

Transforming Risk-Averse Banks into Microfinance Champions in a Post-Disaster and Post-Conflict Environment

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- **Adoption of Grameen microfinance technology by risk-averse, development-oriented banks was a prominent feature of the Earthquake and Tsunami Emergency Support Project in Indonesia.**
- **The project raised awareness of the potential of microfinancing by sharing good practices, revealing opportunities, conducting exposure trips, providing training and refresher courses, monitoring, and building full commitment at all levels in partner banks in the management and provision of microfinance.**

Background

In addition to the emergency response it offered following the devastating 2004 tsunami, the ADB-assisted Earthquake and Tsunami Emergency Support Project in Aceh and Nias in Sumatra, Indonesia, aimed to foster economic growth and reduce poverty by developing sustainable and responsive financial services for micro and small enterprises.

The Grant Agreement for the project required project partners to be licensed and registered financial institutions (mainly development-oriented banks, or those with the potential to be so).

The project was guided by ADB's Microfinance Development Strategy (2000), which draws attention to the need to mainstream and commercialize microfinance.

Challenges

A protracted (more than 25 years) conflict and unprecedented disasters had made banks in Aceh and Nias very risk-averse, particularly vis-à-vis micro and small enterprises.

Years of isolation had made banks ill-informed of potential gains from microfinance development.

Project partners alleged that proven good practices in microfinance, widely adopted elsewhere, were not applicable in Aceh or Nias on account of perceived sociocultural differences.

Changing Mindsets

Technical assistance provided with the project induced willing project partners to adopt Grameen microfinance technology. Related measures included:

- raised awareness among banks of overcrowding and competition in consumer-lending, salary-based loans, and services to high-income groups;



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Door-step delivery of services — one of microfinance's best practices

- revealed opportunities in the micro and small enterprise sector, a largely underserved and untapped market offering vast banking opportunities, including savings mobilization;
- conducted exposure trips to show bank management how other Indonesian banks are successfully penetrating and viably servicing the micro and small enterprises sector with appropriate financial products;
- provided intensive training and on-the-job mentoring of account officers and credit supervisors;
- continuously monitored partner banks' performance, and conducted refresher courses and experience – knowledge sharing among high and low performers; and
- built full commitment at all levels in partner banks; for instance, through provision of support systems such as information technology-enhanced business operations, performance-based incentives, and sanction schemes.

The Birth of Champions

Six of nine possible partner banks in Aceh are now engaged in expansive microfinance, with one model bank acting as training center for refresher courses on microfinance technology.

A partner bank in Nias is expanding microfinance to all its branches/sub-branches covering North Sumatra province. Its decision was encouraged by the remarkable success of its Nias branch as revealed by high quality microfinance loans, rapid growth in outreach, and substantial savings mobilized from all-women clients.

Management of the government-owned banks are now in a stronger position to resist the introduction of unsustainable, politically motivated credit programs by their "owners," since partner banks now offer a viable and sustainable option for replication.

Kemal Jaijri



Women microentrepreneurs putting their micro-loans to work

Evelyn Leviste



Orienting partner bank management on proven microfinance technology

For further information

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