian and Indonesian consultants. FDC will also leverage the experience of its BWTP members in Indonesia: BRI, PPSW and Bina Swadaya. These will include:

Australians
<u>Project Director</u>, Dr Paul Greener, Rural Development Specialist

<u>Program Manager</u>, Frances Barns, Indonesia Specialist and experienced program manager

<u>Microfinance Specialists</u>, Ana Santos

Indonesians
<u>Local Researchers</u>:

Dr Iketut Budastra – Microfinance Specialist

Kurniawan – Experienced Field Researcher

4.0 Duration and Timing

Stage 1 will be undertaken over the period of 1 February 2006 – 31 January 2007.

5.0 Milestones and Reporting

The following reports will be submitted by FDC to IFAD in relation to REMIT (Stage One)

Work Program (this document) – submitted prior to commencement of Stage One and triggering the first payment (USD 60,000)

Progress Report – submitted six months after the commencement date (1 February 2006). This report described progress achieved on the project and trigger the second payment (USD 43 500).

Project Completion Report – submitted no later than six months following the completion of Stage One, outlining how the project was executed, its costs, activities undertaken, the level of accomplishment of project objectives, the results achieved from the Project and the benefits derived and to be derived from it. This report will trigger the final payment of an amount up to but not exceeding the equivalent of five percent (5%) of the Grant (US 5175).

Background Paper - Overview of REMIT Concept

1.0 Introduction

Remittances are becoming an increasingly central focus of development discourse because they represent one of the largest forms of financial flows into developing countries. Remittances are perceived to have particular potential for poverty reduction. They are not affected by the economic fortunes of the home country and are transferred directly to individuals and not waylaid among the ranks of donor or government bureaucracy.

The significant financial flow into traditionally low-income settings is seen as proof of the potential for remittances to reduce poverty. However, the level of funds that flow into a particular setting is only one determinant of long term poverty reduction. Equally important are the systems that are in place at household, community and national level to enable these funds to bring long term, systemic change in the level and type of economic activity. Where these systems are not in place, an influx of funds, from sources such as development assistance, remittances or private sector investment projects such as mining may affect only the consumptive activities of a limited number of community members in the short term.

The existence of a strong microfinance industry in the home community may help to develop the ability of a local community to generate long term economic growth. The proliferation of microfinance services can help to generate sustainable economic development in poor communities. Credit services enable the poor to build up productive assets that increase their earning potential over time. Savings facilities help households to build up savings assets and payments facilities can assist households to more efficiently manage their finances. Insurance services and households' awareness of the existence of credit services enable the poor to be more economically pro-active and less risk adverse, as they do not have to rely entirely on their current earnings to cover them in case of crop failures and other disasters.

Prior to the emergence of microfinance in the 1980s, the provision of financial services to the poor was not considered a commercially viable activity due to high transaction costs and lack of physical collateral such as land. This understanding changed with the emergence of new business models based on:

- realisation that despite their low earnings, the poor were willing and able to repay loans even at high interest rates
- low cost operational models, involving mobile loan officers and other mechanisms
- mechanisms to replace traditional forms of loan guarantees such as group lending, a close relationship between clients and loan officers and focusing on women as clients. The success of institutions such as Grameen Bank and ASA in reaching millions of clients with repayment rates of over 95% attested to the viability of these concepts.

The advantage of microfinance is that while it has development benefits it can also be an industry that sustains commercially viable enterprises. As with more top end financial services providers, microfinance institutions (MFIs) rely on clients' deposits and commercially provided wholesale funds for liquidity. For operational costs and profits they rely on interest on credit and other fees for services. The greater liquidity in the community has an overall multiplier effect, thus building the local economy. In this way, financial services can be said to be a system which helps funds flowing into a local community to be transferred into sustainable economic development.

The microfinance industry has continued to grow and evolve over time. Banks, government, donors, and other Civil Society Organisations (CSOs) are constantly researching into how to improve and expand microfinance and increase the viability of microfinance providers. Innovations that emerged have included new product ranges (e.g. savings, payment services and insurance), capacity development to enable microfinance operations to scale and access new sources of finances and technologies to facilitate a greater and cheaper reach into poor communities. MFIs have also branched into business development services providing and sourcing training, support and advice for enterprise development in addition to credit and savings facilities.

As for remittances, from an industry perspective, they are an example of an innovation that enables providers to increase their liquidity and break into a new client base (many low income migrants have not had previous experience using financial services). As remittance services require the transfer of funds over long distances, remittance services are often being introduced in combination with technological innovations to facilitate these transfers.

From a community perspective, microfinance services can help to strengthen the impact of remittances on long term local economic development. The deposit of remitted funds in accounts with locally-based financial institutions, such as small regulated banks and MFIs, could augment resources available for the support of local economic initiatives. Business development services for micro-entrepreneurs may give people new ideas and the confidence to start a business. Migrants might welcome schemes for channeling remittances into community development that give them more sustainable options for supporting their communities. Potential migrants could access loans for the costs of migration as part of migration/remittance 'packages' developed by local financial institutions. Such loans could reduce the burden of debt and hence the payments made to agents and other intermediaries, with corresponding increase in the flow of net remittances to local communities.

Remittances services have tend to be part of a 'financial systems' approach to microfinance development whereby a market based microfinance services industry is developed over time by commercial entities. The linkage of remittances to microfinance services and technological innovation has generally been in the context of profit driven ventures. This is partly due to the substantial requirements of establishing a money transfer service including a sophisticated MIS, costly up-front investment in infrastructure, the ability to manage high liquidity and risk and a capacity to undertake frequent exchange of data with distant partners. Only well established commercial providers generally have the scale of business to be able to take on these challenges and benefit from them. Otherwise providers may need to develop new business models to launch a successful money transfer business. Often these new approaches involve increased cooperation with other providers through the integration of systems, sharing of infrastructure costs as well as business partnerships.

2.0 Salient Features of the REMIT Concept

Some key issues that have emerged from the literature regarding the REMIT concept are elaborated below:

2.1 Reducing the cost of remittance transfers

The cost of remittance transfers is of concern from a development perspective as low skilled and paid migrants have tended to pay high transaction fees. Fees are often charged on a sliding scale, with the smaller percentage being charged a higher amount. As low skilled migrants often send relatively small amounts of money in each transfer, usually under US$500 they pay higher fees. Flat rate fees are also often high because they are high as a percentage for smaller transfers. The cost of inter-bank transfers using SWIFT is generally about US$35 which may not be acceptable for transferring small amounts.

However, some remittance markets, as they have grown, have seen a significant drop in the average price of transfers. For example, in the traffic between the US and Latin America, the average price has dropped by 58% since 1999 (Isern *et. al*., 2005).

Factors that appear to reduce the cost of transfers include increased competition and the application of technology to money transfers. Increased competition in remittance markets is usually associated with a rise in the volume of transfers and less regulation allowing for a greater diversity of players. Findings from the *ADB Southeast Asian Migrant Workers' Remittance Study* suggest that in the Asian context the extent to which a market is deregulated plays more of a role in driving down the price of remittances than the overall volume of remittances.

In Malaysia and Japan only commercial banks and post offices are permitted to handle transfers of foreign exchange. In Japan large Money Transfer Companies (MTCs) such as Western Union are also permitted to operate but must use a commercial bank as an 'agent'. In Hong Kong and Singapore other players are able to obtain permits to operate money transfer businesses. Capital requirements are minimal so small entrepreneurs are able to open single office outlets for facilitating transfers. In Singapore, foreign and domestic licensed banks are able to open Limited Purpose Branches at a cost of only SGD 1000 (US$611) per year (ADB, 2005).

For remittances out of Singapore, MTCs (of which there are over 100), are a popular remitting option as are domestic banks and branches of foreign banks from the home countries of remitters. These are also popular options for remitting in Hong Kong. Commercial banks in these countries have not invested heavily in the remittance market, citing reasons that competition is tough and the margins as slim. For Japan and Malaysia all transfers are carried out through commercial banks or international banks and international MTCs. In Malaysia the Post Office is also a popular option.

In the Asian countries investigated in the ADB study, the average prices of transfers does not seem to vary dramatically depending on the volume of transfers. However, a sizeable price differential can be seen between the regulated and unregulated markets.

Within deregulated markets, the volume of transfers may impact on cost. There are more Philippino and Indonesian migrants in Hong Kong than in Singapore and the cost of transfers are lower in Hong Kong. An increased volume can enable individual operators to reduce costs because in increases their overall income and an increased in volume can enable operators to adopt more cost effective business models (e.g. Hatton National Bank, Philippines joining ACH US) and in a competitive market these savings may be passed on to consumers (ADB, 2005).

It is also notable that in the Southeast Asian context there is a much higher preference for transferring money through the informal sector in the more regulated, higher cost markets.

2.2 New technologies and the cost of transfers

The introduction of new technologies often goes hand in hand with new forms of cooperation. SMART communications, use of mobile phone text messages to facilitate money transfers, involves partnerships between a wireless telecommunications company, MTCs and non-financial retail outlet owners. Smaller, less commercial microfinance providers often lack not only the scale of operations but also the vision to expand their operations by changing their business models through partnerships. They may be more orientated toward competing for subsidised donor funding than doing wanting to expand their business on commercial terms.

The application of new technologies to the remittance market has the potential to reduce the cost of money transfers. Financial institutions are continuously evolving the way they use technology in order to reduce the cost of facilitating money transfers. As processes become automised they require less staff time and can be performed outside office hours. Technology can also help to increase revenue by facilitating greater access to a larger number of customers as well as increasing the convenience and appeal to customers.

The process of transferring money can be divided into the transmission mechanism and the customer interface. New technologies are being applied to each aspect. In regard to transmitting funds, paper based systems such as bank drafts and postal money orders are much less common, with electronic messages to be exchanged between FSPs becoming more prevalent. For banks such systems include Automatic Clearinghouse (ACH) and real-time, gross settlement systems for domestic transfers and Society for Worldwide Financial Transfers (SWIFT) for international transfers. Other financial institutions such as MTCs use proprietary networks to facilitate electronic payments (Isern *et.al,* 2005).

New platforms such as the internet and mobile phone technology are increasingly being used as messaging systems to facilitate the transfer of funds. Internet banking has been available for domestic banking in developed countries for a number of years and is now being introduced to the low income remittance market. For example, Hatton National Bank in Sri Lanka now offers remittance transfers over the internet from a number of countries abroad (Abeywickrema, 2004). SMART Communications' system *SMART money* uses text messages over wireless telecommunications networks to facilitate money transfers.

New technology is also being applied to the 'customer interface' - the point at which the customer drops off or receives the money being transferred. Automatic Teller Machines (ATMs) have been in place for some time in the developed world and in major centers of the developing world, but now are increasingly being found throughout smaller towns and more remote areas in developing countries. Different transfer mechanisms are being combined with different customer interfaces. For example, ATMs are being used to drop off and pick up transfers made over the internet, by mobile phone and by bank transfer. ATMs can be linked to bank accounts but also operate without connecting to a bank account, for instance through re-loadable, pre-paid remittance (debit) cards.

Another kind of customer interface for money transfers that has become synonymous with application of new technologies is the 'kiosk' whereby non financial retail outlets can become pick up points for remittances. In some cases these involve Point of Sale (PoS) devices that connect into a central database. ICICI, the second largest bank in India, has developed a remittance system allowing customers to receive their funds at internet kiosks run by local entrepreneurs, as well as from ATMs. In the Philippines, PoS devices for money transfers are used in convenience stores, petrol stations and fast food outlets.

In addition to providing money transfer operators with cheaper transfer options and access to bigger markets, technology has the potential to reduce costs by allowing smaller players to compete with dominant operators such as commercial banks and large MTCs. For example, debit card transfers offered by niche MTCs are reported to be the cheapest method of transfer from the US to Latin America (Isern *et. al.* 2005).

While there is no doubt that technology has the potential to reduce costs, it does not necessarily happen all the time. It is interesting that while the ADB Southeast Asia migrant workers study found much widespread use of new technologies for the Philippines remittance market (mobile phone transfers, debit cards and ATMs) than for Indonesia, the cost differentials for the two markets were not dramatically different. The average cost of a transfer to the Philippines was cheaper than the average cost of a transfer to Indonesia, but the different was not as great as the difference in the average price of transferring funds to Indonesia or the Philippines from the restricted markets (Japan, Malaysia) compared to the unrestricted markets (Hong Kong, Singapore) (ADB, 2005).

The extent to which technology is cost saving for the transfer operator and for the consumer depends on a number of factors. New technologies can incur high costs including the purchase, installation, maintenance and replacement of equipment, training of staff and other costs such as the cost of dialing into servers. A money transfer provider investing in new technology will need to be sure that they will be generating enough revenue to justify the cost of the investment. Those operating on a low overheads business model should look out for low cost technology. ICICI installed low cost ATMs priced at $1500 compared to an average of $25,000.

Technology is often able to generate savings and increase revenue when it is linked to a change in business practices which often involves new kinds of partnerships. Such partnerships enable operators to share the cost of infrastructure and/or provide increased opportunities for generating revenue. Examples include:

- the networking of ATMs in industrialized countries allowing banks to share the cost of infrastructure and capture a wider market (Firmo); and

- partnerships between telecommunications companies, MTCs and non-financial retailers in facilitating money transfers through text messages on mobile phones.

Customers may not respond positively to new technologies. For example, some clients may feel more secure remitting their earnings with a provider with whom they have personal contact or not adapt well to the new technologies. BRI introduced a SMART card system (a debit card which stores information on a microchip) but found that customers often lost their cards and then they were expensive to replace as each manufacturer produced incompatible cards. BRI scrapped the scheme (Interview with Agus Rachmadi, BRI 24/2/06). The reliability of technological infrastructure platforms is also a factor. In many developing countries, although mobile phone coverage is widespread, it is also erratic and unreliable. The reliability of electricity supply and the availability of technical support for new technologies also need to be considered.

In general, cost savings are only passed on to customers where there is competitive pressure to do so. Technology is likely to only lead to savings for customers in so far as it opens the market to a much wider range of competitors.

2.3 The roles of development partners in introducing new technologies to money transfers

Technologies are usually introduced by commercial enterprises including commercial banks, large and small MTCs, post offices and NBFIs and communications companies. These private sector operators make their decisions about new technologies based on a calculation of the cost effectiveness.

Donors have also funded investments in new technologies to enable microfinance operators to increase their revenue including through money transfer services. Such investments have met with mixed success, depending on the extent to which they are introduced as part of a strong business plan. In Uganda, a consortium of private companies and aid agencies undertook a project introducing new technologies to microfinance institutions, but two out of three initiatives in the project were discontinued beyond the pilot phase. The consortium assumed that some of the infrastructure costs and service costs would be shared between the organisations including a server, a MIS software package and technical support. However, the organisations preferred to go it alone and requested individual tailor made solutions. (Firmo). Perhaps because the initiative had come from outside, the introduction of the new technologies was not based on a strong business case for increasing revenue. Donors need to be cautious when they support technological initiatives in money transfer businesses to ensure that they are ‘market ready’. In a way, commercial sources of funding may be more appropriate because they necessitate a thorough cost benefit analysis to justify the investment.

2.4 Strengthening the links between remittances and a wider range of financial services

In analysing and seeking improvements to the impact of remittances on development, the cost of the transfer is not the only consideration. Another factor is the extent to which remittance linked households make use of a wide range of financial services. The argument for encouraging migrants and their families to use financial services is the same as that used for promoting microfinance: households can transform their earnings into productive assets through savings and credit facilities; and they can more securely and conveniently manage their household budget. In addition, household savings provide liquidity for financial institutions to invest in the local economy. As remittances often constitute significant financial flows into a community (relative to other financial flows in the local economy), the way they contribute to the growth of the local financial sector and local the economy is considered important.

Microfinance service providers are key players in developing financial markets in low income areas and they have seized opportunities provided by remittances. Around the world, Microfinance Service Providers (MFPs) are entering the money transfer business as a means to generate revenue, attract new customers, increase their liquidity and improve their capacity to provide financial services to the poor.

However, MFPs are often not in a position to manage remittance services on their own. In many countries, Non-Bank Microfinance Providers (NBFIs) are not permitted to handle foreign exchange. Moreover, they may not be confident of generating a large enough volume of business on their own to justify the investment in an international payments system which is substantial and very different to a micro-credit operation. To break into the remittance market, microfinance providers have used their close proximity and relationship to poor clients to broker a partnership with established money transfer operators such as large MTCs and Banks.

Cost is not the only aspect that is valued by migrants and their families in selecting a remittance service, other factors include convenience (how easy is it and how long it takes to get to the drop off/pick up point?), security, speed and accessibility (does the service require a lot of paperwork and identity documents that the migrants, particularly if they are undocumented, do not have?). In many remittance markets, the large MTCs are often more expensive than other providers but they are they are a popular choice because they are fast, do not require a lot of paperwork and are considered secure. MFIs have the advantage of proximity to and have a well established relationship with remittances receiving households. Together with and MTC they can establish a service that is secure, fast, accessible and convenient. Such a service may be competitive even if it is not cheap.

Many MFIs become agents or sub-agents to MFPs. For example, in 2003 the Equity Building Society (EBS) in Kenya entered into a sub-agent agreement with Western Union with a bank in Kenya as the agent. EBS commenced offering remittances to 10 out of 18 of its branches and was able to gain a market share of 12% (Western Union controls about 60% of the market share).

Microfinance providers that are not permitted to handle foreign exchange have also developed domestic payment systems. Such systems can be used for school fees, small business payments, circular remittances and wholesalers and mitigates the risk of theft in carrying large sums of money across the country. In a partnership with an entity licensed to manage foreign exchange, a domestic payments system can also provide a distribution network for international transfers after they have been transferred to a central point from overseas. In Ghana, the central treasury for the rural banks (Apex Bank) has developed “Apex Link”, a domestic transfer system that networks the rural banks. A network of more than 100 banks, representing over 400 points of service has been established which uses proprietary software to manage money transfers using coded messages sent by phone, fax or express mail. Apex Bank also has a partnership for international transfers with a commercial bank licensed to manage international transfers. Apex Link was launched in June 2003 and within one year, 24,000 transfers were made totalling over US$27 million.

For many low income migrants, using a remittance service is their first contact with financial services and so remittance services offer an opportunity to attract new clients. To compliment their payments services, FSPs offer other products particularly suited to remittance linked households such as saving facilities, housing and business loans using remittances as collateral, loans to pay deposits for overseas work contracts and payment schemes for school fees and health costs.

Technologies can also help to improve the convenience and accessibility and thus the attractiveness of a money transfer service for poor and rural clients. ATMs, internet kiosks and PoS agents can be located in villages and remote areas than branch offices. Cost, therefore is not the only factor to be considered in assessing the value of new technologies.

The strategy of seeking to gain an edge in the remittance market through increasing the convenience of a service is not the exclusive domain of MFIs and rural banks. Commercial banks are using technologies to bring a whole menu of financial services, including remittance services, closer to poor, rural and remote communities. The internet service provided by ICICI is an example. The kiosks, which existed prior to the introduction of the money transfer service, use internet connectivity through Wireless Local Loop technology and were converted into cash agents. The kiosk owners became distributors of remittance funds to the rural public. ICICI estimates that kiosks can be placed in villages as small as 2000 residents.

Terms of Reference
Field Study, East Java (June – August 2006)

1.0 SCOPE OF SERVICES

Goal

Assess the potential for developing a model to improve the (i) impact of remittances on sustainable livelihoods through microfinance and IT and (ii) quality and availability of financial services for poor communities involved in the PIDRA project.

Objectives

1. For the designated study areas analyse:

    - remittance flows, usage and impact;
    - usage of and un-met needs for financial services by remittance linked households;
    - usage of and un-met needs for financial services by PIDRA member group households;
    - livelihood patterns and options;
    - political, social and cultural factors affecting usage of remittances and financial services; and
    - government poverty reduction strategies.

2. In the districts of Tulung Agung and Blitar assess the financial services sector in terms of the quality and quantity of services provided to poor and rural communities;

3. Assess the remittance services available to community members of Tulung Agung and Blitar in terms of cost, convenience, accessibility and security;

4. In the districts of Tulung Agung and Blitar assess the potential for improving the outreach and quality of financial service provision to the poor, through, but not limited to, innovation, partnerships and IT;

5. Assess the potential for improving remittance services available to community members of Tulung Agung and Blitar;

6. In the districts of Tulung Agung and Blitar assess potential for improving livelihood through investment and more effective usage of remittances.

2.0 Location

The field study will be undertaken in Tulung Agung and Blitar, two districts in East Java with a high take up areas for migrants as well as the presence of the PIDRA project. Within these districts two sub-districts and four villages (two in each sub-district) will be selected for detailed study

3.0 Duration and Timing

The field study to be carried out from 20 June – 21 July 2006.

A post field study analysis workshop to be held on 21 July 2006. The workshop will be attended by field study team members and PIDRA representatives. At this meeting presentations will be made on preliminary findings of the field study and plans made for the drafting of the final report and the preparation of recommendations for Stage 2 of REMIT.

Decisions regarding next steps for finalisation of Stage 1 of IFAD will be made at this workshop and in the period following this meeting.

4.0 Study Team and Scope of Services

The study team consists of three sub-teams including the policy analysis team, the institutional analysis team and the community analysis team. All teams will report to the International Program Manager, Frances Barns. The National Program Manager, Kuniawan, is responsible for management and logistics of the field study and will supervise the community analysis team.

Policy Analysis Team

The policy analysis team includes:

<u>Livelihoods Adviser: Bagong Suyanto</u>, Lecturer and Researcher, Universitas Airlangga, Faculty of Social and Political Science

<u>Financial Institutions Adviser</u>, Soebagyo, Dean, Universitas Airlangga, Faculty of Economics

The policy analysis team will be required to:

1. undertake an analysis of the situation in East Java relating to:

    i. poverty (causes and geographical distribution);
    ii. the economic structure (major industries, products, and patterns of economic growth);
    iii. the economic impact of remittances (geographical focus);
    iv. the government's poverty reduction strategy and the role of remittances and provision of financial services to the poor in this strategy;
    v. the financial services sector with a particular focus on the size and health of the sector, the provision of services to the poor, particularly in rural areas

vi. the regulatory framework for the financial services sector, with a particular emphasis on conduciveness to expanding the provision of services to the poor; and
vii. the potential for increasing the quality and quantity of financial services available to the poor through linkages, innovation and IT.

2. Collect data on the migrant worker numbers and remittance volumes in East Java by district.

3. Prepare a report (limit 20 pages) on the above topics and present this report at the Post Field Study Analysis Workshop

Institutional Analysis Team *(provincial, district and sub-district level)*

The Institutional Analysis Team consists of:

Institutional Analysis Team Leader: Nung Didik SB, Kangsuwil, Bina Swadaya, Lamongan

Institutional Analysis Researcher: Dr. Sukesi, MM, Postgraduate Program,
Universitas Dr. Soetomo

Institutional Analysis Adviser, Representative from PT Permodalan Nasional Madani (Persero)

The Institutional Analysis Team will be required to analyse the provision of financial services to the poor and rural communities including remittance linked households in the districts of Blitar and Tulung Agung. The Team will also be required to assess the potential for improvements in these services and improvements in the linkages between remittances and microfinance. In assessing this potential there should be a particular focus on sustainable funding sources and better outreach. They team will also need to assess impediments to such improvements and possible ways to get around these impediments. To do this the Institutional Analysis Team will be required to:

1. Attend a briefing and training workshop in Tulung Agung on 20-21 June 2006.
2. Interview banks and financial service providers at provincial, district and sub-district level. Topics to be discussed should include the institutions' portfolio size, funding base, their client base and products, their remittance services as well as their policies and plans to extend services to poor and rural communities.
3. (As appropriate) provide a brief presentation to the financial institutions on the use of innovation, partnerships and IT by financial institutions in other countries to increase the quality and outreach of services to the poor (including remittance services). Discuss the institutions' interest in these options and perceived impediments to their implementation (regulatory, infrastructure, funding base, market size etc). Report on these discussions;
4. Visit the UNDP's Telecentre at Madiun and assess the potential of facilities such as this to be linked into financial services provision;
5. Interview relevant government departments at provincial, district and kecamatan level including inter alia Bappeda and PMB on government policies and plans to increase financial services to poor and rural communities as well as problems and risks faced;

6. Interview the Department of Cooperatives, the Department of Agriculture and any other relevant government departments regarding their plans for securing sustainable funding sources for community based savings and loans groups established by their department;
7. Assess the potential for PIDRA savings and loans groups and other community based groups and cooperatives in the selected villages to access sources of credit from local financial institutions;
8. Communicate with the Field Study Team who will be focusing on the needs and unmet demands of remittance linked households, community members and community financial organisations (savings and loans groups) to get a sense of the match between the policies and plans of financial services institutions and community needs;
9. Collect daily reports on interviews held;
10. Make a presentation at the Post Field Study Analysis Workshop on 21 July 2006 on preliminary findings from the interviews; and
11. Based on i - viii above, provide a report on pro-poor financial services in the focus areas of the field study and the potential for improvements in these services (for more detailed information on the content of the report, see Clause 6 below).

Community Analysis Team

The community analysis team will consist of the <u>Community Analysis Team Leader, (Sugiyanto)</u> and Community Analysis Team Members:

<u>Kusnul Hidayati</u>
<u>Fadiq Muhammad</u>
<u>Dian Pratiwi</u>
<u>Imiam Ma'ruf</u>
<u>Chusnul Khotimah</u>

The Community Analysis Team will be required to collect quantitative and qualitative data on the usage of and unmet needs for financial services by remittances linked households and other community members, particularly members of PIDRA savings and loans groups. The team should also collect information on social, political and cultural factors impacting on the usage of remittance in the study focus areas. Information on livelihoods should also be collected including current livelihood patterns, the potential for improvements and factors (social, political, cultural, economic) impacting on the potential for these improvements to be realised. To do this the community analysis team will need to:

- Assist with the development of the survey instrument as required;

- Survey 150 remittance linked households and 50 non-remittance linked households regarding household income and expenditure patterns and use of financial services;

- Out of the 150 households surveyed, interview 20 households (including remitting and non-remitting households) regarding their level of satisfaction with the financial services available to them and their opinions on the potential of improved livelihoods by their households through remittance income, financial services and other means;

- Hold focus group discussions with PIDRA savings and loans groups and other village level financial organisations regarding the benefits of these groups to their livelihoods and unmet needs for financial services and 'technical assistance' to improve their livelihoods;

- Hold focus group discussions with community members on the topics of the usage and impact (economic and social) of remittances, financial services (current availability, needs and unmet demand) for remittance households, financial services (current availability, needs and unmet demand) for non-remittance households, livelihoods (current and potential), the local political economy;

- Prepare daily reports on meetings held;

- Present preliminary findings of the Community Level Analysis at the Post Field Study Analysis Workshop on 21 July 2006; and

- Prepare two reports documenting the findings of the in-depth interviews and the focus group discussions and any other 'qualitative' impressions from the field study.

Study Team

1.0 National Program Manager

Kuniawan is an experienced social researcher and has worked on projects with WHO, the World Bank, the Indonesian Government, JBIC and JICA covering issues including migration, maternal child health, land management, rural development and governance. He has skills in research design, team management, logistics and quantitative and qualitative data analysis.

2.0 Policy Analysis Team

Soebagyo is the Dean of Economics faculty at the University of Airlangga. He has published extensively on the topics of economic and finance development in East Java and sits on the board of the Provincial Government's Community Bank (Bank Jatim).

Bagong Suyanto is a senior lecturer at the Faculty of Social and Political Sciences at the University of Airlangga, Surabaya. He has published extensively on the topics of the economy and poverty in East Java, completed numerous consultancies on regional development projects and is a member of the East Java Government's Poverty Reduction Committee.

3.0 Institutions Analysis Team

Team Leader: ***Nung Didik*** works as the head of the training and research program at the Bina Swadaya Office in Lamongan. He has worked as a trainer, workshop facilitator and presenter for numerous microfinance and local economic development programs including for the public consultation of the World Bank public consultations for the Country Assistance Strategy (2001-2003) as well as GTZ/Bank Indonesia programs to strengthen the role of the Community Banks (BPRs).

Sukesi is a lecturer at the University of Dr Soetomo in Surabaya in the faculties of management and accounting, education and mathematics. She has worked on many consultancies for the Indonesian Government and private sector partners providing baseline research and evaluations in areas of rural development, industry development and community development.

PNM Consultants: PT Permodalan Nasional Madani was established in 1999 by the Government of Indonesia with the specific purpose of empowering micro and small to medium enterprises (MSME) in Indonesia. PNM's strategy is to develop local MFOs through financing programs, network creation and the provision of management services. Two consultants from the PNM Surabaya office, Budi Fajriansyah and Agus Prianto provided consultancy inputs to REMIT.

4.0 Community Analysis Team

Team Leader: ***Sugiyanto*** works as a lecturer at the Faculty of Economics at the University of Dr Soetomo in Surabaya. He has carried out 36 economic assessments most of which provide baseline assessments for development plans projects by private companies or city, district or provincial government agencies including the East Java strategic planning committee, the mojokerto regional planning committee and the State Regional Marketing Company of Surabaya.

Fadiq Muhammad, a graduate of the Islamic State College (STAIN), Tulung Agung, has worked as a journalist, researcher, trainer, facilitator and activist in Tulung Agung for 10 years with a range of organisations. The focus of his work has included community empowerment, migrant worker support, human rights and workers rights.

Ulfa Himatul Syaharin, an accounting graduate, works with the Blitar Migrant Support Association. She has also been active as a youth leader in the Nahdlatun Ulama.

Aminatus Sholikhah works as a program coordinator at the Women's Crisis Centre in Jember. She has also been active in promoting women's rights with a range of organisations in a range of capacities including training, radio presenting and organizing seminars

Imam Ma'ruf has worked as a researcher for the IFC on a project assessing investment potential in Eastern Indonesia and as an electoral observer. He is currently undertaking a graduate degree at the Islamic State College (STAIN) where he is active as a leader in NU's youth branch the Indonesian Islamic Youth Movement (PMII). He has also been active in community empowerment activities including promoting women's participation in politics.

Kusnul Khotimah works as a researcher at the Gender Studies Centre at STAIN in Tulung Agung. Major pieces of research include an investigation in the trafficking of women in East Java.

Detailed Analysis and Results from the Case Studies

1.0 Detailed Findings

This report provides an outline of the main results and findings based on the survey questionnaire, in-depth interviews and focus group discussions. The findings have been grouped under the themes of: village livelihoods; impact of migration; payment for contracts; spending of remittances; remittances and households; and; financial services and loans.

1.1 Village Livelihoods

The four selected villages (Bendosari, Maron, Kandemangan and Sumberingin) have similar economic structures. They are all based on rice agriculture with secondary crops also grown such as corn, soy bean and peanuts. As agricultural production does not provide a sufficient livelihood the vast majority of community members have secondary enterprises. Livestock such as goats, cows and chickens are reared and there are also forest and plantation products such as palm sugar and teak furniture. In addition, in all the villagers there are some community members engaged in trade, wage earning and informal non-agricultural enterprises such as tempe and tofu production.

While the villages have similar basic economic structures there are also differences between them. Bendosari and Maron are 19 and 23 km from Blitar respectively. Bendosari is on the coast and Maron is slightly inland with forest lands surrounding two border sides. These villages are south of the river Berantas which divides the district of Blitar in half. The southern side is less fertile that the northern side which is close to an active volcano and where the river branches into many subsidiaries providing water to the villages. Bendosari and Maron are based on dry land, rain fed rice growing. Maron has only 26 ha of wet rice agriculture which is rain fed and Bendosari has none. Neither of the villages have any irrigation systems at all. Only one rice harvest per year can be planted as well as one other crop if the rains are good. Kalipucung and Sumberingin are on the north side of the river and closer to the city of Blitar (Kalipucung is adjacent to Blitar and Sumberingin is eight km away) and are more fertile. Three harvests can be undertaken in a year (two rice crops and one *palajiwa*). The villages still suffer from water shortages in the dry season when water must sometimes be bought. Dryness affects food for livestock who eat grass and forest foliage.

Chicken farming for eggs is an important activity in Bendosari and Maron. Chicken farming is a larger scale enterprise than goat or cow rearing that requires much more capital but can be potentially lucrative. In each of the villages there are over 100,000 chickens. In Bendosari villagers have been rearing chickens since the 1990s however many households went bankrupt during the 1997 financial crisis as the price of inputs (feed and medicine) rose dramatically.

In Maron villagers engaged in focus group discussions estimated that about 30 percent of village were engaged in furniture making using the teak from state forest within the village. The large number of villagers engaged in this business is putting pressure on supplies and the villagers also lack skills, mechanised tools and access to markets and are hit with heavy licensing fees.

In the 1950s and 60s Maron was a support base for the *Partai Komunist Indonesia (*PKI) which was targeted and maligned by the Soeharto Government. Maron was cut off from Government projects including infrastructure projects such as the building of roads until 1985. The village was thus very poor and hunger and malnutrition was widespread. In the early 1990s villagers started going overseas for work both as legal and illegal immigrants. Approximately 500 villagers are now working or have worked overseas. Migration for work has had a big impact on the village.

In Kalipucung land is in short supply, the majority of villagers own no land or less than 0.25 ha and many work as agricultural labors. However, because the village is close to the city other work is available. Factory work is available in chicken factories which produce up to five tons of eggs a day and a Japanese owned furniture factory. Also, a higher proportion of villagers work as public servants or in the police or army than in any other of the villages. Many villagers also work as small-scale traders.

Sumberingin, with its high fertility is an agriculture focused village but there are also a large number of traders. In addition to cow, goat and chicken farming there are areas of Sumberingin with rainfall all year around that are suitable for fresh water fish farming and seven ha is used for that purpose within the village. There is also an active palm sugar industry which is something that used to be popular in Kalipucung but is less so now as the villagers there considered it to be too hard work.

Table 7: Occupations in Bendosari, Maron, Kalipucung, Sumberingin Village

Main occupation	B	M	K	S
farmer	247	912	305	1801
farm labourer	468	36	569	411
construction worker	153	112		
civil servant	4	15	491	69
home industry	11			25
trader	2	63	225	1025
tailor				35
livestock	24	158		
driver			38	10
woodworker				20
stoneworker				29
army/police			28	1
teacher				25

Figure 3 shows the monthly income of the different villages, not including remittance income, divided into five quintiles. The incomes are for both remittance and non-remittance linked households. Kalipucung has the lowest percentage of respondents in the lowest quintile 24.1 percent followed by Sumberingin 32.7 percent, Bendosari, 36.4 percent and Maron, 41.8 percent. Kaipucung has the highest percentage of respondents in the second and third quintiles 60.3 percent, followed by Kalipucung, Bendosari 47.3 percent and Maron, 43.6 percent. Amongs the two highest quintiles, however, there is not much difference: Bendosari has 16.3 percent, Maron, 14.6 percent, Kalipucung 15.5 percent and Sumberingin 13.4 percent.

These figures would suggest that, on average, people are better off in Kalipucung and slightly better of in Sumberingin, than in the other two villages, although there is not much difference between the wealthiest people in the village. Agriculture is generally among the lowest paid occupation. A farmer with an average plot size for the four villages (0.5ha or under) would generally make Rp 350,000 per month and a farm labourer may make half that whereas the average wage for a driver (Rp 500,000), a commercial trader (Rp 1,000,000), a public servant (Rp 1,000,000) and a police or army officer (Rp 1,250,000).

Figure 4 shows the different livelihood activities of respondents' households. As all households engaged in at least two livelihood activities, livelihoods were grouped into the most common combinations. Figure 6 also shows less reliance upon agriculture in Kalipucung than in other villages. The finding that respondents in Kalipucung which is the least agriculturalised village were the wealthiest is consistent with the findings of the recent World Bank poverty study (2006). Movement out of poverty among households in Indonesia is associated with a movement out of the agriculture sector, although not necessarily a physical move from a rural to an urban location.

Figure 3: Village Incomes

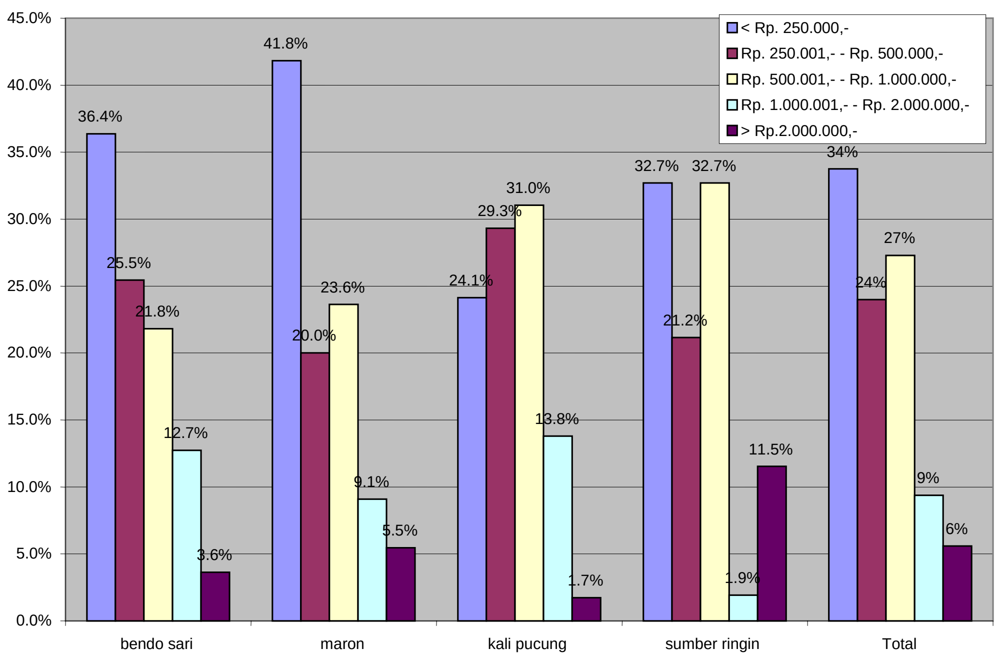
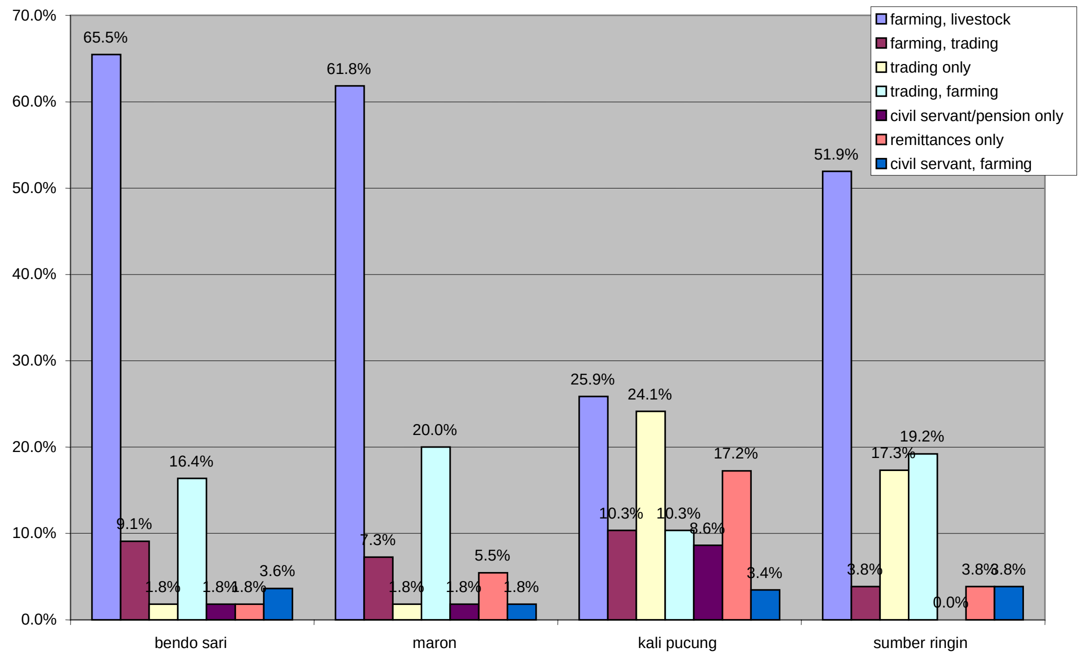


Figure 4: Livelihood activities in the villages



1.2 Impact of migration

The impact of migration is often analysed in terms of the ratio of 'consumption' to 'investment' spending. Whether the migrants are temporary or permanent and whether they are 'altruistic' or portfolio" remitters are also discussed. Altruistic remitters are those who remit to support the needs of community members back home. Such migrants still have strong links to the home community and often they are absent only temporarily. Portfolio remitters are those that transfer money to their origin community to build their investment portfolio. They are more likely to be permanent migrants. All the migrants in the study were temporary migrants, in the sense that they traveled overseas to work on limited term contracts (generally two years). As they are still very much rooted in their home communities the migrants are "altruistic" remitters, remitting for the needs of their households at home rather than only sending money to their home communities for investment purposes.

The size of the economic impact on migration can be seen in terms of how much money migrant work is bringing into the community relative to the wages and cost standards within the home community. Table 8 shows the average wages for overseas work.

Table 8 Average wages in destination countries

Country	Local currency	Rupiah
Saudi Arabia	SR 600	1,342,200
Malaysia	RM 350	761,600
Singapore	Sin 250	1,239,750
Hong Kong	HK 3,670	3,930,570
Taiwan	NT 15.000	3,735,000

Comparing Table 8 with Figure 9 gives an idea of the relative size of overseas wages compared to earnings obtainable at home, keeping in mind that Figure 9 income is for the whole household.

Figure 5 shows the amount of the most recent transfer received by respondents' households for the four villages and Figure 6 shows the frequency of transfers. The amount of the most recent transfer ranged from Rp 500,000 to Rp 30 million. These differences are due to differences in the frequency of transfers, differences in wages, salary cuts for the repayments of loans for the overseas placements and different levels of consumption spending by the migrant in the overseas country. There are more transfers of between one and two million than any other amount for all the villages. The frequency of transfers ranges from only having ever received one transfer to 18 times a year.

There are more households that receive two to four transfers a year. While it is not possible to generalise from these figures, it is likely that an average household earns Rp 4,200,000 per year (Rp 350,000 per month) receiving three transfers a year of Rp 1,500,000. Such a household would double their annual income through remittance transfers.

Figure 5 Frequency of Remittance Transfers

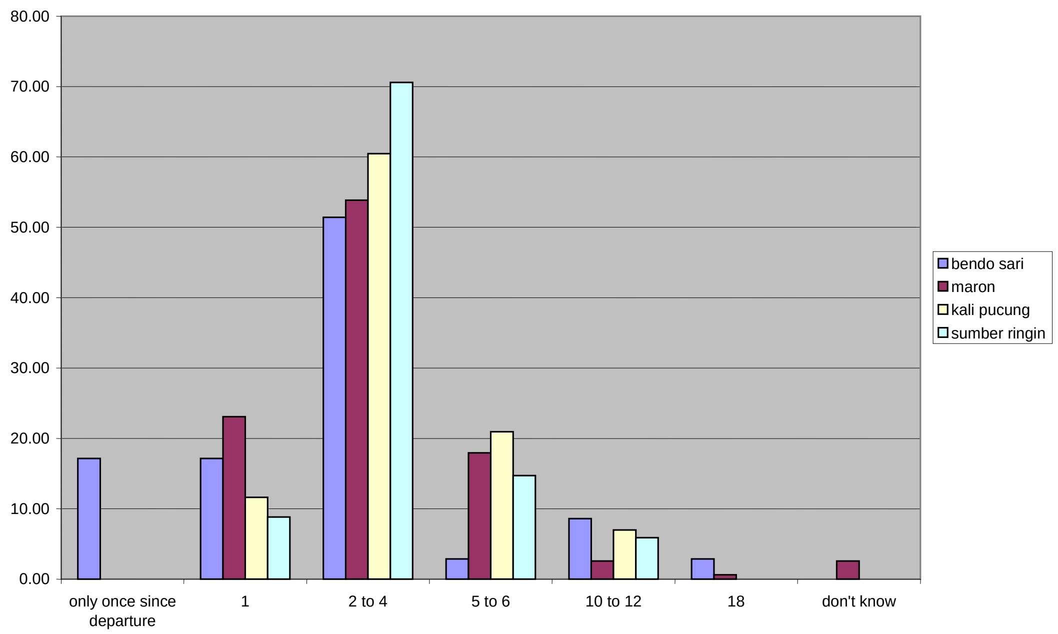
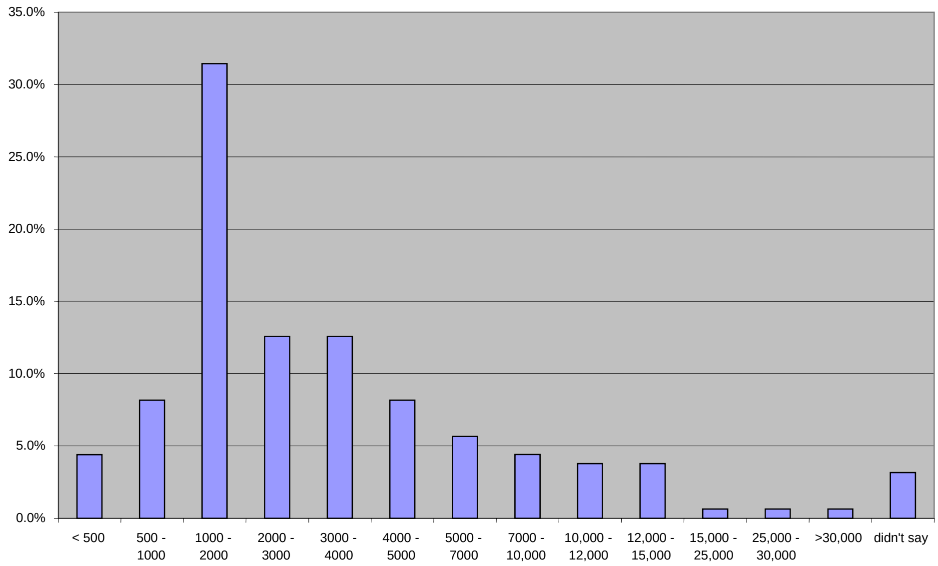


Figure 6 Amount of most recent transfer



In addition to making remittance transfers, 65 respondents said that the migrants brought cash when they returned from overseas at the end of their contract, between contracts or on holiday. Of those that brought cash, 25 of respondents said that migrants in their household brought Rp 1 million or under, 26 said they brought between Rp 1 and Rp 5 million, four said they brought between Rp 5 million and Rp 10 million and 10 said they brought over Rp 10 million. Forty-six respondents also said that the migrants brought non-cash goods home on their return. The goods included clothes and bags, cosmetics, toys, CD/VCD players, cameras, TVs, irons, gas stoves, jewellery, cooking implements.

Of course the longer the migrant is away earning higher wages than are available locally the greater the injection of funds into the community. Forty-nine percent of the migrants worked overseas for between one and two years, 28 percent for three to four years, nine percent for five to six years, six percent for seven to eight years, five percent for nine to ten years and four percent for over ten years. Given the perception in Indonesia that migration linked households often become dependent on their overseas income and return repeatedly for overseas contracts, its was surprising to see that the largest group of migrants went only for one two-year contract.

Other factors that impact on the amount of money brought into the community are fees incurred in relation to migration. These include money transfer fees and the fees paid to obtain the migrant placement. Table 9 shows the spread of fees paid by the migrants to make money transfers according to the method of transfer. Because most of the interviewees were recipients of the transfers, they were not very well informed about the fees paid by migrants. Table 10 shows the breakdown of fees for receiving transfers

Table 9 Average transfer fees paid by migrants for sending transfers (Rp '000)

	no fees	<5	5-10	10-30	30-50	50-100	>100	don't know	Total
through bank	3	4	2	2	6	0	1	24	42
through non-bank	2	1	0	0	0	0	0	9	12
don't know	12	6	7	7	3	1	1	49	86
no answer	0	0	1	1	0	0	0	19	21
total	17	11	10	10	9	1	2	101	161

Table 10: Average transfer fees paid by migrants for receiving transfers (Rp '000)

	none	<5	50-10	10-30	30-50	50- 100	>100	don't know	total
bank account own	13	10	7	10	3	5	1	85	126
bank, no account	0	1	3	0	1	1	0	4	10
post office	1	0	0	0	0	0	1	2	4
frield/relative	2	0	0	0	0	0	0	5	7
don't know	1	0	0	0	0	0	0	5	6
Total	17	11	10	6	4	5	2	101	161

Another cost which cuts into the overall amount of the transfer is the cost of travel to the bank to pick up the transfer. Table 11 shows how far the respondents had to travel to pick up the transfer, for each of the four villages. The average distances reflect the distance of the villages from Blitar city as this is where all the money transfer providers are located (apart from BRI which also has branches at sub-district level). A number of respondents said that they would travel 3-4 times into town when collecting the transfer because once they got the call from the migrant that the transfer had been paid they weren't exactly sure when the transfer would be made. From Bendosari or Maron every trip would cost about Rp 5000, so this would add considerably to the cost of the transfer.

Table 11 Distance traveled by respondents to collect transfers.

Distance	Bendosari	Maron	Kalipucung	Sumberingin
< 10km	11	1	24	11
10-20km	0	4	9	20
>20km	23	29	0	1

Table 12 shows which financial institutions transfers were received at, in the different villages. All the transfers for which respondents traveled less than 10 km to pick up were transferred to the BRI. BNI is the most popular bank for transfers even in the more rural villages, despite the fact that BRI is much closer. There was a perception that the BRI sub-district unit office was a stand alone unit and not linked to a network of banks and there was also a perception that the fees were higher, despite the fact that according to BRI staff there is no charge to receive a transfer. For example, one respondent said that when Rp 1 million was transferred to his BRI account only Rp 910,000 turned up.

Table 12 Institutions where transfers were collected

Bank	Bendosari	Maron	Kalipucung	Sumberingin
BRI	14	4	9	1
BNI	18	24	31	26
Western Union	1		1	2
BCA	1	5	0	2
Bank Mandiri		2	1	1
Bank Jatim			1	

1.3 Payments for contracts

Aside from transfer costs, another factor that cuts into migrants' income is the fees that they pay to initially obtain the contracts. The fees cover the cost of flights, passports, visas and health checks as well as a placement fee. Many migrants do not have the cash to pay the fees and take up loans, often through the companies who do the placements. This results in migrants having their salaries cut over a number of months, reducing the amount of money available for remitting.

Figure 7 Placement fees paid by Migrants

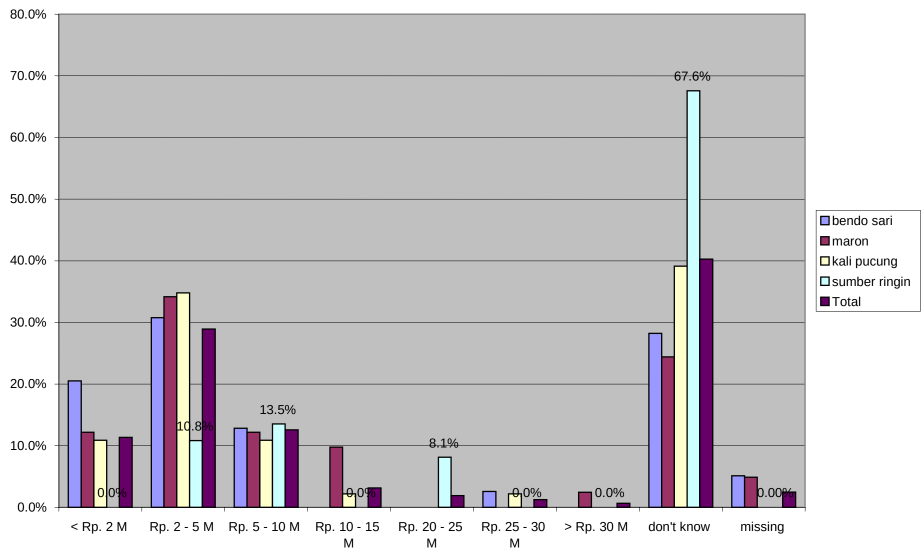


Figure 8 shows the fees paid by the migrants in obtaining their overseas contract. Many respondents did not know about the total fees that the migrant paid, which is the reason for the large "don't know" category. It is interesting to note that, one migrant, working in Brunei Darussalam, when he returned a second time, paid his own ticket which cost Rp 1.5 million. Tickets to countries further away would be more expensive but this gives an idea of the extent of the extortion being carried out by the PJTKI. The figure does not show that the majority of migrants being charged exorbitant fees but it does show that some of them are and considering how much of the data is missing there maybe more. In Sumberingin, only just over 20 percent of the data is available but 13.5 percent said they paid 5 -10 million in fees and 8.1 said they paid 10-15 million in fees.

75.5 percent of migrants took out a loan to pay the fees. Figure 8 shows the sources of loans among migrants. Most migrants take out loans from the placement companies, with or without borrowing some money from family members. Figure 9 shows the length of time in which salaries were cut to repay the loans. Clearly the placement fees have a significant impact on the money available for remitting.

Figure 8 Sources of loans for Migration Contracts

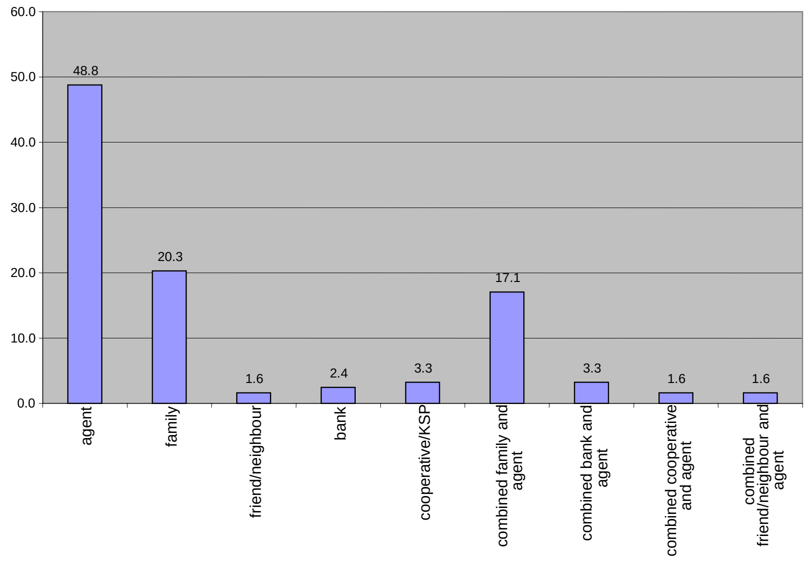
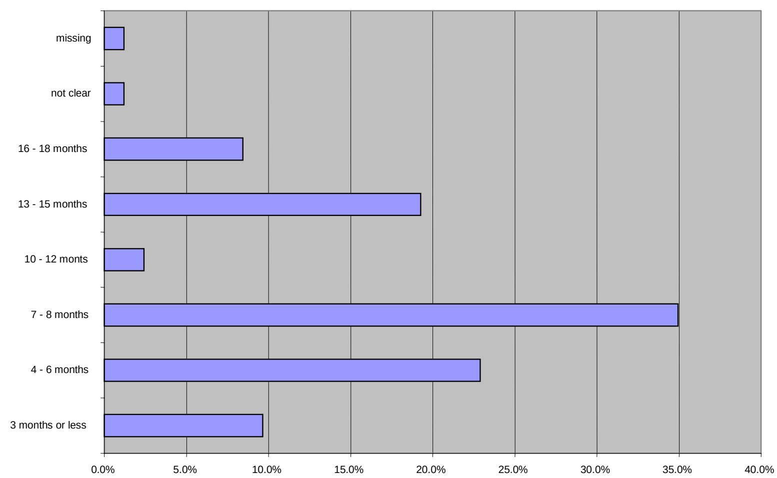


Figure 9 Loans from Agents (length of time for salary cuts)



Being deceived, stolen from and 'ripped off' are other factors that negatively impact on the funds being transferred into a community through migration. The study did not collect quantitative data on such issues but there were a number of anecdotes that emerged through the in-depth interviews. For example, a respondent from Bendosari paid Rp 15 million to work in Malaysia but for two years all that his employer gave him was cigarettes. Another respondent made his down-payment to go to Malaysia but the company went bankrupt and he lost his money.

Migrant workers are very vulnerable to theft and extortion in practice and they have little protection from the law. Women workers in Saudi Arabia, who are unable to leave the house and therefore manage their own transfers, and illegal migrants in Malaysia are particularly vulnerable. The fact that migrants seem to me more inclined to make transfers through the bank and less inclined to carry cash has reduced their vulnerability to theft although many are still concerned about carrying large amounts of cash on the journey back from Blitar city to collect the transfer.

1.4 Spending of remittances

In addition to the amount of money that migration injects into the community, another issue that affects the impact of migration on the local economy is how the remittances are spent. Indonesian Government officials often lament the consumption rather than investment orientation among migrants. Our study showed a mix of consumption and investment spending by migrants. Figure 10 shows that the most frequently mentioned item was routine household spending followed by savings, education, loan repayments and capital for an enterprise. The incidence of routine spending as the most frequent item mentioned for use of the most recent transfer indicates a dependence on remittance transfers among recipient households.

Figure 10 Items spent on recent transfers

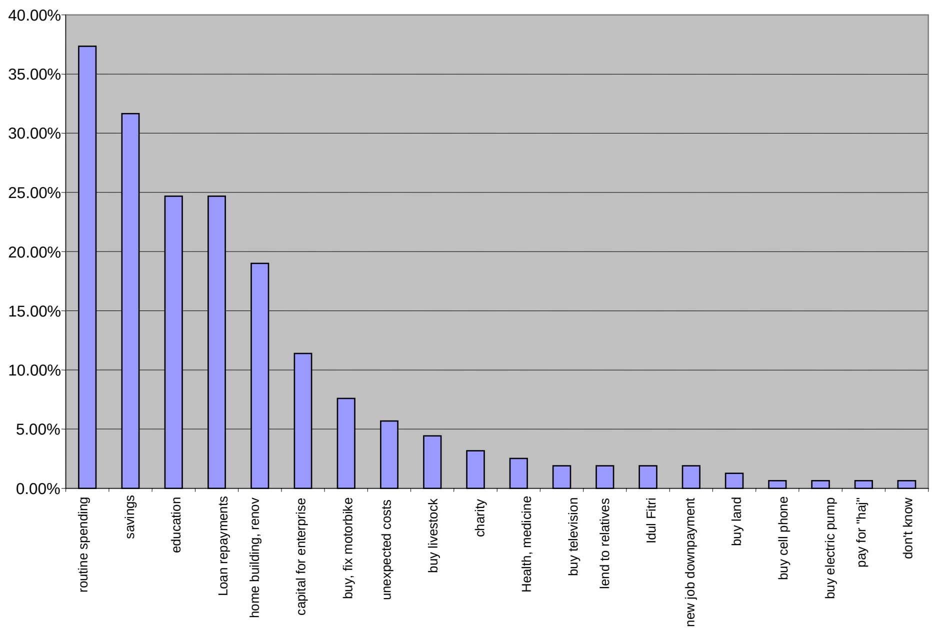
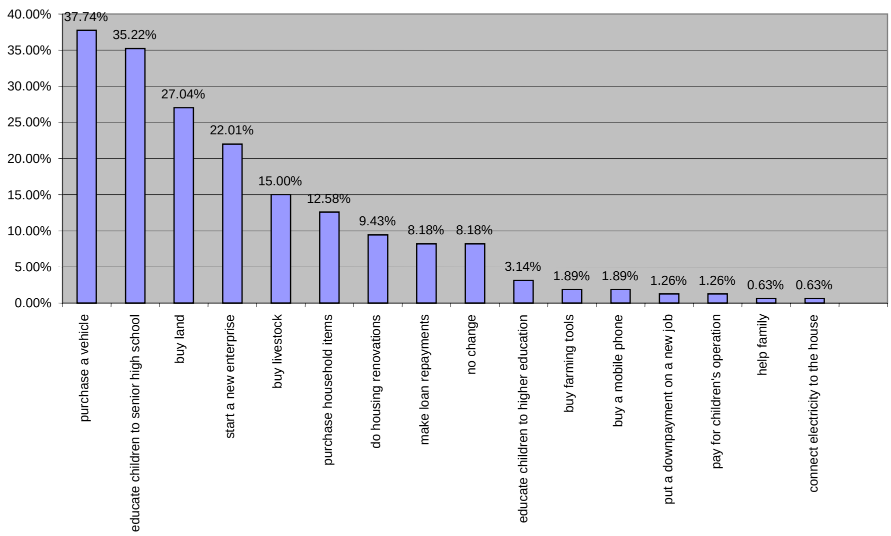


Figure 11 shows changes that have occurred amongst households since migrating. The most frequent change since migration is being able to build a house (43.4 percent), purchase of a vehicle (37.74 percent), educate children to high school (35.22 percent), buy land (27.04 percent), start a new enterprise (22 percent) and purchase household items (12.58 percent). A mix of consumption and investment spending among migrants can be seen. Housing is both consumption and investment spending because the use of houses (ie living in them) is consumptive but ownership of property builds up the asset base. Vehicles for consumption use and for transporting goods for enterprises are also significant. Spending on education is also investment spending as in the long term it may increase the earning capacity of the household.

Figure 11 Changes since migration



Housing was very important for migrants. Almost all migrants had either or planned to “upgrade” their house from bamboo or tin to brick house or do extensions on their existing brick house. It is common in Indonesia for people to build their house in stages as funds become available. People will live in houses with un-plastered walls and unfinished floors as they slowly finish building the house over a number of years. Among rural community members, if a household is able to build a brick house then they may feel reduced pressure to raise their earning capacity. Other factors that put pressure on household income are children’s education costs and health costs.

Another way to assess the impact of migration is to compare the ownership of assets among migrants and non-migrants. Figure 12 shows the percentage of households possessing productive assets and Figure 13 shows the comparison for household items. The ownership of productive assets is quite low in general. A higher percentage of non-remit houses than remit houses possess productive assets which may indicate a tendency among migrating households to depend on remittances rather than pursue local enterprises.

Focus group discussions revealed that the districts on the south side of the river Berantas are much more dependent on remittances than those on the north. Bendosari and Maron are more reliant on farming but the soil is less fertile. In Kalipucung focus group discussion members rated, in order of priority, the livelihood activities which provided the greatest contribution to the village as factory work (in egg and furniture making factories), small scale trading and migrant work. In Sumber ringin villages rated farming, livestock (cows and goats) palm sugar making and then migrant work. Focus group discussions in the villages of Bendosari and Maron revealed that there is a high level of dependence on remittances whereas in the northern villages this is not the case. A higher level of household items and vehicles are possessed by migrants than non-migrants. In particular, migration seems to have brought a lot more mobile phones into the villages. This supports the idea that spending among migrants is “consumptive” but then the cost of household items may not be so high that it prevents investment spending.

Figure 12 Migrants and Non-Migrant Households: Ownership of productive assets

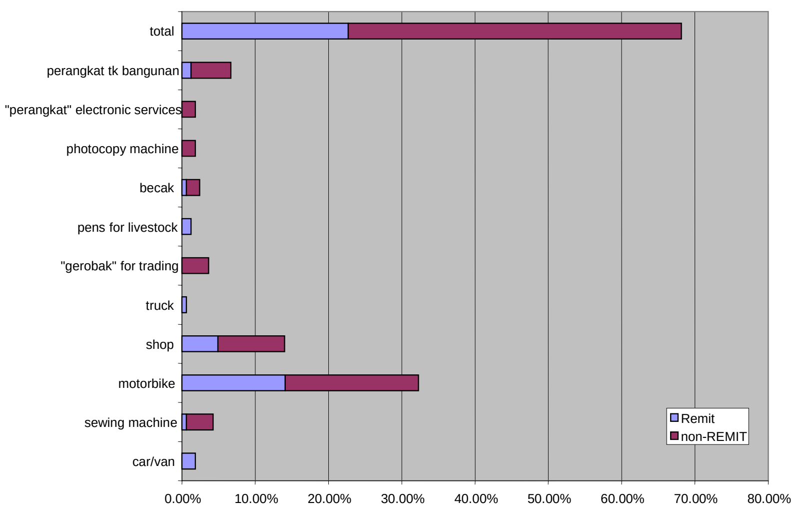
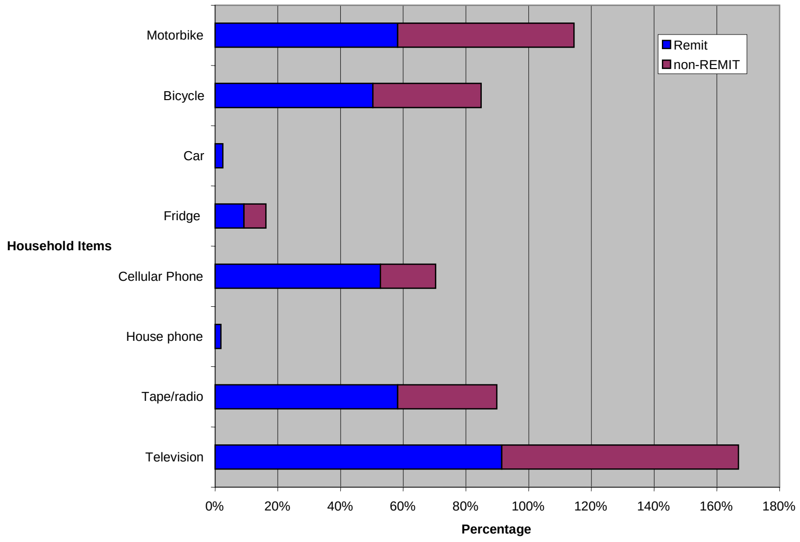


Figure 13 Ownership of household items among migrant and non-migrant households



1.5 Remittances and Livelihoods

The extent to which investment spending of remittances can improve long term livelihood prospects of migrant households is limited by the impediments to the development of the enterprises of these households. Micro-enterprises, such as those which the respondents are engaged in, employ a majority of Indonesians. These enterprises generally have a number of characteristics including:

- scale of enterprise which is too small to cope with the cost of inputs
- lack of patrons and connections which means that micro-entrepreneurs often pay high costs and fees.
- limited access to credit
- low level of investment
- lack of formal training and low level of technology leading to poor product quality
- direct marketing to consumers in local markers or supplying distant market through traders. Traders create a monopolistic market through forcing the price and supply of goods.
- a small number of workers employed
- no differentiation between personal and business resources

In spite of their many problems, micro-enterprises were able to withstand the financial crisis while other sectors collapsed. Supraktikno has pointed out some key advantages of MSMEs:

- a core element of the economy which other sectors depend on;
- accustomed to elastic profit margins
- gather in clusters so that which enables them to generate some shared benefits in purchase of materials and use of skills and marketing.

The structural limitations and characteristic of micro-enterprises are such that, while they have durability as a means of survival they are difficult to strengthen and develop including from remittances. This can be seen in regard to the enterprises of the households interviewed.

Chicken farming, for example, requires a high level of investment: about Rp 40 million. Because community members lack access to capital they have an arrangement with a monopoly trading company, PT Poltry whereby it sells inputs and buys produce from the chicken farmers. Chicken farming has very elastic profit markets due to the volatility of sale prices and of inputs, which are either imported (medicines) or difficult to access at particular times of the year (feed). When market conditions are favourable such as they were at the time of interview (the price of eggs was Rp 7000 per kilogram) profits could be approximately Rp 3 million per month. If the price is low, however, the farmer can only just cover costs. In addition to the volatility, chicken farming is high risk due to the high level of morbidity and mortality among the birds. All of this risk is borne by the farmers and the anecdotal evidence of our survey suggested that is was not at all uncommon for farmers to go bankrupt and lose their entire investment.

Furniture making is popular in the village of Maron. The furniture makers buy teak from village members growing teak on their land to make chairs, doors and tables etc. They have not had any formal training but have generally picked up the skills from their neighbours. They use simple traditional tools and sell their product in local markets. The villagers lack access to capital which might enable them to upgrade their tools because their land has not been properly registered. Furthermore, banks are reluctant to take land as collateral which is not close to main roads. The villages would like to receive skills training and access to markets further a-field including export markets.

Over time the availability of teak is reducing as more community members are taking up furniture making and so often it is necessary to buy wood from outside the village including wood that has not yet been felled. Due to laws intended to curb illegal logging, licenses are required for cutting trees and government fees are incurred every time any logging is carried out. Fees must be paid at village, sub-district and to the forest department, *Perhutani.* In the focus group discussion the villages stated that even when they had paid the fees they would often have to bribe police when transporting materials.

Other micro-enterprises are also subject to limitations. Circular traders buy ready made goods and only have access to limited local markets and there is a limit to how much these enterprises can be bolstered by additional investment. Farmers may buy more land which will increase their earnings but they are still subject to the availability of water, the quality of seed and other inputs and access to markets. Because of the multifaceted limitations on their enterprises, community members tend to have a survival rather than an expansionary orientation. Migration helps them to fund key expenses such as housing, healthcare and education which are a struggle to pay for without the cash injection from overseas work. While they may also direct their earnings towards their micro-enterprises, this may not result in a dramatic improvement in their income earning capacity. Productive assets – such as vehicles – may be sold later on if funds are short.

1.6 Financial Services

Of the migrant households surveyed 55.2 percent said that someone in their house possessed a savings account at a bank, MFI or savings and loans groups and 44.7 percent said that no-one in their house kept savings in any kind of financial institution. Of the non-migration households 38.5 percent had savings in an institution and 59.6 percent did not and 2 percent household didn't know. The higher level of savings accounts among migrants compared to non migrants may be due to migrants coming into contact with financial institutions through the process of arranging money transfers. Information on where the savings are kept supports this suggestion as seen in Table 13. The banks which were preferred for transfers were also preferred for savings accounts (ie BNI and BR).

For most migrants, the household savings account was the account into which savings were transferred. The use of savings and loans groups/cooperatives for saving was limited, except for PIDRA groups which were quite well utilised by community members in Bendosari and Maron where the PIDRA project operated. Table 14 shows the frequency of deposits and withdrawals of savings. Table 15 shows the method of interaction with the financial institution. ATM use exists but it is not particularly high. The most common reason for not using ATMs was the fees charged but some respondents also said that they were too poor or too old to understand them. Respondents were not asked how much savings they possessed as the local researchers felt that such a question would be impolite and inappropriate.

Table 13 Institutions in which savings are kept by migrants and non-migrants

		bendosari	maron	kali pucung	sumber ringin	Total
Banks	bank BNI	9	16	20	19	64
	bank BRI	11	2	9	5	27
	bank BCA	1	4			5
	Lippobank			1		1
	Bank Mandiri	1			1	2
SLGs, Cooperatives	PIDRA	8	7			15
	KSP	1	1			2
	KBS (kelompok Tani)		2			2
	KBU		1	1	1	3
	Koperasi Rukun Jaya		1			1
	don't know	1	1			
Total		30	26	28	26	110

Table 14 Frequency of deposits and withdrawals of savings

Deposit	B	M	K	S	Total	Withdrawal	B	M	K	S	Total
two weeks								1			1
every month	11	14	4	3	32		4	5	4	3	16
every two months	2	4	2	1	9		1				1
every 3-4 month	3	8	6	5	22		2	1	4	1	8
every 5-6 month	3	1		2	6		4	1	3	1	9
every 11 - 12 months		2			2		4	14	1	1	20
less than once a year	2				2		4				4
no pattern	1	1	3	6	11		5	4	3	9	21
every time a transfer arrives	4	2	17	10	33		2	1	9	9	21
rarely							2	2	3	3	10
if the migrant returns								1	1		2

Table 15 Method of interaction with savings institution

cashier	22	12	21	19	74
ATM	1	8	7	6	22
group treasurer	3	9	1	1	14
group meetings	3	3			6
don't know	1				1
never been withdrawn			1		1

1.7 Loans

The data suggests that migrants are less likely to borrow money from a financial institution and that migration is perhaps seen as an alternative to borrowing rather than a basis for accessing more capital (figure 14).

Kalipucung is the only village where a smaller percentage of non-migrant households did have loans than migrant households. In the focus group discussions in Kalipucung group members specifically mentioned the reluctance of villagers to borrow money from financial institutions. A number of reasons for this reluctance were given by the villagers, including embarrassment at having their house surveyed, a preference for borrowing from family members rather than from institutions, a lack of knowledge about bank products, repayment regimes that are unsuitable for farmers whose income is seasonal, complicated procedures and a feeling that borrowing from banks introduced a burden in their lives that they would rather be without.

Table 16 shows, for those who respondents had loans, which institutions these loans were taken out at. Figure 14 shows the size of the loans at the different institutions.

Figure 14 Household Loan with a financial institution

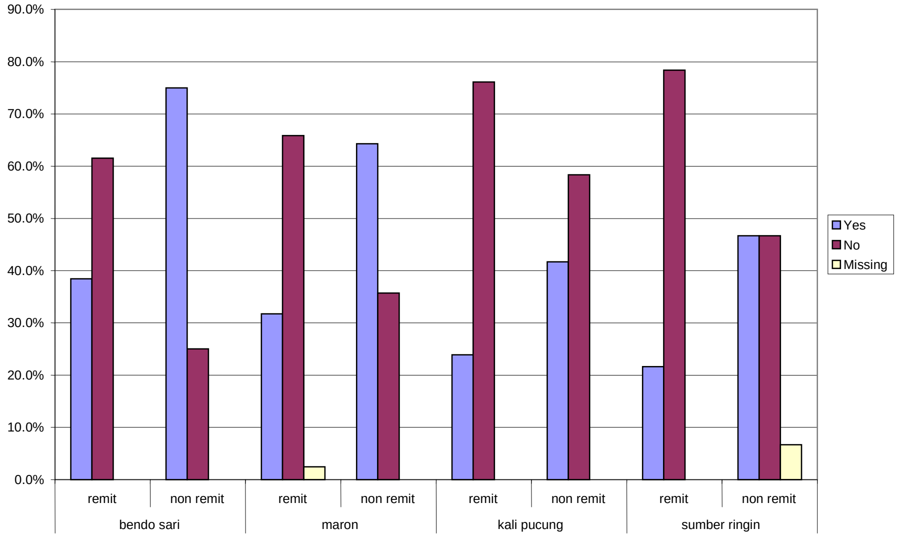


Table 16 Institutions where respondents had taken out loans

		bendo sari	maron	kali pucung	sumber ringin
Banks	BRI	11	3	2	3
	Bank Kredit Desa				8
	BPD Jatim				1
	BPR		1	2	
	bank plecit			2	
	armada finance (through BCA)	1		1	
Projects	PIDRA	15	14		
	KSP	1	2	3	1
	PKK	1	1	3	
	P4K		2		
	KRM		2		
	Environment dept		1		
Cooperative	Koperasi		2	1	2
NGO	NGO			1	
	informal money lender	1			

The findings show that, among the banks, BRI is the largest provider of loans and provides loans of a range of sizes. While the BNI is the preferred institution for savings by the community members it is absent as a source of loans. Other than BRI, the commercial banks in Blitar including BNI, BCA, Bank Danamon and Bank Lippo do not have micro-credit products which include loans under Rp 50 million.

The villages closer to Blitar have a greater variety of MFIs with banking licenses including BPRs, Bank Jatim and Village Credit Banks. In the rural villages these institutions have less of a presence. The BPR sector has received much attention from the government in recent times as a potential 'motor' for the micro-enterprise sector. There are nine BPRs in Blitar which are located in six sub-districts and have branches in other sub-districts. The study was able to get data on five

BPRs and found that there were approximately 21,000 savings accounts with BPRs and 9000 loans. The average loan size for a BPR is about Rp 2-3 million. The BPRs seem to have reasonable coverage of the Blitar district and more appropriate loan products than the commercial banks, but still there was little reach from the BPRs among the respondents surveyed.

Government programs including micro-credit components were present in all the villages but there was more take up of these programs in Maron. The PIDRA program is present in Bendosari and Maron. The IFAD loan project, PIDRA focuses on the empowerment of poor communities living in the upland areas of three Provinces, East Nusa Tenggara, West Nusa Tenggara and East Java. PIDRA aims to increase the incomes and food production of about 100,000 poor families living in the 500 poorest villages in the three provinces. PIDRA does this by inviting the target beneficiaries to participate in voluntary self help groups (VSHGs) which are a vehicle to provide a range of support services including savings and loans facilities, business development services and training in financial management. PIDRA has selected the poorest members of the community to participate in the groups and adopted approach of encouraging independence and empowerment among group members. The project has also assisted with the improvement/maintenance of village infrastructure and natural resources.

The study findings show the PIDRA Project to have a decent scope, as it stands out at the biggest source of loans for households. However, in general the loan sizes are very small. Loans are provided through savings and loans groups (the VSHGs) where members are required to attend monthly meetings and provide a contribution. Program funds were not provided for six months while the members received training in financial management. After this, tranche funds were provided to a maximum of Rp 10 million over three years depending on the performance of the group.

In the PIDRA project, skills training were also provided in organic fertilizer making, home industries (tempe and tahu), chicken farming and other activities. The groups were able to pursue their own strategies and some of the groups had taken up livestock breeding where the group would purchase livestock (goats and cows) and lend them to group members for rearing and breeding. While respondents appreciated the approach of the PIDRA project (particularly in Bendosari) the loan sizes which were generally under Rp 500,000 were too small to really help their businesses. No further funding was available after the first three years, it was up to villagers to grow the funds through their SLGs or access outside funding. Village level “federations” have been created to support the process of accessing outside funds, among other things.

The P4K project was also active in Maron where 13 farmer groups with sixteen members per group had been established by the project. The P4K project was much more generous, providing Rp 7 million grants to each member over a five year period. Not surprisingly, villagers in Maron preferred the P4K project to the PIDRA project. Another interesting savings and loans group was the Kelompok Rukun Mulya which was started by a group of villagers in 1983 who made about Rp 15 million selling rocks to a government project asphalting the road. With some of the money they formed a savings and loans group. The group now has 70 members and Rp 100 million circulating. Loans are provided for up to a year with three percent interest. There are even members joining from other villages.

REMIT Project

Analysis and Planning Workshop
22-24 November, 2006

Day/Date	Time	Agenda	Presenter/Facilitator
Wednesday 22 Nov' 06	08.00 – 08.30	Introduction: introduce participants and REMIT project.	Frances Barns
	8.30-9.15	PIDRA expectations from REMIT	Djadi Purnomo
	9.15-10.15	Part 1: Session I: Key concepts/issues and new developments in microfinance and remittances	Frances Barns
	10.15-10.45	Break	
	10.45-11.45	Session II: Key issues and developments in microfinance in Indonesia	Riza Primahendra/Budastra/Dali
	11.45-12.45	Session III: Key issues and new development pertaining to migrant workers and remittances	Kuniawan
	12.45-14.00	Lunch	
	14.00-15.00	Session IV: Key concepts, issues and developments pertaining to poverty reduction in Indonesia	Bagong Suyanto
	15.15-15.30		
	15.15-17.30	Session V: microfinance services in Blitar district: commercial banks, rural banks, cooperatives, government programs	Nung Didik dan Sukesi/PNM
	17.30-18.00	Summarise key points from the day	Frances Barns
	18.00	Rest	
Thursday			
23 Nov'06	07.00	Breakfast	
	08.00-10.00	Session VI: economy of sample villages: structure of the economy, causes of poverty, role of remittances, hopes and potential for improved livelihoods the villages	Ciciek, Sugiyanto, Fadiq, Ma'ruf
	10.00-10.30	Break	
	10.30-12.30	Session VII: financial services in the villages: use and unmet needs for financial services (remit and non-remit), role of PIDRA, potential improvements	Ciciek, Sugiyanto, Fadiq, Ma'ruf
	12.30-14.00	Lunch	

	14.00-16.00	<u>Session IX: village economy in the context of the district and province economy:</u> economic trends and government's poverty reduction strategy	Bagong Suyanto
	16.00-17.30	<u>Part II: Session I: model REMIT:</u> ideas for improving village level livelihoods through remittances, microfinance and IT.	Frances Barns+Kuniawan
	17.30	Rest	
Friday			
24 Sept' 06	09.00-12.30	<u>Session II Continued</u>	Frances Barns+ Kuniawan
	12.30 – 14.00	Lunch	
	14.00-15.30	<u>Session III: SWOT and risk analysis</u> for ideas that have been put forward: including issues such as government policies/attitudes and attitudes of financial institutions, community attitudes and capacities, IT capabilities.	Frances Barns + Kuniawan
	15.30-17.30	<u>Session IV: planning session:</u> moving forward to implementation of REMIT	Frances Barns + Kuniawan

DAFTAR PESERTA
WORKSHOP HASIL SURVEY REMITANCE

No	Nama	Lembaga & Alamat
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6	Cicik	RPC. Jl. Utan kayu no 80 Jakarta 0218563371/ 0818927116
7	Sugiyanto	larangan megaasri C-56 sidoarjo 031 8955883/ 08121705464
8	Fadiq Muhammad	Jl. I Gusti ngurahrai VI/10 Tulungagung 66218 0355-337080/ 081335679987
9	Ketut Budastra	081803660098 Univ. Mataram.
10	Bagong Suyanto	Universitas Airlangga, Surabaya
11	Djadi Purnomo	PIDRA, Department of Agriculture, Jakarta
12	Djamal	PIDRA, East Java Provincial Manager
13	Frances Barns	REMIT Program Manager
14	Kurniawan	REMIT National Program Manager

Application Form
SMALL GRANT DESIGN DOCUMENT.

1. Grant Window	***2. Division/Depart.***	***3. Originator/ and Date***	***4. Resource Holder Division***

***5. Title of the Grant*: Remittances, Microfinance and Technology, Stage 2: Pilot Project**

6. Recipient
Foundation for Development Cooperation
Suite 4, Level 2, 67 Astor Terrace
Spring Hill Brisbane QLD 4000 Australia
Tel: +61 7 3831 8722 Fax: +61 7 3831 8755
Grant Agreement Signatory: Craig Wilson, Executive Director

7. Recipient Legal Status: (*State type of legal entity for compliance with Grant Policy paragraph 44, and date and country of registration (if applicable).*

8. Recipient Technical Capacity:
FDC's Technical Capacity is known to IFAD. The Foundation for Development Cooperation is an independent international development cooperation think-tank based in Brisbane, Australia, but focusing on Asia and the Pacific regions. From its inception in 1990, microfinance has been FDC's "flagship" programme, leading to the creation of the 'Banking with the Poor' (BWTP) initiative and BWTP network in 1997.

In June 2004, FDC and the University of Queensland's School of Economics co-hosted a workshop entitled "Remittances, Microfinance Technology (REMIT): Leveraging Development Impact for Pacific States". In addition to the current proposal, the FDC workshop led to FDC's involvement in a major study executed by FAO, with funding from The Ford Foundation, looking at linkages between microfinance institutions in the formal and informal sectors in a number of countries including Indonesia. The REMIT workshop has also led to FDC collaboration with the Royal Melbourne Institute of Technology (RMIT) in a cross-country study on links between remittances and microfinance, with country studies in Indonesia, Sri Lanka and The Philippines, Samoa and Fiji.

9. Programme Partners:
P.T PNM
Migrant Care
Ford Foundation

10. Target Group/Participating Countries:

11. Financing Plan:	**12. IFAD Grant amount –** (under USD 200,000)
Grant requested from IFAD: USD 197,000 ***Contribution from Migrant Care/Ford Foundation: USD 34,000*** ***Conditional Loan financing from PT PNM: USD 100,000***	*First installment:* *(on receipt by IFAD of detailed workplan) 30 March 2006)* *USD 70,000* *Second installment:* *(on receipt by IFAD of first six monthly progress report)* *USD 70,000* *Third Installment:* *(on receipt by IFAD of second six monthly progress report)* *USD 57,000*
13. Implementation Period*:* ***2 years***	***14. Possible Start date of Activities****:* *30 April 2006*

15. Eligibility details in accordance with the Grant Policy: *This section should state: (a) how the programme meets one or both strategic objectives detailed in paragraph 28 of the Grant Policy; (b) why activities could not be financed byIFAD admin. budget or PDFF; (c) confirmation that the grant will not finance costs of IFAD hired human resources or related costs thereof, etc.*
This Section to be completed by IFAD Originator not by Recipient.

16. Goal: The Goal of the Programme is to demonstrate successful, sustainable approaches to poverty reduction for replication and scaling up.

17. Objectives: The objectives of the Programme are to:
- increase the impact of remittances on local economies by leveraging their impact through microfinance services; and
- improve the impact of the PIDRA project by increasing the access of PIDRA beneficiaries to financial and business development services;

18. Activities: The Programme shall consist of the following Components:

Component 1: Access to Finance. This Component focuses on supporting the PIDRA *Federasi* to be independently access sustainable sources of finance. The steps for moving toward eligibility for commercial loan funding would involve first, establishing the legal status, regulatory, management and supervision systems for the MFI to qualify the MFI for commercial finance. The second step would be to lobby on behalf of the MFI to attract commercial sources of funding, where necessary obtaining "guarantee finance" through regional government or other GoI sources. Third, the project would work toward establishing the independent eligibility of the MFI for commercial loans based on its strong systems and credit rating obtained through participation in the program. This process, if successful, could then be replicated with other *Federasi*. Activities in this component would be carried out in cooperation with the NGO/MFI Bina Swadaya, East Java who would provide staff to program manage the component. Representatives from the Bina Swadaya East Java Office have been part of the REMIT stage 1 study team. Specialist consultancy inputs would also be provided from P.T PNM and from FDC's wide network of microfinance specialist expertise including FDC's own team of staff and the BWTP.

Component 2: Services for Migrants. There is potential for the *Federasi* to provide a range of services as outlined above including remittance transfers and payments services, pre-departure loans and pre-departure training in financial management, worker protection and rights. Migrant research would be carried out to identify potentially viable services building on the research that was carried out in REMIT Stage 1. Activities in this component would be carried out in cooperation with the Department of labour and transmigration, migration placement agencies (PJTKI) and the NGO Migrant Care who have been working to support migrant workers for over 10 years. Specialist inputs to assist with product and program development would be sourced by FDC. Migrant Care have committed USD 32,000 of a grant from Ford Foundation to the program. The project would also seek to access KKPA-TKI funding, made available for pre-departure finance for migrants.

Component 3: Business Development Strategies The focus in this component would be on supporting the work already being carried out by the PIDRA project to ensure that the additional funds accessed for the Federasi were matched by strong strategies for enterprise development. Potential strategies could include (i) intensifying research into local product development potential (ii) investigating the availability of and supporting access to in-country resources for quality improvement of inputs, skills development and market linkages through IT; (iii) harnessing the support of regional governments (district and province) by promoting the integration of the *Federasi* into Regional Development Strategies and Poverty Reduction Strategies at District and Province level. Activities in this component would be carried out in cooperation with representatives of local community development organisations and Airlangga University, Surabaya.

Component 4: Program Management. This component involves the coordination of all inputs on the program, personnel and financial management, maintaining the overall direction of the program, monitoring progress on the program and engaging stakeholder support to ensure the sustainability of the program. Responsibility with this component will rest with FDC and with an in-country program manager nominated by FDC.

19. Outputs: The Programme shall consist of the following outputs which shall be forthcoming from the Component Activities detailed in section 18 above:

Component 1

C1 Output 1: Select the *Federasi* for participation in the project. The *Federasi* would be selected on the basis of (i) high level of migration in the area (ii) sound management capacity (iii) enterprise potential for the local savings and loans groups (iv) enthusiasm for participating in the project. The selections would be based on a consensus between the REMIT and PIDRA management teams.

C1 Output 2: Market research. Market research would be carried out to determine what size "catchment area" would allow for the viability of the MFI. This may require that a number of *Federasi* work together in implementing the program. Market research in this component would be combined with the market research for Component 2 and would build in the research carried out through REMIT I.

C1 Output 3: Establish the legal entity of the enterprise. With support from REMIT and in consultation with PIDRA, the *Federasi* would select their preferred form of legal entity. FDC/FAO Seminars to be delivered in Indonesia would provide input into this process as would specialist inputs sourced by FDC. Issues to be considered include funding potential, ability to collect savings and simplicity and efficacy of management and supervisory systems.

C 1 Output 4: Establish management systems, SOPs, IT support, supervision and auditing arrangements. This would be carried out with the support of project management staff and P.T PNM with consultancy inputs sourced through FDC's network of microfinance specialists.

C1 Output 5: Liaise with banks and financial wholesalers to assist the *Federasi* to access commercial sources of finance. Liaison with potential lenders would occur concurrently to developing the legal status and the management structure of the MFI, to ensure that systems were developed that were suitable for commercial borrowing. The first time lenders package offered by P.T. PNM would be considered but REMIT project would also explore a number of possible strategies to encourage banks and other financers to lend to the *Federasi*.

C1 Output 6: Begin addressing requests for loans. Proposals would initially be invited from members of the VSHGs but later this would be widened to include other members of the community.

C1 Output 7: Audit of the Federasi's financials. Initially an audit would be carried out every six months, with an Australian auditor sourced by FDC.

Component 2

C2 Output 1: Market research. Building on the research carried out as part of REMIT I, market research will be undertaken to identify what remittance linked products and training programs for migrants have the most potential viability (linked to C1 Output 2)

C2 Output 2: Liaise with the Department of Labour and Transmigration, migration placement agencies (PJTKI) and regional governments (province and district) to set up a program of pre-departure services. In order to integrate services such as training and pre-departure loans into the *Federasi*'s menu of services, there is a need to coordinate with the above agencies that are responsible for organizing the departure of migrant workers. It will be necessary to select PJTKI that are amenable to cooperating with outside agencies.

C2 Output 3: Develop the curriculum for pre-departure training in worker protection and rights and financial management during migration. Responsibility for collaborating with the *Federasi* to develop a curriculum for pre-departure training will be with the NGO "Migrant Care". Specialist inputs sourced by FDC will be provided in relation to the financial management component, drawing in FDC's extensive network of microfinance practitioners which includes specialists in financial literacy training.

C2 Output 4: Promote the new products and programs among community members.

C2 Output 5: Deliver training programs and implement the new products. It is hoped that at least three programs will be implemented before the end of 2008.

Component 3

C3 Output 1: Community research and investigating product potential. REMIT and PIDRA staff will collaboratively investigate the potential of promising enterprises and identify in-country resources for improving inputs and skills development and improving market linkages.

C3 Output 2: Integrate the needs of the PIDRA community into Poverty Reduction and Regional Development Strategies. The REMIT team would work together with the District and Province Government to integrate the findings of the REMIT and PIDRA research into the above strategies. This would be carried out with the assistance of Bagong Suyanto, a senior lecturer at Universitas Airlangga who is a member of the East Java Poverty Reduction Committee and the Blitar Regional Development Committee.

Component 4

C4 Output 1: Personnel, logistical and financial management. Staff contracts and a detailed cost schedule will be prepared, offices rented and office equipment purchased.

C4 Output 2: Monitoring and Evaluation. A monitoring and evaluation plan will be prepared identifying indicators of progress on the program

C4 Output 3: Liaison with stakeholders. Liaison with GoI and donor stakeholders will be ongoing to encourage participation in the program.

C4 Output 4: Reporting to IFAD. Six monthly progress reports will be prepared for IFAD and a completion report after a two year period.

20. Short description of implementation arrangements:
The program would be coordinated by FDC with an in-country implementation team and consultancy inputs sourced from within FDC's network of microfinance and business development specialists.

Component 1: Program Management Staff would include two staff from Bina Swadaya who would support Federasi staff. Training, support for documentation drafting and capacity building would be provided by in-country and international specialists including PT PNM, FAO and specialists sourced through the BWTP. An Auditor would be sourced by FDC from Australia.

Component 2: Program Management staff would include representatives from the NGO Migrant Care who would work together with Federasi staff to develop the program. Capacity building inputs in financial management training and product development would be sourced by FDC from within the BWTP.

Component 3: Program management staff would include two community development specialists from local community organisations as well as consultancy inputs from Airlangga University, Surabaya and BWTP.

Component 4: Overall management of the program would be carried out by FDC Program Manager, Frances Barns and National Program Manager, Kuniawan.

21. Short description of Recipient's institutional financial management. Details re Recipient's:
(a) internal financial controls exercised; (b) external audits and how undertaken; (c) whether in accordance with International Financial Reporting Standards or describe other; (d) policy on disposal of assets acquired under grant:

Should be completed by Recipients Finance Staff.

22. Reporting Requirements*: (a) six monthly progress reports; (b) completion report;(c) Annual Work Plans and Budget; (c) statements of expenditure with each withdrawal application except first) to justify previous advance disbursed; (d) final statement of expenditure for entire grant amount; (d) certified copy of audited accounts relative to the Grant amount and related audit report prepared by independent auditors in accordance with International Financial Reporting Standards. Confirm the foregoing, or state if different.*

23. Rationale for IFAD (to be completed by IFAD Originator** (not by Recipient)**):

24. Cost Table (by category).

Personnel - FDC	*78,000*
Personnel – other	*61,782*
Travel and Perdiems	*33,531*
Office Costs	*15,066*
Meetings/workshops	*8,538*
Total	*196,917.58*

25. Documents Attached: *(a) audited financial statements of Recipient for last 2 years which includes Audit Report signed and dated by Auditor; (b) procurement guidelines of Recipient to cover goods, services, human resources including consultants; (c) evidence of legal status of Recipient. Or confirm date sent by email to IFAD – or confirm that they are available and will be sent prior to finalization of Grant Agreement..*

26. PT Screening/Review Comments: *(to be attached by IFAD (PT))*

27. Response of the Originator:

(to be signed and dated by technical reviewers or PT as confirmation of satisfaction re technical comments)

IFAD SMALL GRANT PROPOSAL
for
FDC PROGRAM: REMIT STAGE 2

BACKGROUND

An IFAD small grant (IFAD/FDC Grant 754) was provided to the Foundation for Development Cooperation (FDC) to investigate and test the potential of IT enhanced linkages between remittance flows and microfinance to reduce poverty and promote sustainable development in East Java. The grant was to identify a new and effective business model or models linking microfinance, remittances and IT that provides sustainability as well as replicability. It was intended that the model would:

- reduce transaction costs where this is possible and appropriate
- strengthen direct links between remittances and the full range of microfinance services; and
- improve rural livelihoods, as a result of successful management of financial and other resources, improved financial literacy and micro-enterprise development etc

The Foundation for Development Cooperation is an independent development cooperation think-tank based in Brisbane, Australia, but focusing on Asia and the Pacific regions. From its inception in 1990, microfinance has been FDC's "flagship" programme, leading to the creation of the 'Banking with the Poor' (BWTP) initiative and BWTP network in 1997. In June 2004, FDC and the University of Queensland's School of Economics co-hosted a workshop entitled "Remittances, Microfinance Technology (REMIT): Leveraging Development Impact for Pacific States".

In addition to the current proposal, the FDC workshop led to FDC's involvement in a major study executed by FAO, with funding from The Ford Foundation, looking at linkages between microfinance institutions in the formal and informal sectors in a number of countries including Indonesia. The REMIT workshop has also led to FDC collaboration with the Royal Melbourne Institute of Technology (RMIT) in a cross-country study on IT-enhanced links between remittances and microfinance, with country studies in Indonesia, Sri Lanka and The Philippines and Tonga.

The rationale for seeking to enhance the impact of remittances on development relates to the fact that remittances now represent one of the largest forms of financial flows into the developing world and, as cross border flows go, have some specific advantages, such as being counter cyclical. As remittances are private flows, and their impact on development occurs largely through spending by individual households, microfinance services are deemed to be a key mechanism for enhancing the impact. For example, improvements to money transfer facilities can encourage migrants toward using the formal system rather than "informal" methods of funds transfer such as the "hwali" system which carry a greater risk of theft and enhance the potential for terrorist financing. Loans, savings, insurance, financial literacy education and other services can improve household financial management and steer remittance spending towards an investment or "asset building" orientation.

Furthermore, the provision of remittance related services by Microfinance Institutions (MFIs) increases the income and liquidity of MFIs and helps them to expand their services to the poor. Information and Communications Technology (ICT) has become a key platform for expanding microfinance services for migrants. Mobile phones, Point of Sale (PoS) devices, internet banking, debit and credit cards are now part of the menu of options available for domestic and international money transfers in countries such as the Philippines, Mexico, India, Sri Lanka and many African countries. The use of such devices has gone hand-in-hand with an expanded role by MFIs in remittance related microfinance services and greater outreach of these services.

It was not just in terms of the general impact on livelihoods that IFAD commissioned the investigation in East Java into the role of remittances vis-à-vis development and the potential for enhancement of this role. As is the case with many IFAD small grant projects IFAD/FDC 754 was intended to support an IFAD loan project, in this case the Post-Crisis Integrated Development in Rain-fed Areas (PIDRA – IFAD Loan No. 539-ID).

PIDRA focuses on the empowerment of poor communities living in the upland areas of three Provinces, East Nusa Tenggara, West Nusa Tenggara and East Java. PIDRA aims to increase the incomes and food production of about 100,000 poor families living in the 500 poorest villages in the three provinces. PIDRA does this by inviting the target beneficiaries to participate in voluntary self help groups (VSHGs) which are a vehicle to provide a range of support services including savings and loans facilities, business development services and training in financial management. PIDRA has selected the poorest members of the community to participate in the groups and adopted approach of encouraging independence and empowerment among group members. The project has also assisted with the improvement/maintenance of village infrastructure and natural resources.

Particularly in the five districts of East Java included in the program, access to finance for the savings and loans facilities of the VSHGs has become an issue of concern as without access to outside sources of finance, many of the VSHGs have reached a ceiling in their savings and loans functions. With East Java known to be one of the provinces with higher levels of migration, the REMIT study was commissioned with the idea that remittances might become a resource for financing the VSHGs.

The grant (IFAD/FDC 754) was intended to be for Stage I of a three stage process. The research phase (Stage I) was to include a field study analyzing in selected communities, credit sources and needs, the flow and uses of remittances (international and domestic) and implications of remittances for socio-economic development of the target communities. The study was also intended to assess IT applicability and potential. On the basis of this study it was intended that a “model” develop a model to leverage remittance flows through microfinance, using information technology would be developed in consultation with various stakeholders for field testing in stage II.
In Stage II, pilot projects would enable field testing of one or more models, with monitoring and evaluation frameworks in place to support refinement of successful models for replication in East Java and elsewhere in Stage III.

Stage I is approaching completion. The field study was implemented during the months of June – August 2006. One district in East Java, Blitar, was selected for study and within Blitar the subdistricts Kademangan and Sanan Kulon were chosen. Within Kademangan the villages of Bendosari and Maron were selected. Within Sanan Kulon the villages of Kalipucung and Sumberingin were chosen for analysis. In the villages, 220 households were surveyed including 160 remittance linked and 60 non-remittance linked households. Focus group discussions and indepth interviews were also carried including consultations with PIDRA staff and group members. Interviews were also carried out with representatives of financial institutions including commercial and rural banks and cooperatives.

A process of stakeholder engagement has also been ongoing to encourage participation in the development, and later the implementation of the “model”. Discussions have been held with banks (BNI, BRI, Bank Mandiri), cooperatives, wholesale financers (P.T. PNM), government departments at national level (Department of Labour and Transmigration, Bank Indonesia, Department of Agriculture, the national planning body (Bappenas), the Secretary of State’s office). Provincial and regional level government representatives have also been engaged as have NGOs including migrant worker support organisations (Migrant Care, PPSW) and community development organisations. Stakeholder interest in the project has developed and the following organisations are possible participants in the project:

- FAO – in cooperation with FDC will be holding a series of seminars regarding linkages and legal entity formation for MFIs. The seminar series in Indonesia can provide input to the development of the MFIs participating in REMIT II.

- P.T. PNM: This commercial wholesaler and capacity builder for cooperatives and regional banks (www.pnm.co.id) has committed to providing wholesale funds for MFIs supported by REMIT II on a commercial basis. Funds are expected to be in the order of USD 100,000 but will require matching guarantee funds to lend to organisations without a credit rating
- NGO Migrant Care: have committed approximately USD 32,000 of funds received by Ford Foundation for support for Migrant Workers;
- Blitar Regency Head: has expressed interest in committing program funds to the project for the 2008 funding cycle;
- Secretary of State's Office – has invited FDC to present the model to a GoI interdepartmental meeting to invite participation and contributions to the project.
- the funds legislated under the Central Bank Instruction BI No.2/3/PBI/2000 as part of the KKPA – TKI program for financing migrant workers may be available for use under the program.

THE MODEL

Through the process of research and stakeholder consultation, a model has been developed. A workshop was held in Surabaya on 22-24 November with study team members, PIDRA staff, national microfinance experts to analyse the findings of the field study and brainstorm for the development of a model. Based on an analysis of the findings and issues that emerged from the communities sampled the team in Surabaya developed a "model" which aims to:
- increase the impact of remittances on local economies by improving the security and convenience of the transfer process and by increasing the interaction between remittances and a range of microfinance and other support services; and
- improve the impact of the PIDRA project by increasing the access of PIDRA beneficiaries to financial services.

The model involves trialing an approach of strengthening the village level institutions known as "*Federasi*" established by the PIDRA project to support the VSHGs. Within the PIDRA Project, the intended role of the *Federasi* is to attract sources of finance, assist with obtaining quality inputs and marketing and identify and develop promising enterprises.

The selected *Federasi* would be enhanced in these functions and also supported in new functions relating to remittance linked microfinance services. REMIT would assist the *Federasi* in three key ways, first by helping them to attract additional sources of finance. REMIT would support the *Federasi* to develop the legal status, management structures and credit records to qualify them for commercial funding and as a broker with banks and commercial wholesalers. Activities in this area would be carried out in collaboration with FAO, the NGO/MFI Bina Swadaya, specialist inputs sourced through the BWTP and P.T PNM.

Second, the *Federasi* would also be supported to generate additional sources of income by providing services for migrant workers and their families. The *Federasi* selected for the trial will be in areas with a high level of migration/ remittance flows. Services could include remittance transfer services, payments services, pre-departure financing, financial literacy education, savings facilities, worker rights and awareness education. Activities in this area would be carried out in cooperation with the Department of Labour and Transmigration, the NGO Migrant Care who have been working on migration related issues for over 10 years, Ford Foundation and selected overseas placements agencies (PJTKI).

Third, to strengthen the technical as well as financial functions of the *Federasi*, REMIT would assist with action research looking at how to strengthen the business development services (ie skills training and marketing) of the PIDRA project. Approaches to this research would include pursuing an intersectoral approach, integrating the program into regional development strategies and poverty reduction strategies, and use of IT. This component would be carried out in cooperation with representatives of local community development organisations and Airlangga University, Surabaya.

FINDINGS OF THE FIELD STUDY

The key findings of the field study are:

Remittance Transfers

For most of the households surveyed the migrating household members used banks and bank accounts to transfer remittances. In the PIDRA villages, 23% of respondents from remittance linked households reported that they received remittances through BRI, 59% through BNI, 5% through BCA, 3% through other banks, 1% through the Post Office and 10% through other means. While many migrants do transfer through the formal banking system, they also bring home a lot of cash as well as non-cash goods when they return. A common pattern is for remittances to be transferred through the banks in response to a specific request from home while the majority of the earnings are brought home as cash on the return of the migrant. In some cases this practice is encouraged by employers who withhold wages until the end of the migrant's contract.

These findings show that, although the majority of migrants are familiar and comfortable with the formal banking system, there is still room for improvement on current practices. Bank outlets are present in the district capital and some recipients travel up to 20 km to collect a transfer, often 3-4 times because of confusion about when the transfer would actually arrive, risking theft on the journey home. An even greater risk is incurred in transporting large amounts of cash in person from the work location overseas. Furthermore, there is still a minority using the non-formal system who could be encouraged to use the formal system.

Services providing transportation of remittances from the bank branch office in the district capital to the village would be useful. An agent (MFI) could provide a local outlet for collecting the remittances either through use of PoS or by collecting remittances from the district capital in bulk on behalf of the recipients.

Education and awareness campaigns to encourage migrants to transfer more of their earnings through the formal banking system and to discourage them from carrying cash would also be of benefit. Migrants should also be aware of appropriate employment practices and the fact that withholding wages by employers is not acceptable. There should also be support services for migrants to turn to case of inappropriate practices by employers.

Pre-departure finance

Many migrants take out loans to obtain their overseas contract ranging from Rp 1 -25 million (USD 100 – USD 2500). Often these loans are borrowed from the placement agency (PJTKI) and are repaid through monthly deductions on wages.

Funds for pre-departure loans could be made available through a local MFI enabling the money made on the loan to benefit the local economy. It may be possible that KKPA-TKI funds could be available for this purpose. There should also be information available to migrants on appropriate fee levels as well as capping of fees by the government because fees in the order of 10-25 million are excessive for the services provided.

Remittance spending

Among the households interviewed, remittances were used for repayments on the loan paid to obtain the contract, household consumption needs, children's education, housing renovations or building a new house, purchase of a vehicle (usually motorbike), purchase of electronic goods, starting an enterprise, inputs for an enterprise, purchase of livestock and purchase of land. The longer the migrant worked overseas or the higher the remittance the more likely the remittance was to be spent on more expensive assets such as productive land, a house or livestock. Newer migrants and/or remitters of smaller amounts were more likely to spend their remittances on loan repayments, household consumption and less expensive goods. Study team members also identified what they described as a "consumptive" orientation among some households whereby spending decisions prioritised items of status value such as household electronic goods over asset building that would benefit the livelihood capacity of the household in the long term. Obtaining start up capital for an enterprise was a common reason cited by respondents for going overseas to work. However, it did not always end up this way if remittances were taken up with paying for everyday expenses and housing renovations etc.

Our study indicated that migrants were less inclined to borrow than non-migrants. Amongst survey respondents in the PIDRA villages 35.5% of migration linked households had taken out loans with local financial institutions, compared to 64.5% who did not (this does not include loans with placement agencies). Among non-migrant households, 69.65 % borrowed with local institutions whereas 30.35 % had no loans. This indicates a tendency among community members to rely on wages earned for investment purchases rather than to use them as a down payment for accessing more finance. However, many remittance recipients or former migrants indicated that they had ideas for starting or expanding enterprises but could not access the finance they needed. Although some migrants take out loans before departure, there were no migrant tailored services available to the migrants.

There is potentially a market for a range of financial services tailored for remittance linked households including payments schemes (eg with direct-from-migrant payments for school fees or household bills). It might also be possible to introduce a culture of borrowing (responsibly!) among migrants. Pre-departure credit could be made available for housing, vehicles, land, livestock whereby repayments can be made through migrants' wages. Financial literacy education would also be useful to broaden the understanding of household members as to their range of options in remittance spending and to encourage an orientation toward investment spending and asset building.

Local economies

In the PIDRA villages surveyed, most households were engaged in rice farming as the main income generating activity. Almost all households also carried out supplementary enterprise activities because their income from rice farming was not sufficient due to small plots and lack of irrigation allowing for an only once a year harvest. Secondary activities included off season farming of other crops, chicken, goat and cattle livestock, trading of farm produce, teak plantation, furniture making as well as service industries such as transportation, food and drink provisions. Impediments to the development of enterprises were cited as difficulty in obtaining good quality and affordable "inputs" (eg fertilizer, animal feed, wood and machinery for furniture making), weak marketing position, limited knowledge and skills (for furniture making) lack of transportation, water shortages and difficulty in dealing with bureaucracy (eg in obtaining licenses .

Lack of access to credit was also cited as a major problem. Reasons for this included lack of collateral (banks' preferred form of collateral was a certificate of land ownership or motor vehicle ownership. Many respondents did not have their land properly registered or their land was too far away from the road and therefore not acceptable as collateral), a generalized belief that banks would not lend to them as well as fear of not being able to make the repayments.

The study shows that community members need more access to credit facilities, skills training, accessing quality and affordable production inputs and simplification of the bureaucracy. But what is the PIDRA project currently doing in these areas?

The PIDRA project

Our study found that the PIDRA project was useful to the poor members of the community who participated in the VSHGs. Participation in the groups helped the community members to develop incoming generating capacity through savings and loans activities, technical training and financial management training. Training has been provided to group members by Agriculture Department staff in enterprise management, hen farming, goat farming, organic fertilizer making, teak farming and tofu making and by local NGO staff in book keeping and financial management.

Within the VSHGs, loan repayment levels have been very high which is attributed to the practice of holding monthly meetings and fining members for late repayments and not attending meetings. The development of group members' skills in financial management, group loyalty and commitment and independence has been recognized in an evaluation of PIDRA as a particular strength of the project. The fact that the project design allowed for a good six months of training in group participation and financial management prior to the disbursement of funds was seen by PIDRA group members and managers as contributing factor to this.

Our survey confirms the popularity of PIDRA among community members. Amongst survey respondents in the PIDRA villages of the 58 borrowers identified, 24% had loans with BRI, 50% with PIDRA and the rest were with a range of different savings and loans groups. One individual had a loan with a BPR. Of the respondents in PIDRA villages, 52.75% have savings account and 46.35% said that they didn't have a savings account. Of those with savings, 38% held them with BNI, 20.6% with BRI and 23.2% with PIDRA and the rest were with a range of different savings and loans groups.

In addition to indicating popularity of PIDRA as a source for financial services, particularly for loans, our study shows a relatively high level of savings among community members, which is a resource that could be further tapped by a community based MFI.

The Federasi

Unfortunately, in spite of its popularity, the PIDRA project is reaching limitations in terms of its ability to provide services. The VSHGs are experiencing a credit squeeze as members' enterprises develop and they seek greater levels of finance. According to the Program Coordinator, while there are plans to extend the project until 2010, there are no more funds available. Consequently, the PIDRA groups are looking to obtain finance from outside the project.

For this, among other purposes the *Federasi* have been established. The *Federasi* is a village level institution established by the PIDRA project which brings together the VSHGs within the village with the intention of being transformed into an MFI. In East Java there are a total of 83 federations including 9 in the district of Blitar, 13 in Tulung Agung, 15 in Trenggalek, 12 in Ponorogo, 34 in Pacitan. In additiont to sourcing finance, the *Federasi* also have a mandate to support business development services, undertake monitoring and data collection and take proposals from the group members.

At this time, according to the PIDRA program coordinator, the *Federasi* are still struggling to obtain outside sources of finance due to a lack of collateral and a credit record. Remittances may be a source of funds for the PIDRA VSHGs/*Federasi*. However, as remittances are private flows between individual households, consideration needs to be given as to by what mechanism remittances might be channeled toward becoming a source of funds for the PIDRA groups. The most direct mechanism would be if migrant households contributed their remittance incomes to the savings and loans groups and our survey shows that this is already occuring to some extent.

However, the contribution of remittances to the PIDRA *Federasi* and VSHGs could be intensified through the provision of microfinance and other services to migrants. Around the globe, MFIs are providing services such as money transfer facilities, payments services and migrant tailored loans provide income which helps to sustain the MFI in providing microfinance services to the community more generally. As stated above our study indicates that there is potential for an MFI to develop, offering services such as:

- mechanisms that transfer funds from the district capital to village locations;
- payments services, enabling direct payment of bills, school fees etc from migrants accounts;
- pre-departure credit for overseas work contracts and a range of other purposes;
- savings facilities for migrants and non-migrants;
- financial literacy training providing capacity building in household financial management, investment and use of financial services; and
- awareness raising for potential migrants of potential dangers and pitfalls and how to avoid them.

The *Federasi* could look to developing services in the above areas on a commercial basis which would support the sustainability and viability of the *Federasi*.

While the PIDRA project has already achieved a great deal by providing enterprise development and skills training there is still a need for strengthening in this area. The enterprises of the poor often don't advance very far because of structural vulnerabilities: they have high production costs but obtain low prices, they lack access to infrastructure and experience the hard end of corruption in the bureaucracy as they lack the contacts necessary to make things happen. REMIT will seek to support the work of the PIDRA project through deepening PIDRA's community consultation processes and bringing issues of concern to the community to the table in regional development strategy and regional and national poverty reduction strategy processes to encourage an intersectoral approach to dealing with the issues confronting the poor. Furthermore, REMIT will seek to support what PIDRA is already doing in accessing in-country resources and innovations to enhance the enterprises of target communities, particularly through IT.

REMIT STAGE 2 PROJECT DESIGN

The REMIT stage 2 project has been designed to improve the improve the impact of both remittances and the PIDRA Project on development through enhancement of the role of the *Federasi* (i) by assisting the *Federasi* to access outside sources of finance (ii) by assisting the *Federasi* to expand their menu of services to include financial and other services for migrants and (iii) investigating options for improving the *Federasi*'s role in business development services.

Program Components

<u>Component 1: Access to Finance.</u> The steps for moving toward eligibility for commercial loan funding would involve first, establishing the legal status, regulatory, management and supervision systems for the MFI to qualify the MFI for commercial finance. The second step would be to lobby on behalf of the MFI to attract commercial sources of funding, where necessary obtaining "guarantee finance" through regional government or other GoI sources. Third, the project would work toward establishing the independent eligibility of the MFI for commercial loans based on its strong systems and credit rating obtained through participation in the program. This process, if successful, could then be replicated with other *Federasi*. Activities in this component would be carried out in cooperation with the NGO/MFI Bina Swadaya, East Java who would provide staff to program manage the component. Representatives from the Bina Swadaya East Java Office have been part of the REMIT stage 1 study team. Specialist consultancy inputs would also be provided from P.T PNM and from FDC's wide network of microfinance specialist expertise including FDC's own team of staff and the BWTP.

<u>Component 2: Services for Migrants.</u> There is potential for the *Federasi* to provide a range of services as outlined above including remittance transfers and payments services, pre-departure loans and pre-departure training in financial management, worker protection and rights. Migrant research would be carried out to identify potentially viable services building on the research that was carried out in REMIT Stage 1. Activities in this component would be carried out in cooperation with the Department of Labour and Transmigration, migration placement agencies (PJTKI) and the NGO Migrant Care who

have been working to support migrant workers for over 10 years. Migrant Care have committed USD 32,000 of a grant from Ford Foundation to the program. The project would also seek to access KKPA-TKI funding, made available for pre-departure finance for migrants.

<u>Component 3: Business Development Strategies</u> The focus in this component would be on supporting the work already being carried out by the PIDRA project to ensure that the additional funds accessed for the *Federasi* were matched by strong strategies for enterprise development. Potential strategies could include (i) intensifying research into local product development potential (ii) investigating the availability of and supporting access to in-country resources for quality improvement of inputs, skills development and market linkages through IT; (iii) harnessing the support of regional governments (district and province) by promoting the integration of the *Federasi* into regional development strategies and poverty reduction strategies at district and province level.
Activities in this component would be carried out in cooperation with representatives of local community development organisations and Airlangga University, Surabaya.

<u>Component 4: Program Management.</u> This component involves the coordination of all inputs on the program, personnel and financial management, maintaining the overall direction of the program, monitoring progress on the program and engaging stakeholder support to ensure the sustainability of the program. Responsibility with this component will rest with FDC and with an in-country program manager nominated by FDC.

Program Outputs

All Components, Output 1: Promote the project among government and other stakeholders. This will involve liaising with government stakeholders to (i) integrate the PIDRA/REMIT organisations into regional development and poverty reduction strategies and (ii) integrate the PIDRA/REMIT organisations into GoI national level programs to support micro enterprises and migrant workers. It will also involve liaising with other donors to invite cooperating on and replication of the program.
Component 1

C1 Output 1: Select the *Federasi* for participation in the project. The *Federasi* would be selected on the basis of (i) high level of migration in the area (ii) sound management capacity (iii) enterprise potential for the local savings and loans groups (iv) enthusiasm for participating in the project. The selections would be based on a consensus between the REMIT and PIDRA management teams.

C1 Output 2: Market research. Market research would be carried out to determine (i) what products would be preferred and what size "catchment area" would allow for the viability of the MFI. This may require that a number of Federasi work together in implementing the program. Activities in this output would be building on the research carried out under REMIT I and would connect with the market research under C2 Output 1.

C1 Output 3: Establish the legal entity of the enterprise. With support from REMIT and in consultation with PIDRA, the *Federasi* would select their preferred form of legal entity. FDC/FAO Seminars to be delivered in Indonesia would provide input into this process. Issues to be considered include funding potential, ability to collect savings and simplicity and efficacy of management and supervisory systems.

C1 Output 4: Establish management systems, SOPs, IT support, supervision and auditing arrangements. This would be carried out with the support of project management staff and P.T PNM with consultancy inputs sourced through FDC's network of microfinance specialists.

C1 Output 5: Liaise with banks and financial wholesalers to assist the *Federasi* to access commercial sources of finance. Liaison with potential lenders would occur concurrently to developing the legal status and the management structure of the MFI, to ensure that systems were developed that were suitable for commercial borrowing. The first time lenders package offered by P.T. PNM would be considered but REMIT project would also explore a number of possible strategies to encourage banks and other financers to lend to the *Federasi*.

C1 Output 6: Begin addressing requests for loans. Proposals would initially be invited from members of the VSHGs but later this would be widened to include other members of the community.

C1 Output 7: Audit of the Federasi's financials. Initially an audit would be carried out every six months, with an Australian auditor sourced by FDC.

Component 2

C2 Output 1: Market research. Building on the research carried out as part of REMIT I, market research will be undertaken to identify what remittance linked products and training programs for migrants have the most potential viability

C2 Output 2: Liaise with the Department of Labour and Transmigration, migration placement agencies (PJTKI) and regional governments (province and district) to set up a program of pre-departure services.

In order to integrate services such as training and pre-departure loans into the *Federasi*'s menu of services, there is a need to coordinate with the above agencies that are responsible for organizing the departure of migrant workers. It will be necessary to select PJTKI that are amenable to cooperating with outside agencies.

C2 Output 3: Developing and the curriculum for pre-departure training in worker protection and rights and financial management during migration. Responsibility for collaborating with the *Federasi* to develop a curriculum for pre-departure training will be with the NGO "Migrant Care". Specialist inputs sourced by FDC will be provided in relation to the financial management component, drawing in FDC's extensive network of microfinance practitioners which includes specialists in financial literacy training.

C2 Output 4: Promote the new products and programs among community members.

C2 Output 5: Deliver training programs and implement the new products.

Component 3

C3 Output 1: community research and investigating product potential. REMIT and PIDRA staff will collaboratively investigate the potential of promising enterprises and identify in-country resources for improving inputs and skills development and improving market linkages.

C3 Output 2: Integrate the needs of the PIDRA community into Poverty Reduction and Regional Development Strategies. The REMIT team would work together with the District and Province Government to integrate the findings of the REMIT and PIDRA research into the above strategies. This would be carried out with the assistance of Bagong Suyanto, a senior lecturer at Universitas Airlangga who is a member of the East Java Poverty Reduction Committee and the Blitar Regional Development Committee. Mr Suyanto was also a member of the REMIT Stage 1 study team.

Component 4

C4 Output 1: Personnel, logistical and financial management. Staff contracts and a detailed cost schedule will be prepared, offices rented and office equipment purchased.

C4 Output 2: Monitoring and Evaluation. A monitoring and evaluation plan will be prepared identifying indicators of progress on the program

C4 Output 3: Liaison with stakeholders. Liaison with GoI and donor stakeholders will be ongoing to encourage participation in the program.

C4 Output 4: Reporting to IFAD. Six monthly progress reports will be prepared for IFAD and a completion report after a two year period.

SUSTAINABILITY

To date Indonesia has not been a particularly good environment for sustainable microfinance services including micro-finance remittance linked services:

- Despite the fact that micro, small and medium enterprises provide for about half of Indonesia's GDP, commercial banks have not shown a great deal of interest in providing services to the micro-sector. Banks involvement in microfinance service delivery has tended to be limited to government programs (eg P4K) and has tended to be withdrawn following the end of the program. Our study of commercial banks in the district of Blitar showed that banks viewed the micro-sector as risky and lacking potential profits to justify the investment, compared to, for instance, consumer credit.

- The other main providers suffer from various supervisory or regulator problems: BPRs (rural banks) require very high start up capital; cooperatives are poorly supervised/regulated through the Department of Cooperatives with some points still unclear and non-bank MFIs do not have clear supervision arrangements (although a draft microfinance bill has been in process since 2001) and therefore are not legally permitted to take savings.

- Microfinance services have been delivered through poverty reduction programs which tend to have a similar approach of providing savings and loans facilities to enterprise groups. On the whole these programs have been unsuccessful in linking the village level groups established with sustainable sources of finance

- Indonesia has seen few of the microfinance product innovations that have been developed in other countries such as rural outlets for remittance transfers, payments services, pre-departure finance and insurance.

However, there is no time like the present and the current time holds potential for innovation in microfinance and remittance linked services:

- In perhaps a more convincing manner than previous presidents, President Yudhoyono has indicated his serious to addressing issues of poverty. In a recent speech on national independence day, he announced a revised poverty reduction strategy which emphasized strengthening micro, small and medium enterprises, particularly by improving access to credit;

- Indonesia has also been drawn into the current global focus on remittances and migrants. For example, a seminar was held by Bank Indonesia in August 2006 on regulating remittances and protecting against money laundering and terrorist financing. Legislation has been passed strengthening the protection of migrant workers and involving a greater number of players in the placement process. There has been increasing discussion among donors and government about how to harness remittances for national and local development. Funds have been made available for credit to migrant workers through the KKPA-TKI program and the DPKB program with P.T. Jamsostek

- Some good programs are emerging to improve microfinance services. For example, the Government owned enterprise, P.T. PNM, which provides both first time lending and capacity building to MFIs (cooperatives and BPRs), enabling them to move toward eligibility for commercial finance.

For these reasons, despite the difficulties, the potential for the sustainability of remittance linked services is seen as reasonable at the current time. As a pilot program, sustainability is very important to REMIT II. A number of strategies will be employed to ensure sustainability:

- *financial sustainability*: the project will work toward ensuring the independent eligibility of the *Federasi* for commercial funding by (i) supporting the development of regulatory, supervisory and management systems and (ii) seeking guarantee funds from GoI sources for lending in the first instance, which will provide the *Federasi* with a credit record assisting with their independent eligibility for finance.
- *Operational sustainability*: the project will work toward ensuring that after a two year period, operational costs can be sustained through profits. To enable this to happen market research will need to be undertaken at the onset of the program to identify what size client base will be required (eg village or sub-district level) (this means that a number of *Federasi* may need to work together to form an MFI.
- *Institutional sustainability*: the program will be promoted amongst a range of GoI stakeholders at district, provincial and national level to encourage the integration of the model into poverty reduction strategies, regional development strategies and departmental programs.
- *Process documentation*: A manual will be prepared documenting the processes involved in the "model" facilitating replication of the model elsewhere.

ANNEX 8: STATEMENT OF EXPENDITURE

The Foundation for Development Cooperation IFAD Grant 754 - Report on Audited Accounts						
COST CATEGORIES	**Jan - August 2006 (Submitted to IFAD in Progress Report 31 August 2006)**				**Sept 2006 - February 2006**	**Total Jan 2006-Feb 2007**
	Jakarta 20-26 February	Brisbane Office	Field Study May 21-Aug 15	Total Jan-Aug 2006		
WAGES						
FDC Wages				**15,300.0**		**23,900.0**
Program Manager (Frances Barns)		14,100.0			21,500.0	
Program Director (Paul Greener)		1,200.0			2,400.0	
National Staff Wages				**22,373.4**		**2,450.0**
MF Specialist Wages @ USD 150 per day	750.0					
National Program Manager @ USD 70 per day	210.0		3,570.0		2,450.0	
PAT Team Livelihoods Adviser @ USD 100 per day			1,964.1			
PAT Team Financial Systems Adviser @ USD 100 per day			1,240.5			
Nung Didik wages (Rp 500,000 p.d)			1,978.0			
Sukesi wages (Rp 450,000 p.d)			1,829.7			
Team Leader: Sugiyanto wages (Rp 400,000 p.d)			1,846.2			
5 team members: wages			5,708.8			
PERDIEMS						
FDC Perdiems				**3,276.2**		**2,550.0**
Program Manager food and accomm @ USD 75 per day	525.0		2,751.2		2,550	
National Staff perdiems				**7,521.5**		**485.0**
MF Specialist: Food & Accom @ USD 75 per day	485.0				485.0	
NPM Food & Accom @ USD 75 per day			1,875.0			
IAT team food and accomm@ Rp 440,000 per day			2,771.4			
CAT team leader per diemfood and accomm @ Rp 150,000 p.d.			604.4			
CAT team members per diem @ Rp 50,000 per day (excl food & accom)			961.5			
CAT team members food and accomm			824.2			

ANNEX 8: STATEMENT OF EXPENDITURE

TRANSPORT						
FDC Transport				**2,847.1**		**3,816.2**
Program Manager flights, departure tax and visas	951.0		1,209.1		3,413.7	
PM Transport other	43.9		643.1		402.46	
National Staff Transport				**3,925.3**		**267.1**
Microfinance Specialist flights	118.4					
MF specialist other transport	43.4					
National Program Manager flights			567.3		153.5	
NPM transport other			613.8		113.6	
IAT transport			1,884.6			
CAT team leader transport			500.0			
CAT team members transport			197.8			
COMMUNICATIONS AND OFFICE COSTS						
FDC Comms and office costs				**1,122.4**		**1,257.4**
PM Communications and stationary	32.9		716.4		945.6	
Bank Fees			373.1		311.8	
National Staff comms and office costs						**1,058.7**
MF Specialist comms	31.1			**2,273.8**		
NPM communications, stationary, medicine and books			838.7		1,058.7	
IAT communications			329.7			
CAT team leader comms			131.9			
CAT team members comms			329.7			
contributions to respondents			612.8			
PACKET COSTS						
PNM Packet cost (two consultants, 12 days, food, accommodation, transport, coms)			2,329.7	**2,329.7**		
Data processor			1,503.3	**1,503.3**	800.0	**800.0**
WORKSHOPS (CATERING AND ACCOMMODATION)			1,487.7	**1,487.7**	5,931.0	**5,931.0**
Total USD	3,190.7	15,300.0	42,193.4	**60,684.12**	**42,515.3**	**42,515.33**

Total Costs **$103,199.4**