

In cooperation with Bank Indonesia
and the Indonesian Ministry of Finance



Cooperating with the Association of People's Credit Banks in Indonesia Perbarindo Jatim-LKP, CERTIF & ProFi: The Way Forward

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Bank Indonesia



Cooperating with the Association of People's Credit Banks in Indonesia

Perbarindo Jatim-LKP, CERTIF, and ProFI

The Way Forward

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Executive Summary

This study develops criteria for a future cooperation with associations of small banks in general and between GTZ ProFI and Perbarindo Jatim-LKP in particular. Based on these criteria, recommendations regarding such a cooperation are formulated.

In order for Perbarindo Jatim - LKP to contribute to the development of the BPR sector in East Java, and thus be a suitable partner for ProFI, it should fulfil the following criteria:

1. Management capacity and governance structure: its management capacity has to be efficient enough to divide labour and coordinate different tasks. This includes the existence of a transparent business plan that outlines the vision and development goals for the next years and the ability to work with this business plan. Its governance structure has to be transparent.
2. Sustainability has to be increasing. Growing cost coverage in income statements has to give the realistic perspective that the network, in areas where it does not offer public goods, for example training and consultancies, will be sustainable in a given time frame.
3. A big membership and the ownership and commitment of members are crucial in order to build up a client base and ensure membership fees.
4. It should know of the market and its potential, and offer services on the basis of a realistic estimate of the demand for such services and the capacity to satisfy this demand

Criterion	Fulfilled: Yes / No
Management capacity and governance structure	<p>No.</p> <p>Management capacity has improved over the last year. A new Executive Director has been recruited and the number of trainings and consultancies that were conducted increased. However, the most significant weakness is accounting. The lack of a clear accounting system prevents effective planning and exact financial projections. Unclear income statements and generally weak bookkeeping illustrate this. Therefore, it is strongly recommended to initiate comprehensive capacity building measures for LKP in the field of accounting.</p> <p>A business plan does exist but there are no indications that it is actually being used. Thus, the second criterion is not fulfilled. Experience of other associations shows that a business plan is an effective and powerful management tool. LKP should therefore revise the existing business plan and operationalise it.</p>
Sustainability	<p>No.</p> <p>The management is aware that LKP has to reach sustainability. Cost coverage has indeed increased. The 80% that have been projected in the ProFI project offer 2003 could not be reached. At the moment, the cost coverage is roughly 65%. However, this figure needs to be confirmed, as the bookkeeping was unreliable and income statements are still unclear and need to be revised.</p>

Membership	<p>Yes.</p> <p>The big membership is the major strength of Perbarindo Jatim LKP. More than 80% of all BPRs in East Java are members (95% are members in Perbarindo only), 70% of which pay their membership fees regularly. The interviewed BPR managers plausibly explained that it is widely taken for granted to be a member of “our association”. This vast network also qualifies LKP to organize the CERTIF training.</p>
Demand for services	<p>Yes.</p> <p>There is a demand for CERTIF and non-CERTIF trainings and at least in the short term, there is no alternative to LKP as an organizer for the CERTIF training in East Java. LKP has been involved in its development and has a unique network of BPRs that want to be trained and are willing and able to pay for this training. LKP also has the capacity to facilitate the CERTIF trainings. However, it still needs institutional strengthening to fully meet the demand and to become a viable institution. It has to be noted that a detailed market study has not been conducted yet. Such a study is planned. It will quantify the demand reliably.</p>

Even though the above mentioned indicators were not or only partly met, Perbarindo's overall performance has improved over the last year. Additionally, the assistance of LKP during the introduction of CERTIF is deemed to be essential to successfully establish this BPR (and later MFI) training certification scheme. Thus, the continuation of the cooperation between LKP and ProFI is advised.

However, because of the weaknesses listed above it is recommended to shift the focus of the cooperation from financial contributions towards institutional strengthening: capacity building in the field of accounting and support in those areas where Perbarindo has potential: training. At the same time, a comprehensive strategy for gradually substituting direct financial contributions with capacity building measures for Perbarindo-LKP corresponding to the gradual increase in income needs to be implemented, starting with the new agreement.

1 Introduction

This report is the result of a consultancy that was conducted in January/February 2004. The consultancy had the main objectives

- a) to analyse the institutional capacity of Perbarindo Jatim (the regional chapter for East Java of the Association of People's Credit Banks in Indonesia) including its consulting arm *Lembaga Konsultan Perbarindo* (LKP) and
- b) to derive recommendations for the future cooperation between ProFI and Perbarindo Jatim/LKP on the basis of this institutional analysis.

Banking and Microfinance Associations can play a vital role in developing the financial system of a country. They are generally defined as national member based professional associations of banks or MFIs (Brüntrup 2003: vii). The major tasks of such associations are coordination, guiding and monitoring private services (training, consultancies, technical and organisational assistance) as well as lobbying, information exchange, public relations, (self-) regulation and the creation of other public goods the whole sector benefits from.

Perbarindo is an association of rural banks – Bank Perkreditan Rakyat (BPRs) and operates nation wide with a head office in Jakarta and 17 regional offices in most provinces of Indonesia. A study conducted by the German Savings Bank Foundation in October 2002 concluded that Perbarindo at national level showed a rather low performance, which resulted in the low acceptance by its members and their reluctance to pay membership fees (Boehm, 2002:9). However, one regional chapter of the association, Perbarindo Jatim with its consulting arm LKP performed comparatively well. ProFI has supported it since 2001. It was intended that after the 2 years, the member BPRs would gradually substitute subsidies provided by BI and GTZ in order to achieve financial self-sustainability (see MoU, October 2001). As this aim has not been achieved so far, ProFI has to decide in what way the future cooperation should be designed.

The methodology applied is described in chapter 2. The main criteria for cooperating with Microfinance Associations are outlined and discussed in chapter 3. Chapter 4 gives an institutional analysis of Perbarindo Jatim LKP, focussing on the degree to which it fulfils the criteria. Based on this analysis, recommendations on the way forward in the cooperation between ProFI and Perbarindo Jatim LKP are formulated (chapters 5 and 6).

2 Methodology

The research consisted of a desk study and a field study. The desk study mainly focussed on defining criteria for a successful microfinance association in general, which could then be applied for the institutional analysis of the above described BPR association.

After reading the major documents concerning Microfinance Associations in general¹ and Perbarindo in particular,² the major stakeholders were interviewed in and around Malang in

¹ Michael Brüntrup (2003): Microfinance Associations. Their Role in Developing the Microfinance Industry. Eschborn.

East Java between the 15th of January and the 10th of February and in Jakarta after the 10th of February (see list of interviewees in Annex 2). The field research started with a focus group discussion at LKP head office in Malang and was followed by several open interviews with 19 BPR representatives and 10 other stakeholders. Among the interviewed BPR managers and owners, there were only members of LKP, as LKP made the appointments (this was inevitable due to their contacts). One random interview was conducted with a Perbarindo member BPR that was not a member of LKP. However, the interviewee was a secretary, as the director and manager had no time for an interview. The sample included BPRs that do pay their membership fees regularly and those that do not pay at all.

The evaluation of the interviews followed a qualitative approach, as the sample of interviewees is not big enough to be representative. Plausible conclusions were drawn from the outcomes of the interviews, facts and figures out of Perbarindo's files, and previously conducted studies. These conclusions led to the recommendations given in this report.

After the first draft of the report was completed, the main results were presented to and discussed with the major stakeholders. Their comments and inputs were included in the report.

3 Characteristics of Successful Microfinance Associations

The following characteristics contribute to the ability of a network or an association of small banks or Microfinance Institutions such as Perbarindo LKP to contribute to the development of its respective sector: an efficient management, a transparent governance structure, increasing sustainability, a big and committed membership, a demand for services and the capacity to satisfy this demand.³

3.1 Management Capacity and Governance Structure

An efficient management helps to divide labour and coordinate tasks. Sound financial management is a precondition for efficient work and building of trust. A business plan is a powerful management instrument: it outlines the vision and development goals for the next years. It should be revised according to the objectives and reacts to external signals, opportunities and threats. Vision and objectives should serve members' interests. As Brüntrup points out, business plans give the association a common direction and can be used to plan for self sufficiency, "by making the distinction between vital key activities, services, and resources necessary for the survival of the MFA, and supplementary elements that are important but not indispensable."⁴

² Sylvia Böhm (2002): Strengthening PERBARINDO – the Association of People's Credit Banks (BPR) in Indonesia Final Report on Short-term Assignment, ProFi Project;

Wolfgang Hiemann (2002): Report No. 1 and 2 : Support to Lembaga Konsultan Perbarindo (LKP), East Java in developing, offering, and evaluating professional management consulting services;

Klaus Lehrke (2000) : Final Report. ProFi Project, Bali, Indonesia. Short Term Assignment from October 2 2000 until November 14 2000: 1. Strengthening of Perbarindo Association (BPR), 2. Establishment of an Association for LPD's in Bali.

³ For further background information see: <http://www.gtz.de/themen/economic-development/english/financial-systems/services/microfinance-associations.htm>

⁴ Brüntrup, p. 63

The governance structure is closely related to the management capacity. An efficient governance structure demands transparency, impartiality and a strong executive. It should be free of political interference. Due to the voluntary membership, an unequal distribution of resources by the association can lead to abandonment by the members, unless their commitment and ties are very strong. Thus, commitment and representation of members should be insured.

3.2 Sustainability

Whether or not MFAs should be financially sustainable depends largely on the type of services they offer. Lobbying, information exchange, coordination of sector-wide activities are services that cannot be provided in a cost covering way, as the industry as a whole benefits from them it would be difficult to identify individual entities that could be charged for the services. Other services, such as training, have to be sold at market prices.

Thus, MFAs should be considered sustainable when core services are provided based on membership fees. It is crucial to distinguish between an association, which offers goods that benefit the whole sector and are hard to value or sell at a fixed price to customers, and training providers, offering specific courses for a specific price. For the latter, the sustainability should be increasing. Growing cost coverage in income statements gives a realistic perspective on the institution's future sustainability. The role of donors can be crucial: the maintenance of the logic of an artificial economy introduced by donor funds has to be avoided by all means. Incentives for the MFA to become sustainable and a gradual exit strategy need to be developed. Furthermore, MFAs, like all member-based institutions, should not be dominated by donors and have enough space to develop from within.

3.3 Membership

A big membership and the ownership and commitment of members are helpful to build up a client base and ensure membership fees. A big membership increases political power and influence in the microfinance industry. On the other hand, keeping the membership small facilitates decision-making processes. The more heterogeneous the membership base, the more internal problems arise. More common goals and a better political standing are achieved with a homogenous membership base. However, maximising the membership in order to broaden the financial basis is not the right strategy. Membership fees are low and do not justify lowering the entrance criteria if the result is a weaker association. The quality of the membership, a common commitment and common goals are more important. Thus, it is crucial to find the right balance between depth and outreach.

3.4 Demand for Services

MFAs are generally looked at as service providers for the Microfinance industry. Their services range from networking and information exchange to the facilitation of trainings. Some of these services can be sold at market prices, others cannot. Ideally, services would benefit the whole sector. A successful service provider should know the market for its products and its potential, and offers services on the basis of a realistic estimate of the demand. It should further have the capacity to satisfy this demand.

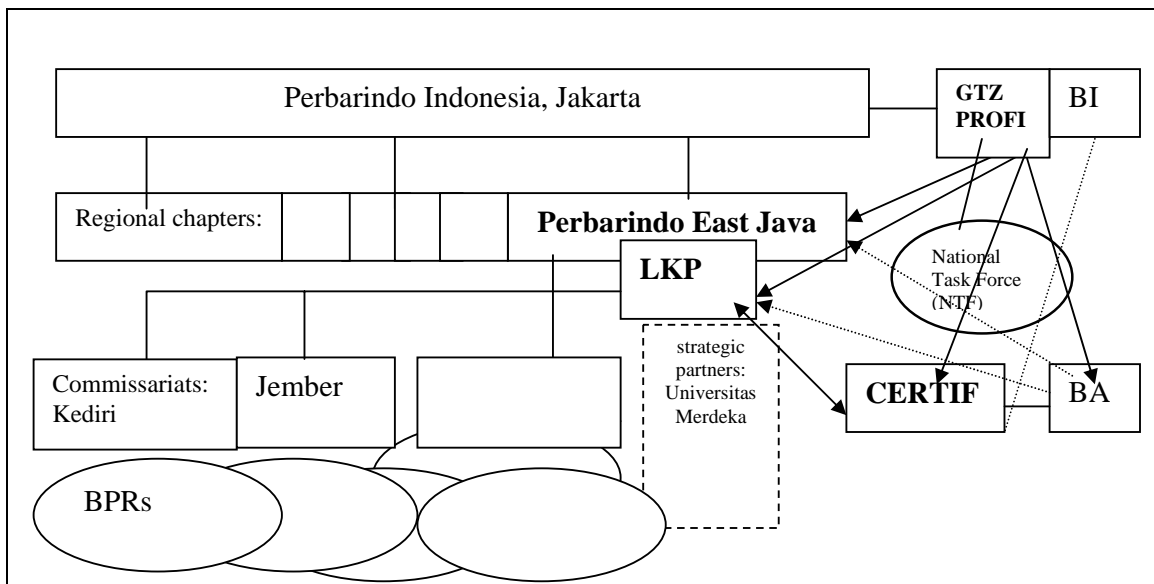
MFAs should look at their activities and find out which services they can offer to their members and non-members and analyse their needs, and the capacity and willingness to pay for them.

4 Institutional Analysis Perbarindo Jatim LKP

4.1 Management Capacity and Governance Structure

PERBARINDO is the national association of BPRs, with offices in 17 provinces. These are called “regional chapters”. Perbarindo Jatim (East Java) is considered the most active regional chapter (Boehm 2002). In 1999, Perbarindo Jatim founded LKP, a consulting arm that offers training and consulting services to BPR staff. Today, Perbarindo Jatim has 344 members, and LKP has 280 members.

Graphic 1 below illustrates the organisational set up of Perbarindo and its environment.



Perbarindo-LKP’s significance for the GTZ programme “Promotion of Small Financial Institutions” (ProFi) is outlined in the programme offer of 2003: the aim of component No. 3, capacity building, is the improvement of the capacity of BPR staff in East Java. This is to be achieved through capacity building measures conducted by a training institution that should become sustainable in the long run. This institution is LKP. Accordingly, one indicator for the achievement of this aim is an 80% cost coverage of LKP. Currently, the main activity in capacity building is the implementation of the CERTIF programme, a training programme for the certification of BPR managers. A National Task Force, consisting of BI, GTZ, Perbarindo, Perbarindo Jatim-LKP, and PNM (a state-owned investment holding for small and medium enterprises: Permodalan Nasional Madani) is in charge of organising and coordinating CERTIF. Whereas CERTIF is a set of training modules and will transform into an institute, LKP is the institution to organize the CERTIF trainings. East Java and Bali will be the pilot areas. At a later stage a minimum of two further provinces are expected to offer CERTIF trainings.

ProFi started to support Perbarindo-LKP in October 2001, when a Memorandum of Understanding between Perbarindo-LKP, Bank Indonesia (BI) and ProFi on the financing of travel expenses, limited equipment and salaries for two years, was signed. The contract was renewed and will phase out on May 2004. The support focussed on financial contributions. After a two-year period, it was expected that LKP would be able to finance its expenses from

the income generated from its services. LKP receives further support from BI who has subsidised 50% of the course fees BPRs have to pay over a three-year pilot period. Thus, financial support is provided as a double subsidy: demand for courses is subsidised by the project partner BI, and supply by ProFI (salaries and investments). The project progress review 2003 raised doubts whether income from courses or other services could cover all LKP expenses within two years, unless the financial management of LKP was implemented in a professional and transparent way. It is one of the findings of this study that the financial management and the lack of transparency of Perbarindo Jatim LKP are indeed its major weaknesses.

What has been done so far to overcome these weaknesses? In the last 2 years, there have been 2 studies: one focused on Perbarindo as a whole (Boehm 2002), the second one on Perbarindo Jatim LKP (Hiemann 2003). In addition to this, the training coordinator was sent to Germany to participate in the Microfinance course offered by Bankakademie International in 2003. The first study came up with comprehensive recommendations regarding Perbarindo's legal status (the recommended status is that of a partnership/company for social purposes). None of the recommendations were implemented. The second one identified some major bottlenecks: the availability and commitment of consultants, the demand for LKP's services, and the willingness of BPRs to pay for them. Hiemann recommended entering strategic alliances with persons or consultancy firms in East Java. This recommendation was partly implemented, LKP cooperates with the Merdeka University in Malang (see Box 3, p. 14) and the academic institute *Sekolah Tinggi Ilmu Ekonomi Perbanas* (STIE) in Surabaya, starting in 2004. Another much more drastic consequence of the Hiemann report, which was very critical, was the change of management of LKP. The former Executive Director took over the coordination of the consultancy services and a new one was recruited. This move seems to have been fruitful as there are several indicators for a better performance (see tables 3-7). However, apart from this, it is unclear what measures were taken to overcome the bottlenecks identified by Hiemann. GTZ did not change the mode of delivery regarding its support. No institution building measures have been conducted. The support continued to focus on financing and service lines and not on institutional strengthening.

Most BPRs perceive Perbarindo Jatim and LKP as one entity: "LKP Jatim – Indonesian Rural Banks Association – East Java Consultative Institute", as LKP called itself in the initial presentation of its organisational profile. However, in contrast to Perbarindo Jatim, LKP does have a legal status, i.e. that of a foundation (*yayasan*). Its founders, mainly lawyers, chose this option as it allows LKP to generate profits. The lack of a legal status of Perbarindo has been identified as a major bottleneck of the association's development in previous studies (Boehm 2002). It is recommended to re-consider the recommendations made at the time.

Thus, whereas legally LKP and Perbarindo are two entities, the reality looks different: not only are the two perceived as one by its members, the board members are also partly identical. For example, the Executive Director of LKP is also on the board of Perbarindo. The table below illustrates this. The names of the persons represented on both boards are printed in bold letters.

Table 1: Perbarindo and LKP Boards

Perbarindo Jatim		LKP	
Position	Name	Position	Name
Chairman	Gatot	Chairman	Drs. Paul Matuli
Dep. Chairman for organisation	Suryadin	Chairman Board of Trustees	Gatot
Dep. Chairman for HRD & training	Edi Poernomo Santoso	Secretary	Edi Harijono
Dep. Chairman for communication & collaboration	Drs. Katiyono	Treasurer	Titien Retnowati
Secretary	Drs. Paul Matuli	Internal Audit	Yannie Malonda Dra. Hastuti Reni Kusumawati
Dep. Secretary	Mrs. Jaenuri		
Treasurer	Dra. Hastuti		
Dep. Treasurer	Dra. Suci Hartati		
Legal bureau	Edi Harijono		
Training bureau	Berty S. Tjionganata		
Communication and Collaboration Bureau	Drs. Purwanto		

On the one hand, the overlap of key persons in the organisational set up of Perbarindo and LKP has many advantages. LKP is part of a powerful network and profits from the networking and the existing contacts of its founders and board members. Formal and informal relationships are one of the major strengths of any network. The close link is further facilitated by the fact that Perbarindo and LKP share an office.

At the same time however, the lack of a clear division creates problems: the division of labour and responsibilities is blurred (for example, the LKP car is in permanent use by the chairman of Perbarindo Jatim and thus not available for LKP). This prevents LKP from developing a clear and adequate costing and pricing strategy. Member BPRs who are not aware of the autonomy of LKP and its status do not understand and accept that it has to generate profits, i.e. they do not agree with market prices for LKP's services. Also, many BPRs are not aware that the two have different budgets and that they pay 2 monthly membership fees: Rp. 30.000 to Perbarindo and Rp. 35.000 to LKP. Another problem is that LKP as a profit making institution illegitimately takes advantage of the public entity Perbarindo. Perbarindo is the association of BPRs and provides the BPR industry with information on BI regulations and different types of trainings. Thus, Perbarindo provides LKP with an outreach that (other private) consultancy firms and training institutes do not have.

This conflict is rooted in the lack of a legal status of Perbarindo. If Perbarindo had a legal status and was allowed to generate profits, there would have been no need to create a separate foundation LKP. Thus, it is recommended for Perbarindo Jatim to take on a legal status, as already recommended by Boehm in 2002. In the long term, LKP should either become part of Perbarindo or act as an independent professional company (for LKP's role in implementing CERTIF see chapter 4.3.3). This move would also facilitate the national office and other regional chapters to act as training or consultancy institutes and increase their

financial and operational sustainability.⁵

Table 2: Professional Staff of LKP

Position	Name
Executive Director	Suryadin
Consulting coordinator	Soenaryo
Training Manager	Novanto
Secretary	Debbie Diana Sari
Accountant	Eko Susilowati
Driver	Mohammed Ansor

LKP Jatim has 5, 5 permanent staff: a director, a training coordinator, a consulting coordinator, a secretary, an accountant who works half time, and a driver. The director, Mr. Suryadin is very active and committed but only present about 3 days a week. His job description gives no details on working hours. But his salary exceeds that of a BPR director.

He is a lawyer and has his own law firm. He therefore spends a lot of time in court, where he, informally and free of charge, assists BPRs who have cases of bad loans. Two BPR managers mentioned this, as the major benefit of their membership in LKP. The informality of this service makes it efficient and quick. On the other hand, it is very difficult to account for or to charge the BPRs for it. The rest of the LKP staff lack the independence to take any decisions. This is one of LKP's major weaknesses.

The following steps are recommended:

Recommendation 1: LKP needs a full time manager and institutional support in order to turn viable and be able to fulfil its tasks. One possibility is that the current executive director works at least 80% for LKP. His job description has to be revised.

Recommendation 2: The expertise of the director should be used more efficiently. Law consultancies should be explicitly offered as a product by LKP and integrated into Suryadin's job description.

Recommendation 3: there needs to be a clear division between LKP and Perbarindo. Perbarindo should get a legal status, as recommended by Sylvia Boehm.

4.2 Sustainability

LKP is neither financially nor operationally sustainable yet. The indicator given in the ProFi project offer 2003, according to which income from courses or consulting services would cover 80% of all expenses, was optimistic. The income statements of 2002 and 2003 indicate that the income and profit of LKP have increased (see table 6 below). In 2002, 23% of the whole income was made up of GTZ subsidies, in 2003 only 17%. On top of the subsidies by GTZ, Bankakademie and PNM, BI subsidises the trainings by financing 50% of the fees for the BPRs. After subtracting the BI subsidies for the trainings, the income from training is roughly Rp. 170 mill in 2002 and Rp. 370 mill in 2003. Thus, at the moment LKP covers roughly 65% of its costs. However, due to the already mentioned accounting problems these figures are very rough estimates. Furthermore, at the time of writing the income statement for 2003 was not completed.

⁵ for a detailed discussion on the sustainability of networks, see Brüntrup, 2003.

An extra expenditure is the monthly payment of 20% of the membership fees to Perbarindo national. It is not clear what the regional chapters gain from the “membership” in the national body of Perbarindo. Members pay a membership fee and a fee for LKP (Rp. 30.000/35.000 per month) out of the Rp. 30.000, Rp. 10.000 is paid to the national office, the regional chapter, and to the commissariats.

Table 3: Income Statement 2002 (January until December)

Income 2002	Rp.	In %	Expenditure	Rp.	In %
Training	310,953,625.00	40%	Training	289,153,021.00	40%
BI subsidy to training	138,350,000.00	18%			0%
Consultancy	30,750,000.00	4%	Consultancy	9,511,550.00	1%
Other operational income	22,637,704.00	3%	Other operational expenditure	3,242,850.00	0%
National seminars	88,270,000.00	11%	Seminars	77,225,000.00	11%
Funds from PNM	800,200.00	0%			0%
Funds from BA	800,200.00	0%	Goods and services	85,155,050.00	12%
Funds from GTZ	160,098,500.00	20%	Salaries	120,017,375.00	17%
Membership fees	69,725,000.00	9%	Transport	11,809,100.00	2%
Other income	10,855,639.00	1%	Bank admin	853,415.00	0%
			Legal establishment of LKP	150,000.00	0%
			Promotion	13,350,000.00	2%
			Rent	35,000,000.00	5%
			Accumulated depreciation of vehicle	12,250,000.00	2%
			Accumulated depreciation of furniture	24,104,641.00	3%
Total	694.890.868,00		Total	681,822,002.00	
Total income without subsidies	394,841,968.00		Profit	13.068.866,00	
			Profit without subsidies	(286,980,034.00)	

Table 4: Income Statement 2003 (January until November)

Income 2003	Rp.	In %	Expenditure	Rp.	In %
Training	562,714,500.00	72%	Training	395,589,225.00	55%
BI subsidy to training	193,000,000.00	25%			0%
Consultancy	14,900,000.00	2%	Consultancy	1,257,550.00	0%
Other operational income	4,094,776.00	1%	Other operational expenditure	22,121,000.00	3%
National seminars	-		Seminars		
Funds from PNM	-				
Funds from BA	5,062,076.00	1%	Goods and services	80,080,975.00	11%
Funds from GTZ	119,517,300.00	15%	Salaries	138,042,150.00	19%
Membership fees	73,254,500.00	9%	Transport	13,247,450.00	2%
Other income	6,484,936.00	1%	Bank admin	721,580.00	0%
			Rent	31,612,750.00	
			Accumulated depreciation of vehicle	11,064,600.00	
			Accumulated depreciation of furniture	24,793,480.00	
Total	786,028,088.00		Total	718,530,760.00	
Total income without subsidies	468,448,712.00		Profit	6,749,732,800.00	
			Profit without subsidies	(250,082,048.00)	

Many BPR directors complained about the intransparent budget of LKP. This even caused one group of BPRs in Kediri to boycott LKP and quit paying fees in 2003 (see Box 4). The financial management of LKP has to become more professional and transparent. This is indeed one of the pre-conditions for a further improvement of the overall performance. It will also lead to more efficiency and thus to a higher cost coverage. The auditor of LKP, a BPR owner, director, LKP founder, LKP consultant and LKP board member, said that he did not know how to do the accounting for a "foundation". He had only done it for companies and assumed there was a difference in the accounting of a foundation, as the main income was donated. Again, this case demonstrates the need for institutional support and more professionalism.

Recommendation 4: LKP needs capacity building in the field of accounting. The current accountant should be trained on a long-term basis. Furthermore, LKP in cooperation with this accountant and GTZ have to come up with a new, realistic plan to lead to sustainability,

gradually replacing the GTZ payments of current expenses with income from trainings and other services.

4.3 Membership Commitment

The commitment of the member BPRs varies. The BPRs can be divided into the Perbarindo Fans and those BPRs that are members but don't care about Perbarindo or their services. 95% of all BPRs in East Java are members of Perbarindo Jatim and out of these, 82% are LKP members. The membership fee of Rp. 35.000 is very low, so that the high membership does not necessarily imply a high satisfaction of the members or a high popularity of Perbarindo and/or LKP. However, the percentage of those members who do not pay their fees and their motivation is an important indicator. The membership fees are collected at commissariat-level and then transferred to LKP in Malang. Interestingly (or alarmingly), most commissars do not know which of their members have paid the fee. The fees are collected according to differing time schemes: some pay yearly, others 3 monthly or monthly. There is some confusion about when and how much has to be contributed to Perbarindo and LKP. Many BPRs simply do not know this. The case of Kediri (Box 1, p. 13) illustrates only one example. The table below shows the membership fee payment for 2002 and 2003.

Table 5: Membership fees paid by Commissariat:

Kommissariat	Members	Amount	Paid 2002	%	Paid 2003	%
Surabaya	41	17.220.000,00	14.000.000,00	81	17.220 000	100
Mojokerto	20	8.400.000,00	2.500.000,00	30	4.550.000,00	54
Bojonegoro	19	7.980.000,00	-	-	3.200.000,00	40
Malang	42	17.640.000,00	20.863.000,00	118 ^Y	11.760.000,00	67
Pasuaran	25	10.500.000,00	2.870.000,00	27	5.205.000,00	50
Probolinggo	11	4.620.000,00	-	-	1.962.500,00	42
Jember	34	14.280.000,00	17.170.000,00	120	14.280.000,00	100
Banyawangi	17	7.140.000,00	7.430.000,00	104	2.242.000,00	31
Kediri	48	20.160.000,00	16.310.000,00	81	12.800.000,00	63
Madiun	25	10.500.000,00	5.250.000,00	50	6.600.000,00	63
Total	282	118.440.000,00	86.393.000,00	73	79.819.500,00	67

It has to be noted that the transfers for 2003 are not yet completed. This may explain the slight decrease. The Commissariats, in some cases (like Kediri), seem to be a black box, which at one point would deliver membership fees to LKP in Malang. The Kommissar in

^Y above 100% due to fee income from time period before 2002 / delayed payments

Kediri was not motivated at all and claimed to be only doing the job because he wanted to please his old friends in Perbarindo. He didn't have any time for the extra and unpaid work he was doing for LKP but there was no one who could replace him.

Why do BPRs join LKP? The major benefits BPRs see in their membership are the following: training opportunities, being linked up with General Banks, and networking in general. Very few members have used LKP's consulting services so far. There is also a faction within the members that joined LKP "automatically", as they put it. Others joined "because everybody else did". In Kediri, the network seemed to be very active. The BPRs and BI organise informal meetings every 3 months. All banks, including BPRs and Perbarindo, come together to play tennis and talk business. On these occasions, BI reminds Perbarindo which BPRs are not working so well etc.

Box 1: The Kediri Motivation to join LKP

Some interviewees in Kediri claimed that they "signed a contract" with LKP at the Perbarindo AGM in 2001. According to this contract (which turned out to be an oral commitment) BPRs pay the membership fee for next 2 years. The last payment was transferred in 12/03. This commitment was made by all BPRs and was the reason for most of the Kediri BPRs to join ("*everybody was doing it*"). This indicates that it was an automatic membership and not a conscious decision to join LKP.

Those BPRs that are very committed usually have owners with strong ties to Perbarindo and LKP. Some of the ties were purely personal and this can be seen critical. Other BPRs, who do not have these personal ties, said that they felt left out and did not receive the same amount of information as the others. There are some indications that point towards the validity of such accusations. Most of the "Perbarindo Fans" had owners that were friends, sometimes classmates of the Chairman of Perbarindo or in any other way connected to the board. Even if these were subjective perceptions of single managers, they have to be taken seriously. Perbarindo and LKP are strongly dominated by the personality of the Chairman and the Executive Director.

Box 2: The Kediri Rebels

There is a group of 13 BPRs in Kediri that jointly decided to not pay any membership fees to LKP in 2003. The reason for this decision is that they find LKP's fees too high and the transparency too low. As LKP is subsidised by BI and "from overseas", they should lower their fees and they should not make any profit. Despite their boycott the group still gets the discount for the trainings. The Commissar of Kediri does not know about this, an indicator for poor communication. The group seems to have strong ties: They meet monthly for an *arisan* (ROSCA) and to exchange information. Each member contributes 50.000 to the *arisan* and 100.000 towards their group. Out of these, 30.000 are paid as a membership fee to Perbarindo. The remaining 70.000 are used to cater for the meetings.

This illustrates that the amount of money paid for membership is not relevant. Even 100.000 is a low sum for these BPRs. If they saw a benefit they would be ready to pay more for their membership in the association.

4.4 Demand for Services

4.4.1 Training

Capacity building and particularly training, is a very important service provided for or facilitated by any banking association. This arises out of the realization that human capital is the most limiting factor for the development of the MF sector.

LKP performs and plans various training programmes for BPR directors, managers, and officers. In 2002, LKP offered BI supported courses in credit management and operational management. Apart from BI, MERCY CORPS and PNM subsidised the courses.

In 2003, courses were offered in internal control and professional selling skills. Furthermore, LKP offers a management development programme, audit training, and several CGAP course modules. LKP cooperates with the Merdeka University, as described in Box 3.

Box 3: The cooperation between LKP and Merdeka University

The university runs a 3-year banking diploma course. This term, 280 students have enrolled for it. After the final exams, the students can apply for the participation in a 3-month course in microbanking conducted by LKP. The course is tailor-made for future BPR managers. It was offered to the first batch of graduates for Rp. 1 million, the 2nd course cost 1,5 million per student. The students pay for the course privately. The demand was very high and many candidates were not accepted. The students' motivation to do the course is the prospect of being employed by a BPR straight after finishing the course. In the first batch, 25 out of 115 did get a job at a BPR, in the second, 16 out of 40. The university chose LKP to conduct this course because LKP is the only option. Due to a strict ranking in the Indonesian university system based on the percentage of students that get a job after their degree, the university is under pressure to link up with employers for their students. LKP acts as an interlocutor between the university and the labour market. For the BPRs, it is an easy way to recruit well-trained staff.

The cooperation was launched as a reaction to the recommendation by Hiemann to form strategic partnerships. A similar arrangement has just been made with a tertiary learning institute in Surabaya.

LKP is one of very few training providers for BPRs in East Java, the only one that was created for BPRs only. The income raised from training has increased from Rp. 320 million in 2002 to 460 million in 2003. These figures do not correspond to the ones that were given in the total income statement and need to be confirmed. However, as they are the only figures available, it is taken that they are roughly correct. They indicate that there will be a further increase in income earned from training, and thus an increase in financial **sustainability**.

Table 6: Income earned from Training in 2002

Type of Training	Clients	Income	Participants	No. of participants
Credit management	Subsidised by Bank Indonesia PNM	164.450 000	Account Officers, Credit Dept Head and Directors of BPRs, non-members & non-bank MFIs, Bank Indonesia Jember, Kediri, Malang and Surabaya. Subsidised by BI.	299
Operational management	Subsidised by Bank Indonesia PNM	112.250 000	Account Officers, Credit Dept Head and Directors of BPRs, non-members & non-bank MFIs, Bank Indonesia Surabaya, Kediri and Surabaya. Subsidised by BI.	97
Mental Health Refresher	Not subsidised	2.500 000	Information not available	120
Credit Management Papua	Not subsidised	33.200 000	Information not available	75
Credit Management Kalimantan	Not subsidised	8.944 000	Information not available	18
Total		321.344 000		609

Table 7: Income earned from Training in 2003

Type of Training	Clients	Income	Participants	No. of participants
Professional selling skills	Subsidised by Bank Indonesia	198.750 000	Information not available	193
Internal Control	Subsidised by Bank Indonesia	187.800 000	Information not available	208
CGAP Trainings	Not subsidised	13.000 000	Information not available	51
Operational management & internal control Papua	Not subsidised	37.920 000	Information not available	35
ToT Bandung	Not subsidised	28.325 000	Information not available	22
Total		465.795 000		509

A MoU between LKP and PNM has been signed recently on conducting a banking software training (“Minibank®”) funded and PC equipment provided by PNM.

Even though the income from training has increased, the number of participants has decreased. This contradiction could not be solved and has to be taken as another indication for the lack of systematic bookkeeping. Apart from that, the decrease might be caused by the fact that from June 2003 onwards, some of the trainers were not available, as they were organising the CERTIF training of trainers (ToT). However, the CERTIF training is not conducted by LKP and it would have been possible to organise non-CERTIF trainings at the

same time, even without some of the core trainers. There is the danger of an **in-house competition** for trainers.

According to BI regulation 5/14/PBI/2003, in 2004 all BPRs will have to spend 3% of their wage bill on human resource development and from 2005 onwards even 5%. This new rule creates a very favourable framework for LKP as a provider of CERTIF and other trainings. Nearly all interviewed BPR directors knew about this new regulation and said they welcomed it and would use the services of LKP to serve it. They said that it was an ideal argument to convince BPR owners to send staff for trainings. Hardly any interviewee could name another training provider (apart from BI) that he or she would approach in order to fulfil the prescribed margin. LKP has to make considerable efforts for the development of trainers and marketing of its services in order to really take this opportunity. One way to do so is via the three-monthly bulletin, "Medkodia". The publishing of this magazine is an initiative that followed the recommendations of the Boehm Report and is LKP's only marketing instrument in which trainings are advertised. Almost all interviewees knew the magazine. Perbarindo at national level also publishes a magazine and the question arises if costs could be avoided by publishing one nation-wide Perbarindo magazine, with regional supplements.

Regarding LKP's **training capacity**, there is some doubt that there are enough qualified trainers to satisfy the demand for training. This is especially the case for the non-CERTIF training. There is a list of 16 trainers and consultants that LKP cooperates with. Almost all of them are LKP staff and/or BPR directors: out of the 16, 4 are permanent Perbarindo or LKP staff. The trainers team consists of 14 Microfinance or rural bank practitioners, one university lecturer and one lawyer. Seven of these were contacted by phone for the purpose of this study. None of them had a contract with LKP. All were available as consultants and trainers on a freelance basis. Two trainers were working for LKP voluntarily, one because he is a friend of the Chairman. A trainer who works for LKP generally earns between Rp. 150.000 and 250.000 per training session (45 minutes). All but three of the candidates on the list are going to be trained as CERTIF trainers. That means that they are not going to be available for other courses during this initial phase of training of trainers courses and training of end-users.

The doubt concerning the ability of LKP to satisfy the demand for training remains. Especially if LKP will be implementing the CERTIF trainings, it is questionable whether they will have the capacity to continue their normal operations. The trainers and consultants associated to Perbarindo LKP are generally available, but their qualifications are unknown. This leads to the conclusion that Perbarindo LKP's **capacity to serve the demand** for CERTIF training is satisfactory, whereas the capacity to serve the demand for other trainings *might* be limited. The next months will show if non-CERTIF trainings will still be conducted and generate income or not. There are two bottlenecks that cause this limitation: a limited number of qualified and specialised trainers on the market and a limited capacity within LKP to systematically identify and administer their free-lance trainers and to pay them well.

Recommendation 5: LKP, with the support of ProFI, should conduct a market analysis on non-CERTIF trainings. As such an analysis is planned for CERTIF, the two can be combined. If there is sufficient demand for non-CERTIF training and if the management capacity improves, LKP will be able to keep up the other training services, and thus increase their income and sustainability.

Recommendation 6: The option of LKP focussing on CERTIF training has to be explored. If the resources were channelled towards training, and if LKP could concentrate on this one task, it would enable them to become more professional and earn more income. This option should be explored in coordination with a market analysis of the demand for training.

4.4.2 Consultancies

The ProFI project progress report of 2003 concludes that the consulting services of LKP were too weak for a feasible cooperation. Nonetheless, the member BPRs and their management, as well as the promoters, BI and ProFI, considered consultancy services to be a crucial element for the capacity building of BPRs. The report further states that to define and establish sustainable and innovative consulting services from scratch, the need for technical and financial support might have been underestimated.

The latest figures of LKP indicate that there is a growing demand for consultancies. LKP claims that there is a rise in consultancies and thus a demand. The income statement for 2003 only accounts for a Rp. 12 million income from consultancies, as opposed to 15 million in 2002. But the total value of consultancy contracts has increased. This is possible because in 2002 there was only one consultant working for LKP, the director himself. Therefore, there were no expenses involved in his work, as his salary was paid by GTZ. The rise in the value of contracts implies a professionalisation, which might be a consequence of the new management and the fact that the former director now dedicates his whole time on the coordination of consultancies. The 2003 period only includes January till November, not December, and in January 2004, several million Rp. are still due. Thus, there is a possibility that the income earned from consultancies in 2003 might exceed the income of 2002. Again, this is another indicator for the weak bookkeeping.

For 2004, LKP projects a total income of 88 million. The basis for this estimation is shaky: 3 written requests and 6 requests by phone call. The difficulty in explaining and realistically illustrating the income for 2003 and the projected income for 2004 is yet another indicator that management is weak.

Table 8: Income from Consultancy Contracts 2002-2004

Type of Consultancy	Income 2002	Income 2003	Projected income 2004
Setting up a new BPR Branch	5.000 000	5.000 000	145.000 000
Relocation of BPR	5.000 000	2.500 000	
Opening a new BPR		22.500 000	45.000 000
Management Review			30.000 000
Other	5.000 000		
Total	15.000 000	30.000 000	220.000 000
Income for LKP	15.000 000⁶	12.000 000⁷	88.000 000⁸

The income from consultancies in the field of opening new BPR branches is very significant. In the light of the new Indonesian Banking Architecture API implementation plan⁹ it can be

⁶ As at the time Mr. Sunario was the director and the only consultant working for LKP, the values of the contracts equal the income for LKP.

⁷ Out of the total value of the contract, 20% are spent on transport costs etc., 40% go to the consultants, and 40% is the income for LKP.

⁸ Out of the total value of the contract, 20% are spent on transport costs etc., 40% go to the consultants, and 40% is the income for LKP.

expected that the demand for this particular service will grow: the “Program for reinforcing the structure of the national banking system” promotes the competitiveness of rural banks in general and aims at simplifying the process for opening rural bank branches in particular.

But does LKP have the **capacity to satisfy the demand** for these and other consultancies? When Hiemann wrote his report in 2003 he came to the conclusion that the answer is no. Since then, LKP has come up with a list of consultants, as suggested in the report. It is the same list that was quoted above. The freelancers are available but their qualifications are not known. The core team consists of the Executive Director of LKP himself, the coordinator for consultancies and other board members.

LKP has no clear strategy for implementing and financing their consultancy services and never had one. They did not receive any input on “*how to establish a consultancy*”, apart from the Hiemann study, which was not followed up. The ProFI Project progress report 2003 even questioned if “*a training institute which is still busy establishing its structures and training services should simultaneously become involved in such an ambitious venture.*” Considering these circumstances, the performance of LKP in this field has to be appreciated. From the figures and developments over the past year, it can be concluded that the consulting arm of LKP has improved and professionalised its performance. This development contributes to LKP’s cost coverage. Despite this positive outlook, the figures that indicate that the consultancies will contribute to LKP’s institutional sustainability still have to be confirmed. So far, those BPRs that had taken advantage of LKP’s consultancy package had done so because it was comparatively cheap and/or because they knew the consultants. Most interviewed BPR managers were not interested in LKP’s consultancy service. Due to the qualitative nature of this research, this is not representative. But as the managers plausibly explained that they did not want any consultancies because they felt controlled, it can be concluded that:

- a) there is no awareness among BPRs that consultancies can be very useful and improve the performance of a BPR and
- b) BPRs do not trust LKP enough to let them look into their books.

The latter reflects a common conflict of interest networks face when it comes to the issue of safety and soundness of members. In general, member based institutions cannot effectively supervise their members. To some extent, this conflict has legally been solved by officially separating LKP from Perbarindo, but as explained above, this separation only exists on paper. Thus, awareness needs to be created: consultancies are not control but support and LKP as a consultant is not a supervisor.

Recommendation 7: Conduct a market analysis on the demand of consultancy services (combined with the training demand analysis). Then either focus on areas with potential or drop the consultancy services altogether in order to concentrate on training. If it is decided to continue with the consultancy services, they need to become more professional.

4.4.3 The Significance of CERTIF

CERTIF is a training developed by ProFI for the certification of BPR managers. To some extent, LKP management and personnel have been included in its development. For example, the chairman of LKP is a member of the National Task Force (NTF). LKP will be

⁹ See http://www.bi.go.id/bank_indonesia_english/special/architecture/pdf/phases.pdf , p.20

the first agency to implement CERTIF. The training course is expected to become a powerful tool for improving the quality of BPR management, as well as an important source of income for LKP.

The originally intended character of the CERTIF training as a mandatory certification that all BPR managers had to undergo was changed by BI. The CERTIF training is not mandatory, but BI still recognises the certification. To improve the performance of BPRs through Human Resource Development, BI set up regulation 5/14/PBI/2003, according to which in 2004 all BPRs have to spend 3% of their wage-bill on Human Resource Development (5% in 2005). Due to the lack of training providers in the market, and assuming that CERTIF is a training that is needed by the BPRs, this rule will most likely increase the demand for CERTIF trainings. All interviewed BPR directors who had heard of CERTIF wanted to participate in the training. Most had read about it in the latest "Medkodia" bulletin. Those that had not heard of CERTIF, said that they needed a standardised training, specifically for BPR directors. The ones who knew it either thought it was mandatory or saw it as training for BPRs that will help them improve their professionalism and pass the fit and proper test. This corresponds to what Mr. Sutrisno, the chief of supervision of BPRs of BI in Kediri said: *"CERTIF will be useful for BI to see how good the BPR directors are before they do the fit and proper test. It's like a filter."*

Four Indonesian trainers have been chosen by the CERTIF team in an assessment centre. They form the core team for the training of the trainers (ToT). LKP organises the ToT for CERTIF. The perception of the Bankakademie representative in Malang, who helped design the course modules, is that this will work out fine because LKP has plenty of experience in organising trainings and knows the BPRs that would send their staff. This is a very significant characteristic of LKP or any successful network: through its close link with Perbarindo and already mentioned strong formal and informal relations to the BPRs, it is a very suitable facilitator for any activity regarding BPRs in East Java. The participants of the first ToT have been selected by CERTIF and LKP: they are consultants, trainers, and university lecturers. All are on the LKP list of consultants and trainers and will become part time trainers. From the organisation of the ToT LKP will earn some Rp. 8 mill per course.

Thus, due to the fact that LKP has been involved in the preparation of the ToT, LKP should organise the CERTIF trainings in East Java. It has a vast network of BPRs, which will further enhance the process of implementing CERTIF. Last but not least, there is no other institution in East Java except LKP, which could fulfil the task of organising the CERTIF training.

Recommendation 8: a profound market analysis is going to be carried out in the second CERTIF phase to find out how big the demand for CERTIF really is. So far, the estimations are based on individual impressions only. On the basis of this analysis, income projections for CERTIF and LKP and a long term plan towards sustainability have to be developed.

Recommendation 9: ProFi /CERTIF should contract LKP as the organising agency for the CERTIF training and thus formalise what until now has been an informal agreement between CERTIF and LKP.

5 Why ProFi Should Continue to Cooperate with Perbarindo LKP Jatim

As it can be easily derived from the above presented analysis of Perbarindo Jatim and its training and consulting arm LKP these two institutions do not yet meet two of the four criteria defined for successful associations, i.e. management capacity/governance structure and sustainability. The other two criteria, i.e. membership and demand for services, are also only partly fulfilled. From a strictly theoretical perspective the continuation of the cooperation between ProFi and Perbarindo Jatim/LKP could therefore be questioned. There are,

however, a number of reasons which strongly favour a prolongation of the partnership between ProFI and Perbarindo Jatim/LKP.

One of the most significant bottlenecks in the field of capacity building is the lack of sustainable training providers. In Indonesia, the institutionalisation of trainings and training providers is crucial for the BPR industry and therefore a core mission for ProFI. The programme goals of ProFI, as set in 2003, include the improvement of the capacity of BPR staff in East Java. There is a lack of providers of capacity building activities that match the BPR staff's needs.

The most obvious asset of Perbarindo-LKP is, therefore, its potential to organise and implement CERTIF trainings in East Java. Especially the networking ability qualifies Perbarindo-LKP to do so. Also, LKP staff knows the background and the content of CERTIF, as they have been involved in it from the beginning. For the time being no other institution could conduct CERTIF trainings of the same quality as LKP.

Apart from Perbarindo-LKP's role in organising the CERTIF training, its network can serve as a very useful interlocutor between the BPRs and policy makers in general. To build up Perbarindo-LKP's capacity is crucial to further facilitate the contact with BPRs in East Java, and help to understand the bottlenecks of the BPR industry in East Java.

The above described indicates that for the start-up for CERTIF in East Java the strong involvement of Perbarindo-LKP is crucial in order to a) effectively market CERTIF, b) acquire sufficient demand and c) professionally conduct CERTIF trainings. As the pilot in East Java is a showcase for CERTIF in Indonesia it is of utmost importance that the trainings will be conducted in a very professional manner and adherent to the high quality standards set up by CERTIF. The roll-out of these trainings will be closely watched by Bank Indonesia, which on the basis of the results of the first trainings will decide on its future strategy towards HRD regulations for BPRs (fit and proper test, etc.), as well as by the BPR industry in the rest of Indonesia. The future success or failure of the BPR certification scheme will hugely depend on the impressions of these two stakeholder-groups about the first roll-outs. Furthermore, the outcome of these trainings will also be noticed by other groups, such as BPR Syariah, LPD and other MFI, who as future target markets will have to be convinced to join CERTIF in a later stage.

Thus, from a component and programme strategy-oriented perspective the continuation of the ProFI – Perbarindo Jatim alliance is for the time being beneficial for both sides. However, it should be noted that the support for Perbarindo Jatim will only be a supporting element in the future strategy for component 3 “Capacity Building” with the main focus lying on the establishment of a nation-wide certification system for the BPR- and microfinance industry in Indonesia.

6 Conclusion and Way Forward

The cooperation between ProFI and Perbarindo – LKP needs to be shifted towards institutional strengthening. This will enable LKP to gradually raise its income and eventually replace direct financial contributions and thus operate sustainably, without donor support.

Judging Perbarindo-LKP's performance and planning its future, one has to bear in mind that the building of sustainable associations and their technical arms takes years and considerable investment. Too much donor involvement can disturb the natural growth process of a slowly maturing institution. Building a sustainable association or support an

institution requires joint efforts on various levels, considerable learning and financial means. It constitutes a series of risks and threats related to governance aspects of the associations, feasibility and transition towards self-financing, incentives for members, problems due to conflicts of interest etc.

The extent to which Perbarindo LKP contributes to the development of the BPR sector in East Java, and can be a suitable partner for ProFI, has been discussed in this report. Perbarindo Jatim LKP does not fulfil all criteria. Its major strength is the fact that there is a high demand for its core service (training) and that it has a big membership. Its main weakness is the low management capacity and a lack of transparency, especially when it comes to financial management. Also, the quality of the membership, i.e. the commitment of the members, and their capacity seems weak. These factors have a significant impact on the performance of any association. Therefore, LKP needs management support in the above-mentioned fields in order to become a sustainable provider and organizer of Human Resource Development measures like the CERTIF training for BPRs.

The following recommendations have been outlined in the report:

Capacity Building and Institution Building in order to reach institutional and financial sustainability: LKP needs capacity building, especially and most urgently in the field of accounting. The current accountant should be trained on a long-term basis. Furthermore, LKP in cooperation with their accountant and GTZ have to come up with a new, realistic plan to lead to sustainability, gradually replacing the GTZ payments of current expenses with income from trainings and other services.

A full time manager and additional institutional support would contribute to improve LKP's institutional and financial sustainability. One possibility is that the ED works at least 80% for LKP. His job description has to be revised: in order to make use of his expertise, law consultancies should be explicitly offered as a product by LKP. In the long term, his (and any other) salary of LKP staff has to be financed by LKP's income and not by GTZ. The income gradually has to replace all GTZ payments of current expenses.

Division of labour between Perbarindo Jatim and LKP: there needs to be a clear division between LKP and Perbarindo. Even though this recommendation has been discussed controversially and not all stakeholders agreed on this issue, the consultant strongly believes that the division of labour between the two entities is inevitable to establish an independent consultancy and/or training institute LKP with a clear costing and pricing strategy. At the same time, Perbarindo should get a legal status, as recommended by Sylvia Boehm.

Demand for LKP's services: LKP, with the support of ProFI, should conduct a market analysis on non-CERTIF trainings. As such an analysis is planned for CERTIF, the two can be combined. If there is sufficient demand for non-CERTIF training and if the management capacity improves, LKP will be able to keep up the other training services, and thus increase their income and sustainability.

A market analysis on the demand of consultancy services (combined with the training demand analysis) is necessary. On the basis of the results of such an analysis, LKP can either continue with or drop the consultancy services altogether in order to concentrate on training. If it is decided to continue with the consultancy services, they need to become more professional.

CERTIF: A profound market analysis is going to be carried out in the second CERTIF phase to find out how big the demand for CERTIF really is. So far, the estimations are based on

individual impressions only. On the basis of this analysis, income projections for CERTIF and LKP and a long term plan towards sustainability have to be developed. ProFI/CERTIF should contract LKP as the organising agency for the CERTIF training (as outlined above, LKP is up for it and there is no other institution that could fulfil this task) and thus formalise what until now has been an informal agreement between CERTIF and LKP. The option of LKP focussing on CERTIF training has to be explored. If the resources were channelled towards training, and if LKP could concentrate on this one task, it would enable them to become more professional and earn more income. This option should be explored in coordination with a market analysis of the demand for training.

Overall, Perbarindo's performance has improved over the last year. Therefore, and due to the significance of Perbarindo for the BPR sector as a whole, it is recommended to continue to cooperate but shift the focus of the cooperation towards institutional strengthening in those areas where Perbarindo has potential, but remains weak due to management constraints. The expectations of PERBARINDO have to be harmonised with the strategy of ProFI: capacity building in the field of accounting and support in those areas where Perbarindo has potential, i.e. training. At the same time, a comprehensive strategy for gradually substituting direct financial contributions with capacity building measures for Perbarindo-LKP corresponding to the gradual increase in income needs to be implemented, starting with the new agreement.

Annex 1: Terms of Reference

Terms of References Karen Losse

Future Cooperation with Perbarindo/LKP (January – March 2004)

Background

Perbarindo is the Association of People's Credit Banks in Indonesia. It operates nation wide with a head office in Jakarta and 17 regional offices in nearly all provinces of Indonesia. A study conducted by the German Savings Banks Association in October 2002 concluded that Perbarindo lacks professional staff to offer services to its members. At national level, no services had been rendered until then: Only a few lobby functions were carried out; the low performance of Perbarindo resulted in the low acceptance by its members and a reluctance to pay adequate membership fees.

In 1999, Perbarindo established a training and consulting foundation, LKP. LKP is currently partly financed by GTZ ProFI. Bank of Indonesia further subsidises its operational costs. A study conducted in 2002 (W. Hiemann) concluded that LKP could not provide any consulting services without subsidies. The main reason for this conclusion was the fact that BPRs, the demanders of LKP's services, are not willing to pay for its services.

Objectives of the Consultancy

The first objective of the consultancy is to conduct an institutional analysis of Perbarindo Jatim. On the basis of the analysis, the consultant has to develop a set of criteria regarding the future cooperation with an association like Perbarindo: Under which circumstances is the technical cooperation with an association of small banks / MFIs conducive to the development of the financial system? When should we start a cooperation? Under which circumstances should we continue and when should we stop it?

The second objective is to analyse the consulting / training arm of Perbarindo, LKP, and develop recommendations regarding future support of GTZ PROFIL to LKP's CERTIF training. Should GTZ continue to support the training and if so in what way? While analyzing LKP, the consultant shall focus on its sustainability. How can it become financially sustainable?

Description of Tasks

To develop criteria for a future cooperation with Perbarindo, the consultant shall:

- analyse past studies and consultancies (desk study)
- conduct an institutional analysis of Perbarindo regarding its governance, membership, and sustainability
- Interview major stakeholders to find out the significance of Perbarindo to its members

To analyse LKP's way towards sustainability and GTZ's future support to it, the consultant shall:

- analyse past studies and consultancies (desk study)
- evaluate LKP's sustainability and past performance
- Interview major stakeholders to find out if LKP offers the right services
- Find out which services members are willing to pay an adequate price for in order to find ways for LKP to improve its sustainability

Time Frame

The analyses will be carried out from January to March. The results will be presented to major stakeholders before the 15th of March, the final report and the criteria will be shortly after the presentation.

Annex 2: List of Interviewees

Interviewee	Position	Location	Date
Gatot	Chairman of Perbarindo Jatim	Perbarindo offices Malang	14.1.04
Suryadin	Executive Director of LKP	Perbarindo offices Malang	14.01.04
Matuli	Board Member of Perbarindo, founding member of LKP	Perbarindo offices Malang	15.1.04
Novanto	Training coordinator LKP	Perbarindo offices Malang	15.01.04
Ton Brunsveldt	Team leader Bankakademie International, CERTIF	Perbarindo offices Malang	20.1.04, 6.2.04
Drs. H. Budi Siswanto, MSI	Director of Universitas Merdeka	Universitas Merdeka Malang,	19.01.04
Mr. Sutrisno,	chief of supervision of BPRs	BI in Kediri	29.01.04
Mr. Soewarno	SE, MBA, Deputy Director DPBPR	BI Jakarta	09.02.04
Mrs. S. Mayawati SE,	MBA, Deputy Department Head P3BPR	BI Jakarta	09.02.04
Mrs. Ayahandayani Kussetyowati	Section Head P3BPR	BI Jakarta	09.02.04
Soni Harsono,	Chairman, Perbarindo	Jakarta	18.02.04
Sawaluddin,	Secretary General, Perbarindo	Jakarta	18.02.04
Suraswahyudi,	Executive Director, Perbarindo	Jakarta	18.02.04
Mr. Bambang Siswati	Head of Division, PNM	Jakarta	17.02.04
Mrs. Rathnawati Priyono	Director of LPPI	Jakarta	16.02.04

Interviewed BPR managers

BPR	Interviewee	Location	Date
Dharma Indra		Lumajang	16.1.04
Eka Dana Utama	Mr. Gatut	Dinoyo	20.1.04
Pujon Jaya Makmur	Mr. Supto (also Kommissar for Malang)	Pujon	21.1.04
Bumi Rinjani	Mr. Herminto Adi	Batu	21.1.04
Gunung Arjuno	Mr. Sunyoto	Malang	21.1.04
BPR Adiartha Reksacitra	Director and owner: LUKA	Singosari	26.1.04
BPR Kharisma	Mrs. Titien Retnowati, director	Kusuma Lawang	26.1.04

BPR Purwosari Anugerah	Joseph Adi W. I., SE, Branch manager	Cabang Lawang	26.1.04
BPR Delta	Sri Judawatie, SE, Director and Iwan Hariyadi, SE, main director	Singorasi	
P.D. BPR Kota	Tri Waspodo, SE, main director.	Kediri	28.1.04
BPR Tanjung Tani,	Yusuf Brojo Negoro, SH, Direktur	Kediri	28.1.04
	Director: Sutomo and Didit Suyatno	Kediri	28.1.04
BPR Artha Pamenang Tanjung Anon	Interview started off with Indarto, the 2 nd director, after 10 minutes, Bambang, the director arrived and took over.	Ngangjuk	29.1.04
BPR Nagajayaraya		Jombang	29.1.04
BPR Kertosono Sarana Artha	Mr. Budi Hartoyo, main director Mrs. Nanik Indrawati, director	Kediri	27.1.04
BPR Artha Nugraha		Kediri	29.1.04
BPR Dhaha Ekonomi	Ahmed Taskim, S.H., Director	Kediri	29.1.04

Annex 3: Presentation of Consultancy Results in Malang, 19.3.2004

Slide 1

Perbarindo-LKP and ProFi:
the Way Forward

Slide 2

Criteria for cooperating with MFAs

1. Management Capacity and Governance Structure
2. Sustainability
3. Membership
4. Demand for Services

Slide 3

Management Capacity and
Governance Structure

- Has improved over the last year
 - New professional manager
 - Coordinators for training and consultancy
- Major weaknesses:
 - Accounting and bookkeeping (income statements)
 - Business plan not used
 - Staff presence seems uncoordinated
 - Lack of a legal status for Perbarindo
 - Unclear division of labour between LKP and Perbarindo

Slide 4

Sustainability

- Projected 80% cost coverage not achieved
- Figures roughly indicate a 65% cost coverage but this needs to be confirmed
- No institutional sustainability due to management constraints
- With the income from the organisation of CERTIF, cost coverage will rise

Slide 5

Membership

- Major Strengths:
 - >80% of all BPRs in East Java are members of LKP
 - Ownership
 - Strong informal network
 - Membership fee payment 70%
- Major Weaknesses:
 - Capacity of members
 - Commitment of members
 - Informality excludes those without connections

Slide 6

Demand for Services

- Plausible conclusions from BPR interviews:
 - yes, there is high demand for CERTIF and non CERTIF training
 - The demand for consultancies is limited
- Figures are contradictory (see next slide):
 - Indicate high demand for consultancies
 - Number of trainings has increased, number of participants has decreased, income from trainings has increased

Slide 7

Demand for Services, continued

Type of Consultancy	Income 2002	Income 2003	Projected income 2004
Setting up a new BPR Branch	5.000 000	5.000 000	145.000 000
Relocation of BPR	5.000 000	2.500 000	
Opening a new BPR		22.500 000	45.000 000
Management Review			30.000 000
Other	5.000 000		
Total	15.000 000	30.000 000	220.000 000
Income for LKP	15.000 000	12.000 000	88.000 000

Slide 8

- Recommendations**
- shift the focus of the cooperation towards institutional strengthening
 - Focus on capacity building in the field of accounting
 - implement a comprehensive strategy for gradually substituting direct financial contributions with capacity building measures for Perbarindo-LKP corresponding to the gradual increase in income



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