

Report
Regional Microfinance Development Project NTB
The MFI Survey

By
Ketut Budastra
National Consultant

GTZ-PROFI PROGRAM
(PN 2004.2578.9-001.00)
August 2005

1. Introduction

Along with the household survey, the MFI survey has three specific purposes (TOR PROFI Program:PN 2004.2578.9-001.00). The first is to provide a reliable picture about the origin, extent and quality of existing supply of institutional microfinance services, including public and private entities, in Nusa Tenggara Barat (NTB). The second is to learn the key characteristics of the households (and microenterprises) demand for financial services. The characteristics include products and volume of services, in order to identify demand-supply gaps. Lastly, the third is to investigate perceptions of the microfinance supply by the demand side.

The survey analyzes relevant secondary and primary data concerning the current market (supply and demand) of microfinance services in the province. Secondary data were provided by Bappeda and related institutions while the primary data collected through a sample survey. The sample includes MFIs and households from nine selected sub-districts (*Kecamatan*), each represents one of the 9 districts (*Kabupaten*) in Nusa Tenggara Barat (NTB).¹ The selected sub-districts have diverse types of village MFIs and, at least, one of them performing 'well'. The selection was based on available secondary data and consultation from Bappeda. One MFI of each type existing in the selected sub-districts was chosen as sample. Additionally, 'good' performing MFIs of types not present in the sub-district sample were also included in the sample. Thus, the sampling should represent each type of 'good' performing village MFIs in the province.

The sampling specified above selected 39 various types of village MFIs, 25 in Lombok island and 14 in Sumbawa island. This island differential in number of MFI sample reflected the differential in the density of MFIs in the two main islands of NTB province. For example, of the 63 rural banks and 2025 cooperatives in the province, 60% and 69% are in Lombok, consecutively (Bank Indonesia Mataram & DiskopUKM NTB province).

This report presents the major results of the MFI survey. The detailed primary data compiled in the survey accompanies this report, in a soft (excell) file. The results the household survey are to given in a seprate report.

2. The Microfinance System in NTB Province

A microfinance system can be defined as a system through which microfinance services to low income households and microenterises (the poor) are provided. Microfinance services may include small scale (micro) saving, loan, insurance, payment and money transfer services which are generally underserved by the 'macro' finance institutions such as commercial bank, finance, and insurance companies.

The microfinance system in NTB is comprised of bank and non bank institutions in the formal sector, and various forms of informal sources such as money lenders in the

¹ The administration of NTB province is consisted of 9 districts, 94 sub-districts, and 769 villages.

informal sector. The banks include BRI (Units), and Rural Banks (*Bank Perkreditan Rakyat*, BPR). The non bank financial institutions include: the saving and credit cooperatives (*Koperasi Simpan Pinjam* or KSP, and *Unit Simpan Pinjam* or USP), and various entities resulting from institutional building activities of previous and current development (social) programs. The LDKPs (the general term of provincial government established rural credit institutions) in the province are *Lembaga Kredit Pedesaan* (LKPs). The majority of them were converted to rural banks during the late 1990s. A few of the former program ‘induced’ MFIs have sustained their operations and obtained formal operational status as cooperative institutions.

3. The Microfinance Institutions

The MFIs included as the sample in the survey can be differentiated into 12 types (Table 1). These include: rural bank (LKP), saving and credit cooperatives (KSP), saving and credit units of multipurpose cooperatives (USP-KSU), saving and credit units of the Bimas village cooperatives (USP-KUD), agricultural cooperatives (Koptan), village own enterprise (Bumdes), urban-village credit institution (LKK), islamic microfinance institution (BMT), rural-village credit institution (LPD), the financial management units (UPK) of an on-going program (*Proyek Pengembangan Kecamatan*, PPK), and the community direct aid fund (*Bantuan Pembiayaan Langsung Masyarakat*, BPLM) of an on-going agricultural development program.

Table 1
Types and District Distribution of the Selected MFIs

Instit. Type	District									Total
	Mtr	Lobar	Loteng	Lotim	Sbw Barat	Sbw Besar	Dompu	Bima	Bkota	
UPKD		3	2	2	1	1	2	1		12
KSP	2		1		1	1	1		1	7
USP-KSU		1	1	2				1	2	7
USP-KUD		1	1	1						3
Koptan		1						1		2
Bumdes			1							1
LKK	2									2
BMT	1									1
BPLM								1		1
LKP		1								1
LPD				1						1
UPK		1								1
	5	8	6	6	2	2	3	4	3	39

Of the 12 types, UPKDs and cooperatives (KSP, USP-KSU, and USP-KUD) are largely represented in the sample while the others are only represented by one or two individual institutions. The district distribution of the MFIs does not reflect the population. An exception is for Bumdes, LKK, LPD, UPK and BPLM which are local/program specific, and hence represent the population. However, the majority of the MFI types existing in the province is represented in the sample.

4. The Characteristics of the Microfinance Institutions

This section discusses the institutional origins and other major characteristics of the surveyed MFIs.

4.1. Institutional Origin

This survey confirms the finding of a previous study done by Holloh in 2001 that the majority of the MFIs in NTB are originated from social development programs. The financial statistics provided by 18 MFIs (included in this survey) shows that more than 70 per cent of the MFIs' capital were originated from the previous development programs.

Among the previous development programs are the green revolution program (Bimas), the small farmer income generation program (P4K), the backward village development program (IDT), the social safety net program (PMDKE), and the agricultural development area program (NTAADP).

Several examples are, as follows. USP-KUDs are the units of the village cooperatives (KUDs) which were established under the Bimas program. KOPTAN was established by groups of farmers (formed during the Bimas program) and received additional fundings from the Department of Agriculture (DEPTAN). Bumdes was established by the village government and the community to organize funds from various programs, targeting the community. Some USP-KSUs were developed by groups or institutions resulting from the P4K program while some by groups or associations of private individuals. UPKDs were established under the NTAADP program. LKK and LPD were established by the district government to manage the PMDKE funds. UPK was established under the sub-district development program (PPK). LKP was established by the provincial government under its rural credit institution development program. There are instances of multiple programs assisting individual MFIs.

A few of the MFIs were purely established under private initiatives, by groups or associations of private individuals. The majority of KSPs are private which were established by a group of individual and family associations.. Several of them were developed from ROSCAs of family associations. The origins of individual MFIs are listed in the soft data file accompanying this report.

4.2. Ownership

Various ownerships of the MFIs were found, some owned by the communities, some by the government (including the village government), and others by private entities. As perceived by the respondents, 74% of them are community and government owned institutions and 26% are private institutions.

LKP is the provincial/district government rural bank. Bumdes, LKK and LPD are the business entities of village governments. UPK and BPLM is intended to be owned by community members. USP-KUDs are generally owned by the community members. KSPs are generally private. Some USP-KSUs are owned by the villages or the communities while the others are owned by private members. BMT is also owned by private members.

Although, conceptually, the cooperatives (USPs and KSPs) are supposedly owned by the members, several deviations were found in this survey. Many USPs and KSPs are

practically owned by private groups and village governments as they own or control the majority of the shares. In contrast, the clients (borrowers) which constitute for the majority of the members are generally lack of control since each of them only own a little share. Of those receiving grants from previous development programs, a conflict of interest between the village government and the management, regarding the ownership of the funds, may arise. On the other hand, the community members are generally not aware of their rights to the ownership of the cooperatives. The conflict of interest may create a problem which harm the future of many USP-KUDs and village/community owned USP-KSUs.

4.3. Governance

The governance of the MFIs relates to their operational status and ownerships. The operation of LKP and cooperatives (USP-KUDs, USP-KSU, and KSPs) are formally recognized by the banking laws, and the cooperative laws and cooperative regulations, consecutively. BMT is also recognized by a cooperative microfinance institution. Contrarily, the operations of the other MFIs are not recognized by the national laws and regulations. Thus, only licensed rural bank and cooperatives can be regarded as 'formal' MFIs. A rural bank is subject to the supervision of the central bank while a cooperative is subject to the supervision of the department of cooperative and small and medium enterprises (DepkopUKM). However, it is questionable whether the authorities could effectively supervise such a large number of rural banks and cooperatives as in Indonesia. Additionally, the technical proficiencies of the Department of Cooperative and Small and Medium Enterprises (Depkop UKM) as the supervisor of cooperative financial institutions are also questionable.

On the other hand, the operational status of other types of the MFIs fall somewhere between the formal and informal ones. Thus, to simplify, they can be regarded as semi formal institutions. They are the concern of local governments at provincial and district level. LKK and LKP operate under decrees of the respective district heads. Koptan is not registered as a cooperative, in spite of its name referring to a cooperative. Bumdes operates under the village assembly's decision. The operational status of UPKD becomes a hot issue since the NTAADP program ended. UPK and BPLM operate as the financial management units of present social development programs. As a consequence, their supervision and the technical assistance are generally at stake. No institutions are specifically assigned the supervision and technical assistance responsibilities. The operational budget for carrying out the responsibilities is another issue to the local government.

Attempts to introduce regional regulations (as in Bali for its LPDs) have been made in several districts. However, the attempts have been strongly opposed by the parlements as they consider the proposed regulations contradictive to the national regulations.

During the early stage of its operation, the management of an individual MFI is generally run by three key personnel, namely: the manager, the bookkeeper, and the service (credit) officer which are subject to the supervision and directions of the assembly of owners (i.e., provincial/district/village governments, community members, or private members). This structure resembles the standard organizational structure of a cooperative institution. Additional personnel are required during the later stages of its operations.

The majority of the MFIs (85%) employed up to 10 officers (including the key personnel, noted above), (95%) had managers with senior high education backgrounds or above, (82%) applied accounting systems, and 46% owned offices. In spite of these quit good characters, the governance of the MFIs generally lacks of a supporting system capable to provide effective supervision and technical assistance.

4.4. Services

While most of the MFIs are fully financial institutions, a few of them also have other business activities. USP-KSU and USP KUD are as the examples. They are multipurpose cooperatives, having multiple business activities. To illustrate, all KUDs have rice milling units and many have agricultural input shops. In spite of having multiple business activities, all of them consider the financial service units as core businesses and treat them as separate and autonomous units.

With some variations among individual MFIs, most of them offers saving and loan services. Their saving services include compulsory saving, voluntary savings and term deposits. The saving services offered by the MFIs are given in [Table 2](#).

Table 2
Financial Services Provided by the Village Microfinance Institutions

Institution type	Product	Initial Deposit	Interest rate (%/y)
UPKD	MD	0	0
	MCS	IDR 1000	0
	VS	IDR 5000	6-12
KSP	MD		
	BCS	1% principal	
	VS	IDR 5t-25t	12
USP-KSU	MD	IDR 10t-500t	15
	MCS	IDR 2500-5t	
	BCS	2-2.5% p.	
USP-KUD	VS	IDR 2t-2.5t	9.6-12
	MD		
	MCS		12
Koptan	MD	IDR 125t	
	MCS	IDR 30t	
Bumdes	BCS	1% principal	
	VS		12
LKK	VS	IDR 2500	12
BMT	VS	IDR 5000	p/l shar
BPLM			
LKP	BCS	2% p	
	VS	IDR 2000	8
LPD	VS		9.6
UPK			

Notes:

Saving service products: MD= member deposit, MCS= member compulsory savings, BCS= borrower compulsory savings, VS= voluntary (passbook) savings, and TD- term deposits

However, only a few of them offer term deposit. While there is only one form of voluntary saving (VS) offered (the passbook savings), the majority of the MFIs require three forms of the compulsory saving. These include: member deposit (MD), member compulsory saving (MCS), and borrower compulsory saving (BCS). The first (MD) refers to the saving to be deposited with the institutions by new members. The second (MCS) refers to the regular saving to be made by existing members. The third (BCS) refers to the saving to be made by new borrowers, as a fraction of the loan principal.

In spite of the saving services, it is necessary to note here that saving mobilization (particullary through passbook saving and term deposit services) is not the major concern of most of the MFIs. In contrast, lending (loan services) is generally the major concern of the MFIs. The loan service products offered by the MFIs are summarized in Table 3.

Table 3
Loan Service Products of the Microfinance Institutions

Institution Type	Product	Size (IDR)	Irate (%/y)	Term	Adm fee
UPKD	SUTA (s)	200t – 3 m	24-36	5-12 m	2.5%
	UEP (d, m)	100t – 5 m	15-17	100d-18m	2-3%
KSP	KMK (d,w, m)	250t – 20 m	24-48	100 d – 1 y	1 - 1.5
USP-KSU	KMK (i, g)	100t – 10 m	36-41	3 – 10 m	2.5-3
USP-KUD	KMK (w, m,s)	200t – 5m	36	3 – 10 m	2.5
Koptan	KMK (m)	500t – 1 m	32	10 m	
Bumdes	KMK (w, m)	100t -5 m	24	11 m	2%
LKK	KMK (d,w,m)	100t – 4 m	21 – 24	100d - 10 m	IDR 75h
BMT	Mm, Aq, AI	1m – 5 m	Pls (8:2)	2 – 12 m	
BPLM					
LKP	KMK (m)	250t – 25 m	32	3 - 36 m	1.5 %
LPD	KMK (d)	100t -2.5 m	48	3 m	3 %
UPK	SPP (m)	9.5 m	32	10 m	

Notes:

Products: s= seasonal, d= daily, w= weekly, m= monthly, Mm= mudararah murabahah, Aq= al-qard, Ai= al-Ijarah, KMK= working capital credit. Loan size: t= thousand, m= million. Interest rate: pls= profit/loss sharing. Loan term: d= day, m= month, y= year

On the other hand, the loan services offered by the MFIs are mostly working capital loans with 2 to 36 month terms and sizes from IDR 100 thousand to IDR 20 million. However, most of the loans advanced are less than IDR 1 million (discussed further latter). Large loans only advanced by larger MFIs to selected borrowers. There are variations in the terms, repayment system, size, interest rate, and requirements of the loan services among types and between individual MFIs with similar types. For example, some UPKDs and KSPs offer daily loan services while the others do not. This variation may relate to the market environment in which the MFIs operate. MFIs targeting clients with daily incomes such as traders offer daily loan services while those targeting farmers offer seasonal loan services.

In regard to service mechanism, some variations are also observed, some MFIs use mobile services, regularly visiting the clients at their home or work places, while the other use in office services. The MFIs with mobile service generally have wider geographical service coverage than the MFIs with in office service mechanism do.

KSPs and some USP-KSUs are the MFIs which use the mobile service mechanism. The service performance of the MFIs is discussed in Section, below.

5. The Performance of the Microfinance Institutions

This section discusses the service performance, the operational efficiency, and financial sustainability of the MFIs

5.1. Saving and Loan Service Performance

The service performances of the MFIs are summarized in [Table 4](#). It shows that the service performances of the MFIs also widely vary among groups (types) of the MFIs and among individual MFIs, as their service products do (noted above)..

Table 4
The Saving and Loan Service Performances of the Microfinance Institutions

Inst	Saving Deposit Services		Loan Services	
	Client (person)	Balance (IDR 000)	Client (person)	Outstanding (IDR 000)
UPKD				
Mean	389	19,600	558	310,000
Median	392	10,600	500	290,000
Min-Max	67-126	00-131,000	104-1,185	154,000-572,000
KSP				
Mean	958	400,000	570	470,000
Median	603	1,6000	600	250,000
Min-Max	110-3,224	5361-2,290,000	101-900	47,532-1,900,000
USP-KSU				
Mean	1554	890,000	500	620,000
Median	402	57,000	335	420,000
Min-Max	143-8,771	7,630-5,800,000	100-1,754	3,100-2,340,000
USP-KUD				
Mean	1,349	5,637	132	220,000
Median	1,013	4,435	170	96,000
Min-Max	35-30,000	3,247-9,229	41-185	67,613-492,000
Koptan				
Mean	97	2,537	88	64,000
Median	97	2,537	88	64,000
Min-Max	67-126	670-4,403	50-126	59,868-67,697
Bumdes	285	68,000	603	403,025
LKK				
Mean	100	2,500	379	150,000
Median	100	2,500	379	150,000
Min-Max	0-200	00-5,000	200-557	80,000-223,000
BMT	810	9,844,000	480	166,000
BPLM	500	2,500	500	129,000
LKP	2,119	733,000	1,275	1,670,000
LPD	1,655	113,000	716	247,000
UPK	00	00	300	77,675

In terms of saving deposit and loan service performances, the rural bank (LKP) performs best among the MFIs. The rural bank ranks first in terms of number of saving deposit clients, number of borrowers, and ammounts of loan outstanding while

the second in terms of saving deposit balance amounts. In the regard to the amounts of saving balance, the islamic institution (BMT) performs better than the rural bank.. USP-KUD, LKK, Koptan, BPLM, and UPK are among the institutions with low ranks while KSP, USP-KSU, Bumdes, LPD and UPKD are among the institutions with middle ranks. This is the average performance of each types of the MFIs.

In regard to service areas, as noted above, the MFIs which employ mobile service generally have larger service areas. Their services areas may cover more than one district areas while the service areas of the other MFIs are, at most, within subdistrict areas.

The service performances of individual MFIs can be inferred from the 'min-max' figures (Table 4) which read the smallest and the largest service performances of individual institutions in each of the MFI types. The figures indicate that there are individual KSPs and USP-KSUs which perform much better than the rural bank does, with respect to service performances. This is possible because of several reasons, including: larger asset, more convenient services, and wider service areas, among others

Looking at district differential, KSPs of Mataram district generally perform better than KSPs of other districts in terms of number of savers and total amounts of saving deposits. In this same regard, USP-KSUs of Lombok Timur performs best, relative to USP-KSUs of other districts. The USP-KUD in Lombok Timur perform best in saving deposit balance while the USP-KUD in Lombok Barat better in number of saving deposit clients. Koptan in Bima perform slightly better than Koptan in Lombok Barat. A comparison of LKP, LPD, BMT, UPK and BPLM is not possible as the sample only include one of them, each.

In terms of loan service, KSPs in Mataram generally perform better than KSPs in other districts. Similarly, USP-KSUs in Lombok Timur perform much better than USP-KSUs in other districts. The USP-KUD in Lombok Timur is better in amounts of loan outstanding but the second to the USP-KUD in Lombok Tengah with respect to number of borrowers. The UPKD in Bayan (Lombok Barat) outstands the other UPKDs in amounts of loan outstanding and the second to the UPKD in Pemenang (Lombok Barat) in number of clients. On average, however, UPKDs in Sumbawa Island perform better than UPKDs in Lombok island.

The performance differential relate to many factors, internal and external to the MFIs. Among these factors include management and service quality, effective governance, market competition, socio-economic, demographic, infrastructure conditions. For instance, UPKDs whose service mainly targeting agricultural communities and their business they generally perform better in remote areas such as Bayan (Lombok Barat), Beru (Sumbawa Barat) and Soriotu (Dompu). In contrast, KSPs whose services particularly designed for quick and high return microenterprises generally perform better in surrounding urban areas such as in Mataram. The operational efficiency and sustainability of the MFIs are discussed in Section 5.2, below.

5.2. Operational Efficiency and Sustainability

The survey attempts to calculate a number of indicators for the operational efficiency and sustainability of the MFIs. Three of them are presented in this Section due to low data quality consideration. The indicators are loan productivity ratio (number of loans per officer), delinquent rate (number of loans with non repayment of one or more installments per total number of loans), and financial self-sufficiency ratio (operational incomes per operational costs). The results are given in [Table 5](#).

Table 5
Selected Indicators of Operational Efficiency and Sustainability of the MFIs

Institution type	Loan productivity (loans/officer)	Delinquent rate (%)	Financial Self- sufficiency ratio (%)
UPKD	131	15.15	227
KSP	95	9.02	210
USP-KSU	108	5.71	630
USP-KUD	36	30.73	1446
Koptan	25	8.00	330
Bumdes	19	9.87	338
LKK	67	25.00	763
BMT	96	2.92	na
BPLM	7	Na	na
LKP	91	9.96	153
LPD	20	19.97	115
UPK	100	Na	1393

Table 5 shows varying operational efficiency and sustainability among the MFI types. UPKD, USP-KSU and UPK have higher loan productivities than the other MFI types. Several MFIs such as BMT, USP-KSU, Koptan, Bumdes, KSP, and LKP have loan portfolios at risk 10 per cent and lower while USP-KUD, LKK, LPD and UPKD whose loan portfolio at risk ranging from 15 per cent to 31 per cent.

The rather high loan portfolio risk ratio, however, should not imply that high loan non repayment will occur. This is because there is widely shared view among the MFIs that non repayment is just a delay of repayments. The borrower are generally not default. Instead, they will pay the loans in a latter time, given that the lender consistently visit (remain) and ask for them to repay. The credit officers of the MFIs generally know home, work place and relatives of the borrowers. As a result, the actual non repayment rate (by the end of the year) may be much lower than the delinquent rate. However, data available is insufficient to calculate the non repayment rate accurately as the MFIs never wiped out their bad loans, exception for the rural bank (LKP) which is required by the central bank to do so.

Among the reasons of loan non repayments, as recalled by the MFI officers, are severe economic condition, marketing failure, and bad harvest. This confirms that non repayment is not as a result of bad personal of the borrowers but rather as a result of bad circumstances such as economic down turns, and insect attacks on the farms of the borrowers.

On the contrary, the financial self-sufficiency ratios indicate that all the MFI groups are profitably run, capable of generating operational incomes larger than operational

costs. However, a caution is considered necessary to be made here since the costs of their funds may be underestimated, given that majority of them received some amounts of grants and subsidies during their institutions' lives. Thus, a lower ratio may result when market rate is applied for all of their funds. This is not done in this survey as the data made available by the MFIs are not reliable. Exception is for the private MFIs whose funds are generally commercial.

5.3. Perceptions of the Officers Regarding Servicing the Poor

Follows are selected perceptions of the majority of the MFI officers regarding several issues of servicing the poor.

The poor is not riskier than the rich as many of the poor repay their loans and hence trustworthy.

Servicing the poor can be profitable when managed rightly: achieving cost effective operations, and high loan repayment.

Provision of saving service is necessary to the poor as saving may teach them to live thriftily and accumulate capital.

The financial services supplied by existing financial institutions generally match the demand as there are various financial service products available in the market. In contrast, a few that see some gaps between the supply of and the demand for microfinancial services present in the market argued that the loan size offered to the poor are too small to be useful.

Servicing the poor faces some difficulties. Among of them are:

- It needs frequent visits to ensure high loan repayment and high saving deposit collection since the poor generally demand for convenient services
- The poor generally don't have physical collaterals, acceptable under the prudential banking principles. Their collaterals are often difficult to cash out.
- It needs a longer time and passions to servicing the poor as they are generally less educated
- The poor generally don't understand the MFIs' service policies. As a consequence, they consider the officers as not nice persons when their demands are not met.
- The poor are generally unable to differentiate the good MFIs from the bad ones. As a consequence, good MFIs may also receive the bad image when other MFIs create problems (such as charging very high interest on loans and running a way with people's saving deposits).

6. Summary & Concluding Remarks

The survey has compiled and analyzed data from secondary and primary sources, involving 39 selected MFIs from the 9 districts (*Kabupaten*) in the province. The MFIs were selected with consultation from Bappeda and associated institutions.

The microfinance system is comprised of bank and non bank institutions in the formal sector, and various forms of informal sources such as money lenders in the informal sector. The banks include BRI Units), and Rural Banks. The non bank institutions include: the saving and credit cooperatives, the government rural financial institutions, and various entities resulting from previous and current development programs.

The MFIs can be differentiated into 12 types, including: rural bank (LKP), saving and credit cooperatives (KSP), saving and credit units of multipurpose cooperatives (USP-KSU), saving and credit units of the Bimas village cooperatives (USP-KUD), agricultural cooperatives (Koptan), village owned enterprise (Bumdes), urban-village credit institution (LKK), islamic microfinance institution (BMT), rural-village credit institution (LPD), and two MFIs of on-going programs (the UPK of the PPK program, and the BPLM of the Dinas Pertanian program).

Only the rural bank and the cooperative are formally recognized by the national legal frameworks. The formal operational status is important in several respects, including: supervision, provision of technical assistance, and linking with commercial banks. These are essentially the governance problems faced by the majority of the MFIs. Attempts to introduce provincial and lower regional regulations (as in Bali) appeared receiving a strong opposition from the parlements as they were contradictory to the national regulations (the banking laws and the cooperative laws and regulations).

The finding of previous study that the majority of the MFIs are originated from social development programs is confirmed. The major development programs in the province include the green revolution program (Bimas), the small farmer income generation program (P4K), the backward village development program (IDT), the social safety net program (PMDKE), and the agricultural development area program (NTAADP), among others. Only a few of the MFIs are private entities. These are KSPs and BMT.

The ownership of the cooperative MFIs can be problematic. Although, conceptually, the owners of USPs and KSPs are the member, several deviations present in the fields. Many are practically owned by private groups or village governments since they own or control the majority of the shares. Of those receiving grants from previous development programs, a conflict of interest between related parties (particularly the management and the government) may arise and harm the future of the MFIs. Likewise, the ownerships of UPKDs is also not homogenous, some owned by the government while the others are owned by the communities. As noted above, the impercise ownership could result in governance problems.

While most of the MFIs are fully financial institutions, a few of them also have other business activities. USP-KSU and USP KUD are the MFIs of the the type. They are multipurpose cooperatives, having multiple business activities. Most of them offer saving and loan services. However, only a few offer term deposit services. Moreover, it is necessary to note that saving mobilization is not the major concern of most of the MFIs. Lending is generally their major concerns.

The service performances of the MFIs widely vary among types and among individual MFIs.. The rural bank (LKP) appear performing best in saving and loan service performances. Individual MFIs from other types (such as KSPs and USP-KSUs),

however, may perform much better in the respect because of having larger asset, more convenient services, and wider service areas. KSPs and a few other MFIs which employ mobile services generally cover larger service areas.

A variation in the performances of individual MFIs are also observed among regions resulting from differential in management and service quality, governance, market competition, and socio-economic, demographic, infrastructure conditions.

In terms of operational efficiency and sustainability, as reflected by loan productivity ratio, delinquent rate, and financial self-sufficiency ratio, the performances of the MFI also vary accros institutional types. UPKD, USP-KSU and UPK have higher loan productivities while BMT, USP-KSU, Koptan, KSP, Bumdes, and LKP have lower delinquency rates.

The delinquency rate, however, tend to overestimate the portfolios at risk of the MFIs. A none repayment of several installments largely turns out to be a repayment delay, rather than a default. This view is widely cofirmed by the MFI respondents. Data availability, however, prevent accurate estimates of the MFIs' loan repayment rates. Loan defaults generally result from other factors than bad borrowers such as severe onomic condition, marketing failure, and bad harvest.

All MFIs are capable of financially sustaining their operations, generating incomes larger than their operational costs. The perceptions of the MFI representatives compiled in this survey also confirmed that servicing microfinance to the poor can be profitable as the poor are not riskier than the reash. The representatives also view that saving services are necessary for the poor to improve their livelihoods. The representatives also point the problems and principles of effectively servicing microfinance. The poor generally lack of collaterals, are less educated, and need convenience services.