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### Encouraging Microcredit through Group Guarantee Loan Model: The Success Story of MEKAAR Program in Indonesia

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#### ABSTRACT

In 2015, PT Permodalan Nasional Madani/PNM (Persero) initiated the establishment of Mekaar, a state-owned financing product targeting the pre-prosperous micro business sector. Among all the local organizations that provide microcredit service for the poor, Mekaar is considered as the nearest to the poor, since the program is targeted productive poor women with a credit amount of only IDR2 million (around US\$150 in average) per person. With its unique peer-lending model, Mekaar has successfully reached more than 1,300,000 customers within two years of its establishment. The peer-lending model was originated from microcredit practice in Bangladesh; however, PT PNM has been successful in adjusting the peer-lending model with Indonesian culture and market through their Mekaar programs.

In this article, we examine how Mekaar penetrates Indonesian pre-prosperous market with ultra microfinancing. The information presented in this article is collected primarily from field observation to several Mekaar's branches and interview with the key person in those branches. First, we presented an overview of PT PNM, an Indonesian state-owned company that created Mekaar program, including its vision and mission. Then, we evaluate Mekaar's loan product and how PT PNM satisfies the funding needs for Mekaar program. We also evaluate characteristics of Mekaar's target market, Mekaar's peer lending model, and the role of Account Officer as a facilitator between the lender and the borrowers in Mekaar's case. Finally, we evaluate the impact of Mekaar's program and provide consideration related to future planning of Mekaar.

*Keywords: microcredit, peer-lending, poverty*

#### I . Introduction

In general, the term microcredit is used to describe the small loans granted to low-income individuals who are unreachable by formal banking system. It is part of larger microfinance industry, which includes other financial products/services intended to serve low-income individuals such as micro saving, micro insurance, and other basic financial products/services for the poor. In

Indonesia, where 99% of all businesses are micro, small, and medium enterprises, micro credit is very important to support the development of these businesses. For millions of Indonesia's micro and small enterprises, the commercial banking system is a closed door. Even if these business owners want to borrow from Bank, the lending regulations — which require customers to have proof of a permanent job, income and collateral- prevents them from borrowing. Most of them have no collateral to give to the bank. Hence, micro and small business owners frequently complaints that capital constraints limit their ability to grow, and microcredit emerges as a solution to solve that capital problem (The Asia Foundation, 2003).

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In the beginning of microcredit development in Indonesia, Bank Rakyat Indonesia is known as the formal financial institution that successfully extending micro credit on commercial basis (The Asia Foundation, 2003). Other than that, most small business owners can get micro credit through microfinance institutions (MFIs). It is estimated that there are more than 600,000 microfinance institutions in Indonesia, however Indonesian Financial Services Authority still has difficulties in verify all those institutions.

One of the institutions that are considered successfully spreading microcredit throughout Indonesia is PT Permodalan Nasional Madani (PNM) through its program called Mekaar. Mekaar is established in 2015 and it has objectives to give small loans to pra-prosperous women so that they have capital to open or develop their own business. The microcredit products offered by Mekaar have quite different characteristics than the other micro-credit products. For example, they offer a very small amount of loans, only IDR2 million per individual, intended to serve very poor clients. Hence, the term ultra-microcredit is often used to address Mekaar microcredit. Moreover, Mekaar clients must attend a weekly group meeting and carry out several rituals before Mekaar officers collect their weekly installment. Some of the rituals are reading Pancasila (five national principle of Indonesia), praying together according to client's religion, and reading customer's promise. Generally, the rituals are the same for all Mekaar clients across Indonesia, however, Mekaar also adjust the rituals according to the culture and language of specific region. For example, in Aceh, due to the strong Islamic culture, the clients refused to read Pancasila.

The implementation of this microcredit system proves to be successful in Indonesia. In just two years after its establishment, Mekaar shows an amazing clients growth. Now, it already has 1.26 million active clients across Indonesia, and 1.3 million if we also account for inactive clients with 0.0023% non-performing loans. PT PNM (Persero) even has a goal to reach 2 million active clients by the end of 2017. This achievement has put Mekaar into national spotlight. The distribution of Mekaar clients in various regions in Indonesia can be seen in Table 1.

This paper aims to analyze the way PT PNM implements its ultra-microcredit products<sup>1</sup> and how the microcredit product could successfully penetrate the poor market across Indonesia. The data obtained for this paper is the

**Table 1.** Total of Mekaar Branches per Province

N o.	Province	Total of Mekaar Branches	Number of Clients
1	Banten	51	53,464
2	Jambi	6	4,339
3	West Java	281	397,262
4	DKI Jakarta	20	26,148
5	Central Java & DI Yogyakarta	250	198,106
6	East Java	271	280,803
7	South Kalimantan	4	2,592
8	West Kalimantan	6	8,091
9	West Nusa Tenggara	35	43,370
10	East Nusa Tenggara	26	48,288
11	Papua	4	2,334
12	Maluku	3	1,901
13	South Sulawesi	21	28,757
14	West Sulawesi	5	11,323
15	Southeast Sulawesi	7	3602
16	Central Sulawesi	3	4,702
17	Aceh	26	39,311
18	North Sumatera	51	83,033
19	West Sumatera	17	21,907
20	Riau	11	7,279
21	South Sumatera	27	29,097
22	Lampung	45	66,803

primary data obtained from interviews with the parties involved in the implementation of Mekaar and also from interviews with Mekaar clients. The secondary data is obtained from company's internal data. The paper is structured as follows: section 2 introduces the institution that creates Mekaar, including its vision and mission. After that, the analysis is conducted starting from the discussion about types of loan products offered by Mekaar and the way PT PNM (Persero) satisfies its funding needs for Mekaar program. Characteristics of Mekaar's clients will be discussed in section 4. Section 5 presents the group lending system that is implemented by Mekaar. Section 6 reports organizational structure of Mekaar and how the decisional and operational level works to support the success of Mekaar program. In the last section, which

<sup>1</sup> The authors use ultra-microcredit and Mekaar interchangeably throughout this paper

is section 7, author will provide an evaluation of Mekaar's practice in Indonesia and consideration related to future planning of Mekaar.

## II. Microfinance Industry in Indonesia

The Indonesian microfinance industry is exceptionally old, dated back to the era where Indonesia was colonized by the Dutch. The industry is very heterogenous and wide variety of financial institutions provide microfinance products for small-scale borrower in Indonesia, such as formal banks, cooperatives, microfinance institutions, and there is also an informal moneylender (loan sharks) that offers loan to the low-income people. One of the best-known player is Bank Rakyat Indonesia (BRI) with its Micro Business Division (referred as BRI Units) (Charitonenko & Afwan, 2003). The bank was established its BRI Units in 1970 and has been offering various financial products intend to serve micro segment since then. Other than BRI, there are another type of banks that also provide microloans such as Regional Development Banks (Bank Pembangunan Daerah, BPD) and Village Credit Agencies (Badan Kredit Desa, BKD).

In 2018, Bank Indonesia issued a regulation which requires Bank to have at least 20% of its loan portfolio dedicated to microloans. Furthermore, current Indonesian President, Joko Widodo (Jokowi), urges Banks to provide loans more evenly, especially to micro, small, and medium enterprise segments. This situation implies that the competition in microloans industry will be stiff in Indonesia starting from 2018, because the microfinance institutions must compete not only with other MFIs, but also with formal banks to provide microfinance products to micro entrepreneur and low-income segment. In average, the interest rate for microloans offered by Banks is 18% (per February 2017). This number is much lower than the interest rate offered by ultra-microcredits such as Mekaar, which is more than 20%. However, the higher interest rate for ultra-microcredit products is justifiable because ultra-microcredit clients do not have to provide any collateral for the MFIs and the default risk is likely higher. In the future, the interest rate for ultra-microcredit product is expected to decrease since Indonesia's Minister of Finance is committed to support the development of

ultra-microcredit and is currently conducting an evaluation towards ultra-microcredit interest rate.

In addition, since 2013, Indonesian Financial Services Authority (OJK) also issued a regulation which requires microfinance institutions to have a business license and legal entity. However, until December 2017, there are only 180 entities of microfinance institutions that register themselves to Indonesian Financial Services Authority (OJK) (Indonesian Financial Services Authority, 2017). Whereas, based on the initial academic data for Micro Finance Institution Bill Draft, there are about 600,000 MFIs in Indonesia. Meanwhile, based on the re-calculation of OJK with financial institutions there are 24,000 to 25,000 MFIs spread across Indonesia. Thereby, there is no definite data regarding the number of microfinance institutions in Indonesia, and although OJK has encourage MFIs to register themselves, many of them are still unwilling to legally register their institutions to OJK.

## III. PT Permodalan Nasional Madani/PNM (Persero): Historical Background, Vision, and Missions

PT PNM is a state-owned company established by Indonesian government as part of strategic solution to increase economic equality and welfare of society through the development of access to financing and capacity building program (Ministry of State Owned Enterprises Republic of Indonesia, 2014). The company began its operation in 1999 and has a vision to become a leading financial institution in promoting sustainable value added for Micro, Small, Medium Enterprises and Cooperatives based on their principle of Good Corporate Governance (GCG). Pursuing its vision, PT PNM sets itself to work towards the achievement of four mission: (1) Carry out various efforts, related to the company's operations, to improve the feasibility of business and entrepreneurship capabilities of Micro, Small, Medium Enterprises and Cooperatives (MSMEC) people, (2) To assist Micro, Small, Medium Enterprises and Cooperatives actors in obtaining and increasing access to financing from financial institutions, both banks and non-banks which will ultimately increase MSMEC contribution in the expansion of employment and the improvement of the welfare of the community,

(3) Improve employee's creativity and productivity to achieve the best performance in the effort of developing MSMEC sector. These vision and missions then translated into several products and services including ULaMM (Micro Capital Services Unit), Mekaar (Fostering Prosperous Family), Business Capacity Development Program, Management Services, and Partnership Program with Other Institution. However, this paper will analysed further only the ultra-microcredit product of PT PNM (Persero), namely Mekaar. The rest of the paper will use the word Mekaar to represent Fostering Prosperous Family Product of PT PNM.

#### IV. The Product

Currently, Mekaar only offers one type of product to its clients, which is group guaranteed loans with an amount of IDR2 - 5 million per person within group. In the beginning of the cycle, all clients will be given a loan of IDR 2 millions. If the clients run their business successfully and completed their obligations properly in the first loan cycle, then they can get a subsequent larger amount of loan (second loan cycle). For each of subsequent loan cycle, PNM will give clients a lower interest rate. This policy aims to encourage clients to become a good debtor. In other words, clients will get subsequent loans with a better interest rate if they can run their business properly and proof their disciplined (e.g. attend weekly meeting, pay weekly loan installment).

Customers can choose two types of loan term that are 25 weeks or 50 weeks. With an amount of IDR2 millions of loans, the installments to be paid each week are as follows:

##### **First cycle**

25 weeks installment	IDR90,000/ week (±US\$6.75)
50 weeks installment	IDR50,000/week (±US\$3.75)

##### **Second cycle**

25 weeks installment	IDR87,600/week (±US\$6.57)
50 weeks installment	IDR47,600/week (±US\$3.57)

Mekaar has unique selling propositions (USP) for its loan product: 1) the clients do not have to pay installment in the first two weeks after they got the loans. This allows clients to settle their business first so that they can pay the first installment, 2) the clients do not have to pay installment in two weeks during Idul Fitri (Moslem's holy day). In Indonesia, where most of the people are moslems, the clients tend to spend more money and return to their home village to celebrate Idul Fitri with their family. Surprisingly, these simple USPs are one of the factors that attracts clients to borrow from Mekaar. They find it helpful to not have to pay loan installment during those weeks.

The loan requirements are very easy to fulfill, so these loans are suitable for the target market, which is pre-prosperous women who are mostly very poor and have no financial knowledge. Mekaar loan requirements are as follows:

- a) Be aged between 18 to 55 years, because the target market is a housewife who already have or intend to open a business, then the age of the customer must be in the working age range of work.
- b) Use the loan for working capital to develop a business or open a business, in other words, women of productive age who have no job/business are welcome to become Mekaar customers as long as he has the intention to open a business and have the intention to improve his life
- c) Willing to attend weekly collective payments and pay weekly installment by herself, it is a testament to customer commitment to be disciplined and follow the rules set by Mekaar
- d) Create a minimum group of 10 people and a maximum of 30 women in the same neighborhood, where all members must agree to be the guarantor of the other members. Mekaar does not require customers to have collateral when applying for loans, and instead there is a guarantee from the group that each member will pay off the loan. With such schemes it is evident that Mekaar has succeeded in minimizing NPLs. In fact, NPL Mekaar is said to be almost non-existent (only 0.0023%). According to the study that PT PNM conducted, group guarantee lending is effective because the customers are afraid of other group members and account officers if they do not perform their obligations to pay installments every week. In addition, further loans will be provided if the

- customer has a good record on the previous loan, hence, they feel encouraged to follow the rules
- e) Prospective customer may use KTP or Resi or Certificate of Domicile from local neighborhood association (rukun tetangga or RT) as a proof of identification.

Related to the funding, in the beginning, PT PNM get funding from Indonesian government to provide financing to pro-prosperous people in Indonesia through Mekaar. However, due to the success of Mekaar program, PT PNM get additional capital loan from state-owned Bank, namely Bank Mandiri, as much as IDR300 billion. In addition, Bank Mandiri is committed to provide bank accounts with an initial balance of IDR100,000 for Mekaar's customers. Bank Rakyat Indonesia (BRI) also participated to channel IDR500 billion as capital loan to PNM in 2016. As of September 2017, PNM has disbursed the amount of ±IDR2,7 billion to ± 1.3 million clients across Indonesia through its Mekaar program.

**Table 2.** Summary of Mekaar's Product Characteristics

Product Characteristics	Mekaar Group Guaranteed Loans
<b>Creation date</b>	2015
<b>Client type</b>	Pra-prosperous women (10 - 30 women per group)
<b>Collateral required</b>	Group guarantee
<b>Loans term range</b>	25 weeks and 50 weeks
<b>Repayment schedule</b>	Weekly
<b>Loans size range</b>	IDR2,000,000 - IDR2,500,000 (currently)
<b>Interest rate</b>	24% per year (1st cycle) and 19% per year (2nd cycle)

## V. Fostering Prosperous Family (Mekaar): Target Market

The target market for Mekaar is productive housewives, who live under the poverty line (pre-prosperous woman). In other words, the target market is a woman who has income of less than US\$1.9 per day. Mekaar chose woman as a target market because they believe that women have bigger sense of responsibility to their family rather than men. Besides, woman is also known to have honesty

and ability to manage finances within the family. Therefore, PNM strongly believes that empowering women is propelling motor to increase the income and achieve better living standards of underprivileged family.

To become Mekaar clients, women should have the following characteristics:

1. Be aged 18-55 years
2. Use the loan for working capital to develop a business or open a business
3. Have a commitment to attend weekly collective payments and deposit weekly installment by themselves

In brief, any productive underprivileged, unbanked, or poor women could apply to become Mekaar's clients as long as they have willingness to improve their lives and to follow rules specified by Mekaar.

## VI. Mekaar Group Lending System

In general, the lending process should begin by reaching the potential clients. In the case of Mekaar, the account officer (loan officer of Mekaar) has responsibility to promote Mekaar through door-to-door marketing. Account officer (AO) only use Mekaar flyer as a promotion tools, they have to persuade prospective clients using a direct conversation and eventually build trust. It is not easy to convince prospective clients, who are basically uneducated women who never have a loan before. Most of them, especially those living in remote areas, are afraid to borrow. Hence, it is important for AO to build their trust from the beginning. Oftentimes, AO has to visit the house of prospective clients several times before they agreed to join and become Mekaar clients. AO has to explain that Mekaar is a loan product owned by state-owned enterprise, hence, Mekaar is not solely aimed at seeking profit, but it is part of government commitment, through Ministry of State Owned Enterprise, to improve the welfare of Indonesian people. Most of the times, after explaining that fact, the prospective clients starting to trust Mekaar and willing to hear more explanation. In addition, prospective clients become interested with Mekaar loans after hearing that they do not have to pay the installment two weeks after the loan is disbursed

and two weeks during Eid Al-Fitr.

If one prospective client agreed to become Mekaar clients, the AO will asked her to find another prospective clients and form a group consisted of 10-30 people. Typically, the one who gather members to form a group will become the leader and the members are their families or residents who live in the same area as the leader. The leaders will be responsible for dealing contracts between the group and Mekaar officer. Mekaar uses a group guaranteed system, in which all the group members are held accountable if one of their group members could not repay the loans.

After the group is formed, the prospective clients enter a prequalification stage. They will be asked to fill out a simple form, in which the prospective clients also need to get the consent from their husband in the form of signature. Then, AO will visit each of their houses and verify the prospective client's data. The data will be re-verified by the Head of Branch Office by visiting the prospective client's house. The group guaranteed loans are approved in the branch office. Once the Head of Branch Office approved the loan requests, there will be a trial period of five days, during which the Customer will be given information about Mekaar and the rituals that must be executed by the group members every week. This trial period is also a testament of prospective clients' commitment to Mekaar since they are required to attend the trial meeting for five consecutive days. If the prospective Customer is absent to attend, then the group will not be granted the loan. However, if all members of the group successfully demonstrate their commitment during the trial days, the loan will be disbursed to prospective clients one day after the trials ended.

In the 3rd week after getting a loan, group members begin to attend meetings every week. Weekly meetings are named Weekly Collective Payments (PKM). In weekly collective payment, the client must pay the loan installment in accordance with the selected loan term (for example, if the group choose the 25 weeks term, then each member has to pay IDR90,000 per week). The loan amount and the installment amount should be the same for all group members; hence, all group members must have an agreement upon the selection of the loan term. Each group is also required to collect the solidarity money and emergency fund. If, in the future, there is a group member who cannot pay her weekly installment or did not come to the weekly meeting, then the leader of the group will

use emergency fund and solidarity money to bail out that group member. The money is entrusted to the leader of the group. Then, in Weekly Collective Payments (PKM), the customer is required to perform rituals such as read a prayer (according to each member's religion), read Pancasila, and read customer promises.

Account officer will be responsible to collect the money in Weekly Collective Payments meetings. After collecting the money, the AO will calculate the money in front of all group members and all the members will act as a witness. In this case, Mekaar wants to show that they uphold the principle of transparency and they do not intend to take advantage of clients. Such simple action can build a client's trust towards the AO, and towards Mekaar as a whole.

Overall, PT PNM is not only offered a loan product for pre-prosperous women, but they also insert educational elements to their clients within the process. In each prayer, promises, and Pancasila that clients have to read each week, PT PNM indirectly wants to instill the value of honesty in doing business, discipline, and hard work. With Pancasila, the poor women are also taught to maintain harmony and mutual respect despite coming from different tribes or religions. Furthermore, Mekaar clients are also taught to save their money. In fact, currently, there are more than 300,000 Mekaar clients that has saving in Mekaar. Thus, in Mekaar, clients are prepared to become small or even medium business owners by firstly building their discipline, responsibility, and also being introduced to the banking system.

## VII. The Organizational Structure

PT PNM is a state-owned company with tens of thousands of employees to support its business. PT PNM has several business units and products including Mekaar. Mekaar is managed separately under the supervision of an Executive Vice President (EVP). EVP along with portfolio manager and mentoring manager are responsible for designing Mekaar business development strategies. As for Mekaar, human resource is one of the key factors in achieving the 2 million customers target by the end of 2017. In the early stages, PT PNM put a lot of effort into setting up human resources system for Mekaar's oper-

ations in all branches from Aceh to Sorong Papua. As of September 2017, Mekaar employs 11,649 Account Officers, 1,464 Senior Account Officers and 1,137 Branch Heads and approximately 500 additional workers. The organization structure within Mekaar and the linking of decision-making process between Mekaar’s officer and PNM managerial, especially in the credit lending process, are shown in the Figure 1 below.

Account officers, senior account officers, and branch heads are in charge to do day-to-day operations in each

branch area. Furthermore, account officer play a vital role in the success of Mekaar program. As company’s frontline employees, account officers interact directly with costumers during most of their working hours. Account officers are regarded as company’s representatives that being influential in the level of customer satisfaction and engagement. Account officers are responsible for visiting loan groups in their area to conduct Weekly Collective Payment. The locations of weekly collective payment are sometimes become one of the biggest challenges faced

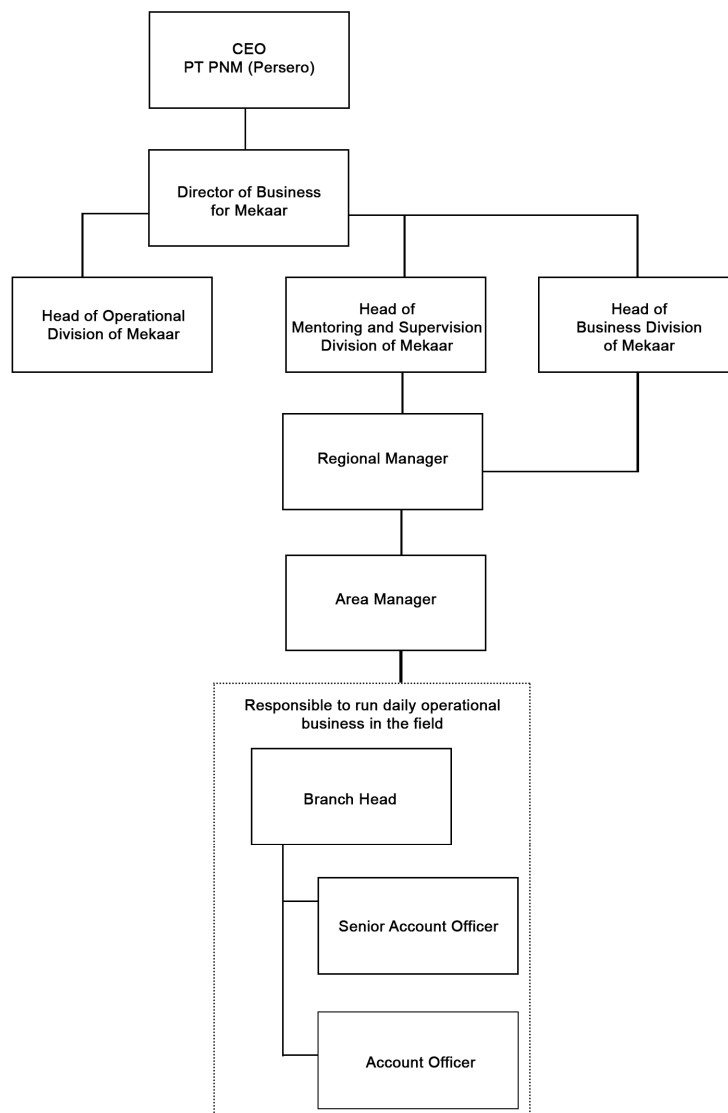


Figure 1. Mekaar Organization Structure

by account officers. Some of Mekaar branches operate in remote area and have no vehicles access, which take hours from the nearest branch.

In addition to collect the weekly payment, account officers are also assigned to recruit potential customers. The highest level of educational attainment of the account officers is high school diploma. During the employee induction period, PNM provides product knowledge and soft skills training to the newly recruited account officers. Additional necessary trainings are also provided by branch head, which are usually held on Saturday. Meanwhile, senior account officers are responsible for administering administrative matters in the branch office and the branch manager is the person who has the highest authority to make decisions regarding loan approval in his territory.

## VIII. Discussion

In terms of financial decision making, low income consumers have their own reasoning system (Sawady & Tescher, 2008). This segment have historical experience of being excluded from the mainstream for decades, thus, trust became the central issue for them when creating financial decision making. For them, intangible features such as respect, trust, safety, and sense of belonging is very important (Sawady & Tescher, 2008). For Asian customers, respect aspect was even more sensitized. Hence, low-income consumers tend to be very cautious at accepting new financial products, especially those who live in remote area and rarely touched by financial service providers (FSPs).

Furthermore, social network is crucial in the lives of this segment. They often rely on community and family networks to provide them with resources, including financial resources, for their survival. Basically, this segment has two options when it comes to fulfilling their financial needs, informal cash economy and formal financial services. However, people are usually choose the informal one because it is familiar and comfortable, and the informal lenders are usually part of their community. Furthermore, many people from low-income segments are confused by the formal financial services, some others feel rejected by the formal FSPs. We believe that the success of Mekaar in penetrating its ultra-micro credit product to more than

one million customers because it was able to understand the need and behavior of low-income people and integrate those understandings in the loan products that they created.

- Trust and belonging. Mekaar lending products building trust of the clients in two ways, using internal (client's immediate network such as family and friend) and external means (through account officer). According to our interview with clients, they were interested to join Mekaar because Mekaar is promoted by their family and/or friends. Some of them were being asked to form a group together with their family/friends, and the others were interested because they see how their family/friends improve their lives after receiving Mekaar loans. They were willing to accept Mekaar because they believe on what was recommended by their family/friends. Using this practice, Mekaar was able to increase consumer's comfort in the product and sense of belonging. For external means, Mekaar use account officer to build client's trust. To approach new clients, account officers (AO) used personal approach by visiting customer's residence. They visited the clients for several times, and every time, they will give explanation about Mekaar. Slowly building the trust of the clients towards account officer and Mekaar. In addition, AO should also read "AO promises", which contains AO's commitment to always be honest and to treat consumers fairly, at every weekly meeting with clients. We believe that this practice provides a good impression, that AO also has a commitment to serve clients for the better. In low-income consumer eyes, people are the major differentiator, not a brand (Sawady & Tescher, 2008). Hence, the relationship between AO and customers is a crucial factor to build trust and sense of belonging of clients.
- Respect. Mekaar account officer were trained to treat and communicate with clients with utmost respect. Furthermore, Mekaar mostly hire account officers who are originated from the area, in fact, some of them are the child of Mekaar clients. Therefore, they know the culture in the area and able to build and maintain personal relationships with clients.
- Navigation. Mekaar is an easy to understand product, it does not need any collateral from clients, the clients only need to provide proof of identification and fill in the Mekaar form. The credit disbursement process takes only one week, the company will disburse the



money one day after the clients finished the training. Hence, for low-income consumer, this arrangement is very convenient, easy requirements and quick cash disbursement. Furthermore, account officer of Mekaar is responsible to provide clear explanation about client's responsibilities (such as attending weekly meeting) and negative consequences if clients do not fulfill their responsibilities, thus, clients will not feel betrayed because Mekaar already provide explicit information of what is expected from clients from the beginning. According to Sawady & Tescher (2008), low income consumers, who already feel swamp by the complexities of their lives, need an explicit navigation.

- Low income consumers tend to have short-term focus, hence, allowing frequent small payment has better suited them (Sawady & Tescher, 2008). Mekaar also implements the practice by offering weekly installment, rather than monthly installment, to their clients.

Formal banks usually put price (such as reducing/eliminating fees) and convenience (such as opening more branches in area where low-income consumers located) strategy as a priority when decided to serve low-income consumers (Sawady & Tescher, 2008). However, previous study by Sawady and Tescher (2008) shows that for low income consumers, emotional needs are somehow as important, or even more important, than that. Financial service providers (FSPs) need to fulfill the emotional needs because low income consumers proved to have quite different reasoning system when creating financial decision making. When creating their loan product, Mekaar is mindful of the characteristics of low income and was able to provide a loan product that is suitable for the poor. Therefore, focus on account design and incentive to increase lending to low income is not sufficient if FSPs decided to serve low-income consumers, FSPs also need to accommodate emotional needs and behavioral insight related to this unique segments.

Basically, Mekaar's target market is poor and unbankable women who does not have asset to be guaranteed when they take a loan. However, the average NPL of Mekaar clients is almost zero (0.0023% to be exact), very low when compared to the national NPL of 2.93% in 2016 and 3.07% by mid 2017. One of the key to Mekaar's success in pressing NPL is the group guarantee system that they implement in their loan product. This

group guarantee scheme is believed to be effective to disciplined consumers, especially to come to weekly meetings. Delinquency cases are also very rare: firstly because the solidarity guarantee is applied immediately when a group member is delinquent, secondly because peer pressure assures this happens in very few cases. Group coordinators are in charge to warn their group members once the members failed to make weekly payment. An internal survey conducted by PNM suggested that the main reason group members adhere to the term of payment and willing to do all the rituals is because they are afraid they will not be included in the next loan term. In addition, the results also mentioned that most Mekaar clients feel embarrassed and afraid with their peers (e.g. other group members) if they come late to the weekly meeting and did not pay the loan on time. This shows that the mechanism of peer pressure is naturally present in Mekaar's group guarantee system. This system is also very effective in maintaining the quality of Mekaar loan.

## IX. Impact of Mekaar to the Society

In measuring the performance of a microcredit program, Rosenberg (2009) proposes five basic tools which are breadth of outreach (number of clients being served), depth of outreach (how poor are the clients?), loan repayment (portfolio quality), financial sustainability (profitability), and efficiency (how well the MFI control its operating costs). Nevertheless, Mekaar has been running for only two years and some branches operate even less than a year, which makes the financial data is not readily available to calculate the aforementioned indicators related to financial performance of the Mekaar program.

Furthermore, in the donor brief published by Consultative Group to Assist the Poor (CGAP), impact of microfinance is related to measuring how financial services affect the lives of poor people (Cohen, Burjorjee, & CGAP Staff, 2003). Impact in microfinance considers income growth, asset building, and reduction of vulnerability. Other times, it also includes indicators that intend to measure multiple dimensions of poverty, such as overall household income, social improvements in health and education, and empowerment (increased self-esteem and control of household resources among women) (Cohen, Burjorjee, & CGAP

Staff, 2003). We also measure multidimensional poverty index of Mekaar clients in early 2017, and the results show that among 1382 clients that we surveyed, only 74 clients (5%) who are categorized as a multidimensional poor based on indicators set by Alkire and Foster (2007, 2011a). The respondents for this study are consumers who have been a Mekaar clients for at least 6 months.

Furthermore, we assessed the impact of Mekaar in a household level and individual level (Cohen, Burjorjee, & CGAP Staff, 2003). In a household level, Mekaar ultra-microcredit was proved to provide another source of income for the client's family. Mekaar plays a significant role in empowering women within the family economy. Prior to Mekaar's presence, the majority of Mekaar's customers were housewives and only husbands played the sole breadwinner. We conducted a survey, in which in the results show that Mekaar ultra-microcredit allows the clients to open new business and leads to an increase in their household income. The credits also increase the assets of clients; they reported an increase in their assets such as jewelry, land/ rice fields, livestock, and food stand/carts. Currently, the survey is still ongoing, therefore, we are not able to present the final results in this paper. At an individual level, Mekaar ultra microcredit are able to increase client's savings. Mekaar offering clients to save their money in Account Officer. In remote areas, the existence of formal financial institutions such as banks is rare that people are not accustomed to have saving account. Mekaar taught customers to manage their finances and set aside excess funds as savings which can be withdrawn at any time. Furthermore, looking at the number of current Mekaar consumers who almost reach 1.4 million consumers (per November 2017), we can say that this group guarantee loan has potential to give greater impact to the Indonesian poor people, especially those who live in remote area and unreachable by formal financial services. Mekaar also give a way for women empowerment, because Mekaar open an access to financial services which then leads to increase in greater choices and voice in a family for women. However, we still need to conduct a study to measure how much the impact of Mekaar to women empowerment in Indonesia, which will be our agenda in the future.

From social point of view, with their education agenda by incorporating prayer, client's promises, and Pancasila in their weekly meeting, Mekaar is indirectly attempting to alter the behavior of poor people in a positive way.

First, Mekaar instill discipline value to their customers through the implementation of weekly meeting, and clients are required to attend (clients are allowed to absent from weekly meeting maximum 2 times during the loan term). Second, Mekaar is also embedding the value of honesty and working hard to customers by requiring them to read consumer promises each week. Meanwhile, regular reading of Pancasila aims to instill a sense of unity and tolerance within the community. Over time, these values are expected to be instilled inside the consumers' self. Therefore, in the long run, Mekaar has a goal to raise the status of poor people by changing their behavior.

Initially, there were a lot of Mekaar consumers who never use, or even visited, a banking institution before. These consumers are usually called unbankable segment. In Mekaar loan process, PNM attempt to familiarize this segment with banking products (e.g. savings, loans, etc), thus, these consumers are expected to become bankable in the near future. However, currently, PNM is already cooperating with several Indonesian state-owned banksto provide consumers with formal banking savings account. Mekaar could be seen as an agent that transform unbankable segment into bankable segment

## X. Future Opportunities for Mekaar

Based on our discussions and evaluation above, there are some strategic decisions for the future of Mekaar's program:

1. Caution against NPLs. Considering that Mekaar's clients are very poor and unsecured, Mekaar should have a prevention strategy in the event of a shock or disaster that could causes the loan to default. So far, there have not been many cases where clients cannot continue with the loan process (e.g. client's death or natural disaster). Mekaar have been working together with state owned enterprise (SOE) PT Jiwasraya (Persero), a state-owned insurance company, to cover Mekaar's clients against death risk. Nevertheless, other type risk as fire, husband's death, and natural disaster have not been included in the insurance policy. Since PT PNM wants to grow the number of their consumers, the likelihood of such things happen is higher and can cause consum-

er's inability to return the loan. Therefore, PT PNM should make risk mitigation strategies to overcome this matter.

2. For future funding, PT PNM should start considering cooperation with other state-owned companies. Under the Ministerial Regulation, State Owned Enterprises (SOEs) are required to set aside a portion of their profits for the partnerships and community development program (in Indonesia, it is known as Program Kemitraan dan Bina Lingkungan (PKBL)). Usually, in the partnership program, SOEs will channel the money to small and medium enterprises in the form of loans. But, often times, the number of NPL for this program is quite high. This is understandable because the distributing loan to SMEs is not the core business of that SOE. Given that PT PNM has expertise in distributing loans to the poor, it is expected that in the future, SOEs' PKBL money can be managed by PT PNM. This money could be treated as a source funding to increase the number of Mekaar customers across Indonesia.
3. In addition, PT PNM may also offer other micro-finance products to their clients, such as micro insurance. PT PNM already has an established business process, a great amount of human resources, and market that is readily available. Accordingly, offering other microfinance products could present great opportunity for PT PNM to diversify its business.

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