

**THE EFFECTIVENESS AND ROLE OF DONOR FUNDED  
MICROCREDIT IN INDONESIA**

**CASE STUDY: BAMBOO MICRO CREDIT INC.**



**Fletcher Miles**

**Australian Consortium for In-Country Indonesian Studies (ACICIS)**

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CASE STUDY: BAMBOO MICRO CREDIT INC.

**Penulis**

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Telah diuji dalam Ujian Sidang Skripsi Program West Java Field Study Research dari The Australian Consortium for 'In-Country Indonesian Studies (ACICIS) di Universitas Katolik Parahyangan Bandung pada Rabu Juni 2015, dan dinyatakan **LULUS**

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## **ABSTRACT**

In recent decades microcredit has gained worldwide prominence and attracted the attention of governments, NGO's and the private sector. But despite all of the attention and promises made that microcredit will eradicate poverty, there is still a lack of research and evidence which suggests that microcredit has such ground breaking effects. What has happened is an influx of for-profit institutions, namely micro lending banks, who are administrating loans on a very large scale worldwide. The presence of the private sector has called into question the relevance and need for donor based microcredit organisations. After all, subsidised lending should not occur if the same service can be provided by the private sector with private sector funding.

This paper focuses on an Australian based NGO, Bambooo Micro Credit, which is administering loans with no interest rates and flexible repays in three locations throughout Indonesia. The paper asks the questions whether this differentiated approach to lending has a greater overall effect on the borrowers in comparison to formal micro lending institutions. It is found that there are small increases in the performance of borrowers but no conclusive strong evidence is reported that microenterprises are growing and expanding any more than they have done through formal lending.

The paper concludes that there is still a space for donor based microcredit as the formal institutions do not cater for the poorest of the poor. There is also scope for donor based NGO's to facilitate innovation to discover better and more productive ways to administer loans through testing various product designs.

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## INTRODUCTION

**Education** - *Give a man a fish, feed him for a day. Teach a man to fish, feed him for life.*

**Microcredit** - *Lend a man some money to buy a fishing rod, hope he knows how to fish and can sell those fish at the market and save some of the profits to repay the loan whilst also providing more for his family and community as well as growing his business.*

Microcredit or microfinance<sup>1</sup> is the provision of small loans to those lacking access to conventional credit and financial services. Loan capital, previously unavailable, is provided to allow individuals to start small micro-enterprises with the aim of helping these individuals become financially independent and in doing so taking greater care of their families.

Microcredit is a concept which has evolved into many shapes and forms since its inception. Microcredit started from non-for-profit organisations but has grown and evolved and is today provided by formal institutions such as banks and co-operatives, semiformal institutions such as non-governmental organisations as well as informal sources, such as money lenders and shop keepers.<sup>3</sup> It is a populated and diverse market, these providers being both very large and very small, some rural, some urban or both, and some with a focus on social change whilst others (most) focused on financial development. Despite these large differences in providers all describe their loans and products under the same umbrella term, microcredit.

In Indonesia, the first major implementation of modern microcredit came from Bank Rakyat Indonesia (BRI), at the time a state owned bank which administered state subsidised loans to rice farmers in an effort to increase rice production in Indonesia.<sup>4</sup> BRI is now one of Indonesia's biggest commercial banks and one of many financial institutions providing microcredit. BRI derives large profits from administering microcredit loans to the poor within Indonesia with

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<sup>1</sup> Note that the terms microcredit and microfinance are interchangeable. Microfinance has evolved out of microcredit and generally encompasses other financial services such as saving accounts, insurance and in some instances larger loans.

<sup>3</sup> Institutional Document. "Bank Rakyat Indonesia," Asia Resource Centre for Microfinance, <http://politics.ucsc.edu/undergraduate/chicago%20style%20guide.pdf>. (Accessed April 15, 2015).

<sup>4</sup> Institutional Document. "Finance for the Poor: Microfinance Development Strategy," *Asian Development Bank*, June, 2000, <http://www.adb.org/documents/finance-poor-microfinance-development-strategy>. (Accessed March 28, 2015).

one third of total BRI loans being classed as microloans serving around 6.9 million micro-lenders<sup>5</sup> and making up half of BRI's annual profits.<sup>6</sup> It is seen as one of the most successful implementations of microcredit globally and boasts the highest net interest margin, an indicator of profit, of the four big banks in Indonesia and the highest banking margins in Asia.<sup>7</sup> Loan sharks are another common form of microcredit in Indonesia, offering extremely high interest rates, sometimes as high as 167% annually but these loan sharks still attract large numbers of clients due to ease in which the funds are made availability compared to the commercial banks.<sup>8</sup> The last source of microcredit comes from non-for-profit organisations. This study focuses on an Australian based microcredit non-for-profit organisation, Bamboo Micro Credit,<sup>9</sup> (hereafter Bamboo) which administers zero interest rate loans with flexible repayments through three partner's agencies in Indonesia. Bamboo is a privately run NGO and derives donor contributions from private individuals.

This paper will discuss microcredit in its various forms and the role microcredit has played as a modern development tool. Specifically this paper will focus on the effectiveness of microcredit at an NGO level. Today, NGO's play a much smaller role in microcredit. The initial innovation and risk taking initiatives by NGO's in the pursuit of methods to eradicate poverty led to the discovery of the credit worthiness of the poor. Following this discover, for-profit organisations have greatly reduced the need for donor based microcredit NGO's as they have flooded the market with affordable credit. The secondary and the primary research conducted will be used to analyse, firstly, whether cheaper NGO administered loans with varied product designs are more effective than commercial loans in lifting individuals out of poverty, specifically within Indonesia. Secondly, this paper will discuss, with reference to Bamboo, the role a donor based microcredit NGO should take in an effort to add value to the field of microcredit. These questions will be answered by thoroughly analysing the current academic literature as well as by analysing findings from field research regarding living standards, the

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<sup>5</sup> Siphahutar, Tassia. "OKJ plans cap on micro credit, banks on alert," *The Jakarta Post*, September 22, 2014, <http://www.thejakartapost.com/news/2014/09/22/ojk-plans-cap-micro-credit-banks-alert.html>. (Accessed June 14, 2015).

<sup>6</sup> The data in this article referred to one financial accounting period and did not reflect an average of profits made over time. Bland, Ben. "Indonesian bank BRI takes microcredit on the road," *the Financial Times*, April 24, 2014, <http://www.ft.com/intl/cms/s/cac10dd4-26f8-11e4-a46a>. (Accessed Jun 1, 2015).

<sup>7</sup> Ibid.

<sup>8</sup> Azhari, Muhamad. "Loan Sharks Circle in On Vulnerable Prey." *Jakarta Globe*, October 25, 2012, <http://thejakartaglobe.beritasatu.com/archive/loan-sharks-circle-in-on-vulnerable-prey/>. (Accessed April 14, 2015).

<sup>9</sup> Bamboo Micro Credit Website, <http://www.bamboomicrocredit.org.au/>. (Accessed March 27).



availability of financial services, motivations for repayment and the effects of these loans within communities.

## **METHODOLOGY**

### *Type of Research*

The research methodology involved qualitative and quantitative research. The qualitative field research aimed to gather an in-depth understanding of the impacts the loans had on the living standards and financial independence of the borrowers, the extent of their financial service opportunities and exposure, the borrower's repayment motivations as well as the degree of community impact as a result of the loans. Quantitative research and analysis was undertaken on the data made available from Bamboo and the three partner agencies regarding administered loans.

Data was collected from borrowers who had received loans from one of the three partner agencies of Bamboo Micro Credit including Pesat Community Self Support Development Foundation, Bandung, West Java, Dewi Pertiwi Foundation, Malang, East Java and Lite 'n Easy Tours, Bukittinggi, West Sumatra. Data was collected using a questionnaire consisting of 16 questions.<sup>10</sup> Two questions failed to be effective and therefore the data used is collected from 14 questions only. The questionnaire is split up into four sections:

1. Living Standards and Financial Independence;
2. Financial Service Opportunities and Exposure;
3. Repayment Motivations; and
4. Community Impact.

### *Sampling Method*

The aim was to interview borrowers who had fully repaid their first loan or had repaid a substantial amount of their loan, 75% and above. In doing this, it was hoped to interview borrowers who could more accurately comment on the effect the loan had on their living

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<sup>10</sup> See attached in the appendices

standards. Of the 30 borrowers, 24 fit this criteria, whereas 6, 1 in Bandung, 2 in Bukittinggi and 3 in Malang, had not made sufficient repayments at the time of the interviews to make this threshold but were nevertheless interviewed. Throughout the analysis, these two categories as well as other limitations of certain borrower data are taken into account where relevant. In each of the table data sets, the total number of observations represents the number of borrowers whose data was used in the analysis for that data set.

### *Sampling Size*

To date, Bamboo has administered a total of 182 loans and thus 182 is the population size. The study achieves a confidence level of 90% with a 10% margin of error by sampling 30 individuals which together make up 50 cumulative loans.

*If population size = number of loans = 182*

*Confidence Level % = 90*

*Margin of Error % = 10*

*Sample Size = 50*

### *Process and Respondents*

The interviews were undertaken at the residence or place of business of each of the borrowers by myself and representatives from each of the partner's agencies. In each case, the representative from the partner agency acted to assist in communication and dialogue and in some cases as a translator. Interviews were conducted in an informal nature. Each borrower was handed a questionnaire in Indonesian, although many could not read due to illiteracy or bad eye sight. I shared the role with the agency representative in reading each of the questions to the borrower which was then followed by answers from the borrowers. Each borrower was made aware that they were under no obligation to answer any question but no objections arose throughout the study.

### *Potential Bias*

Potential bias in answering the questionnaire varies in degree for each individual question. Where bias is relevant, this is discussed further in the findings section for individual questions.

However, it can be noted that two major forms of potential bias were present. Firstly, the agency representative present during the interviews was also the individual responsible for administering the loans and any repeat loans which may occur in the future. Individuals were aware of this and therefore may have tailored their responses accordingly. Secondly, I speak limited Indonesia, no Javanese (Malang), no Sundanese (Bandung) and no Minangkabau (Bukittinggi). Instances in which the borrower spoke their regional language were frequent. Therefore, I relied to a large extent on the agency representative to translate any information which was conveyed. This may have resulted in some information being lost in translation.

## LITERATURE REVIEW

Microcredit is a way to delivery loans to those in need but who have previously been unable to access financial services. The reason for the lack of access varies but includes a lack of collateral and assets, a lack of income and a lack employment history among other factors. Large scale populations which are unbankable are seen as generations stuck in the poverty cycle. Some suggest that microcredit is the key to breaking this poverty cycle by using concepts such as group borrowing to reduce transaction costs and ease access to borrower information.<sup>11</sup>

Modern forms of microcredit gained prominence in Bangladesh through several organisations. The most well know is Grameen Bank started by Muhammad Yunus in 1983. Microcredit gained the world's attention with the successful results of Grameen and other microfinance institutions which led to Muhammad Yunus and Grameen Bank being awarded the Nobel Peace Prize in 2006, "for their efforts to create economic and social development from below."<sup>13</sup> Muhmmammad Yunus is quoted in saying:

*"Microcredit is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor. Unleashing of energy and creativity in each human being is the answer to poverty."*<sup>14</sup>

*"We will make Bangladesh free from poverty by 2013."*<sup>15</sup>

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<sup>11</sup> Beatriz Armendaiz and Johnathon Morduch, *The Economics of Microfinance*, (Massachusetts: MIT, 2007).

<sup>13</sup> "Nobel Peace Prize 2006", *Nobel Prizes and Laureates*, May 28, 2015, [http://www.nobelprize.org/nobel\\_prizes/peace/laureates/2006/](http://www.nobelprize.org/nobel_prizes/peace/laureates/2006/). (Accessed May 28, 2015).

<sup>14</sup> Muhammad Yunus, "Expanding Microcredit Outreach to Reach the Millennium Development Goals," *International Seminar on Attacking Poverty with Microcredit*, Dhaka, Bangladesh, January, 2003.

<sup>15</sup> Ibid.

The United Nations played its part in bringing microcredit to the public attention by announcing 2005 as the international year of microcredit.<sup>16</sup> These small loans administered to a previously thought unbanked market of entrepreneurs were embraced and celebrated by policymakers, donors, and funders across the world as an effective development policy tool. The State of the Microcredit Summit Campaign Report 2006 states “microcredit is one of the most powerful tools to address global poverty.”

Each of these statements is very bold and ambitious. However, it is easy to see why so much hype was created around microcredit and still is to this day. It is empowerment by the people for the people. This self-directed growth overcomes criticisms and challenges associated with traditional foreign aid. These criticisms suggest that by providing large amounts of money to developing country governments through foreign aid, foreign governments marginalize citizens of developing countries who become considerably less wealthy than the ruling elite who now have access to development money. It also reducing the incentive for governments of developing countries to work towards increasing employment and opportunities for citizens.<sup>18</sup> Normally this is a priority for governments, as a strong work force results in strong tax revenue. However, with large influxes of foreign aid capital, governments loose incentive to implement employment creating policies which often require large political clout and funding.<sup>19</sup>

Microcredit pleases the progressive types who see the poor as doing it for themselves and raising out of poverty with dignity and through creation as well as promising social benefits. Microcredit also appeals to democratic and capitalist leaning countries which prescribe to free market ideologies and believe that microcredit will reduce the dependency of the poor via promotion of entrepreneurship all the while contributing to the rise of the middle class without the assistance of the state.<sup>20</sup> But as the following literature review demonstrates, microcredit whilst an effective tool in any development policy, it is not necessarily the silver bullet in eradicating poverty. All things are better in moderation, even microcredit.

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<sup>16</sup> Institutional Document. “UN LAUNCHES INTERNATIONAL YEAR OF MICROCREDIT 2005,” *United Nations*, November 18, 2004. <http://www.un.org/press/en/2004/dev2492.doc.htm>. (Accessed April 4, 2015).

<sup>18</sup> Armendaiz and Morduch, *The Economics of Microfinance* (footnote 9).

<sup>19</sup> *Ibid.*

<sup>20</sup> Coleman, Isobel. “Defending Microfinance,” *Council on Foreign Relations*, 2005, <http://www.cfr.org/social-entrepreneurship/defending-microfinance/p7774/>. (Accessed June 20, 2015).

## *Financial Independence and the Reduction of Poverty*

### *Shortfalls of Microcredit*

The main goal stated by microcredit enthusiasts is the reduction of poverty worldwide and financial independence for the world's poor through facilitating entrepreneurship.<sup>21</sup> It is a dangerous thought but a tempting one to romanticize the poor as entrepreneurs able to create their own path out of poverty with relatively little or no assistance from the state. In the literal sense, these borrowers are entrepreneurs. They are starting small scale businesses which assume all the risk and reward from operations. However, these businesses are not what is commonly associated with entrepreneurship in developed countries. In developed countries, when people think entrepreneurship, they think of Mark Zuckerberg and companies like Facebook. People think of business leaders who produce innovative new ideas and ways of approaching issues in creative and brilliant ways previously undiscovered. The facts are that even in the developed world with high levels of access to specialized education and much larger access levels of capital, less than 10% of people could be considered entrepreneurial, the rest are employees in the formal labour force.<sup>24</sup>

The most recent and leading studies suggest that microcredit does not fulfil the mission in having a transformative impact on poverty.<sup>25</sup> Early studies even suggested that microcredit administered to the poorest of the poor had detrimental effects.<sup>26</sup> The most recent study undertaken by the *Poverty Action Lab* in seven randomised countries found that “microcredit access did not lead to substantial increases in income.”<sup>28</sup> This is despite sales and profits of the micro businesses overall increasing. The study lists several factors which may explain the outcome including borrowers choosing to reduce their wage labour when they can work for themselves instead, small-scale entrepreneurs are not effective at growing their businesses without training and support, and the extra money is spent on consumption rather than reinvested into further business growth required for sustained income increases.<sup>29</sup> Each of these factors can be attributed to a lack of basic financial education possessed by the borrowers.

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<sup>21</sup> Armendaiz and Morduch, *The Economics of Microfinance* (footnote 9).

<sup>24</sup> LABORSTA Internet Website, <http://laborsta.ilo.org/>. (Accessed June 14, 2015.)

<sup>25</sup> Policy Bulletin, “WHERE CREDIT IS DUE,” *Abdul Latif Jameel Poverty Action Lab*, February 2015, <http://www.povertyactionlab.org/publication/where-credit-is-due>. (Accessed April 23, 2015).

<sup>26</sup> Hulme, David, and Paul Mosley (1996). *Finance Against Poverty*. Routledge, London.

<sup>28</sup> Policy Bulletin, “WHERE CREDIT IS DUE” (footnote 23).

<sup>29</sup> *Ibid.*

Another important feature of microcredit is the focus on microeconomic aspects of development whilst ignoring the macroeconomic shortfalls. Many argue that the best way to eradicate poverty is through job creation and increased worker productivity.<sup>30</sup> Large scale job creation utilizes management techniques, specialization, new technology and economies of scale among other things.<sup>31</sup> Small scale micro entrepreneurship poses many problems for national economic growth and the sustained growth of the microenterprises themselves. The main focus of these arguments are as follows:

- Microcredit loans lead borrowers to compete directly with each other in the same niche markets;
- Poor borrowers are conservative with their money and rarely invest in new technologies such as the hiring of labour, rather, choosing to spend the money on maintaining their subsistence and extra consumption which does not lead to consistent growth; and
- Borrowers do not have specialized skills and therefore fail to gain a competitive advantage whilst competing in hypercompetitive markets.<sup>32</sup>

The microcredit enterprises do not have the advantage of economies of scale or of high level technology and therefore are not capable of creating large-scale sustainable change.<sup>33</sup> In fact, the median business has no staff, few assets, low skills and limited capital.<sup>34</sup> It can be argued that an over-supply of microcredit results in severe price competition which undermines the development of more efficient small and medium enterprises who cannot sustain the revolving influx of micro-enterprises.<sup>35</sup> This oversupply is of course also damaging to the microenterprises themselves who must compete in a heavily saturated market with no competitive advantage resulting in very low returns.<sup>36</sup> These market conditions can become

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<sup>30</sup> Karnani, Aneel. "Microfinance Misses Its Mark," *Stanford Social Innovation Review*, 2007. [http://www.ssireview.org/articles/entry/microfinance\\_misses\\_its\\_mark/](http://www.ssireview.org/articles/entry/microfinance_misses_its_mark/). (Accessed June 3, 2015).

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> Bhide, Amar. "Phelps's Prize," *The Wall Street Journal*, January 29, 2007. <http://www.wsj.com/articles/SB117003072952090648>. (Accessed May 15, 2015).

<sup>34</sup> Armendaiz and Morduch, *The Economics of Microfinance* (footnote 9).

<sup>35</sup> Karnani, "Microfinance Misses Its Mark" (footnote 27).

<sup>36</sup> Bateman, Milford and Ha-Joon Chang (2009), "The Microfinance Illusion", <http://www.econ.cam.ac.uk/faculty/chang/pubs/Microfinance.pdf>. (Accessed April 17, 2015).

very difficult for borrowers who experience low returns but must still maintain constant repayments charged with high interest rates.<sup>37</sup>

Hyper competition and low returns discussed above is an outcome caused by an oversupply mixed with a lack of demand. What is needed is a healthy well-functioning domestic market which has enough consumers with enough money to buy the products sold by these microenterprises.<sup>38</sup> This is less of a problem in urban setting but as most of the poor live rurally, lack of infrastructure and therefore lack of access to more diverse markets only increases the problem.<sup>39</sup> In this context of demand side factors and creating healthy markets, pro-growth macroeconomics, trade and industry policies must be utilized.<sup>40</sup> An example of the importance of these policies can be seen in the following comparison between China, Vietnam and South Korea with Bangladesh, Bolivia and Indonesia. The first three have seen huge economic growth and made substantial progress in reducing poverty. These countries were not big up takers of microcredit but instead have focused on macroeconomic policies supporting larger enterprises in labour intensive industries including implementing huge amounts of infrastructure. Meanwhile, the three biggest proponents of microcredit, Bangladesh, Bolivia and Indonesia, have been much less successful despite a large focus and inflow of microcredit.<sup>41</sup> Microcredit acts to ease the obligations of the state in economic development whilst relying on free market ideologies. Many argue that due to the limited effects of microcredit, governments and public policy makers, especially those with limited resources and political capital, should support large scale enterprise in labour intensive industries.<sup>42</sup> Some academics have even gone as far to argue that large scale microcredit in the long term is detrimental as it acts to informalize, de-industrialize and marginalize development efforts.<sup>43</sup>

Another failure of microcredit is the assumption that borrowers will be value-conscious consumers. As wrote in the Economist, “it is almost an ‘item of faith’ among development

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<sup>37</sup> Osmani, Siddiqur R. (1989) “Limits to the alleviation of poverty through non-farm credit” *Bangladesh Development Studies*, 17, 4: 1–18. (Accessed March 30, 2015).

<sup>38</sup> Pollin, Robert (2007). “Microcredit: False Hopes and Real Possibilities”. *Foreign Policy Focus*, <http://www.fpif.org/fpif.txt/4323>. (Accessed June 2, 2015).

<sup>39</sup> Khawari, Aliya, “Microfinance: Does it Hold its Promises? A Survey of Recent Literature (2004),” *HWWA Institute of International Economics*, 2004, Paper No. 276.

<sup>40</sup> Chowdhury, Anis. “Microfinance as a Poverty Reduction Tool – A Critical Assessment,” *Economic & Social Affairs*, DESA Working Paper No. 89, December 2009, [http://www.un.org/esa/desa/papers/2009/wp89\\_2009.pdf](http://www.un.org/esa/desa/papers/2009/wp89_2009.pdf). (Access March 27, 2015).

<sup>41</sup> Karnani, “Microfinance Misses Its Mark” (footnote 27).

<sup>42</sup> Bhide, “Phelps’s Prize” (footnote 29).

<sup>43</sup> Bateman and Ellerman, “The Microfinance Illusion” (footnote 32).

economists that the poor act rationally.”<sup>44</sup> The poor of course have a right to consumption. The poor also have a right to credit but it must be considered that giving microcredit loans to people who have only ever lived a subsistent lifestyle as well as people who do not typically have access to savings accounts and therefore have no experience in saving, and then expecting them to save and reinvest in their businesses without guidance is a large leap of faith.<sup>45</sup>

Other concerns include the high interest rates, strong arguments emerge that not enough importance is put on legal, social and regulatory mechanisms which should be in place to protect the poor.<sup>46</sup> In a recent study of 350 leading microfinance institutions it was found that rates were charged at 20 per cent to 40 per cent per year after factoring in inflation.<sup>47</sup> Microcredit institutions argue that rates need to be so high to cover costs and associated risks but some argue that with these high rates micro banks become barely more accessible than traditional banking systems. Although, these rates are still much cheaper than local money lenders who charge extortionate amounts.<sup>48</sup> While these elements point out very important points and have resulted in a major pull back from government policy makers in spending on microcredit activities, it is undeniable that microcredit does have some benefits.

### *Benefits of Microcredit*

The first major benefit of microcredit which highlights a major flaw in the above arguments is the great mobility and access of microcredit. The great proportion of the world’s poor, including within Indonesia, live rurally. This presents huge challenges for macroeconomic policies of the government in instituting large enterprises resulting in labour-intensive industries which will effectively reach these rurally based populations. Lacking infrastructure as well as lacking population density in rural areas means these projects are much more viable in urban areas, not where the extremely poor live. One of the great advantages of microcredit is its ability to reach more remote communities. An example of such implementation can be seen in Indonesia by BRI who have started mobile banking, sending vans or even boats to remote areas.<sup>50</sup>

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<sup>44</sup> “Another day, another \$1.08” *The Economist*, April 26, 2007, <http://www.economist.com/node/9080048>. (Accessed March 30, 2015).

<sup>45</sup> Karnani, Aneel. “Failure of the libertarian approach to reducing poverty,” *Palgrave Journals*, 2010.

<sup>46</sup> *Ibid.*

<sup>47</sup> Morduch, Jonathan. “How can the poor afford microfinance?” *Financial Access Initiative*, 2008, Wagner Graduate School, New York University, New York.

<sup>48</sup> Boudreaux, Karol, and Tyler Cowen. “The Micromagic of Microcredit”. *Wilson Quarterly*, Winter 2008.

<sup>50</sup> Bland, “Indonesian bank BRI takes microcredit on the road” (footnote 5).



The second major benefit to borrowers is the freedom gained in choosing how they make their money, manage risk, consume and invest.<sup>51</sup> This indicates financial independence and the ability to be self-reliant. Following this, microcredit has been proven to help the poor absorb economic shocks and therefore reduces their risk and vulnerability. Even strong critics of microcredit admit that during periods of crisis or downturn, microcredit can be very advantageous.<sup>52</sup> This safety net is particularly important in rural communities and in countries where the state social security's system is weak, which is indicative of countries which receive micro credit.

Thirdly, the concept of "learning by doing" cannot be ignored. Exposure to microloan products gives borrowers the opportunity to experience financial services and become more familiar and comfortable with the process. Lots of microcredit institutions also implement social components as part of their lending procedures. The Grameen Bank has a social contract which is reinforced at each repayment date. There are '16 decisions' in the social contract which reinforce a sense of community as well as sensible ways to spend and save money. Today there are millions who abide by the Grameen Bank social contract or the variety of other social contracts designed by different microcredit institutions.<sup>53</sup>

Finally microcredit is often associated with advocating for women's empowerment by influencing a women's ability to make decisions for herself and within her community. While some suggest that cases of domestic violence against women borrowers have reduced since women partake in generating household income and are therefore considered more valuable,<sup>54</sup> a large body and the most recent and comprehensive studies suggest that microcredit does not empower women.<sup>55</sup> The research regarding other on flow effects such as a rise in healthcare<sup>56</sup>

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<sup>51</sup> Policy Bulletin, "WHERE CREDIT IS DUE" (footnote 23).

<sup>52</sup> Chowdhury, "Microfinance as a Poverty Reduction Tool" (footnote 36).

<sup>53</sup> Banking for the Poor, Grameen Bank, <http://www.grameen-info.org/16-decisions/>. (Accessed March 25, 2015).

<sup>54</sup> Coleman, "Defending Microfinance" (footnote 18).

<sup>55</sup> Policy Bulletin, "WHERE CREDIT IS DUE" (footnote 23).

<sup>56</sup> This study is one of the many studies which does find some correlation between microcredit and increased healthcare. Stephen Deloach and Erika Lamanna. "Measuring the Impact of Microfinance on Child Health Outcomes in Indonesia," *World Development*, Vol. 39, No. 10, pp. 1808–1819, 2011.

and education has found very limited correlations between microcredit and positive increases in these social outcomes.<sup>57</sup>

It should not be overlooked that microcredit institutions are huge employers in themselves and employ thousands in undertaking this difficult task of implementing microcredit. This job creation alone is impressive.<sup>58</sup> Microcredit also brings capital into communities which can in itself stimulate growth. There is a lack of current alternative development methods which serve the most destitute in rural places.<sup>59</sup> And at the very least microfinance brings crucial financial services to the poor at market rates.<sup>60</sup> As said by the Nobel Prize winning economist Amartya Sen, development can be viewed as a “process of expanding the real freedoms that people enjoy.”<sup>61</sup> If this was the overarching goal of microcredit, it would be considered a great success.

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<sup>57</sup> There are various papers which could contest this but as a whole the research supports no large correlation.

The following recent papers demonstrate this;

Angelucci, Manuela, Dean Karlan, and Jonathan Zinman. “Win Some Lose Some? Evidence from a Randomized Microcredit Program Placement Experiment by Compartamos Banco.” *Working Paper*. 2013.; Crepon, Bruno, Florencia Devoto, Esther Duflo, and William Pariente. “Impact of Microcredit in Rural Areas of Morocco: Evidence from a Randomized Evaluation.” *M.I.T. Working Paper*, March, 2011.; Tarozzi, Alessandro, Jaikishan Desai, and Kristin Johnson. “On the Impact of Microcredit: Evidence from a Randomized Intervention in Rural Ethiopia.” *UPF Working Paper*. 2013.

<sup>58</sup> Roodman and Qureshi (2006:39)

<sup>59</sup> Armendaiz and Morduch, *The Economics of Microfinance* (footnote 9).

<sup>60</sup> Coleman, “Defending Microfinance” (footnote 18).

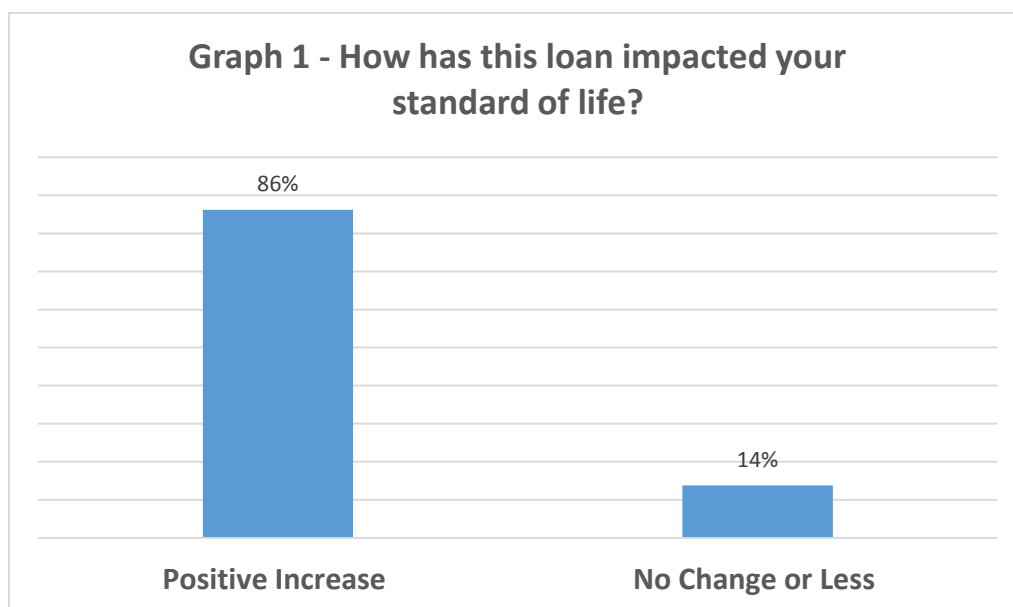
<sup>61</sup> Sen, Amartya (1999). *Development as freedom* (1st ed.). New York: Oxford University Press..

## Findings of Primary Research

The following tables and graphs represent the collated findings from the questionnaire completed by 30 Bambooo Micro Credit loan recipients. Of the 30, 5 were undertaken in Subang (Bandung), 11 in Bukittinggi and outer Bukittinggi and 14 in Malang. Less individuals were interviewed in Bandung as less borrowers fit into the category of having already repaid at least 75% of their loans.

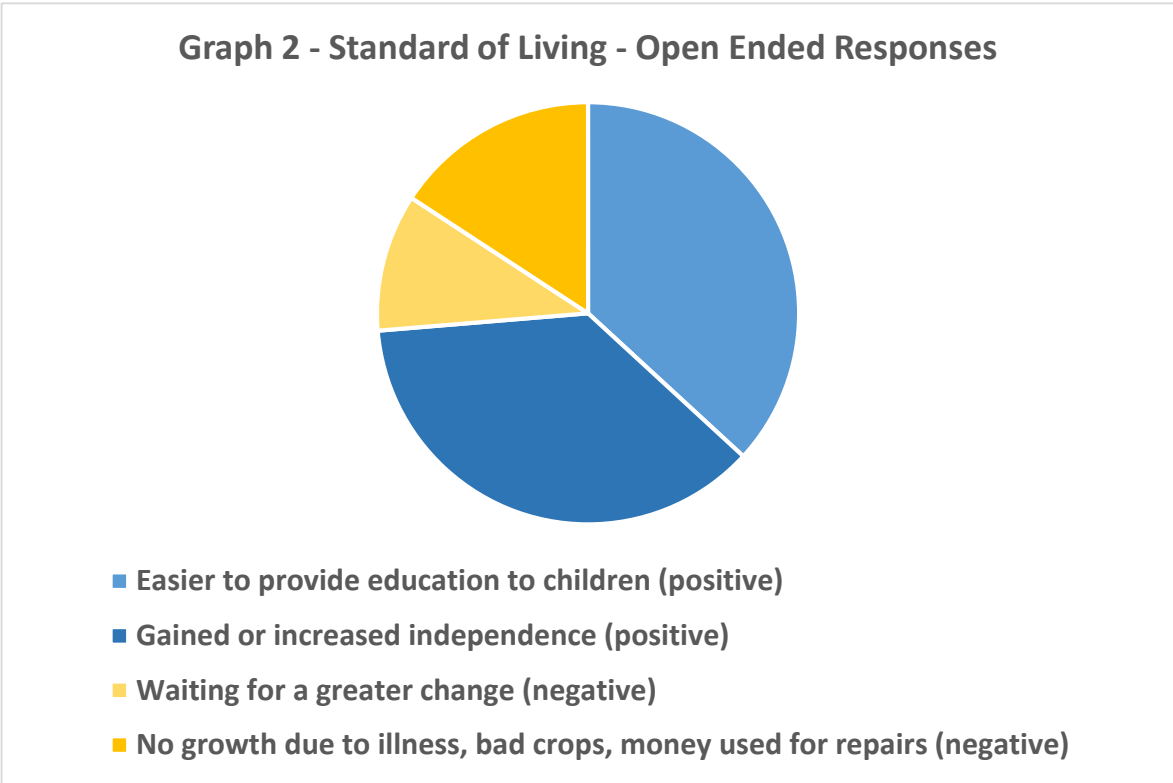
### *Section 1 – Living Standards and Financial Independence – Q1 - 3*

Code	Value	Frequency	Percentage
1	Positive Increase	25	86%
2	No Change or Less	4	14%
	Total Observations	29	100%



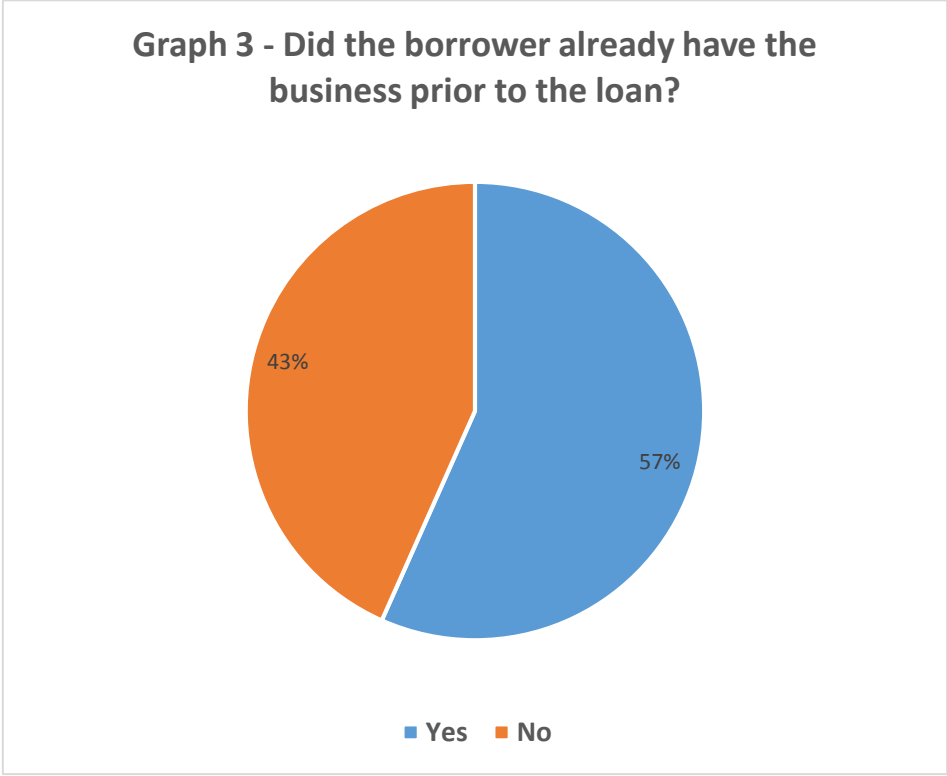
The standard of living increased for 86% of borrowers. Observations excluded one borrower who very recently received the loan and declined to comment. Of the 14% of borrowers who did not experience an increase in living standards, reasons given included using the loan for repairs only needed to maintain their business operations, having an established large business with no significant improvement from the small loan and due to bad harvests from crops.

<b>Table 2 - How has the loan impacted the borrower's standard of living?</b>			
Code	Value	Frequency	Percentage
e	Easier to provide education to children (positive)	7	37%
i	Gained or increased independence (positive)	7	37%
ac	Waiting for a greater change (negative)	2	11%
o	No growth due to illness, bad crops, money used for repairs (negative)	3	16%
	Total Observations	19	100%



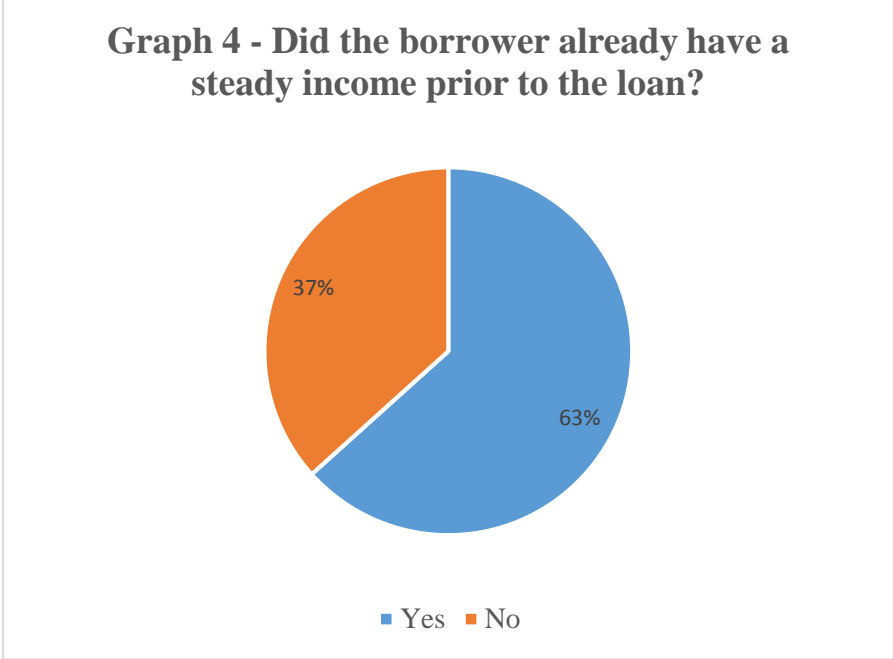
Of the 29 borrowers, 19 elaborated further as to how their standard of living had increased or had not increased. These responses have been themed into four distinct categories. The blue shading of the pie graph represents the ability of the family to access education for children and gain independence as a result of the loans. These were the two main themes and make up 74% of responses. The yellow shading represents the 4 borrowers who did not experience an increase in living standards and 1 borrower who did but is hoping for greater change.

<b>Table 3 - Did the borrower already own the business before receiving the loan?</b>			
<b>Code</b>	<b>Value</b>	<b>Frequency</b>	<b>Proportion</b>
1	Yes	17	57%
2	No	13	43%
	Total	30	100%

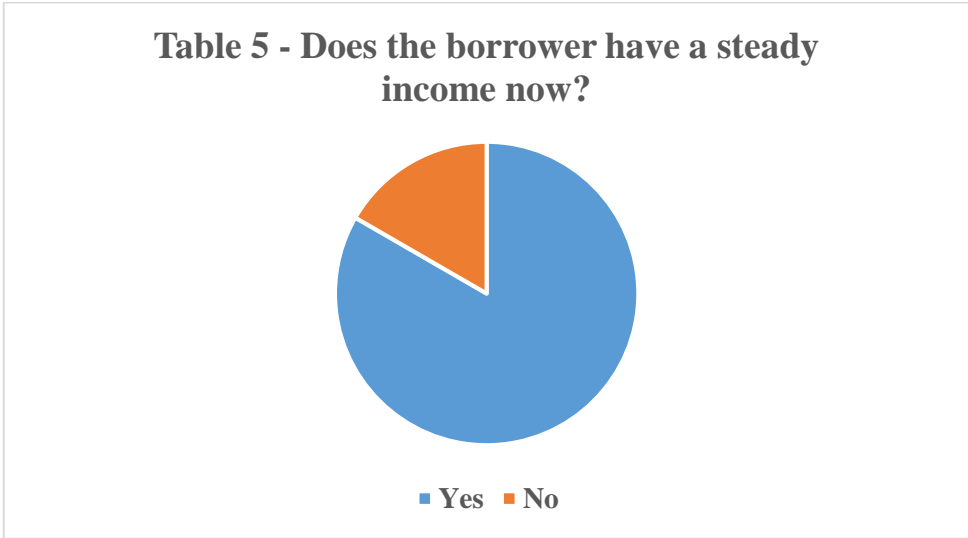


Each of the 30 borrowers answered this question. Just over half of the borrowers (57%) stated they already owned the business prior to receiving the loan. Note, this does not imply that the 13 borrowers who did not operate their current business before the loan were unemployed.

<b>Table 4 - Did the borrower already have a steady income before receiving the loan?</b>			
Code	Value	Frequency	Proportion
1	Yes	19	63%
2	No	11	37%
	Total	30	100%

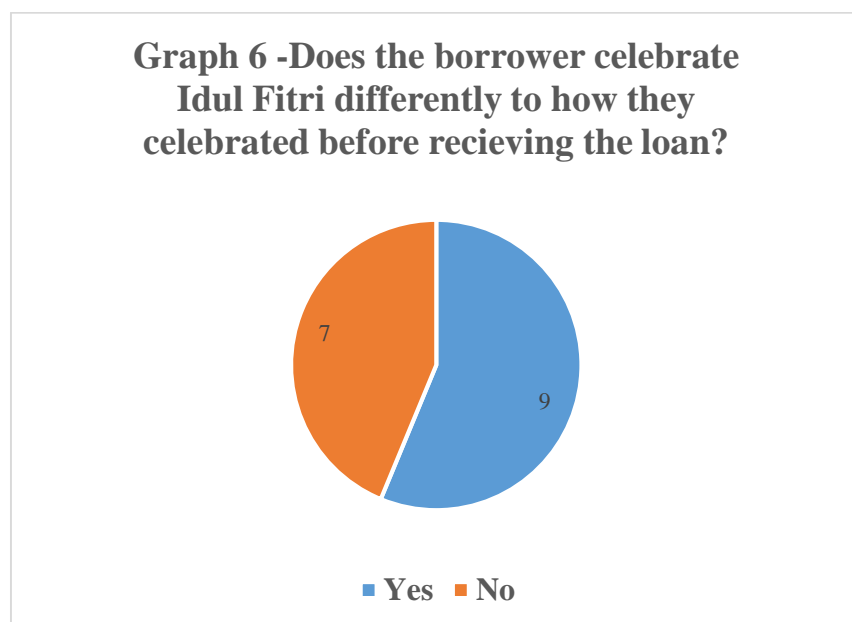


<b>Table 5 - Does the borrower have a steady income since receiving the loan?</b>			
Code	Value	Frequency	Proportion
1	Yes	25	83%
2	No	5	17%
	Total	30	100%



Many borrowers (63% - 19) already had a steady income before the loan. The rate of borrowers with steady incomes grew to 83% - an increase of 20%. This data includes the 6 borrowers who had repaid less than 75% of their first loan from Bamboo. Of the 6, only 1 didn't report a steady income before or after the loan. This borrower had borrowed money for vehicle repairs for an established business. Of the 5 without steady incomes, 2 were due to bad harvest, 1 because of sickness, and 2 reported more reliable income but not steady.

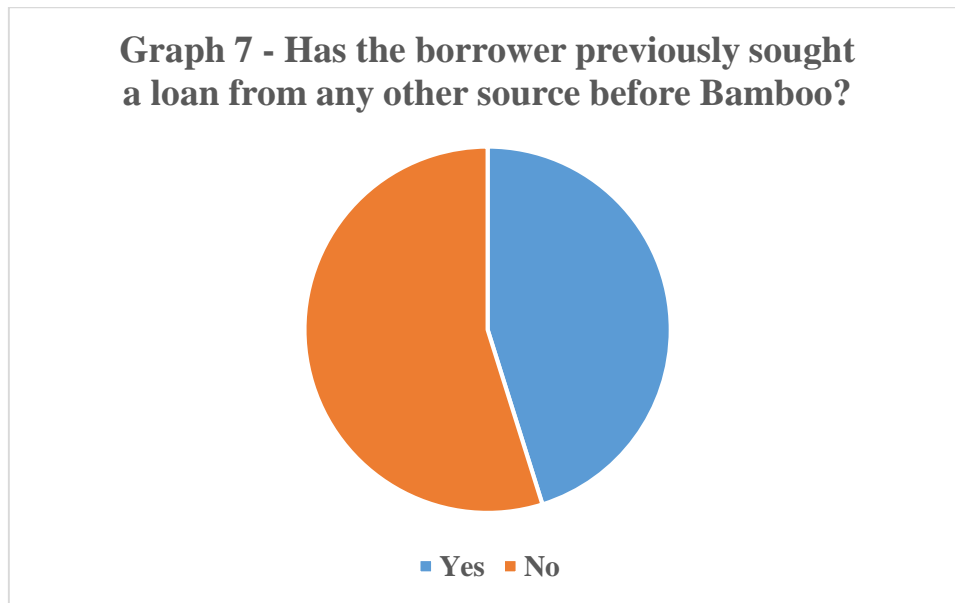
<b>Table 6 - Does the borrower celebrate Idul Fitri differently to how they celebrated before receiving the loan? E.g. giving more money and food?</b>			
<b>Code</b>	<b>Value</b>	<b>Frequency</b>	<b>Proportion</b>
<b>1</b>	Yes	9	56%
<b>2</b>	No	7	44%
	Total	16	100%



Idul Fitri or Lebaran is the popular name for Eid al-Fitr in Indonesia. It involves giving money or small goods to family, neighbours, friends and those less fortunate. This question was included to measure wealth increase and determine the ability of the borrowers to participate in religious holidays. This question was limited to borrowers who were onto their second loan as to allow enough time to have participated in Idul Fitri. Over half 56% reported a positive impact in the way they celebrated since having the loan.

*Section 2 – Financial Services Opportunities and Exposure – Q4 – 7*

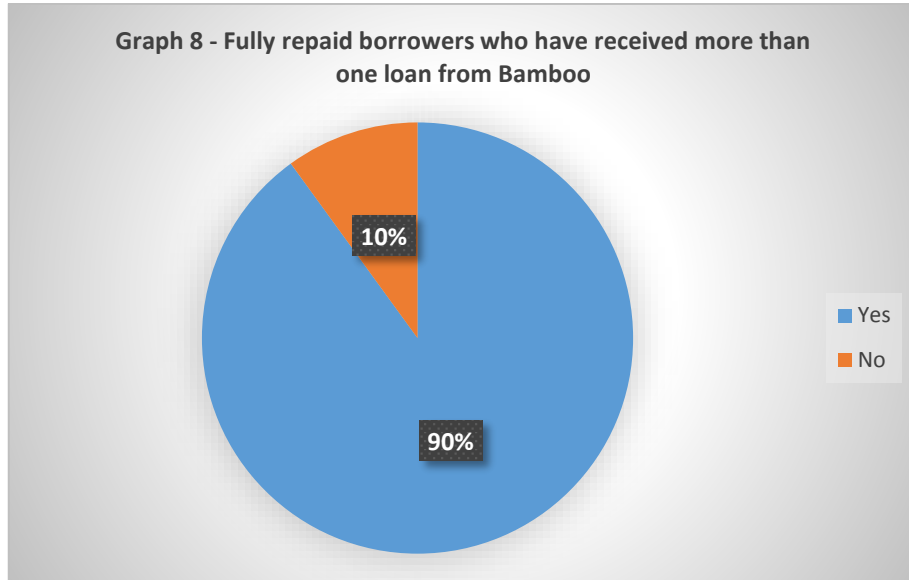
<b>Table 7 - Has the borrower previously sought a loan from any other source before Bamboo?</b>			
<b>Code</b>	<b>Value</b>	<b>Frequency</b>	<b>Proportion</b>
<b>1</b>	Yes	14	47%
<b>2</b>	No	16	53%
	Total	30	100%



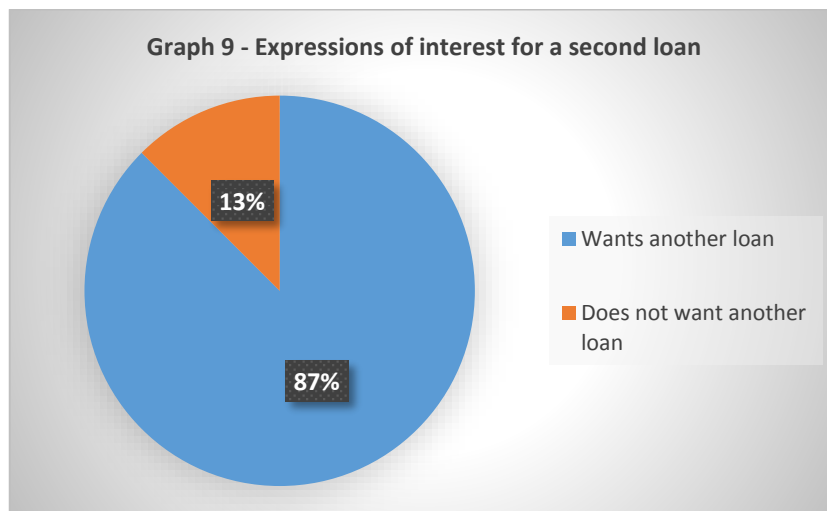
47% of borrowers had previously sought a loan from another source. These sources included micro loans from commercial banks (BRI, Mandiri), village finance corporations, relatives and rentenirs.



Code	Value	Frequency	Proportion
1	Yes	18	90%
2	No	2	10%
	Total Observations	20	100%



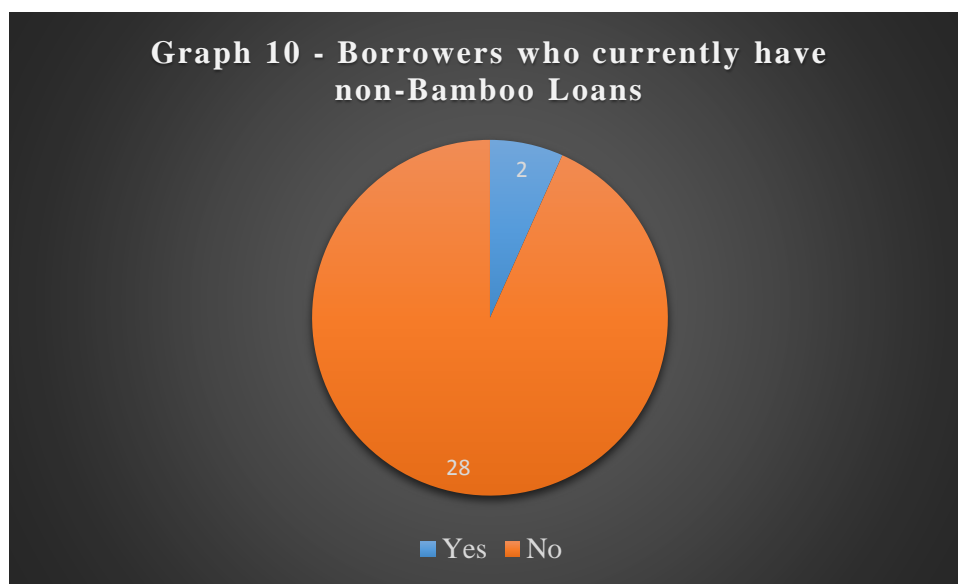
Code	Value	Frequency	Proportion
1	Wants another loan	7	88%
2	Does not want another loan	1	13%
	Total Observations	8	100%



Of the 20 fully repaid borrowers, 18 had received multiple loans, the 2 other borrowers had not but expressed a desire for another loan. These 2 were included in the 8 borrowers who had repaid or not fully repaid who expressed an interest in a second loan from Bamboo. Of the 30,

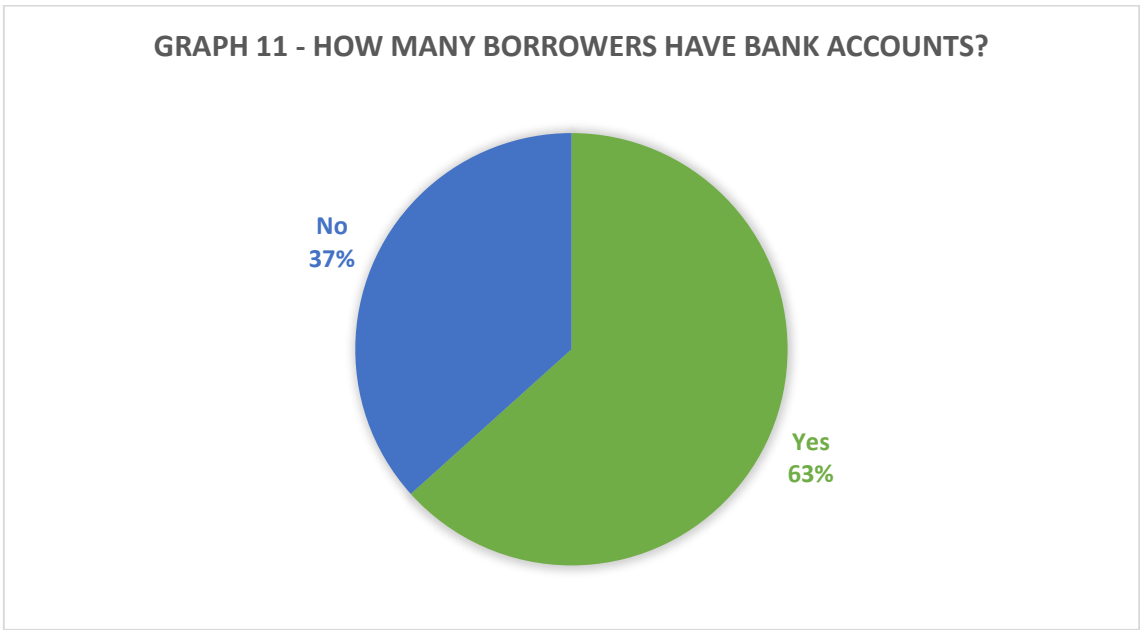
4 borrowers responded as being too new into loan repayments to know if they would want another loan, and therefore were not include and 18 already had multiple loans, leaving the 8 respondents in the data above. All but one borrower expressed a desire for a second loan except for one lady who had been sick and therefore was having difficulties in working and making loan repayments.

<b>Table 10 - Borrowers who currently have non-Bamboo loans</b>			
<b>Code</b>	<b>Value</b>	<b>Frequency</b>	<b>Proportion</b>
<b>1</b>	Yes	2	7%
<b>2</b>	No	28	93%
	Total	30	100%



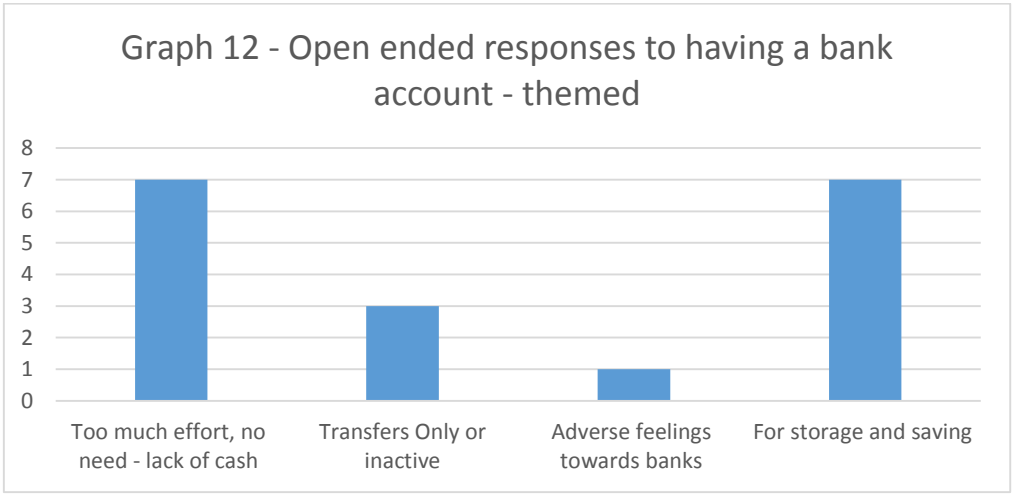
Only 2 of the 30 respondents had non Bamboo loans, both borrowers from Bandung. Both loans from BRI, one unknown amount and another Rp.30,000,000.

Table 11 - How many borrowers have bank accounts?			
Code	Value	Frequency	Proportion
1	Yes	19	63%
2	No	11	37%
	Total	30	100%



**Table 12 - Open ended responses to having a bank account - themed**

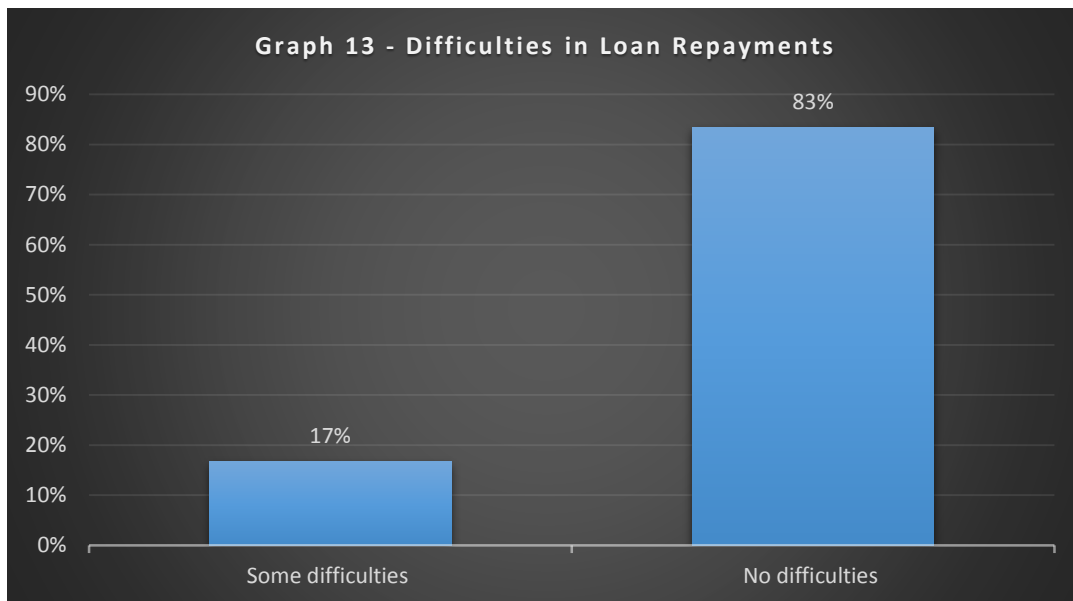
Code	Value	Frequency	Proportion
nn	Too much effort, no need - lack of cash	7	39%
t	Transfers Only or inactive	3	17%
sb	Adverse feelings towards banks	1	6%
s	For storage and saving	7	39%
	Total Observations	18	100%



Of the thirty borrowers 63% had bank accounts. Of the 30, 18 observations were made regarding bank accounts which were themed into 4 categories. Only one borrower expressed adverse feelings towards banks. For each individual who had a bank account, I asked if they had experienced any difficulties to which none reported any difficulties. A large percentage of those who did not have bank accounts commented that it was due to lack of funds to store in the bank or an amount too small to make the trip to the bank worth it. Many who did have bank accounts used them for money shortage with 17% of those who made comments, expressing that the account was inactive or for transfer purposes only with no money consistently held in the account.

### ***Section 3 – Repayment Motivations – Q8 – 10***

<b>Table - 13 What was the hardest part about making the loan repayments for the borrowers?</b>			
<b>Code</b>	<b>Value</b>	<b>Frequency</b>	<b>Proportion</b>
<b>1</b>	Some difficulties	5	17%
<b>2</b>	No difficulties	25	83%
	Total	30	100%



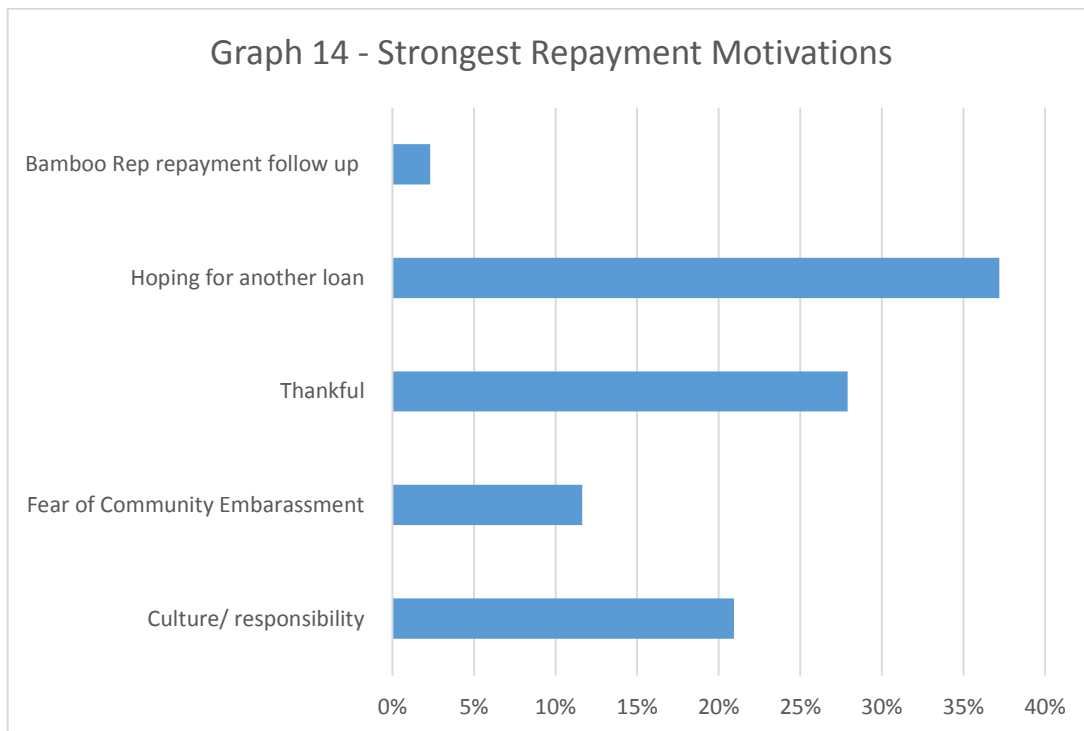
A strong majority of the borrowers reported no difficulties in repayments 83%. Of those who did express some difficulties, these included the following:

- having to pay for emergency situations
- bad harvest/ farming conditions
- illness - unable to operate business
- time management of money

- customers not honouring IOU's

It must be noted specifically with this question that the loan administrator was present and therefore borrowers were generally quick to dismiss any suggestions of hardship in repayments.

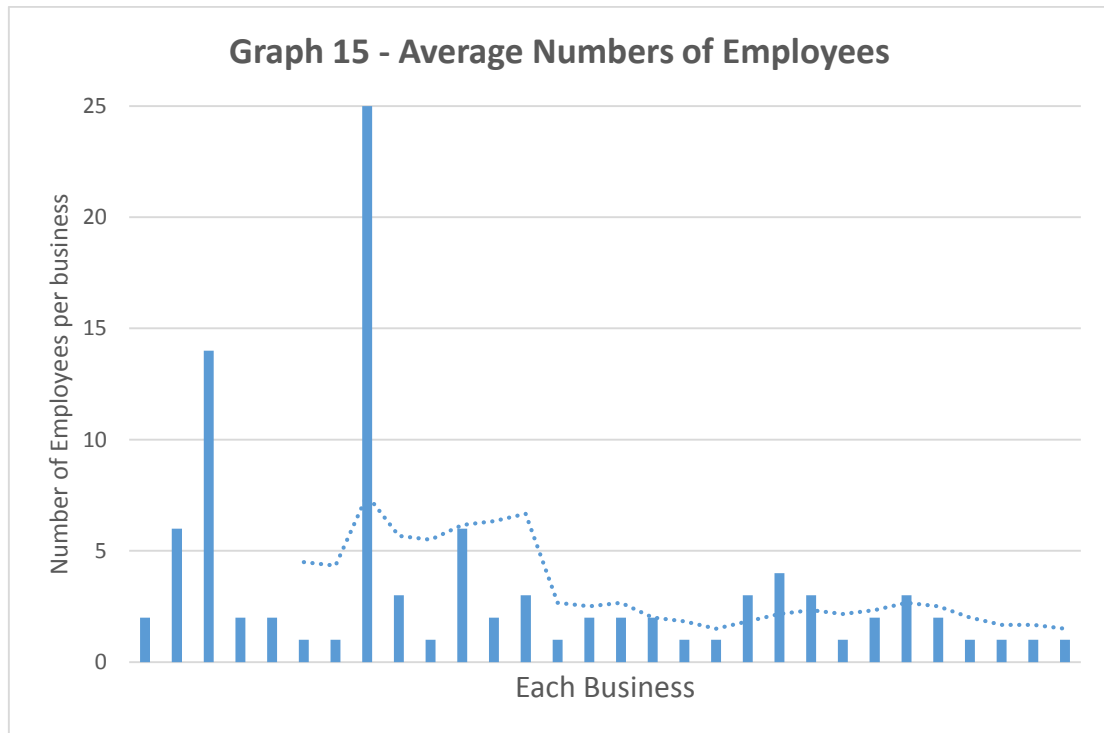
<b>Code</b>	<b>Value</b>	<b>Frequency</b>	<b>Proportion</b>
<b>c</b>	Culture/ responsibility	9	21%
<b>e</b>	Fear of Community Embarassment	5	12%
<b>tk</b>	Thankful	12	28%
<b>l</b>	Hoping for another loan	16	37%
<b>f</b>	Bamboo Rep repayment follow up	1	2%
	Total Observations	43	100%



Comments regarding strongest motivations to repay included 43 observations. This is as some borrowers made multiple statements. The strongest was the hope of another loan (37%).

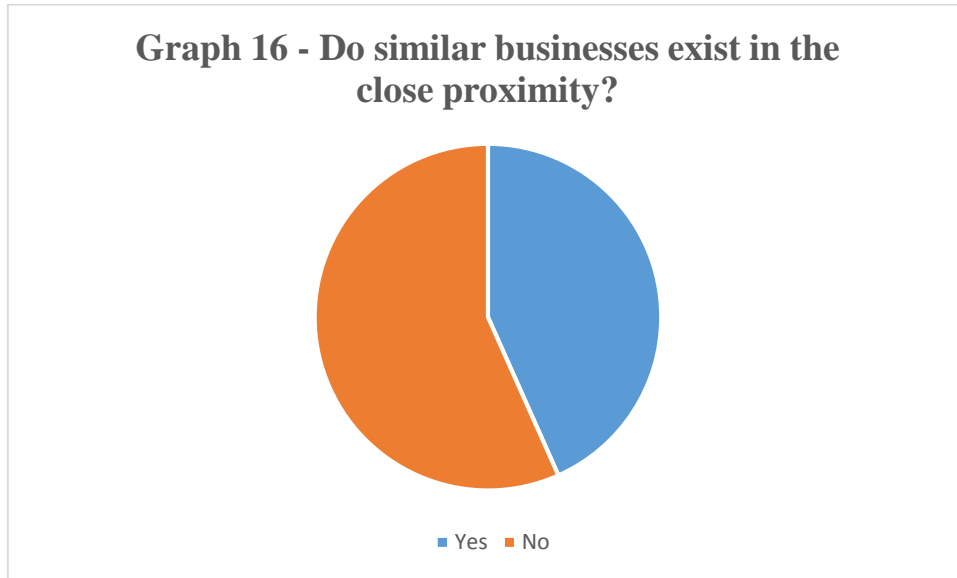
## *Section 4 – Community Impact – Q11 – 16*

<b>Table 15 - Business and Employee Data</b>	
Total Businesses	30
Total Employees	99
Average # employees per business	3.3
Business - exclusively family members	20
Business - family members and neighbours	10

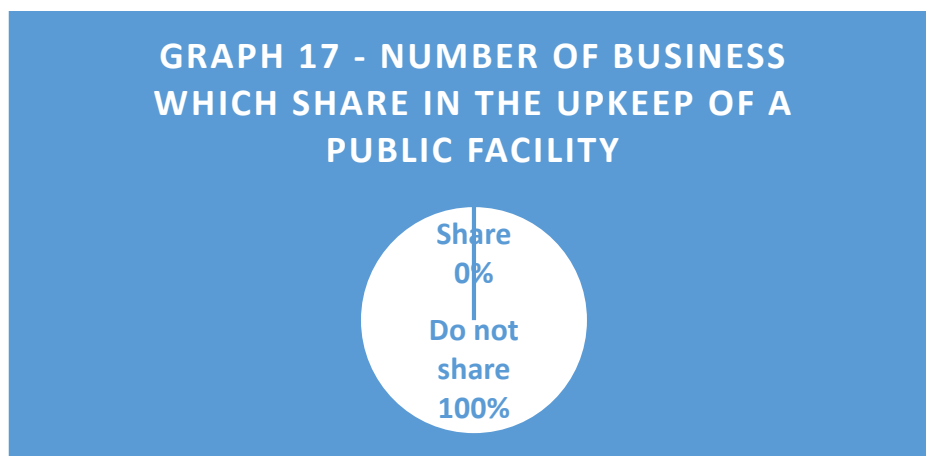


The total number of employees from the 30 business is 99. However, this includes two businesses, one with 25 employees and another with 14. The business with 25 is actually two businesses, hand weaving and a chilly farm. The business with 14 employees only employs those workers seasonally. Including these numbers, the average number of employees per business is 3.3 with median as 2 and mode as 1. If these two numbers are taken out of the data set the mode and median remain the same and the average changes to 2 workers per business.

<b>Table 16 - In the close proximity of this area, are there similar businesses</b>			
<b>Code</b>	<b>Value</b>	<b>Frequency</b>	<b>Proportion</b>
<b>1</b>	Yes	13	43%
<b>2</b>	No	17	57%
	Total	30	100%

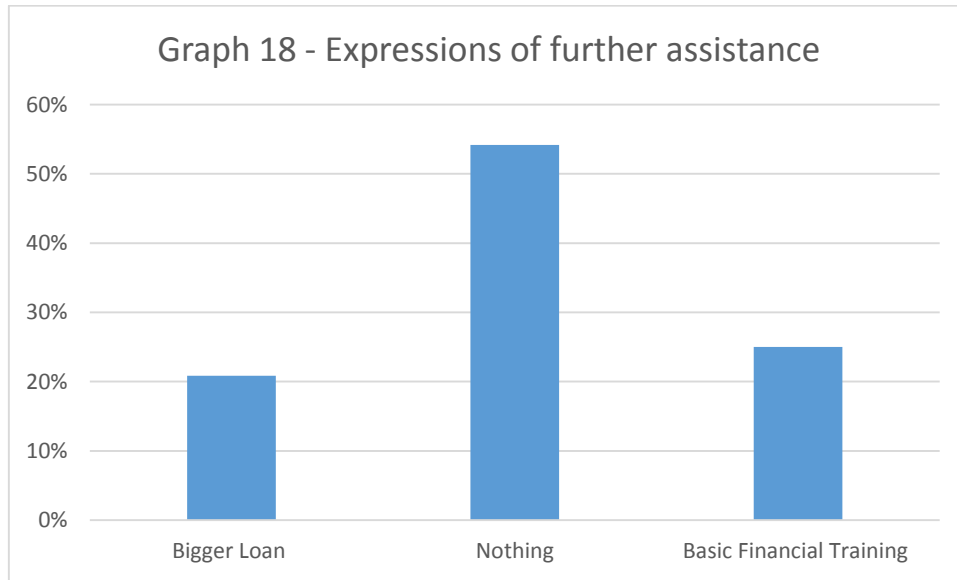


<b>Table 17 - Number of businesses which share in the up keep of a public facility</b>			
<b>Code</b>	<b>Value</b>	<b>Frequency</b>	<b>Proportion</b>
<b>1</b>	Share	0	0%
<b>2</b>	Do not share	30	100%
	Total	30	100%



Roughly half of borrowers reporting being the only business in their particular area. Not borrowers at all reported sharing in the upkeep of a public facility.

<b>Code</b>	<b>Value</b>	<b>Frequenc y</b>	<b>Proportio n</b>
b	Bigger Loan	5	21%
n	Nothing	13	54%
ft	Basic Financial Training	6	25%
	Total Observations	24	100%



## Findings

### Bamboo and Partner Agency Documentation

<b>Table 19</b>	<b>Total Loans Generated</b>	<b>Value of Total Loans Generated</b>	<b>Average Loan Size</b>	<b>Average Target Loan Length (months)</b>
<b>Bandung</b>	<b>24</b>	Rp76,750,000	Rp3,197,916.67	22
<b>Malang</b>	<b>105</b>	Rp164,400,000	Rp1,565,714.29	10
<b>Bukittinggi</b>	<b>53</b>	Rp140,000,000	Rp2,641,509.43	17
<b>Bamboo (Total)</b>	<b>182</b>	Rp381,150,000	Rp2,468,380.13	16

<b>Table 20</b>	<b>Total Expenditure</b>	<b>Average Monthly Expenditure</b>	<b>Average Expenditure Cost Per Loan</b>
<b>Bandung</b>	Rp19,000,000.00	Rp791,666.67	Rp791,666.67
<b>Malang</b>	Rp12,986,802.00	Rp927,628.71	Rp123,683.83
<b>Bukittinggi</b>	Rp109,843,900.00	Rp1,234,201.12	Rp2,072,526.42
<b>Bamboo (Total)</b>	Rp141,830,702.00	Rp984,498.83	Rp995,958.97



## DISCUSSION OF FINDINGS

Indonesia is a dynamic and exciting country which has experienced large economic growth with many predicting further growth to come in the future.<sup>63</sup> However, 28 million Indonesians still live below the poverty line and approximately half of all households in Indonesia live close to the national poverty level of Rp292,951 per month (\$24.4USD).<sup>64</sup> The workforce is dominated by an informal sector with currently 70-80% people without a bank account.<sup>65</sup> Microcredit has had a large and important presence in Indonesia in serving the individuals within the informal sector as well as exposing the Indonesian population to financial services.

This analysis will discuss results from the questionnaire conducted with 30 Bamboo borrowers. Specifically, the effectiveness of microcredit provided by an NGO with low costs and flexible repayment options will be addressed as well as the financial opportunities available to these borrowers besides loans from Bamboo. What the main themes of repayment motivations were and whether there was greater community impact resulting from the loans will also be discussed.

These results will be contrasted with both the current body of academic research on microcredit discussed in the literature review as well as a comparison between the product design of Bamboo and the product design of large microcredit banks operating within Indonesia. This comparison will assist to give context to the discussion.

### Product Design Comparison

Bamboo differentiates itself from other loan providers in several ways. Firstly, Bamboo does not charge an interest rate on loans. It does however charge a 10% fee based on the principal of the loan. The average loan period for Bamboo is 16 months, therefore, effectively if thinking about the 10% as an interest rate, it would be below 10% if the loan period exceeded one year which it often does. This is substantially cheaper than all other microcredit products available. Secondly, Bamboo allows flexible repayments for borrowers who cannot always make repayments at set dates. This allows for a safety net in times of emergency or low income as

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<sup>63</sup> Raoul Oberman, et al. "The archipelago economy: Unleashing Indonesia's potential," McKinsey Global Institute, September 2012.

<sup>64</sup> The World Bank. "Indonesia Overview," April 17, 2015, <http://www.worldbank.org/en/country/indonesia/overview>. (Accessed March 30, 2015).

<sup>65</sup> Bland, "Indonesian bank BRI takes microcredit on the road" (footnote 5).

well as the opportunity to take advantage of investments in their business as it gives a greater flexibility in the borrower's management of money. For example, if a farmer wanted to buy another cow but knew he or she then would not be able to make the next repayment as a result of this purchase, the flexible repayments makes this purchase feasible. Thirdly, Bamboo does not require the same formalities as larger institutions and does not require collateral for the granting of a loan. Bamboo operates on more informal, smaller scale than big institutions and therefore has greater access to local knowledge and through this gathers information allows the loan representatives to make informed decisions on suitable borrowers who will repay. Bamboo has an impressive repayment rate of 99%.<sup>66</sup> These are the features which differentiate Bamboo from formal microcredit institutions.

Bamboo loans are administered to individuals, male and female, rather than group borrowing. However, loans are often administered in clusters within communities and therefore derive some of the same benefits of group lending. The loan size varies between locations. In Bandung the average loan size is Rp 3,197,916, in Malang Rp 1,565,714 and in Bukittinggi Rp 2,641,509 (see table 19). The average loan size from Bamboo is Rp 2,468,380 (see table 19). These loans are typically smaller than those given by microcredit banks but microcredit banks do also provide loans of this size.<sup>67</sup> The smaller loan sizes are indicative of the poorer citizens in society which Bamboo hopes to assist. The loan periods are similar to those of microcredit banks.<sup>68</sup>

The two biggest providers of microcredit loans within Indonesia are Mandiri Micro Credit and Bank Rakyat Indonesia (BRI). Mandiri offers microbusiness loans referred to as KUM. The maximum borrowing amount of these loans is Rp 100,000,000 (USD\$7,578) but these loans are also targeted to very low level borrowers. Requirements include having an operating business in the same location for a minimum of 2 years, minimum of 21 years old or a maximum of 60 years old, attachments of ID cards (KTP), business permits, certificate of business from village or sub-direct and several other conditions for the higher spectrum of lending.<sup>69</sup>

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<sup>66</sup> Bamboo Chairpersons Report for AGM, October, 2014.

<sup>67</sup> Kupedes, Bank Rakyat Indonesia, <http://www.bri.co.id/articles/33>. (Accessed April 30, 2015).

<sup>68</sup> Ibid.

<sup>69</sup> Micro Business Loan (KUM), Bank Mandiri, <http://www.bankmandiri.co.id/english/article/265805761517.asp>. (Accessed April 30, 2015).

BRI also requires personal identity documentation as well as a certificate of business from the village head proving business legality. Compared to Mandiri, BRI requires only one year of business experience. BRI also allows repayments to be made in monthly or seasonal instalments. They also include various types of insurance with the loan including life insurance.<sup>70</sup> Both Mandiri and BRI have administration fees starting from Rp 10,000, a reasonably cheap fee which would not be considered a barrier to entry. Most importantly, and the main differentiator from Bamboo, is both have requirements of collateral to secure micro loans, this being the biggest barrier to market entry for the most poor citizens. Both banks write that they accept agricultural businesses including farmers and fishermen.<sup>71</sup> Some literature suggests that micro banks will often deny loan requests from those working in agriculture due to the high risks associated with these businesses.<sup>72</sup>

Interest rates of these microcredit banks vary. Bank Mandiri charges 22 percent interest rate on microcredit whilst BRI charges 19.25 per cent.<sup>73</sup> Other banks with an Indonesian presence charge similar amounts. Bank CIMB Niaga charges 20 per cent whilst Bank Danamon Indonesia charges as high as 20.94 per cent. Data compiled by the Indonesian Financial Services Authority and Bank Indonesia found that the highest annual rate for microcredit within Indonesia stands at 22.52 percent, offered by private lender Bank Pundi.<sup>74</sup> These amounts can be considered quite competitive on a global scale and offer some of the most affordable access to microcredit in the world. Grameen Bank, the most famous provider of microcredit has an interest rate around 20 percent whilst other banks worldwide charge much higher rates. Macro Bank in the Philippines charges as much as 60% and Compartamos Banco in Mexico charges as high as 110%.<sup>75</sup> The Financial Services Authority within Indonesia has even suggested a plan to cap rates further to bring down interest rates for micro credit within Indonesia although no interest rate was suggested.<sup>76</sup>

The main differences between the forms of Bamboos loans compared to Mandiri and BRI are the overall cost of the loan due to the absence of an interest rate which gives the borrower a

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<sup>70</sup> Kupedes, Bank Rakyat Indonesia, <http://www.bri.co.id/articles/33>. (Accessed April 30, 2015).

<sup>71</sup> Ibid.

<sup>72</sup> USAID. "A Rapid Assessment of Microcredit Schemes available to Smallholder Farmers and Fisherman," *United States Agency for International Development*, May, 2008.

<sup>73</sup> Lelyemin, "OJK to cap Microcredit Interest Rates" (footnote 77).

<sup>74</sup> Ibid.

<sup>75</sup> Policy Bulletin, "WHERE CREDIT IS DUE" (footnote 23).

<sup>76</sup> Lelyemin, "OJK to cap Microcredit Interest Rates" (footnote 77).

real advantage, the flexibility of repayments, the localized knowledge and informal approach and the informal group lending techniques. The impacts of Bamboo loans will now be outlined.

### **Questionnaire Analysis**

Overall the borrowers reported an increase in their living standards, with 86% reporting an increase (see table 1). Those who did not report a positive increase commenting that this was due to environmental factors such as a bad crop season. Of those borrowers who chose to comment positively on the increase in their living standards, half described using the money to provide education for their children and the other half described instances of gaining a greater level of independence (see table 2). The study is limited as the increase in living standard was not quantified. However, gaining independence and greater financial freedom aligns with the current research available.<sup>80</sup> Using funds for educational purposes is a positive finding and does not reflect current research,<sup>81</sup> although it does align with using extra profits for consumption rather than reinvesting into the growth of the business.<sup>82</sup>

Of all the borrowers, over half (see table 3) already owned the business before they received the loan and 63% (see table 4) reported already having a steady income. After the administration of the loans, the amount of steady income increased to 83% (see table 5), an increase of 20% in those who had steady incomes. Those who did not report steady incomes stated reasons such as bad harvests and personal illnesses. Moving from no steady income to having a steady income can be described as gaining financial independence. This data could represent greater investment in businesses causing greater income or individuals starting new successful businesses which goes against the current research available as it suggests real growth and poverty eradication.<sup>86</sup> It should be noted that this data also suggests that those receiving loans from Bamboo are not always the poorest of the poor. Owning a business suggests borrowers own some amount of assets and previously having a steady income implies steady employment. One factor found in current literature which increasing the likelihood of success in microcredit repayment rates is lending to a slightly wealthier poor.<sup>88</sup> This could be one of many explanation for the high repayment rate enjoyed by Bamboo.

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<sup>80</sup> Policy Bulletin, "WHERE CREDIT IS DUE" (footnote 23).

<sup>81</sup> Ibid.

<sup>82</sup> Ibid.

<sup>86</sup> Policy Bulletin, "WHERE CREDIT IS DUE" (footnote 23).

<sup>88</sup> Ibid.

Just under half of the borrowers (see table 7) reported previously having loans from other sources. These sources were mostly formal financial institutions such as microcredit banks but also included informal lenders and relatives. Of the 30 respondents, only 2 reported currently having loans from other sources. Both of these loans were from mainstream microcredit banks (Mandiri and BRI) and were for amounts substantially bigger than those provided by Bamboo. Well over half of the borrowers, 63% (see table 11), reported having bank accounts although many stated that the accounts were no longer active or only used to transfer funds between family members living large distances apart. Of 18 borrowers who commented further, 7 stated that bank accounts were too much effort or they did not have sufficient funds to store in savings but only 1 expressed adverse feelings towards banks in general.

It can be inferred from these findings that savings accounts, and to some extent credit services, are available to these borrowers. Many borrowers expressed that they only wanted loans from Bamboo and that they could not afford or handle the stress of a bank loan. These are valid concerns and indicate that Bamboo is providing financial services to those who may not otherwise seek financial services. However, from the data, it has already been highlighted that many had already sought loans, many already had steady incomes, and many already had their businesses and therefore presumably some form of assets. As previously highlight, this suggests not all of the borrowers are the poorest of the poor and could likely gain access to microcredit loans from microcredit banks.

Of those who had fully repaid their loans, 90% had received second loans. The 10% who had not received second loans were in the process of applying for second loans and had very recently repaid their first loan (see table 8). Of those who had not fully repaid their loans, 88% reported wanting another loan whilst 13%, which represented just one borrower, commented that they did not want another loan (see table 9). This was as she had been ill and stated difficulties repaying her loan. The large number of successful second loan applicants could also be another factor which assists Bamboo is maintaining such a high rate of repayment (see table 14).

Of the 30 borrowers, 83% commented that they had no difficulties repaying the loan. There were 43 comments made (borrowers were permitted to make more than one comment) regarding motivations to repay. The biggest theme that emerged were those who were hoping to be eligible for another loan by repaying their first loan in occurrence with the loan agreement

(see table 14). Many were also thankful for the flexible and cheap service provided by Bamboo. 21% commented that they felt a cultural responsibility and 12% said they feared community embarrassment if they did not repay. If these figures were combined they would equal 33%, another strong indication of repayment motivations. Two points can be inferred from this data. Firstly, the limited number of borrowers expressing difficulties with repayments suggest that the microenterprises were operating efficiently. Secondly, it can be inferred that prospects at a second loan from Bamboo as well as cultural responsibilities were the highest influences in people making repayments. It is more likely that the lower cost of the loan makes repayments rates easier. Both desires for more finance as well as feeling of cultural responsibility and embarrassment would also exist at a more formal level of microfinance.

The average number of employees per business was 3.3 but within the dataset were two large outliers. The median number of employees is 2 and if the two outliers are detracted from the dataset the new average becomes 2 (see table 15). In this data set, this number commonly represented a family unit, a husband and wife. This findings support current research which suggests that microcredit does not result in the hiring of staff. Hiring of staff can be one indication of a growing business. This does not show that borrowers are not investing in their businesses but does show that the businesses are not growing enough to justify needing further employees and that the borrowers are not choosing to invest in further employees. This supports the current research done on microcredit which says that microenterprises do not grow into larger more profitable businesses.<sup>107</sup>

Just under half of the businesses 43% (see table 16) commented that there were similar businesses in the close proximity of their business. This question was limited as close proximity and similarity were not defined. 57% of borrowers said they were the only business of their type operating in that particular area, going against the current research that says microenterprises operate in heavily saturated markets. A general observation could be made from the data set that those operating in urban areas were more diversified in their business operations than those living rurally. None of the borrowers reported sharing in the upkeep of a public facilities and no comments were made about sharing resources with each other. No social contract is used by Bamboo as it is by other microcredit providers such as Grameen

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<sup>107</sup> Ibid.

which focuses on the concept of “we” in each principle.<sup>110</sup> Although formally there is no collaboration of public resources it was observed that support groups and community awareness of others who have loans is present.

In summary there are some indications that the loans provided by Bamboo are more effective than those provided by microcredit banks. This is indicated by the increase in living standards and independence as well as the growth in steady income. However, as this data is not quantified the exact growth is hard to determine. There is also no indication that borrowers are investing heavily into their businesses as employment levels reflect small scale enterprises. Overall it could not be concluded that Bamboo loans are more effective than loans from formal financial institutions. The data suggests that financial opportunities and services are available to a large proportion of these borrowers. Although the financial feasibility for the borrowers to use these products is unclear. The repayment motivations of borrowers seem to cluster around wanting to secure a second loan and cultural responsibilities. Both of these factors do not differentiate from what would be found in repayment motivations for more formal loans. The data also suggests minimal impact on the community but this does not take into account the money and funds entering communities as a whole via loans.

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<sup>110</sup> Banking for the Poor, Grameen Bank, <http://www.grameen-info.org/16-decisions/>. (Accessed March 25, 2015).

## CONCLUSION AND RECOMMENDATIONS

No strong data was found to suggest that Bamboo loans, and cheap loans administered by NGO's, are more effective than loans provided by microcredit banks. Although the loans are cheaper and more flexible with repayments, all the other issues associated with microcredit highlighted in the literature review still remain. Microcredit can be an effective tool but it must be implemented in conjunction with various other development aid programs to allow full potential to be realised.

This is not to say Bamboo is not an effective organisation. Bamboo reaches those who are not reachable by traditional microcredit schemes. Donor based NGO's still play a very important part in reaching the poorest of the poor and I witnessed real impact and positive effects when I visited the borrowers.

I would make the following suggestions for donor based microcredit organisations.

Firstly, when operating with donor money it is important to focus on reaching those who are the poorest of the poor who definitely do not have access to other forms of finance. This could be done by developing an assessment of borrowers and their current financial situation before administering the loans. Donor based microcredit organisations do face the challenge of maintaining high donation amounts through advertising their high repayments rates. I would argue that instead they should sell themselves to potential donors as innovative and reaching the poorest of the poor.

Secondly, following from above, it is vitally important that donor based money is used to continue to innovate and find better ways to administer loans. Microcredit after all gained prominence when Muhammad Yunus developed new business models which allowed for lower transaction costs and created the huge commercial market of microcredit which exists today. It is the responsibility of NGO's to continue to innovate and find improvements as large scale for-profit institutions will be reluctant to do so. Dean Karlan highlights the main reason for this is when the upside of innovation benefits the clients rather than the for-profit entity, there is little incentive for the for-profit entity to invest in research and development.<sup>111</sup>

Thirdly, organisations such as Bamboo should focus to a greater extent on trying to move these borrowers on to microcredit banks after they have successfully repaid one or two loans. The easy process of an NGO should be seen as a mechanism to teach people how to manage their money in a safer environment and become accustomed to making repayments. A form of trust and understanding

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<sup>111</sup> Dean Karlan, "Innovation, Inclusion and Trust," *Poverty Action Lab*, January, 2014.



develops for financial products. But once these businesses are better established and the borrower more astute, where possible, they should be encouraged to seek loans from microcredit banks.

## APPENDICES

### Item 1 – Questionnaire

#### **Primary Research Questionnaire – Bamboo Micro Credit Case Study Kuesioner Penelitian Primer – Studi Kasus Kredit Mikro Bamboo**

Thank you for taking the time to speak with me. I want to ask some questions about the loan you received from Bamboo Credit and Pesat. My hope is to write a report which will help educate people as to the effectiveness of small loans and the benefits of micro credit within Indonesia. This report will be very important for the development of micro credit within Indonesia and could potentially result in more people around Indonesia having access to these loans. However, if any questions make you feel uncomfortable you do not have to answer them. Do you have any questions? If not, are you ready to start now?

Terimas kasih untuk meluangkan waktu berbicara dengan saya. Saya mau menanyakan beberapa pertanyaan tentang pinjaman kredit Bamboo dan agen kemitraannya Pesat. Harapan saya adalah untuk menulis sebuah laboran yang akan membantu mendidik orang orang tentang efektivitas pinjaman kecil dan keuntungan dari kredit mikro di Indonesia. Laporan ini akan menjadi sangat penting untuk perkembangan kredit mikro di Indonesia dan secara potensial mungkin dapat membantu lebih banyak orang di Indonesia mendapat akses terhadap pinjaman pinjaman ini. Akan tetapi, kalau ada pertanyaan pertanyaan yang membuat Ibu/ Bapak merasa kurang ngaman, Ibu/ Bapak tidak perla menjawab. Ada pertanyaan? Kalau tidak, bisa mulai sekarang?

#### **Living Standards and Financial Independence/ Standar Hidup Kehebasan Finansial**

1. How has this business impacted your living standard?
  - a. E.g. diet, housing, access to healthcare, education of children, religious activities etc. If possible please provide specific examples i.e. has a child in your family been able to start attending school or have you been able to start saving for an emergency/ illness in the family.
- Bagaimana bisnis ini berdampak pada standar kehidupan Ibu/ Bapak?
  - Contoh
    - Apakah Ibu/ Bapak membeli makanan untuk keluarga yang berbeda daripada sebelumnya?
    - Apakah perumahan berbeda daripada sebelumnya?
    - Apakah sekarang punya akses terhadap pelayanan kesehatan, pendidikan atau aktivitas keagamaan yang berbeda daripada sebelumnya?
    - Dan lain lain?
  - Kalau Ibu/ Bapak bisa, tolong memberikan contoh yang spesifik
    - Apakah ada anak dalam keluargamu yang sudah bisa mulai masuk ke sekolah?

- Apakah Ibu/ Bapak sudah bisa mulai menabung untuk keadaan darurat atau penyakit dalam keluarga?
- 2. Did you have a steady income before the business? And do you have a steady income now after having the business and is this income enough to live comfortably?
  - Apakah sebelum bisnis ini Ibu/ Bapak mempunyai pendapatan tetap? Dan sekarang, setelah punya bisnis, apakah Ibu/Bapak mempunyai pendapatan tetap yang cukup untuk hidup?
- 3. Do you celebrate Lebaran/ Idul Fitri, Eid al-Fitr? Is the way you celebrate different to how you celebrated before receiving the loan and starting your business?
  - a. E.g. giving money or food to extended family and neighbours.
  - Apakah Ibu/ Bapak merayakan Idul Fitri? Apakah cara merayakan berbeda dengan sebelum menerima pinjaman dan mulai bisnis Ibu/ Bapak?
    - Contohnya
      - Apakah Ibu/ Bapak memberikan uang atau makanan pada saudara dekat dan tetangga Ibu/ Bapak?

### **Financial Services Opportunities/ Kesempatan Pelayanan Keuangan**

1. Have you previously sought a loan or thought about seeking a loan from any other source before seeking a loan from Bamboo?
  - a. E.g. rentenir, extended family, other micro credit agency, micro credit bank
  - Apakah sebelumnya pinjaman ini sudah pernah mencari pinjaman lainnya atau berpikir tentang mencari pinjaman dari sumber lainnya sebelum mencari pinjaman dari Bamboo?
    - Contohnya
      - Keluarga/ saudara;
      - Pegadaian;
      - Agen perkreditan rakyat (mikro) lainnya;
      - Bank perkreditan rakyat; atau
      - Rentenir.
2. Since paying back the loan, have you applied for another loan with Bamboo or for other financial services from another source?
  - Sejak membayar kembali pinjaman, apakah Ibu/ Bapak sudah mencoba mencari pinjaman lagi dari Bamboo atau sumber lainnya?
    - Contohnya
      - Pegadaian;
      - Agen perkreditan rakyat (mikro) lainnya;
      - Bank perkreditan rakyat; atau
      - Rentenir.
3. Where do you store/keep your money? Do you have a bank account and if not, have you considered getting one? Have you lost any money because you have been unable to keep the money in a safe place?

- Di mana Ibu/ Bapak simpan uang Ibu/ Bapak? Apakah Ibu/ Bapak mempunyai rekening bank dan kalau tidak, apakah Ibu/ Bapak sudah mempertimbangkan untuk mempunyai rekening bank?
- 4. How clearly is the loan scheme explained, how easy the process is, how easy is it to contact and communicate with Pesat/ Fikar/ The Daya Pertiwi Foundation?
- Seberapa jelas skema pinjaman dijelaskan, seberapa mudah prosesnya, seberapa mudah untuk menhingi dan bercommunikasi dengan Bamboo dan Pesat?

### **Repayment Motivations/ Motivasi Pembayaran Kembali**

1. What has been the hardest part about making loan repayments for you?
  - a. E.g. thugs, extended family pressures, no savings account facilities, lack of customers etc.
- Apa yang menjadi hal yang paling sulit dalam membayar kembali pinjaman bagi Ibu/ Bapak?
  - Contohnya
    - Tekanan keluarga;
    - Tidak mempunyai fasilitas rekening tabungan;
    - Kurangnya konsumen dalam bisnis Ibu/ Bapak; atau
    - Dan lain lain
2. What were your strongest motivations to repay?
  - a. E.g. culture (malu, community shaming), gratitude due to no interest rate, wanting to have a good credit history for seeking more credit in the future, Bamboo representatives following up on repayments etc.
- Apa yang menjadi motivasi terkuat Ibu/ Bapak untuk membayar kembali?
  - Contohnya
    - budaya Indonesia;
    - merasa malu kalau tidak membayar kembali;
    - rasa terima kasih karena pinjaman tidak dikenakan bunga;
    - mau mempunyai sejarah kredit yang baik untuk mencari lebih banyak pinjaman di masa mendatang;
    - perwakilan Bamboo menindaklanjuti pembayaran; atau
    - Dan lain lain.
3. Would you have been financially capable of repaying the loan with the inclusion of a small interest rate?
- Apakah Ibu/ Bapak akan bisa untuk membayar kembali pinjaman kalau di kenakan tingkat bunga yang rendah? Contohnya seperti
  - 5% bunga tahunan untuk pinjaman selama satu tahun yang Rp. 1.000.000 dengan pembayaran per bulan
    - = Rp. 4.170
  - 10% bunga tahunan untuk pinjaman selama satu tahun yang Rp. 1,000,000 dengan pembayaran per bulan
    - = Rp. 8.333

- 5% bunga tahunan untuk pinjaman selama satu tahun yang Rp. 2,000,000 dengan pembayaran per bulan
  - = Rp. 8.333
- 10% bunga tahunan untuk pinjaman selama satu tahun yang Rp. 2,000,000 dengan pembayaran per bulan
  - = Rp. 16.666
- 5% bunga tahunan untuk pinjaman selama satu tahun yang Rp. 3,000,000 dengan pembayaran per bulan
  - = Rp. 12.500
- 10% bunga tahunan untuk pinjaman selama satu tahun yang Rp. 3,000,000 dengan pembayaran per bulan
  - = Rp. 25.000

### **Community Impact/ Dampak Terhadap Komunitas**

1. How many people are employed by the business?
  - a. Family members
  - b. Non-family members
  - Berapa orang dipekerjakan oleh bisnis itu?
    - Berapa orang dari keluarga Ibu/ Bapak?
    - Berapa orang yang bukan dari keluarga Ibu/ Bapak, seperti tetangga?
2. In the close proximity of this area, how many other businesses are there like yours? Do you have any products which are specifically only available from your business?
  - Di daerah Ibu/ Bapak yang dekat ada berapa banyak bisnis lain yang seperti bisnis Ibu/ Bapak?
  - Apakah Ibu/ Bapak mempunyai produk yang hanya Ibu/ Bapak yang barang itu?
3. What financial, business or other skills have you gained from getting the loan from Bamboo and running the business?
  - Keahlian ke uangan, keahlian bisnis atau keahlian lainnya yang sudah Ibu/ Bapak dapatkan dari meminjam dari Bamboo dan menjalankan bisnis?
4. Does your business share in the up keep of a public facility or do you donate or provide services during religious holidays?
  - a. E.g. sharing the upkeep of a toilet with surrounding businesses, donating to the running of the local mosque, donating food to poorer people in the community during Eid al-adha etc.
  - Apakah bisnis Ibu/ Bapak berbagi dalam hal pemeliharaan fasilitas publik atau apakah Ibu/ Bapak memberikan sumbangan atau menyediakan pelayanan publik selama hari libur keagamaan?
    - Contohnya
      - Saling berbagi pemeliharaan toilet dengan bisnis lain di sekitarnya;
      - Menyumbang untuk jalannya masjid setempat;
      - menyumbangkan makanan untuk orang-orang yang kurang mampu yang ada di komunitas selama Idul Adha; atau

- dan lain lain.
5. How do you think you could improve your business? Is there anything Bamboo or the partner agency could do to help you before, during, or after the loan process?
- a. E.g. basic financial education, provide money storage services etc.
- Bagaimana menurut Ibu/ Bapak untuk meningkatkan bisnis Ibu/ Bapak? Apakah ada hal hal yang bisa dilakukan Bamboo sebelum, selama, sesudah proses pemberian pinjaman?
    - Contohnya
      - Pendidikan keuangan dasar;
      - Menyediakan pelayanan penyimpanan uang; atau
      - Dan lain lain
6. Is there anything else you would like to say or comment on related to gaining the loan?
- Ada yang mau Ibu/ Bapak katakan atau mungkin mau berkomentar sehubungan dengan mendapat pinjaman?

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